



EUROPEAN CENTRAL BANK

EUROSYSTEM

Targeted longer-term refinancing operations (TLTROs)

13 November 2014

Market Operations Analysis
Division

Targeted Longer-Term Refinancing Operations

- In June 2014, the ECB announced the Targeted Longer-Term Refinancing Operations (TLTROs) to enhance the functioning of the monetary policy transmission mechanism by supporting lending to the real economy.
- **Two main innovations:**
 - Borrowing limits linked to participants' lending history
 - TLTRO groups
- Maturity date for all TLTROs is the same: 26 September 2018 (i.e. **up to four years** for the 1st TLTRO)
- Fixed interest rate: MRO at the time of operation + 10 bps

Targeted Longer-Term Refinancing Operations

- **Objective:** to support bank lending to the real economy
- Borrowing limits dependent on lending to non-financial corporations and households (w/o house purchases)
- **Eight operations** (Sep and Dec 2014; Mar, Jun, Sep and Dec 2015; Mar and Jun 2016)
- Banks that fail to achieve benchmarks as at 30 Apr 2016 will have to repay in full in Sep 2016
- Possibility for credit institutions to create “**TLTRO groups**” of credit institutions under certain conditions:
 - Close links
 - Indirect reserve holdings
 - Consolidated supervision (a special case)

1. **Governing Council Decision ECB/2014/34**

http://www.ecb.europa.eu/ecb/legal/pdf/oj_jol_2014_258_r_0006_en_txt.pdf

2. **Updated modalities** of the targeted long-term financing operations

http://www.ecb.europa.eu/press/pr/date/2014/html/pr140729_updated_modalities.pdf

3. **Updated guidelines for completing the TLTRO reporting templates:**

http://www.ecb.europa.eu/press/pr/date/2014/html/pr140729_TLTROs_updated_guidelines_for_completing_the_reporting_template.pdf

- The **initial allowance IA** (valid for the 1st and 2nd TLTROs):
 - 7% of the outstanding eligible loans as of 30 April 2014
- The **additional allowance AA** (valid for the 3rd to 8th TLTROs):
 - a) Three times participant's cumulative eligible net lending provided between 1 May 2014 and the respective allotment reference date, in excess of the **benchmark**.

$$AA_k = 3 * (CNL_k - BE_k)$$

- a) Zero if a) negative

- The benchmark will be determined on the basis of eligible net lending in the twelve month period from 1 May 2013 to 30 April 2014.
- For participants with **positive** eligible lending or new participants established after 1 May 2014:
 - $BE = \text{Zero}$
 - $AA_k = 3 * (CNL_k - 0)$
- For participants with **negative** eligible lending:
 - Determining the average monthly eligible net lending and multiplying this average figure by the number of months elapsed between 30 April 2014 and the end of the allotment reference month. After April 2015, the benchmark will remain unchanged.

1. On an **individual basis**: if an institution is eligible counterparty for Eurosystem monetary policy open market operations

 2. In a **TLTRO group**:
 - (financially sound) credit institutions established in Member States whose currency is the euro
 - TLTRO group is represented by a lead institution
 - close link or indirect reserve holdings among TLTRO group members
 - TLTRO groups shall remain unchanged for all eight TLTROs
- A credit institution that is a member of a TLTRO group can not be a member of another TLTRO group or participate individually.

- 63 domestic and cross-border TLTRO groups registered in August
- on 28 August 2014 the participants submitted statistical templates (history of their eligible NFIs and HHs loans)
- 11 September: the counterparties learned their individual borrowing limits
- 16 September: the first TLTRO was announced
- 17 September: deadline for bids
- 18 September: allotment
- 24 September: settlement

Outcome of the 1st TLTRO

- Allotted **€82.6** billion to 255 counterparties
- A total of **382 entities** were eligible to bid in the first TLTRO, representing, either directly or indirectly, **1372 credit institutions**.
- Eligible banks who have not reached their initial allowance limits in the first TLTRO will be able to increase their initial borrowing amount up to that limit in the second TLTRO.

- **20 November 3.30pm:** (new and existing) participants have to submit **reporting templates**
- 4 December: counterparties will learn their individual borrowing limits
- **9 December:** the second TLTRO will be announced
- 10 December 9.30am: deadline for bids
- 11 December: allotment
- 17 December: settlement

Expectations: the first two TLTROs should be seen jointly due to the constraint put on the initial allowance (IA) that is $C_1 + C_2 \leq IA$. Higher the allotted amount C_1 in the first TLTRO, lower C_2 in the second TLTRO and vice versa.

The screenshot shows the ECB website page for 'Open market operations'. The left sidebar contains a navigation menu with 'Open market operation' highlighted in red. The main content area has a title 'Open market operations' and a sub-header 'Open market operations'. Below this, there are several paragraphs of text explaining the ECB's regular open market operations, including one-week liquidity-providing operations in euro, longer-term refinancing operations (LTROs), and targeted longer-term refinancing operations (TLTROs). A navigation bar at the bottom of the main content area has 'Targeted LTRs' highlighted in red. The right sidebar contains various sections: 'RSS feed', 'Calendars', 'Tender procedures', 'Main refinancing operations', 'Publications', and 'History'. The 'Targeted LTRs' section in the main content area contains a paragraph about the ECB's decision on 5 June 2014 to conduct a series of targeted longer-term refinancing operations (TLTROs) aimed at improving bank lending to the euro area non-financial private sector, excluding loans to households for house purchase, over a window of two years. It also mentions a deadline for participation in the second TLTRO and provides links to related documents and press releases.

Open market operations

The Eurosystem's regular open market operations consist of one-week liquidity-providing operations in euro (main refinancing operations, or MROs) as well as three-month liquidity-providing operations in euro (longer-term refinancing operations, or LTROs). MROs serve to steer short-term interest rates, to manage the liquidity situation and to signal the monetary policy stance in the euro area, while LTROs provide additional, longer-term refinancing to the financial sector.

In recent years, the regular operations have been complemented by two liquidity-providing long-term refinancing operations in euro with a three-year maturity (maturing on 29 January 2015 and on 26 February 2015), as well as by US dollar liquidity-providing operations. In addition, the ECB announced in June 2014 that it would conduct a series of targeted longer-term refinancing operations (TLTROs) aimed at improving bank lending to the euro area non-financial private sector, excluding loans to households for house purchase, over a window of two years. [For modalities of the TLTROs see the press releases on → 5 June 2014 and → 3 July 2014.]

In addition, in 2009 and 2011 the Eurosystem launched two covered bond purchase programmes (the CBPP, which ended in June 2010, and CBPP2, which ended in October 2012). From 10 May 2010 to February 2012 it conducted interventions in debt markets under the Securities Markets Programme (SMP), which was terminated in September 2012. In August 2012 the ECB announced the possibility of conducting outright open market operations in secondary sovereign bond markets to safeguard an appropriate monetary policy transmission and preserve the singleness of its monetary policy. The technical features of such operations, named → [Outright Monetary Transactions](#), were announced in September 2012.

In September 2014, the ECB announced two new purchase programmes, namely the ABS purchase programme (ABSPP) and the third covered bond purchase programme (CBPP3). The programmes will enhance transmission of monetary policy, support provision of credit to the euro area economy and, as a result, provide further monetary policy accommodation.

An annex entitled "Chronology of monetary policy measures of the Eurosystem" is provided in each issue of the ECB's Monthly Bulletin. For details of the ECB's response to the recent financial crisis, see the → [article](#) in the October 2010 issue of the Bulletin, and President Draghi's speech → "The role of monetary policy in addressing the crisis in the euro area" (15 April 2013). For the challenges to monetary policy in a low inflation environment, see President Draghi's speech → "Monetary policy in a prolonged period of low inflation" (26 May 2014).

Open market operations | Ad-hoc communications | General information | Related publications | **Targeted LTRs**

On 5 June 2014 the Governing Council of the ECB decided to conduct a series of targeted longer-term refinancing operations (TLTROs) aimed at improving bank lending to the euro area non-financial private sector, excluding loans to households for house purchase, over a window of two years. On 3 July 2014 the Governing Council decided on further technical details of the TLTROs, while the related legal act – Decision ECB/2014/34 on measures relating to targeted longer-term refinancing operations – was published on 29 July 2014. More information related to the TLTROs is provided in the links below.

An important deadline for participation in the second TLTRO is approaching. Counterparties interested in participating in the TLTRO which will be allotted in December 2014 need to send completed reporting templates to their national central banks at the latest by **Thursday, 20 November 2014, 3.30 p.m. CET**. For more information please see Article 8 and Annex II of the → [Decision of the ECB of 29 July 2014 \(ECB/2014/34\)](#) and → [Updated guidelines for completing the reporting template](#).

→ [Decision ECB/2014/34 of 29 July 2014 on measures relating to targeted longer-term refinancing operations](#)

→ [ECB Press Release of 29 July 2014](#)

→ [ECB Press Release of 3 July 2014](#)

→ [ECB Press Release of 5 June 2014](#)

→ [Updated modalities of the targeted long-term financing operations \(as of 29 July 2014\)](#)

→ [Updated guidelines for completing the TLTRO reporting template \(as of 29 July 2014\)](#)