

***A European mechanism for sovereign debt crisis resolution***

*Bruegel presents a proposal for a European Crisis Resolution Mechanism (ECRM),  
a permanent tool to deal with sovereign debt crises in an effective and predictable way*

**Brussels, 9 November 2010** – Bruegel, the international economics think tank, today published *A European mechanism for sovereign debt resolution*, a Blueprint arguing that Europe should take the lead in defining a solution to problem of excessive public debts and create a European Crisis Resolution Mechanism (ECRM).

This Blueprint, written by [Francois Gianviti](#), [Anne O Krueger](#), [Jean Pisani-Ferry](#), [Andre Sapir](#) and [Jürgen von Hagen](#), presents the rationale for such a mechanism in the euro area and details of how an ECRM would work.

The ECRM should be based on two pillars:

- A procedure for **debt restructuring** to be handled by the European Commission and European Court of Justice. This procedure would determine whether a sovereign is in need for restructuring because its debt has reached unsustainable level. It would provide a framework for negotiation on reducing the present value of the debt between the indebted state and its private creditors. And it would ensure enforcement of corresponding agreements;
- A set of rules for the provision of **financial assistance** to be managed by the European Financial Stability Facility, which should be made a permanent EU institution. The EFSF should be able both to provide liquidity assistance to solvent states (as currently envisaged) under appropriate conditions and to bridge finance to states in the process of negotiating a debt reduction settlement.

One of the main benefits of creating an ECRM would be the public acknowledgement that the default of a government on its debt is a real possibility in the euro area, which along with the necessary changes in financial regulation and supervision would strengthen market discipline and help prevent further debt crises. Additionally, in the event of a crisis the existence of this mechanism would guide market expectations on how governments and European institutions can respond, minimising volatility in financial markets.

The authors note that the ECRM would need to be established by treaty. This implies, inter alia, that the new arrangement would not apply to debt contracted before its entry into force.

**The paper can be downloaded on Bruegel website at [www.bruegel.org](http://www.bruegel.org)**

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**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's research is independent and does not represent the views of its board or members.

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