Banks’ usage of TLTRO III funds

ECB MMCG 22nd September 2020
Telco 13:00 – 17:00 CET

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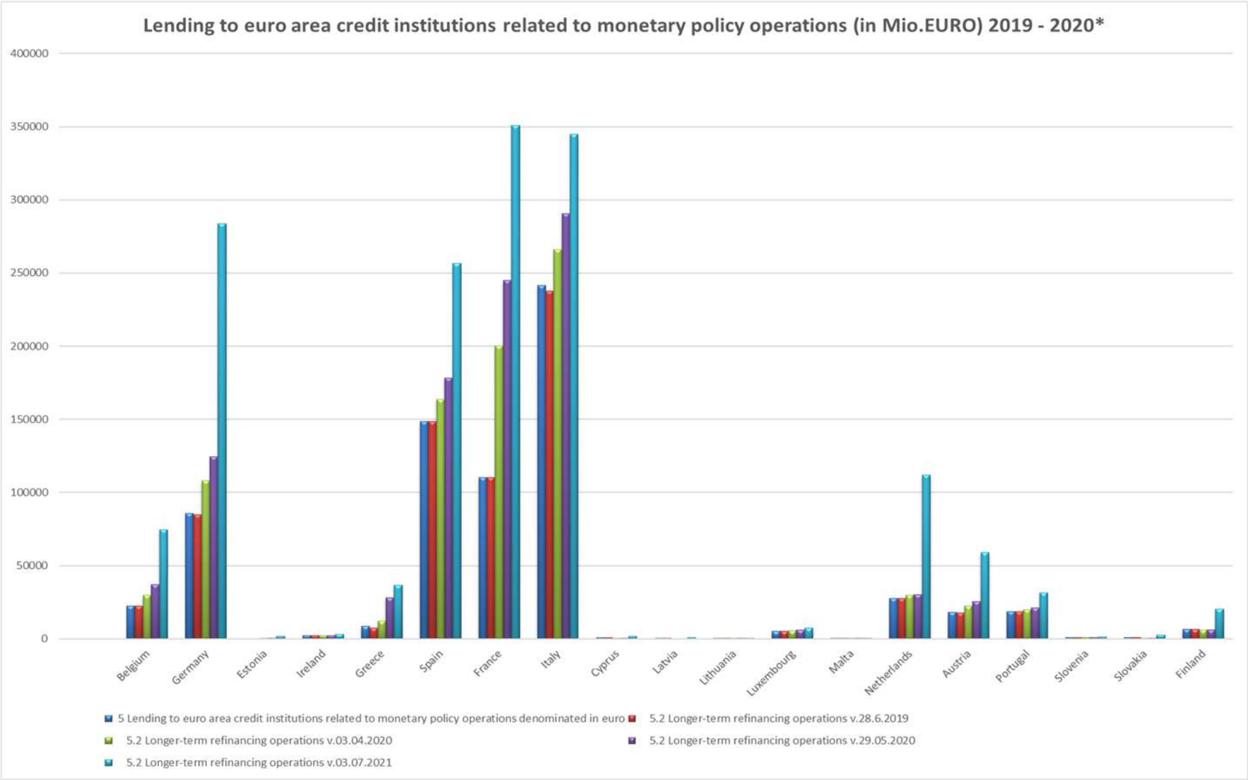
Top 1: Banks‘ usage of TLTRO III funds (1/3)

Take-up of and main drivers for usage of June 24th 2020 TLTRO III.4 operation



Some facts & figures:

- Overall take-up: + 1.308 bln Euro
- Distributed over 19 countries
- Approx.: 75%: + 986 bln Euro by 4 countries i.e.: Germany, France, Italy, Spain
- Approx.: 25% all others
- Distribution in Germany at approx. 50/50 between private – vs. savings/coop banking sector

Main drivers for uptake:

- Refinancing of upcoming maturities
- Replacing more volatile investor funding base with at times more reliable liabilities
- ECB‘s re-adjustment of favourable conditions i.e.: widen ACC eligibilities, haircuts, concentration limits
- Pricing advantage -50bp vs. deposit facility (max.- 1%)
- LCR & NSFR supportive due to stub period of > 1Yrs.before 1st Call-option of repayments in Sep.2021
- Enhancing banks liquidity buffer and
- reducing liquidity risk potentially for Q.3 & Q.4 2020
- Generating additional income in parts offered by using carry trades
- Supporting expected loan growth

Source ECB https://www.ecb.europa.eu/press/pr/wfs/dis/html/index.en.html

Top 1: Banks‘ usage of TLTRO III funds (2/3)

Current loan demand, risk and price considerations, government guarantees, interest rates

Chart 4

Changes in demand for loans or credit lines to enterprises and contributing factors

(net percentages of banks reporting an increase in demand and contributing factors)

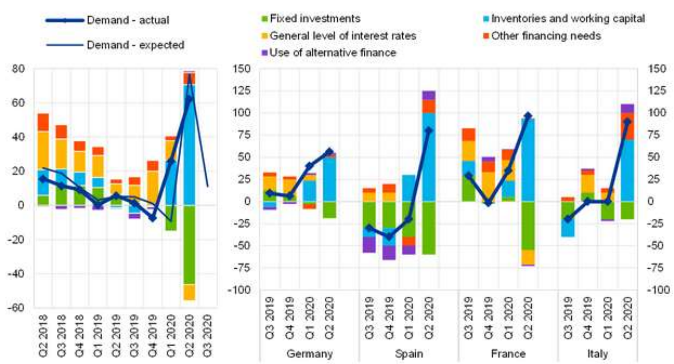
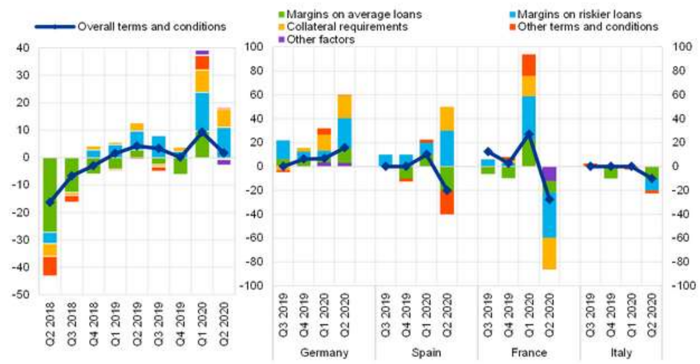


Chart 2

Changes in terms and conditions on loans or credit lines to enterprises

(net percentages of banks reporting a tightening of terms and conditions)



Main drivers:

- Large demand on loan growth due to Covid-19 lock-down for clients*
- and additional increase anticipated loan growth in 2020/ 2021 onwards
- ECB‘s re-adjustment of favorable conditions of max.- 1.00% TLTRO
- Generating additional income in parts offered by using carry trades
- Expectations of banking sector to further support and therefore meet loan growth figures in order to get lowest possible TLTRO funding rates by Sept.2021
- and having ability to be competitive in pricing of upcoming loan demand*

*Please see: https://www.ecb.europa.eu/stats/ecb_surveys/bank_lending_survey/html/ecb.blssurvey2020q2~d8de5b89f0.en.html#toc5

Top 1: Banks‘ usage of TLTRO III funds (3/3)

Possible effects on maturing COVID-19 measures i.e.: cliff effects for banks issuance plans

- Finally, changes envisaged in banks’ funding plans and their concerns on possible liquidity cliff effects
- We tend to assume that larger parts of the HQLA refinanced collateral base will be reduced over time
- At the same time, banks will take advantage of opportunities to build up further credit claims as eligible ACC collateral i.e.: via securitization in the next 12 months, in order to take advantage of the continued favorable credit refinancing conditions <u>but</u>
- changed funding behavior of banks as well as the fundamental attractiveness of TLTRO will probably lead to a strong cliff effect 12 months before maturity of TLTRO III.4, since massive amounts will be refinanced in this form

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