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# Twin Strategies to Resolve the Eurozone Crisis—without Debt Buyouts, Sovereign Guarantees, Insurance Schemes, or Fiscal Transfers

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The cancellation of the October 26 meeting of the European Union's council of finance ministers, or Ecofin, has further eroded confidence in its ability to solve the burgeoning sovereign debt crisis in the eurozone. A viable strategy is needed now—and two viable strategies are even better than one.

The current proposal draws on two key precedents: the successful issue of bonds for more than half a century by the European Investment Bank (EIB) and the creation of the euro through enhanced cooperation by European Union (EU) member-states. The EIB has issued bonds since 1958 without debt buyouts, sovereign guarantees, insurance schemes, or fiscal transfers, and it is already more than twice as big as the World Bank. Neither of the twin strategies proposed below requires changes to the EU treaty or ratification by national parliaments, relying instead on decisions by Ecofin or the Eurogroup.

## 1. Stabilization by Union Bonds: An Untraded Union Debit Account

Crisis stabilization does not need unanimity but rather could be achieved by enhanced cooperation. Those member-states whose bonds are at risk could convert a major share of them to Union bonds held in an untraded EU debit account, which would be protected from downgrading by rating agencies.

With an enhanced cooperation procedure, Germany, Austria, the Netherlands, and Finland could keep their national bonds. The procedure could be initiated in the Eurogroup by any of the 16 eurozone member-states. The member-states opting for Union bonds would service their share of them from their own revenues, and the debit account could be held by the European Financial Stability Facility.

## 2. Recovery by Eurobonds: Net Issues of Tradable Bonds

Net issues of eurobonds could be traded, attracting inflows to the EU from sovereign wealth funds and the central banks of emerging economies. The bonds could be issued by the European Investment Fund (EIF), which is now part of the EIB Group.

The EIF was designed to issue the eurobonds recommended by European Commission President Jacques Delors in his 1993 White Paper on employment policy and economic governance. The EIB could advise on their issue, based on its long-standing credibility in issuing bonds successfully without debt buyouts, guarantees, insurance schemes, or fiscal transfers. A decision on net bond issues could be made by Ecofin, which is the governing body of the EIB Group.

The traded eurobonds could co-fund EIB project finance and be serviced by revenues from such project finance rather than through fiscal transfers between member-states. Project control would be retained by the EIB. Eurobonds could also finance a European Venture Capital Fund for small and medium enterprises (SMEs), managed by the EIF, which already has an SME-support remit.

A more detailed discussion of this topic can be found at [www.levyinstitute.org/pubs/pn\\_11\\_03.pdf](http://www.levyinstitute.org/pubs/pn_11_03.pdf) and [www.levyinstitute.org/pubs/pn\\_11\\_05.pdf](http://www.levyinstitute.org/pubs/pn_11_05.pdf).

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