



PRESS RELEASE

## The Blue Bond proposal

Bruegel presents new policy brief on managing sovereign debt in the euro area

Brussels, 6 May 2010 – Bruegel, a Brussels-based international economics think tank, publishes today *The Blue Bond proposal*. This policy brief by Resident Fellow Jakob von Weizsäcker and by Jacques Delpla, from the Conseil d'Analyse Économique in Paris draws lessons from the current debt crisis. In order to reduce borrowing costs, it is proposed that euro-area countries pool a large part of their debt, issuing a European 'Blue Bond' for government debt amounting to 60% of GDP in each participating country. Additionally, and in order to strengthen fiscal discipline, any debt beyond 60% of GDP should be issued as a national 'Red Bond' that would be junior to the 'Blue Bond'.

The 'Blue Bond' would be highly liquid and *supersafe* asset, helping the rise of the euro as a reserve currency which could further reduce borrowing costs. By contrast, the "Red Bond" would be a more risky asset whose yields as set to vary substantially with the credibility of fiscal policy in individual member states, thereby reinforcing the stability and growth pact through market discipline. In particular, the construction of the 'Red Bond' is to assure that an orderly default on it would be possible without threatening the existence of the euro area.

The credible prospect of an orderly default on the 'Red Bond' is a particularly attractive feature of the proposal especially for the fiscally stronger countries of the euro-area since it greatly reduces the prospect of a bail-out. At the same time the low borrowing costs for the 'Blue Bond', for up to 60% of GDP, is a particularly attractive feature for fiscally weaker countries since it assures low borrowing costs on the lion share of debt even right after a debt restructuring on the 'Red Bonds'.

To read the Policy Brief in full go to [\[URL\]](#)

### Key Facts

- Blue Bonds: EU countries should pool up to 60% GDP of their national debt under joint and several liability as senior sovereign debt
- Red debt: Any national debt beyond the Blue Bond allocation of a country is to be issued as national and junior debt with sound procedures for an orderly default
- The yield of the Blue Bond would likely be lower than the weighted average of the national bond yields.
- Defaulting on the entire junior tranche would be less disruptive, because the borrowing capacity in the senior tranche would not be destroyed.
- The Blue Bond would become a highly liquid asset with a volume of available debt rivaling the extremely successful US Treasury bond.
- This would help the euro's rise as a second global reserve currency.

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**Notes to Editors:****About Bruegel**

Bruegel is international economics think tank based in Brussels. It started operations in Brussels in 2005 as a Belgian non-profit international organisation supported by European governments and leading corporations. Bruegel seeks to contribute to the quality of economic policymaking in Europe through open, facts-based and policy-relevant research, analysis and discussion. Bruegel issues a range of publications. The Bruegel Blueprint Series provides comprehensive analysis and policy recommendations on central questions of the moment. Bruegel Policy Briefs provide concise, topical analysis targeted at an audience of executives and policy decision makers, with an emphasis on concrete policy orientation. Bruegel Policy Contributions are responses to requests by policymakers or public bodies, including testimonies at hearings or responses to public consultation. Bruegel and its researchers also publish working papers, op-eds, collaborative papers with other organisations, and essays. Bruegel's research is independent and does not represent the views of its board or members.

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**About Jacques Delpla [download CV]**

Jacques Delpla is an economist at the Conseil d'Analyse Économique (CAE) in Paris as well as a Senior Advisor at BNP-PARIBAS. Previously Jacques worked as an economist at Barclays Capital, and before that as an adviser to the French Finance Ministry. Jacques is a graduate from l'ENSAE (École nationale de la statistique et de l'administration économique) and has a Masters in Economics from the Licence de Philosophie at the Paris I Panthéon University.

**About Jakob von Weizsäcker [download CV]**

Jakob von Weizsäcker joined Bruegel in 2005 from the World Bank in Washington (2002-2005), where he was Country Economist for Tajikistan. Previously, he worked for the Federal Economics Ministry in Berlin (2001-2002) where he headed the office of a junior minister and Vesta, a venture capital firm (2000-2001). Before that, he held research positions at the Center for Economic Studies in Munich and CIREN in Paris. Jakob's research is mainly focused on migration, ageing, economic development and presently, the economic crisis.