



- European Movement news release -

EM welcomes the European Commission's proposals on the introduction of Eurobonds.

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For Immediate Release

The European Movement welcomes the European Commission's study that assesses the feasibility of the common issuance of Stability Bonds. Considering current economic circumstances, we agree with the report's conclusion that so-called "eurobonds" could be a powerful tool to manage the sovereign debt crisis by addressing liquidity constraints in Member States of the Eurozone.

Moreover, the European Movement believes that eurobonds could in the long run provide a means to cement the well-being of the eurozone. Potential benefits would include an increase in creditworthiness of the Eurozone as a whole, the prevention of capricious or speculative behaviour by investors, the creation of liquidity buffers and an overall increase in market efficiency in the eurozone. The European Movement argues that all this constitutes a clear declaration of intent to handle the debt crisis in the short, medium and long term. What is more, the introduction of eurobonds could enhance the role of the euro in the global financial system, eventually granting the eurobond a 'safe haven' status comparable to that of US Treasury bonds. With initiatives like this the potential is there for the Eurozone to resume its role as the second reserve currency and Britain should be involved in such efforts as closely as possible because what happens in the Eurozone affects Britain greatly.

Of the three possible approaches for common issuance outlined in the report, the European Movement believes that the first - the full substitution of national issuance with joint guarantees - is not feasible in the foreseeable future. Even though it would be the most effective in terms of strengthening liabilities, deliver the highest results in market integration and would maximise the benefits listed above, full substitution would not only demand the creation of a centralised single euro-area debt management agency, but would also require a substantial Treaty change, as such taking considerable time to implement, preventing the issuance of eurobonds from providing immediate market relief.

On the other hand, the European Movement views the third approach discussed by the Commission - partial substitution with non-joint guarantees - where Eurozone Member States would retain

liability for their respective share of the Eurobond issuance as well as for their national issuance, as too minor a step to subdue a crisis of the current proportions. In spite of a faster implementation time, the credit quality of a Eurobond with this approach would be largely determined by the credit quality of the lowest-rated Member States, drastically reducing the benefits of common issuance overall.

Therefore, the European Movement considers partial substitution of national issuance with joint and several guarantees by Member States of the Eurozone (or the 'red/blue' approach) as most attractive. The combination of 'blue' eurobonds with 'red' national bonds would provide many of the advantages of Option 1 and still encourage fiscal discipline at national level by exposing Member States to market scrutiny. Even though this approach would still imply a Treaty change, it would be a change less complex and time-consuming.

In sum, the European Movement welcomes the idea of commonly issued Eurobonds. We believe that for the Eurozone to reap fully the benefits of this financial instrument, the creation of such commonly issued bonds must be accompanied by substantially reinforced fiscal surveillance and policy coordination. Moreover, the EM is aware of the trade-off between ambition on the features and scope of the Eurobond and the possible speed of implementation. To overcome this trade-off, the various options could, if necessary, be combined as sequential steps in a process of gradual implementation and we support the Commission's proposals to that effect. Such a political roadmap could help to ensure the market acceptance of Eurobonds from the outset.

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Notes to editors

1. The European Movement is a cross-party organisation campaigning to inform the debate on European integration and promote understanding of what the EU does and how the UK benefits from EU membership. Its President is Rt Hon Charles Kennedy MP and its Chairman is Petros Fassoulas.