



# Expected evolution of excess liquidity TLTRO

## Money Market Contact Group

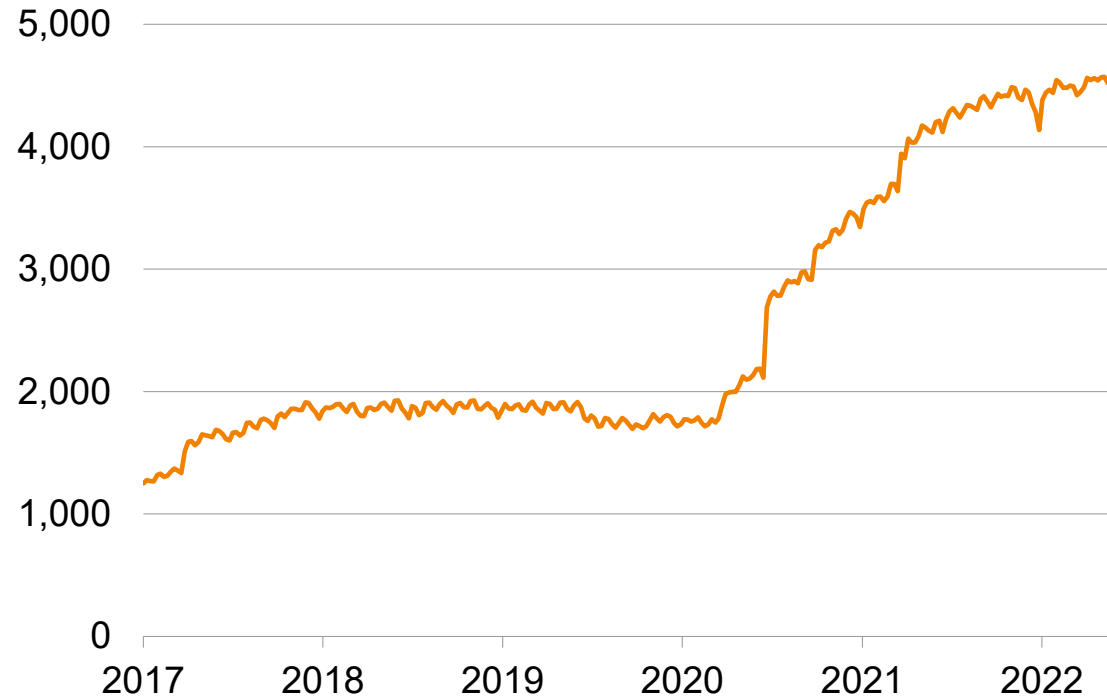
Wednesday, June 15th 2022 Michael Schneider



# Bond purchases and TLTROs drove up excess liquidity

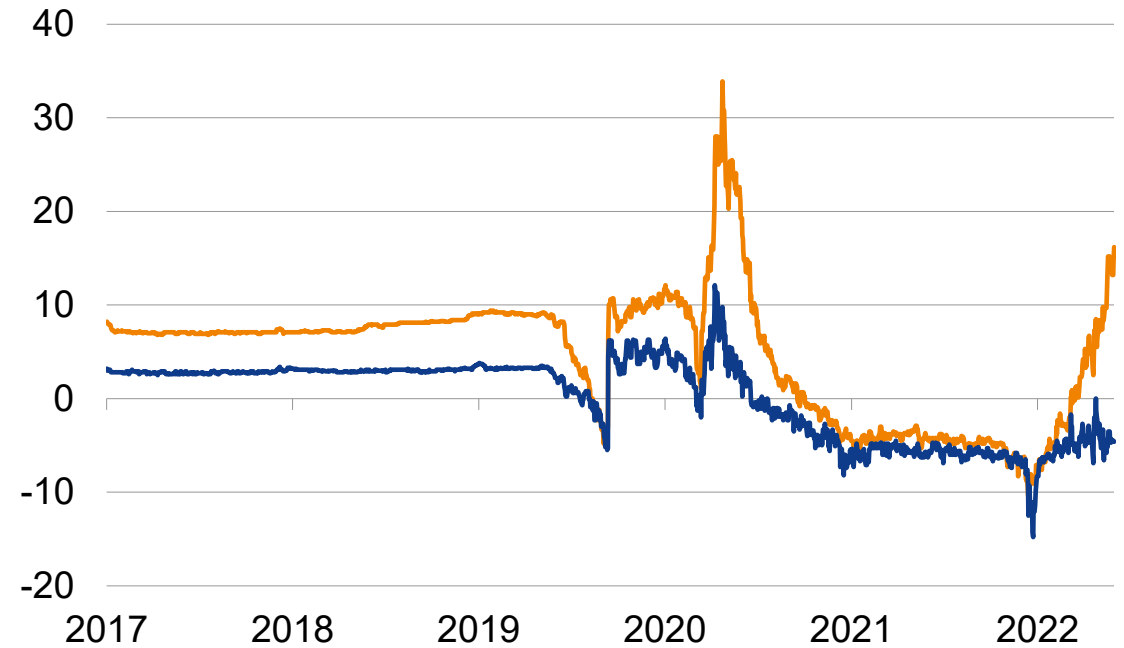
Euribor rates are pushed below the deposit rate

In Billion Euro



— ECB Excess Liquidity

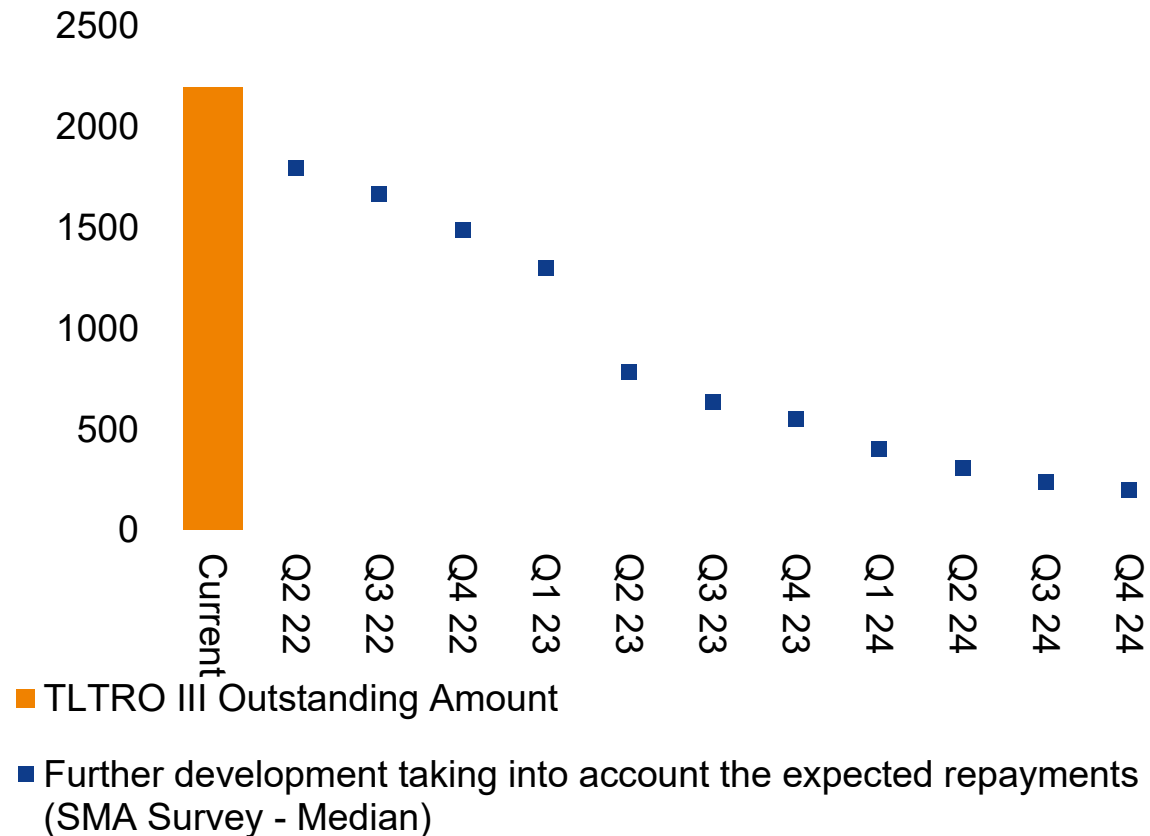
Basispoints



— Spread 3M Euribor vs. ECB Deposit Facility Rate  
— Spread 1M Euribor vs. ECB Deposit Facility Rate

# For the time being, most market participants expect a prolongation of the TLTRO.

In Billion Euro



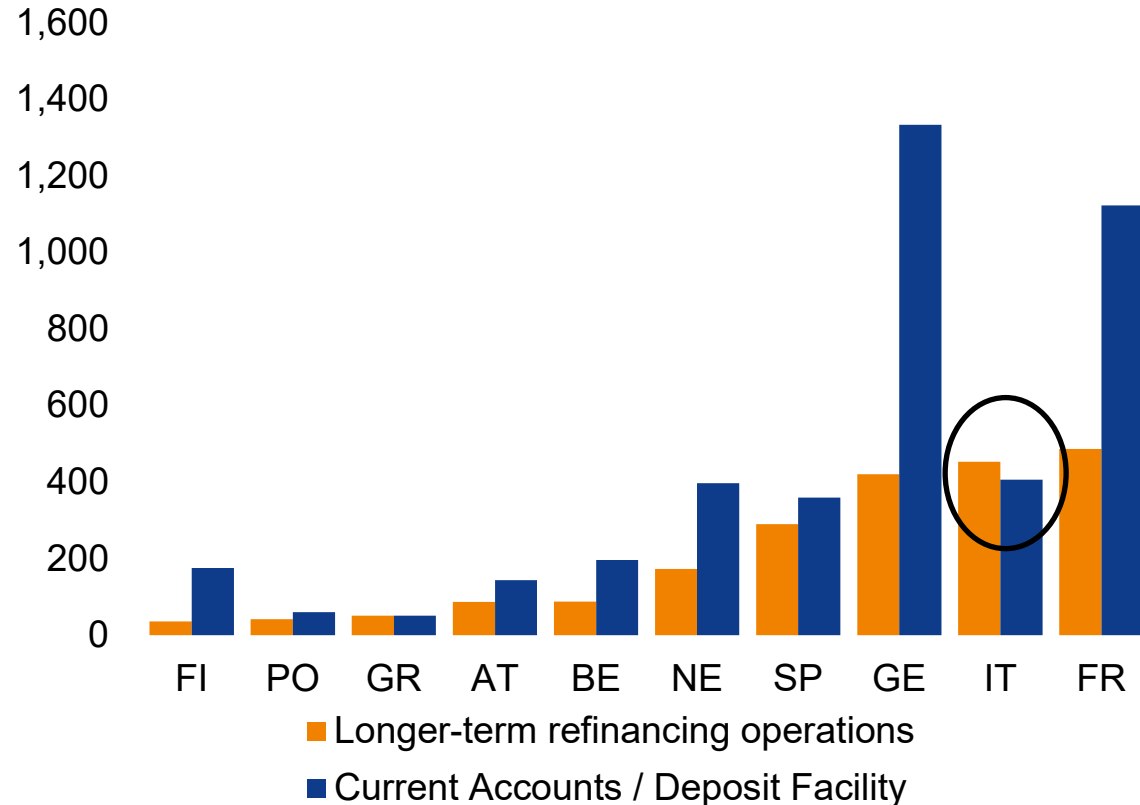
- **Profitability:** Due to the calculation logic over the entire holding period and the expected interest rate increases, large parts will remain in the banks' portfolios.
- **NSFR:** The AFS factor for interbank funding including funding via central banks drops from 100% to 50% for maturities of six months or more and less than one year and to 0% for maturities of less than six months.
- **Leverage ratio:** Banks have to reinstate central bank exposures in their leverage ratio from 1 April 2022, which may incentivize banks to pay back TLTRO liquidity early to reduce the amount of deposits held with the ECB.

Source: ECB;

# Central bank liquidity in the euro area unevenly distributed

Numerous banks have simply reinvested the TLTRO liquidity with the ECB

In Billion Euro

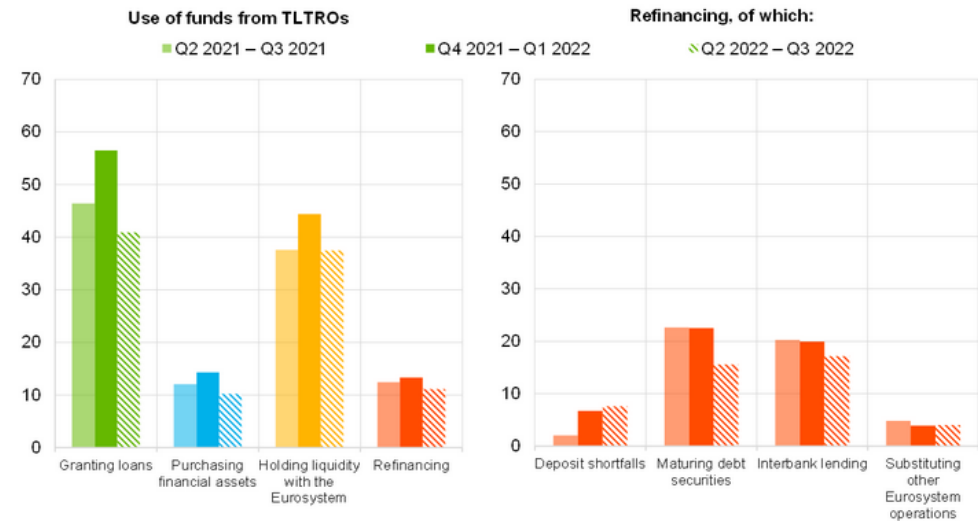


Bank Lending Survey – First quarter of 2022

**Chart 23**

Use of TLTRO III liquidity by banks

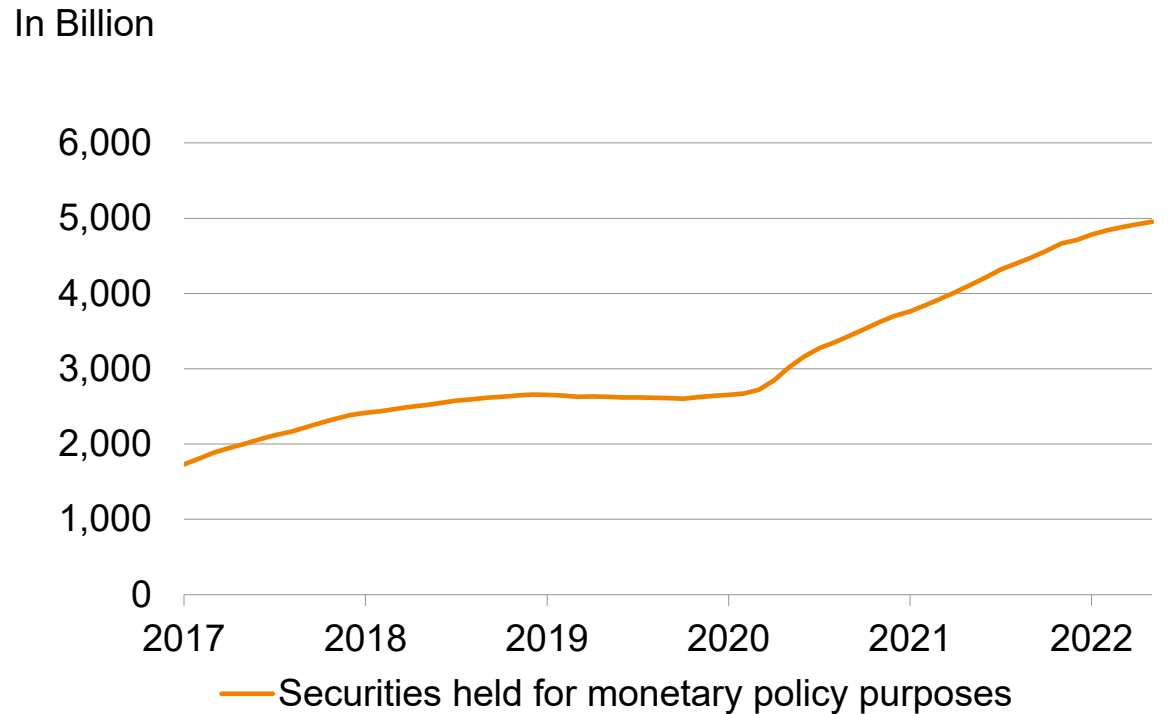
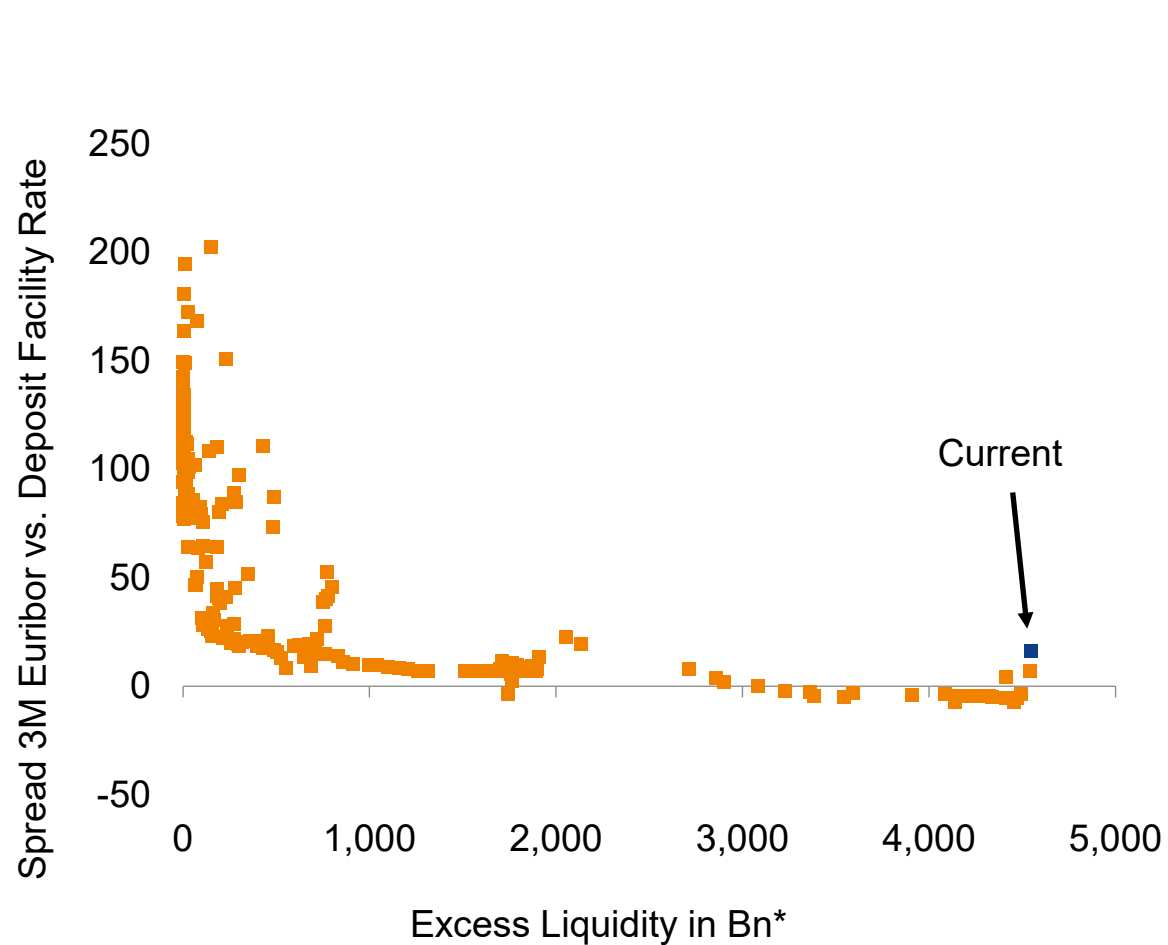
(percentages of banks)



Notes: Banks were asked to indicate the relevance of all purposes. "Purchasing financial assets" is the average of "purchasing domestic sovereign bonds" and "purchasing other financial assets". "Granting loans" refers to loans to the non-financial private sector. The last period denotes expectations indicated by banks in the current round.

# APP / PEPP: Entry into quantitative tightening

Significant spread widening not on the agenda at present



- Net asset purchases ended APP Programm July 1
- PEPP reinvestments: until at least the end of 2024.
- APP reinvestments: for an **extended period of time past the date when it starts raising the key ECB interest rates** and, in any case, for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation.

Source: Bloomberg; ECB \*(January 2000 – May 2022)