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Temporary Eurobill Fund (TEF)

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Agenda

- The principles to be satisfied
- TEF structure
- Governance
- Policy benefits
- What if??
- Example of TEF portfolio:
  - at minimum size
  - At maximum size = European Treasury

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Principles to be satisfied

- No mutualisation of debts
- Respect for the post-crisis economic governance system (Maastricht 2.0)
- A proper role for market discipline
- “Safe asset” to reduce the `doom loop’ between banks and their government
- Financial solidarity with states that respect the rules yet lose market access

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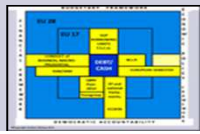
TEF Structure (pages 3-4)

- Participating states would borrow from the Fund – at their own risk – ALL new funds for up to two years.
- The legal format would follow the tried and tested template of the ESM but would NOT require a change to the TFEU.
- The costs would be minimal.
- Rules to stop excessive shortening of debt maturity
- Could be functioning before 2019 EP elections/QE ending – acting as a stepping stone to a European Treasury.
- If successful, the maturity range could be extended beyond two years.
- If unsuccessful, be easily reversed (even to extinction) within two years.



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Governance (pages 4-5)

- Follow ESM structure so Governors (ultimate Political Decision Makers) = Finance Ministers

- Each year: they set a state-by-state cap on new bills to be purchased
  - **If state is in "good standing",** then its request will match its agreed budget needs for <2 year issuance
  - **If PDMs concerned**, may set lower cap and TEF exposure to state runs down automatically; state borrows excess in long term markets at somewhat higher interest rate for life of borrowing = modest/automatic penalty from market discipline
  - **If PDMs fail to agree on a particular state**, then cap on new lending = 0 so exposure expires in 2 years, with increasingly powerful penalty from market discipline

- State in "good standing" but old bonds with <2 year remaining life yield much more than corresponding TEF bill: PDMs authorise TEF to buy-in these bonds to bring yield down appropriately. (Good carry trade for TEF!)

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Policy Benefits (pages 5-8)

- Provide important benefits for consumers by "Europe" providing a simple, understandable, easily accessible, low-cost, safe savings product to all EZ citizens – providing a direct service to the most influential citizens.
- Supporting the financial stability of governments: removing roll-over risk
- Supporting the financial stability of banks: a "safe asset" for Eurozone banks
- Supporting the euro's role as a global financial asset: comparable with US T-bills when it reaches its full size.

In summary: Be an institution binding the euro area further into economic policy co-ordination and convergence – thereby encouraging fiscal stabilisation; deepen the financial integration inherent in CMU; and buttress financial stability of both banks and governments.

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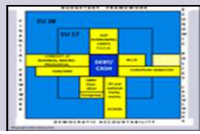
What if??

1. **A state cannot redeem its obligations to TEF at maturity?**

   It is "offered" an ESM programme that first pays off the TEF as the obligations fall due = TEF has effective Preferred Creditor Status. Therefore, no state may have a bigger obligation than remaining lending capacity of ESM – which already has a formal Preferred Creditor Status.

2. **A state refuses to pay?**

   Europe faces an existential crisis – especially if it is a big state.



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Minimum Size: €0.6 trn.

- debt with original maturity <2 year

TEF Member State	Capital Key - grossed up, %	Gross exposure	Own debt	Net Exposure	% Own Debt < 2 years
Belgium	3.6	20	26	-6	6
Germany	27.9	158	47	111	4
Estonia	0.2	1	0	1	0
Ireland	1.6	9	0	9	0
Spain	12.3	70	87	-17	10
Italy	18.5	119	177	-58	10
Latvia	0.4	2	0	2	0
France	21.0	104	178	-74	11
Lux	0.2	1	0	1	0
Malta	0.1	1	0	1	0
Netherlands	5.7	32	27	5	8
Austria	2.9	16	2	14	1
Portugal	2.6	15	18	-3	15
Slovenia	0.4	2	2	0	2
Slovakia	0.8	4	0	4	0
Finland	1.8	10	0	10	0
TOTAL	100.0	564	564	0	9%

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European Treasury

TEF Member State	Gross exposure	Own debt	Net Exposure	% Total Own Debt < 2 years
Belgium	69	111	-42	28
Germany	537	322	215	29
Estonia	4	0	4	0
Ireland	31	4	27	4
Spain	236	286	-50	35
Italy	355	554	-199	32
Latvia	8	1	7	25
France	403	436	-33	28
Luxembourg	0	0	0	0
Malta	4	1	3	25
Netherlands	109	96	13	28
Austria	56	44	12	21
Portugal	50	40	10	34
Slovenia	8	0	8	0
Slovakia	16	8	8	21
Finland	35	18	17	19
TOTAL	1921	1921	0	29%

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