



EUROPEAN CENTRAL BANK

EUROSYSTEM

# Targeted longer-term refinancing operations (TLTROs)

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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](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](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](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 1<sup>st</sup> and 2<sup>nd</sup> TLTROs):
  - 7% of the outstanding eligible loans as of 30 April 2014
- The **additional allowance AA** (valid for the 3<sup>rd</sup> to 8<sup>th</sup> 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 1<sup>st</sup> 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-hand navigation menu includes sections such as 'Introduction', 'Structure of the euro area economy', 'Strategy', 'Monetary policy decisions', 'Economic and monetary developments', 'Liquidity analysis', 'Instruments', 'Introduction', 'Open market operation', 'Standing facilities', 'Minimum reserves', 'Collateral', and 'Emergency liquidity assistance (ELA) and monetary policy'. The 'Open market operation' item is circled in red. Below the main content area, there are navigation tabs: 'Open market operations', 'Ad-hoc communications', 'General information', 'Related publications', and 'Targeted LTRs'. The 'Targeted LTRs' tab is also circled in red. The main content area contains text about the Eurosystem's regular open market operations, including details on targeted longer-term refinancing operations (TLTROs) and covered bond purchase programmes (CBPP).