



THE SENATE
OF THE PARLIAMENT OF THE CZECH REPUBLIC
8TH TERM

599th

RESOLUTION OF THE SENATE

delivered on the 21st meeting held on 26th April 2012

**on the Green Paper on the feasibility of introducing Stability Bonds
(Senate Press no. K 119/08)**

The Senate

I.

- 1. Expresses its full support** to the Member States of the Eurozone in their effort to restore the credibility and stability of the economic and monetary union that is grappling with consequences of the sovereign debt crisis in some of its Member States;
- 2. Is convinced** that searching for optimal solutions to the debt crisis requires an open and rational weighing up of all possible instruments, and therefore welcomes the publication of the Green paper marking the beginning of a public debate on the feasibility of introducing Stability Bonds;
- 3. Views** the following part of the Resolution as its contribution to that debate;

II.

- 1. Believes** that Stability Bonds have to be regarded as an instrument only available in the longer term since its introduction would require, inter alia, a change in the primary law, specifically Article 125 of the Treaty on the Functioning of the European Union, which cannot occur without ratification by all national parliaments;
- 2. States** at the same time that the concept of mutual liability for the debts of individual Member States of the Eurozone through Stability Bonds presents a qualitative move in the European integration process which entails not only economic and legal aspects, but above all political aspects as it directly encroaches on the fiscal sovereignty of the Member States;
- 3. Is furthermore convinced** that Stability Bonds should not be viewed as a potential instrument for solving the current debt problems of the Eurozone; instead, they should be perceived as a vehicle for enhancing the effectiveness and proper functioning of the monetary union in the future;
- 4. Shares** the Commission's opinion that the introduction of Stability Bonds may bring about concrete economic benefits, such as

- creating a larger bond market with lower liquidity spreads;
- facilitating the transmission of monetary decisions into the real economy;
- strengthening of the Euro as a global reserve currency, and
- a more stable bond market less prone to substantial price fluctuations;

5. Notes that these positive effects of introducing Stability Bonds can only be achieved after the economic and monetary union will have reached a certain stage of development and met a set of key criteria, among which the Senate, above all, points out the following:

- the existence of a robust fiscal framework that would eliminate the occurrence of fiscally undisciplined "free riders" abusing the advantage of Stability Bonds at the expense of the fiscally responsible members; the elimination of moral hazard is essential for the sustainability of the concept of Stability Bonds;
- a high level of fiscal and monetary convergence and a low divergence of the sovereign bond yields that would, after the introduction of Stability Bonds, prevent a significant increase in the costs of financing of government debts for the fiscally responsible states, and a decrease in the financing costs for the more indebted states; such transfer of a "dividend of credibility" can pose an obstacle to the introduction of Stability Bonds;

6. Considers it appropriate that the Commission further deepens its analysis in the context of the evaluation of the broad public debate, emphasizing the potential benefits and risks, and the assessment of the current state of preparedness of the Eurozone to introduce Stability Bonds; the Commission could also assess in more detail the feasibility of the proposal of the German Council of Economic Experts to set up the so-called European Debt Redemption Fund;

III.

- 1. Requests** the Government to inform the Senate about the way this position was taken into account, and about further initiatives following this Green Paper;
- 2. Authorises** the President of the Senate to forward this Resolution to the European Commission.

Milan Štěch
sign manual
President of the Senate

Jaromír Štětina
sign manual
Senate Verifier