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ECB'S TLTROS: MONEY, MONEY, MONEY

Berenberg Macro Flash

The ECB faced a record amount of demand from banks for the fourth tranche of its current third round of cheap three-year loans, the targeted long-term refinancing operations (TLTROs). In the TLTRO-III.4 tranche Eurozone banks took up a total €1.308trn (the biggest so far was a LTRO of €530bn in March 2012). After adjusting for maturing operations and early repayments of previous TLTRO rounds, the gross take-up of liquidity results in a net injection of €548bn into the Eurozone's financial system (see Table 1 below). Both sums are a little above our and markets' expectations of €1.2trn (gross) and €440bn (net). Adding future tranches of the TLTRO-III and pandemic emergency longer-term refinancing operations (PELTROS) these numbers could rise further through spring next year (seventh and last TLTRO-III tranches on 24 March 2021). By providing abundant liquidity the ECB continues to support bank lending and contain the risk of a financial crisis that would deepen the Covid-19 recession.

Many businesses and households suffered from the partial drying up of income flows during the Covid-19 pandemic, and remain scarred about the prospects of this happening again. The thirst for funding and desire to hold an extra amount of cash at hand is significant. Liquidity balances and savings ratio have shot up in response to the Covid-19 pandemic. The ECB is happy to provide the liquidity to the banks which pass it on to businesses and households. Whether the banks will ultimately need the money – and lend it out – remains to be seen. **Many will think it is better to have than to be in need.**

The ECB's money comes at very favourable terms and, for those which fulfil the conditions, with additional sweeteners. That also drove the demand. Some banks may get paid 1% until June 2021 if they maintain their net lending to businesses and households between 1 March 2020 and 31 March 2021. (Note: As the 1% rate on the TLTROs applies – at least currently – only until June 2021 and banks can repay TLTRO only after 1.3 years, the average rate banks that fulfil the conditions may get paid will actually be a little lower: 0.89%.) Those which do not manage to pass that threshold would still get paid 0.5%. Beyond boosting, or at least maintaining bank lending, the new round of TLTROs could raise bank profitability although some banks may end up depositing more surplus liquidity at the ECB for the penalty rate of -0.5%.



MACRO NEWS

Table 1: Headline and core inflation (yoy, in %)

		in (€ bn)
Liquidity BEFORE June operations	TLTRO-II	418
	TLTRO-III.1-3	216
	Bridge LTRO	389
	Total	1023
June operations	<i>Maturing operations</i>	
	TLTRO-II.1	-157
	Bridge LTRO	-389
	<i>Early repayments</i>	
	TLTRO-II	-214
<i>Starting operations</i>		
TLTRO-III.4	1308	
Net	548	
Liquidity AFTER June operations	Remaining TLTRO-II	47
	TLTRO-III.1-3	216
	TLTRO-III.4	1308
	Total	1571

Source: ECB, Berenberg

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