

Money Market Contact Group

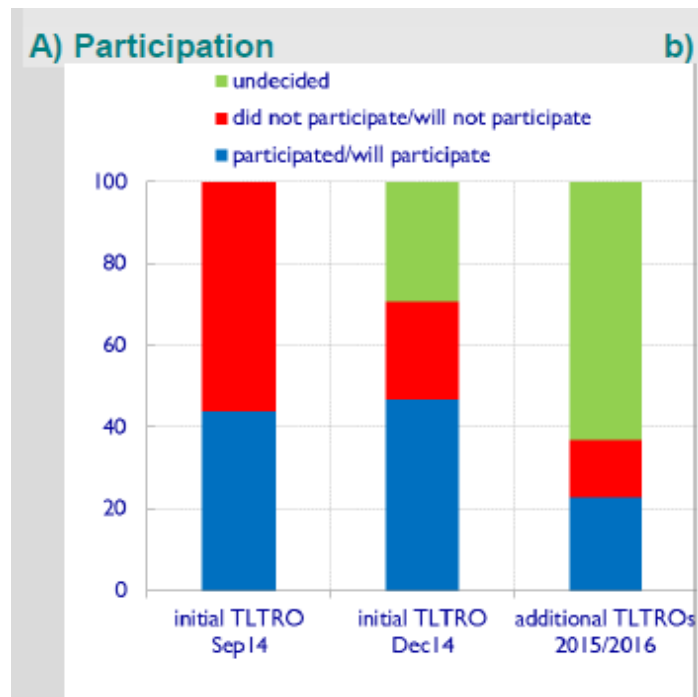
Banks' appetite for TLTROs

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TLTROs: BANKS' PARTICIPATION

- The October 2014 ECB Lending Survey included three ad hoc questions aimed at gauging the impact of the targeted longer-term refinancing operations (TLTROs) conducted by the Eurosystem between September 2014 and June 2016.
- Of the euro area banks participating in the survey, 44% participated in the first initial TLTRO. Participation was heterogeneous across countries. Regarding the second initial TLTRO in December 2014, 47% of the banks, in aggregate terms, plan to participate whereas 29% reported that they were still undecided.



- The overall allowance calculated by the ECB for the first two TLTROs amounted to €400bn
- After the €83bn taken from 255 bidding banks (40% of their total estimated allowance of €207bn) in the 1st TLTRO, the amount for the December TLTRO is capped at €317bn.
- Applying the same measure, for the 2nd TLTRO banks are expected to participate for about €127bn.
- Core bank participation will be relevant for the net liquidity impact of the December TLTRO, given that the close to €287bn still outstanding in the 3y LTROs mainly reside at banks in Italy and Spain.

TLTROs: USE OF FUNDS

- Banks, accordingly to the main purpose of TLTROs, reported that they would primarily use funds for :
 - granting loans, in particular loans to enterprises
 - a lesser extent for refinancing purposes
 - refinancing maturing medium long term debt at more favorable conditions (in particular for the non core Europe countries).
- Banks indicated, in particular for the initial TLTROs, an expected enhancement in their liquidity positions and an expected improvement in market refinancing conditions.

As discussed by Peter Praet at European Macro Conference in London last 17 November 2014: *“There are several factors that indicate credit dynamics in the euro area have now reached a turning point. Credit data have improved over recent months, albeit from low levels. The annual growth rate in bank loans to households again increased in September to 0.6% – twice the average growth rate recorded last year. Bank lending to firms has continued to contract but the decline is bottoming out. And the latest bank lending survey saw banks report a further easing of overall credit standards.”*

As discussed by Mario Draghi at the Economic and Monetary Affairs Committee last 17 November 2014: *“The latest monetary data point to subdued underlying growth in broad money. Its annual growth rate has increased moderately over recent months. It appears that the turning point in credit growth is now behind us, and credit growth rates, while remaining negative, are gradually improving.”*

As reported in the Bank Lending Survey Q2, for the first time in 7 years Euro area banks reported a net easing of credit standards on loans to non-financial corporations in the second quarter of 2014. The same pattern continued also in third quarter.

TLTROs: FOCUS ON ITALIAN BANKS



For the 2nd TLTRO Italian banks are expected to participate for about **€40/50bn** of their overall €75bn allowance left.

- The main aim for the participation is related to the possibility to increase of the amount of loans granted to non financial customer, at **lower rates, transferring the benefits of the TLTRO rates to corporates.**
- The expected impact of the TLTROs translated almost exclusively into an easing of terms and conditions for loans to enterprises and to a lesser extent for housing loans, while hardly any improvements on overall credit standards was expected.

