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German press reports on the ‘elite bonds’ plan

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The German press reported on 27 November that the Chancellor’s Office, due to increasing tension on European financial markets, is working on a project for issuing the bonds of the six most financially stable members of the eurozone: Germany, France, Holland, Finland, Austria and Luxembourg. Access to this capital would be offered to those eurozone members which decide to enter into an intergovernmental agreement imposing structural reforms and new sanctions for failing to meet the EU debt and deficit criteria. Germany is expected to treat the issue of the ‘elite bonds’ as an alternative scenario, should EU member states not agree to amend the regulations of the treaty concerning the eurozone put forward by Germany. It is clear from the statements made by Chancellor Angela Merkel so far that in this context she is insisting on introducing a rule under which those eurozone member states which fail to meet the EU debt criteria would be held liable in front of the Court of Justice of the European Union and also on reinforcing the control functions of EU institutions by creating a position of a commissioner for savings.

Commentary

- The information on the ‘elite bonds’ may be controlled information leakage from the Chancellor’s Office intended to calm the financial markets and restrict the scale of growth in the prices of bonds issued by eurozone member states. The government may also fear that fluctuations on the financial markets could adversely affect the German economy. Recently Germany for the first time in several years was unable to sell approximately 30% of the bonds it issued with a total value of 6 billion euros. Investors are still not sure what the German concept for resolving the problems of the common currency will be and what costs this will entail for Germany. Furthermore, German debt has been quite high, and the budget law under preparation fails to provide in detail any solutions which could reduce it.

- The consent to the issue of the ‘elite bonds’ could be a breakthrough in the German stance on the eurozone’s crisis. Germany has never previously agreed to any issue of common bonds, arguing that the low costs of gaining capital would cause eurozone member states get into debt in an uncontrolled way again. If such bonds are really issued, eurozone member states will probably be able to use them only following acceptance of strict financial discipline conditions dictated by Germany. In exchange, they will gain access to cheap capital, which is likely to stabilise the prices of their own

bonds. The borrowing costs of Greece, Spain, Portugal or Italy have been increasing for a long time due to concern about continuously deteriorating economic growth prospects, which in turn results in a rapid increase in their debts.

- The eurobonds proposed by Germany are to be introduced under an international agreement in a similar way as the Schengen agreement, which was first signed as an intergovernmental agreement and was later introduced into the EU's legal order. This version of the project, unlike previous proposals from the European Commission to issue common eurozone bonds, will offer Germany full control of loans to the most indebted countries and thus also control of the reforms they implement.