

ECB Research

TLTRO – low take-up, but the ECB should not be concerned

- In the ECB's TLTRO3.2 operation (December 2019), banks took only EUR97.7, much below our expectations; 122 banks participated in the operation. The September operation only saw EUR3.4bn. This needs to be seen in the context of the EUR146.8bn that banks will voluntarily repay later this month, as already announced last week. Despite the low take-up resulting in net liquidity drainage of almost EUR50bn, the ECB and markets should not be concerned with excess liquidity still above EUR1.7tn, which is far above the level at which we would expect short-end rates to be materially moved by excess liquidity levels.
- The TLTRO operations will run quarterly until March 2021, so banks will have plenty of opportunities to take liquidity. There are solid reasons why banks may want to wait for the take-up.

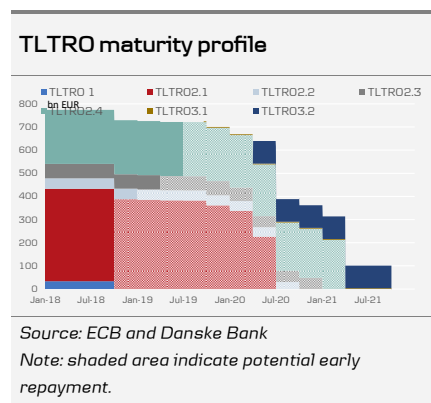
Take-up was surprisingly low – similar to September's

Euro area banks decided to take EUR97.7bn in TLTRO3.2 operations today. This was much lower than expected, which will ultimately lead to a drop in excess liquidity. Initially, our conclusion must be positive, as banks are well enough capitalised and there is solid lending growth in the euro area, so given the overall monetary policy stance, the drop in excess liquidity will not markedly impact the loose liquidity standards. However, we cannot rule out that banks may want to have a smaller balance sheet over the year-end. Furthermore, the large repayment compared to take-up may also reflect the large TLTRO2.1 maturing in June 2020, which means that as of December 2019 it matures in less than six month, which has a large impact on the NSFR.

Similar to the September operations, today's operation cannot be rolled into the 7th and last operation in March 2021, as the early repayment optionality in initial operations only falls at the earliest in September 2021 (today's operation in December 2021). That may also have been a reason for the low take-up. However, we expect the ECB to extend the TLTROs as we believe it is an underappreciated and uncontroversial tool. If the bank is concerned about the maturity of the funding, the March 2021 offers funding until March 2024.

Large potential take-up in future operations, but difficult to predict the timing

The maximum potential take-up of 30% of eligible lending leaves more space in core countries than in peripheral countries. We estimate that at a banking system level, German banks would be able to take up to EUR368bn over the seven operations. Similarly, Italian and Spanish banks could take up to EUR43bn and EUR44bn respectively, prior to the December repayments. We will only be able to estimate the country breakdown by the end of January when the December financial statement is released. For a more comprehensive discussion on TLTRO, see *Early findings of ECB's tiering system, €STR and excess liquidity*.



TLTRO maturity profile

€bn EUR	Maturity	Original amount (bn EUR)	Outstanding amount	Voluntary early repayments	Non-voluntary early repayments
TLTRO2.1	Jun-20	399.3	222.7	172.3	3.3
TLTRO2.2	Sep-20	45.3	31.8	13.4	0.0
TLTRO2.3	Dec-20	62.2	48.2	13.9	0.0
TLTRO2.4	Mar-21	233.5	208.0	20.9	4.5
TLTRO3.1	Sep-22	3.4	3.4	0	0
TLTRO3.2	Dec-22	97.7	97.7	0	0

Source: ECB and Danske Bank

Senior ECB Rates Strategist
Piet P. H. Christiansen
+45 45 13 20 21
phai@danskebank.dk

Potential take up over all 7 operations

[bn EUR]	Eligible loan stock (Feb.19)	Max eligible take-up (30% of eligible loan stock)	Currently outstanding LTRO by country (Aug.19)	Potential max new take up	Pot max new take up % of GDP
Germany	1511	453	85	368	11
Netherlands	403	121	28	93	13
Austria	235	71	18	53	14
France	1329	399	110	289	13
Finland	122	37	7	30	13
Luxembourg	89	27	5	22	39
Belgium	168	51	23	28	6
Spain	642	193	149	44	4
Italy	936	281	238	43	3
Portugal	93	28	19	9	5
Ireland	78	23	2	21	7
Greece	108	32	8	25	14
Other	95	29	3	26	
Euro area	5887	1766	TLTRO692	1024	9

Source: ECB and Danske Bank

Disclosure

Danske Bank A/S ('Danske Bank') has prepared this research report. The author of this research report is Piet P. H. Christiansen, Senior ECB Rates Strategist.

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