3. Corona Bonds

Prelims Syllabus: Banking

Mains Syllabus: GS-III Effects of liberalization on the economy, changes in industrial policy and their effects on Industrial Growth.

Context:

- Corona bonds is recently seen in news, which could be a possible resolution to alleviate Eurozone financial struggles amid the coronavirus crisis.

About Corona Bonds:

- It would be a collective debt amongst EU member states, with the aim of providing financial relief to Eurozone countries battered by the coronavirus.
- It would also be mutualised and supplied by the European Investment Bank, with the debt taken collectively by all member states of the European Union.
- The idea of corona bonds has received reinforcement from nine EU countries, all keen to reach a financial solution as soon as possible. Not all countries in the European Union (EU) are in favour of this idea.
- The resistance has come most notably from the '**Frugal Four**'. The Frugal Four consists of Germany, The Netherlands, Finland, Austria
- These countries are of the opinion that finance is an individual nation's responsibility. They believe that each EU member state should keep their finances in order.

Significance:

- It would allow European countries to gain essential financial support.
- Their States could receive economic aid without expanding their national debt.
- If all the EU member states support this idea, then this would likely strengthen confidence amongst Europe.

Way Forward:

- Its disadvantage is that it would not necessarily enhance debt sustainability.
- Its concept would only aid future debt forgiveness, distinguishing between coronavirus related debt and legacy debt.
- The implementation of a common bond amongst EU member states could also potentially take a lot of time. The delay is not ideal for countries who require access to funds immediately.