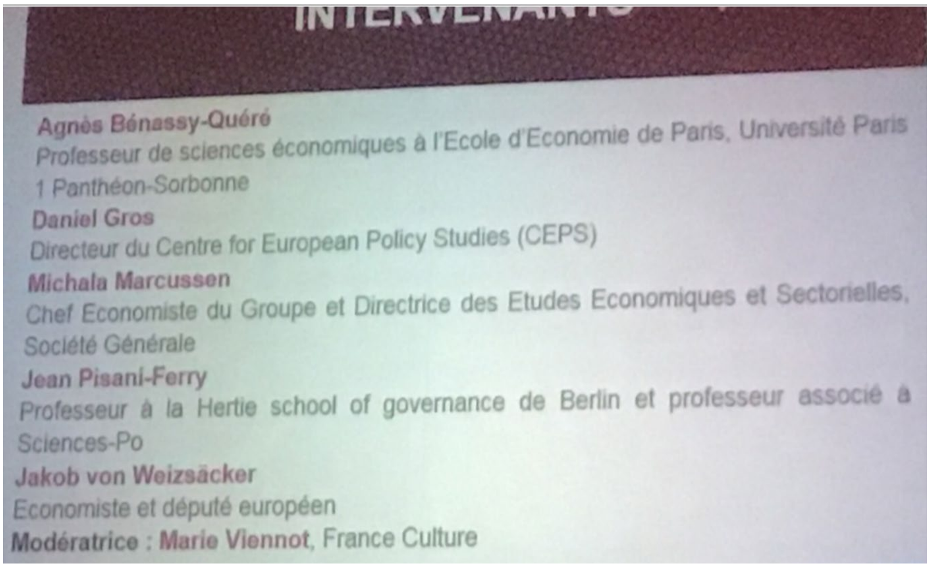
# Relancer la zone euro ? le débat économique.




Depuis Zone euro, beaucoup de réformes =

- Un dispositif pour aide d'urgence à un état en difficulté.
- Empêche une crise auto-réalisante : achat de titres de dette publique. Assouplissement quantitatif.
- Système de résolution unique = Les créanciers doivent payer d'abord.

Les banques financent les Etats pour payer la dette publique. Les Etats soutiennent Les banques quand elles ont des problèmes.

2 pbs = solvabilité et liquidité.

Refus de se concerter sur les politiques macro-économiques.

Il faut combiner responsabilité et solidarité.

La règle de non-renflouement n 'est pas crédible car elle est trop coûteuse pour tout le monde.

Un mécanisme européen d'assurance des dépôts ne peut pas se concevoir si les risques ne sont pas équitablement répartis.

Donc, il faut des règles plus simples. Il faut pouvoir laisser de la flexibilité aux Etats quand ils le demandent, à charge pour eux de financer leurs plans d'une manière différente.

Union bancaire :

- Supervision unique
- Solidarité entre banques
- Garantie des dépôts
- La question du partage du risque n'est pas résolue- Faut-il des mécanismes institutionnels ou des mécanismes de marché ?

## A Banking Union in practice:

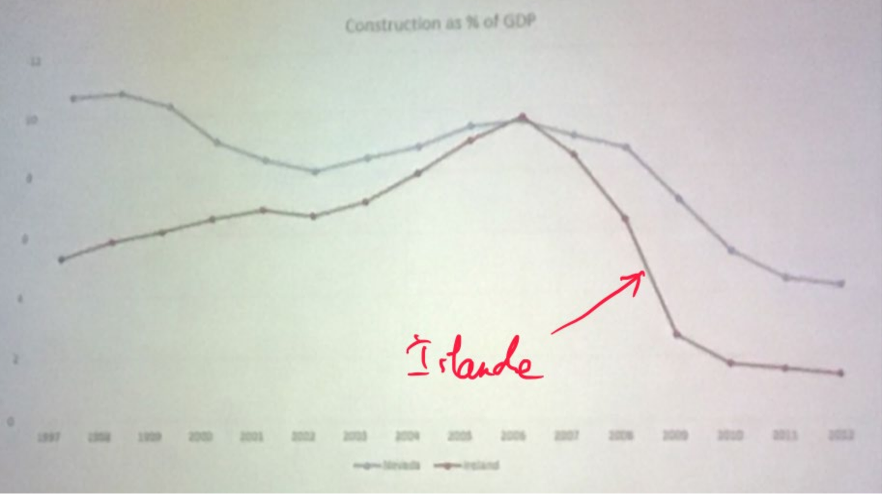
States of US enjoy one huge advantage over Eurozone MSs:

A well-functioning ***Banking Union***

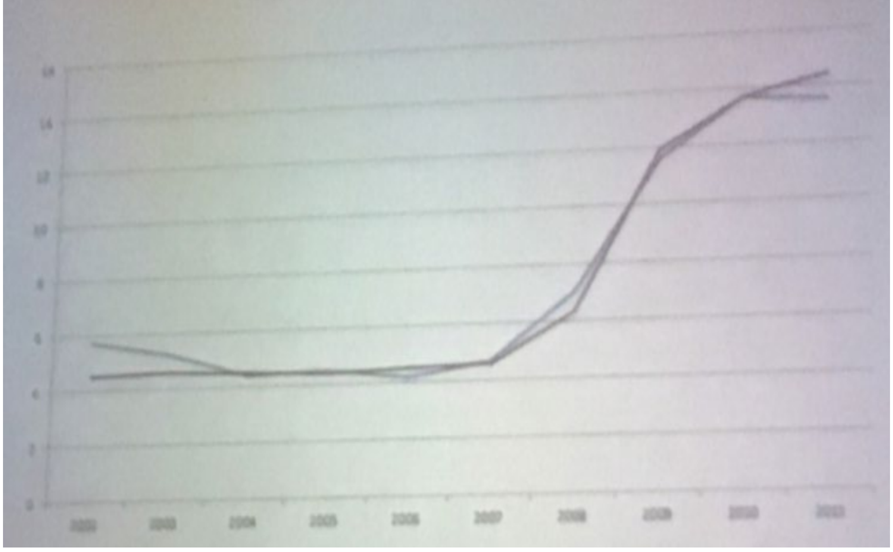
- Federally organized securitization (via Freddie Mac, Fannie Mae) and the Federal Deposit Insurance Corporation (FDIC) spread state risks and losses, plus 'private label' securitization and large banks.
- Limited regional impact of bank failures during crisis a prime example:

**<u>Nevada versus Ireland</u>**

## Ireland vs. Nevada: Construction, similar cycle




## Unemployment rates in percent, similar deterioration



## Nevada's Advantage

- 2008-09: FDIC closed 11 banks headquartered in NV
  - Assets of over $40 billion ≈30% NV GSP
  - Losses incurred by FDIC of roughly $4 billion
- Federal loss sharing through Fannie Mae & Freddie Mac of $8 billion since 2008 (losses concentrated in Nevada, borne by federal institutions (but not federal government)).
- Total direct 'loss absorption' : about 12 billion, 10 % of GSP.
- Not counted:
- Non conforming (private label) RMBs (sub prime) securitization plus high market share of out-of-state banks in NEV, also, partially in Ireland (HSBC, etc.) = Market banking union.
- => Total loss protection much higher than 10 % of GDP!

## Foreign owned banks: a substitute for BU?

- Foreign owned banks must be strong enough to carry losses.
- Magnitudes?
- Estonia about 5 % of GDP in loan write downs by Swedish banks.
- In US large banks have over 50 % market share and absorbed over 440 billion in writ downs (twice as much as FDIC + GSEs ) not surprising as GSEs covered only 'conforming', i.e. low risk mortgages.
- => More shock-absorbing capacity from foreign owned banks than could ever be provided by any 'fiscal capacity' for EA?

But for small countries only?

## Loss sharing during Euro Crisis(?)

- The US banking union supported Nevada with a transfer (or rather loss absorption) worth over 10%, possibly up to 20% of its GDP.
- Ireland, Spain: no such loss absorption, government had to save 'own' banks.
- Counter example: Estonia, Lithuania: also real estate boom and bust, but no national bank rescues necessary because strong Scandinavian banks absorbed losses (market banking union).

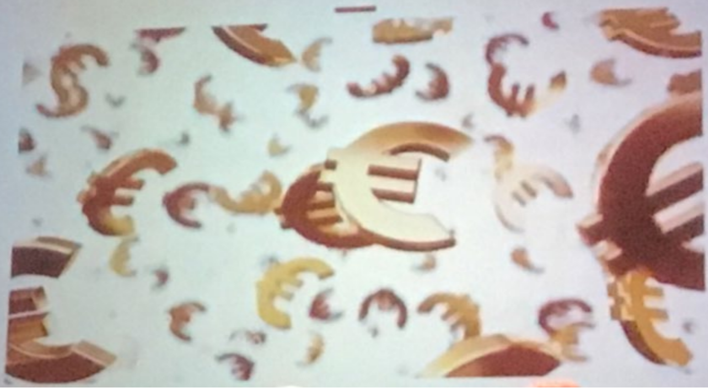
Overall conclusion: More shock-absorbing capacity from a full BU than could ever be provided by any 'fiscal capacity'.

## Conclusions: 'private banking/capital market integration' more important than completing 'official' BU

- Deposit guarantee likely to become less important under bail-in regime of BRRD.
- (Plus EDIS (European Deposit Insurance System) could not protect against denomination risk.)
- => More important to encourage cross border banking and securitisation than getting EDIS.

## DOES THE EURO AREA NEED A SAFE ASSET?

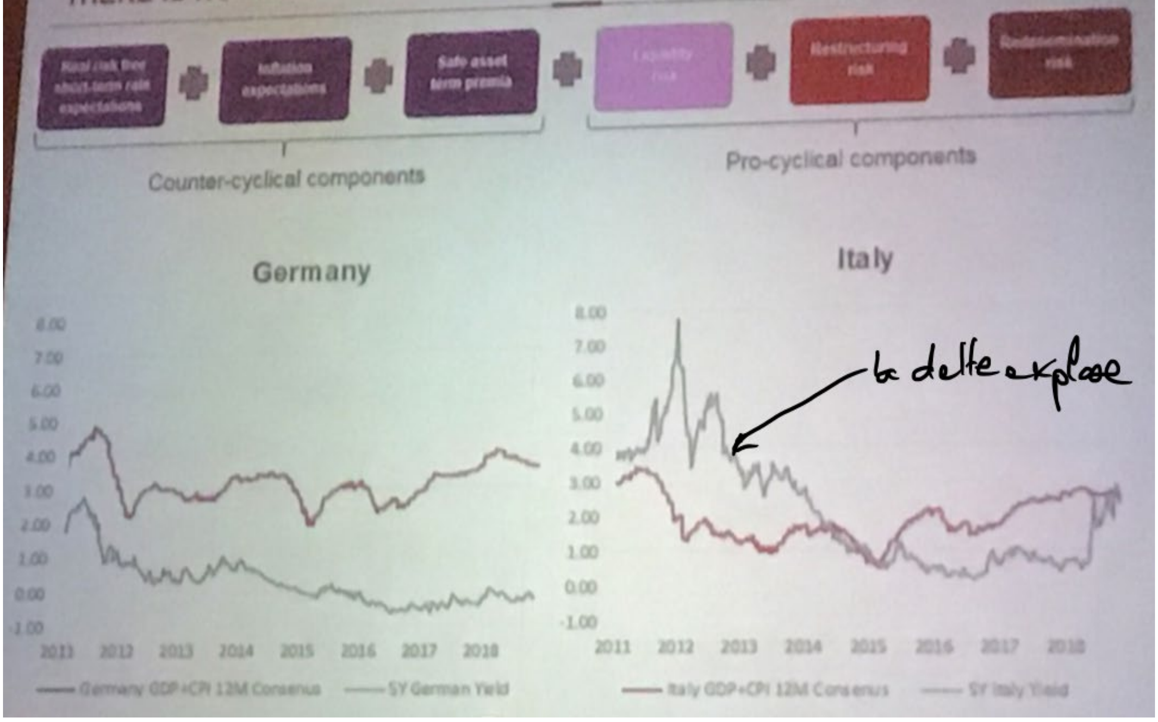
IN A NUTSHELL, YES!



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

- ESM
  - Will sovereign debt be restructured?
  - Is it sufficiently large?
  - Is it politically viable?
- ECB Tools
  - Is QE capacity sufficient ?
  - Can LTRO be used to ease a sovereign liquidity crunch ?
  - Are collateral rules too reliant on pro-cyclical ratings?
- Banking Union
  - When will EDIS and SRF be in place ?
  - When will fragmentation end ?
  - When will genuine euro area banks emerge ?

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




## … 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* |
| ** with some regulatory changes* | | | | | | |
| **Monetary policy** | | | | | | |
| Large supply of "safe" collarteral | 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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