
DOES THE EURO AREA NEED A SAFE ASSET?

IN A NUTSHELL, YES!



WOULD THE EURO AREA BENEFIT FROM A GENUINE EUROBOND? YES!

Banks

**Counter-cyclical
(Genuine safe asset)**

**Further reduce the
sovereign-bank
doom-loop**

Monetary Policy

**Effective
monetary policy
transmission**

**Unlimited QE
(if needed)**

Capital Markets

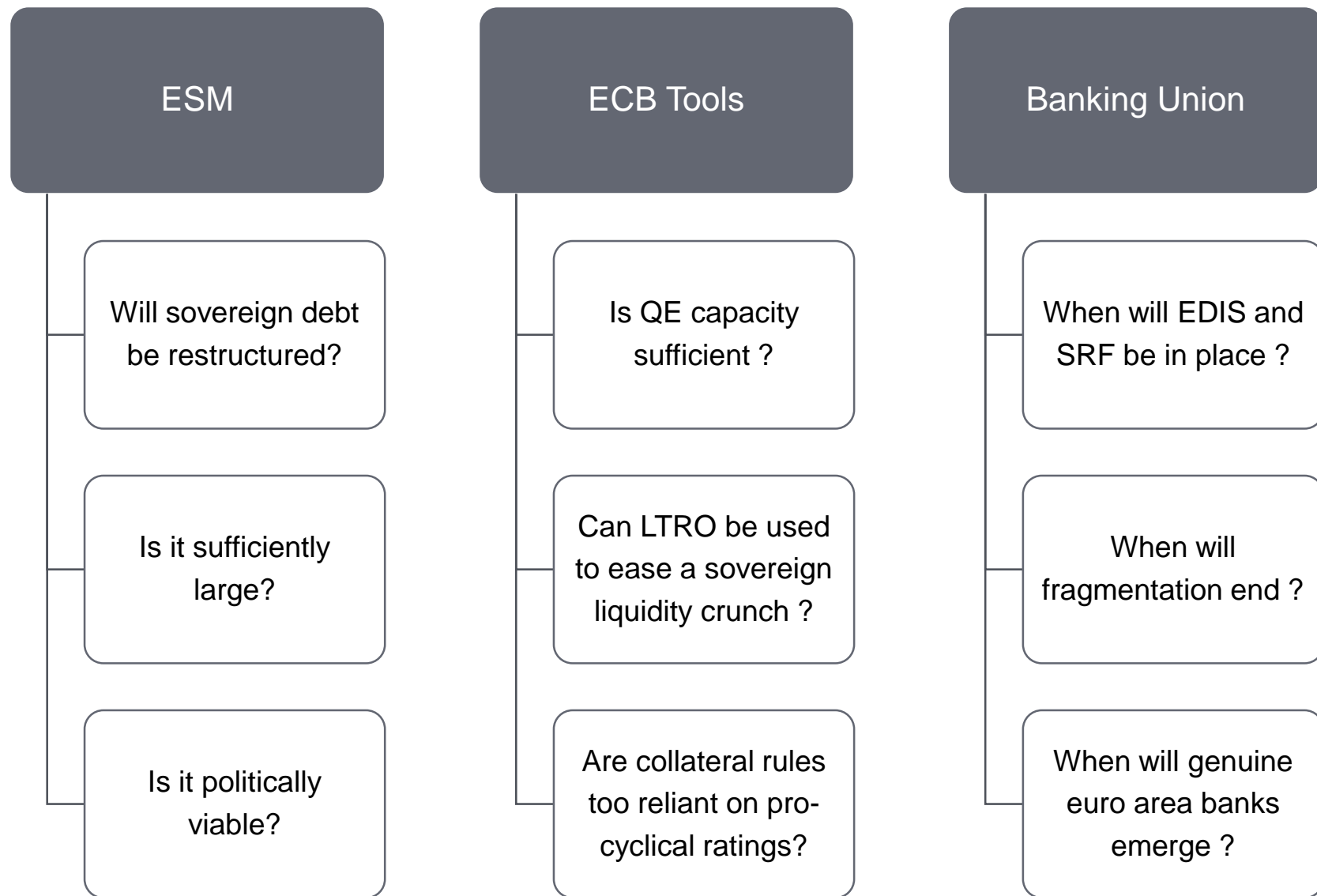
**Support deep and
liquid capital
markets**

**Support the
international
role of the euro**

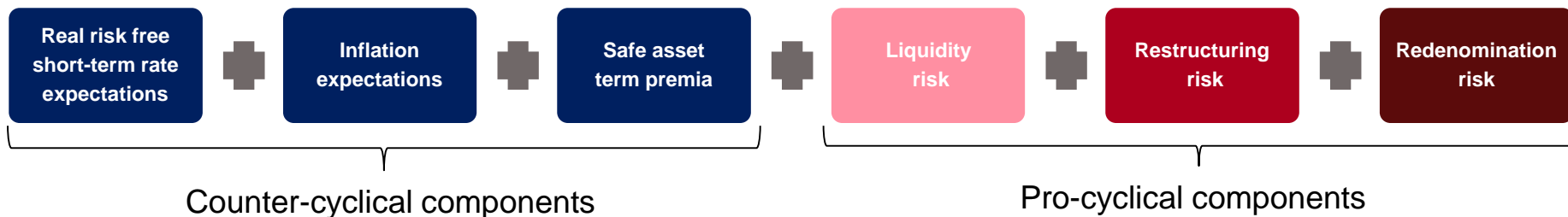
IN A NUTSHELL, CREDIBILITY, FINANCIAL STABILITY AND GROWTH ...

... HOWEVER, THIS REQUIRES HANDING OVER FISCAL SOVEREIGNTY.

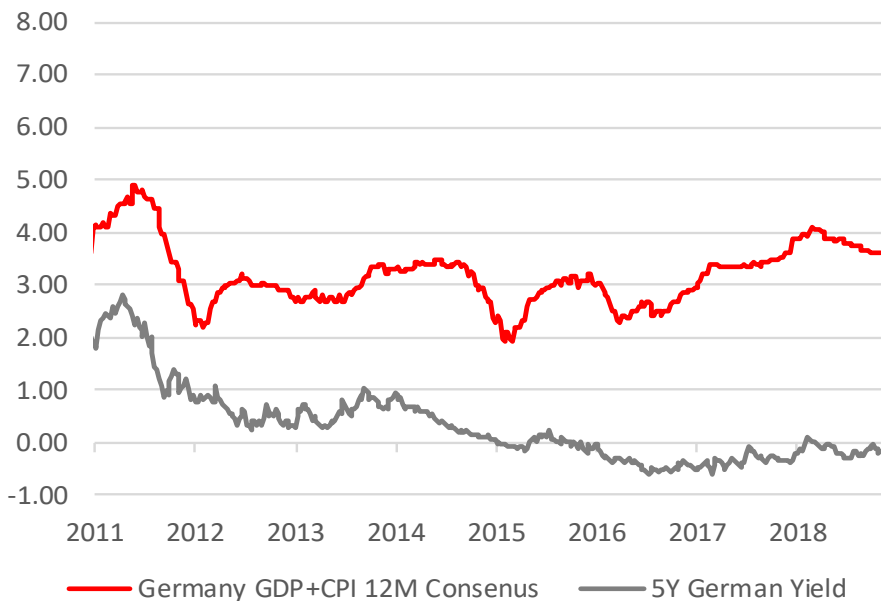
ARE THE NEW TOOLS SUFFICIENT TO PREVENT A NEW CRISIS? PROBABLY NOT.



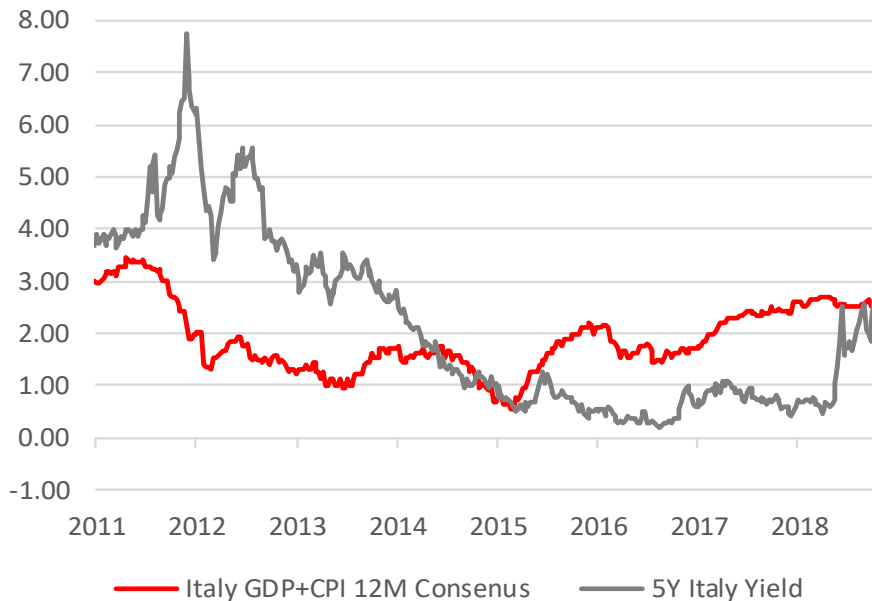
WHAT'S IN A GOVERNMENT BOND YIELD? THERE IS NO "MAGIC" RISK REMOVAL WAND ...



Germany



Italy



... BUT RISKS CAN BE RE-ORGANISED

	Blue & Red bond proposal	Purple & Red bond proposal	E-bonds	National tranching, then pooling	SBBS
Safe asset	Pool up to 60% of national debt under joint and several liability	At t=0, guarantee existing debt against restructuring under an ESM programme; lower the guarantee to 60% of GDP over 20 years in line with the Fiscal Compact.	National government bonds purchased by a preferred creditor status institution (for example, ESM), which then issues E-bonds.	A senior tranche of pooled national senior debt tranches up to a predefined level.	National debt is pooled and then split into a "safe" senior tranche ...
Risky asset	National junior bonds to finance any excess financing needs	National junior bonds to finance any excess financing needs	-	National junior bonds to finance any excess financing needs	... and a "risky" junior tranche.
Public risk sharing	Yes	Yes	Unsure	No	No
Pooling	Yes	No	Yes	Yes	Yes

CRITERIA FOR A TRANSITION TO A GENUINE EUROBOND

Political (at present)

No additional public risk sharing

Avoid moral hazard

Ensure ESM credibility

Legal

“Protect” current debt stock from litigation risks

Ensure banks can meet regulatory requirements

Monetary policy

Large supply of “safe” collateral

Effective monetary policy transmission (counter-cyclical)

Markets

Ensure sovereign bond liquidity (market access)

Limit the sovereign-bank doom loop

“Easy” and “Fast” to implement

EVALUATING THE VARIOUS PROPOSALS

	Status Quo	Blue & Red bonds	Purple & Red bonds	E-bonds	National tranching, then pooling	SBBS
Political						
No additional public risk sharing	Yes	No	No	Unsure	Yes	Yes
Avoid moral hazard	Yes	Yes	Yes	Yes	Yes	Yes
Ensure ESM credibility	Unsure	Yes	Yes	Unsure	Unsure	Unsure
Legal						
"Protect" current debt stock from litigation risks	Yes	No	Yes	Yes	Unsure	Yes
Ensure banks can meet regulatory requirements	Yes	Yes	Yes	Yes	Yes*	Yes*
<i>* with some regulatory changes</i>						
Monetary policy						
Large supply of "safe" collateral	Unsure	Yes (Blue)	Yes (Purple)	Yes (E-bond)	Unsure	Unsure
Effective monetary policy transmission	No	Yes	Yes	Yes	Unsure	Unsure
Markets						
Ensure liquidity (market access)	No	Only Blue	Only Purple	Only E-bond	No	No
Limit the sovereign bond-bank doom loop	No	Yes	Yes	Yes	Unsure	Unsure
"Easy" to implement	Yes	No	Yes	Yes	Unsure	Unsure
"Fast" to implement	Yes	No	Yes	No	No	No

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