



**LET'S TALK ABOUT...**

FINANCIAL LEXICON EDITED BY THE SWISS ASSOCIATION OF ASSET MANAGERS

## Euro Bonds

One of the big problems the European Union faces is the presence of “problematic” member states in financial distresses, so to fuel high risk levels, high yield spreads and even the possibility of defaults. A proposed solution would be the issue of common eurozone bonds in order to spread peripheral debt risk over the whole Union and benefit from the favourable conditions that the more stable countries allow.

If the plan looks simple in principle, its implementation would be some more complex: EU leaders would have to create a common financial institution, maybe linked to the BCE or the EFSF-European Financial Stability Facility, with the aim of assuming the states’ debts (possibly at “discounts”, as in the case of Greece, Italy and Spain), and another fiscal authority for the management of the “super-debt”’s financial flows.

Of course the more responsible states with their public accounts in better shape are not very pleased with such solution, because the cost of their debt would increase, even if it ultimately would make the central monetary system stronger through more strict control and coordination.

Meanwhile the rescued countries could be asked to provide reserves and guarantees. Rescuing sovereign debts (and bailing out troubled banks) would cost about 90% of the total eurozone GDP.

The plan has also fuelled criticism. For many, without an actual fiscal union, it may generate even more severe problems to the common currency in the future, should the adjustment processes fail in the weak countries. Not to say of the debt widening in the currently stable ones (e.g. Germany, where the federal issued debt is now just about 40% of the GDP), which might take not only to political consequences but also to the countries’ downgrading. A solution with two series of common bonds was also proposed: the “blue” series, carrying a limited guarantee to the 60% of the federal GDP, and the “red” one for the additional funding, with a subordinated status and higher yields, aimed at progressively replace the national bonds in circulation. However such complicated plan looks well far from averting future crisis, with exits from the euro, return to national currencies at skyrocketing rates.

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The views expressed are not necessarily those of the Swiss Association of Asset Managers