Bank on it: French and Dutch banks to lead net supply in coming years

EU banks plan to increase their market-based funding over a three-year period, with the bulk of the increase coming in the form of bail-in senior unsecured instruments, according to a report published yesterday by the European Banking Authority. French and Dutch banks stand out with higher net supply in the pipeline in 2021-2023

Source: ING, EBA

The EBA on Monday published a study incorporating the funding plans of 160 EU banks for a three year period from 2021 until 2023. Banks plan to increase their long-term funding by 8.6% to reach €3.4tr in 2023. The bulk of the increase would come in the form of unsecured instruments (+12.6%) likely driven by MREL (minimum requirement for own funds and eligible liabilities) considerations, while secured funding is indicated to grow modestly (+2.6%). Banks plan to focus on non-preferred senior unsecured issuance (+31.2%), followed by regulatory capital such as AT1 (+18.8%) and Tier 2 debt (+12.6%).

Based on the EBA figures **banks in France, the Netherlands, Italy and Spain are signalling the highest increase in net supply** including both long-term and short-term market based funding by end-2023. Notably, 2023 will see a jump in net supply in France (+€40bn YoY to €71bn), the

Netherlands (+€50bn YoY to €59bn) and Spain (+€30bn YoY to €38bn). German banks had indicated plans to print €39bn in net terms in 2021-2023 with €25bn in 2023.

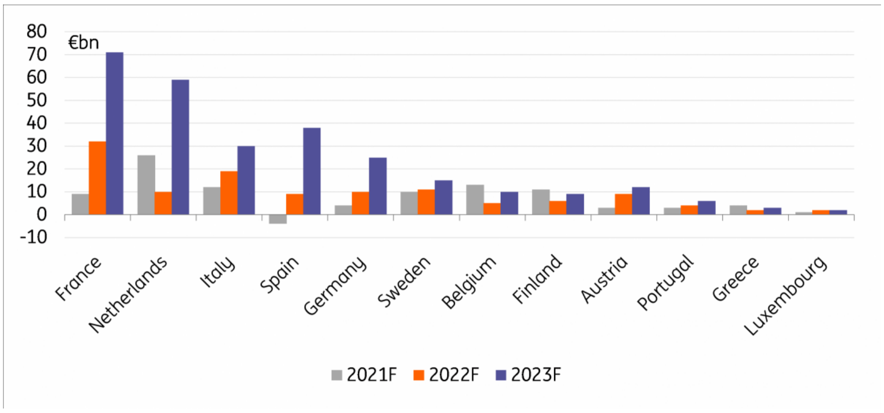
The **significant increase in the expected net supply in 2023 is likely affected by the expiry of the European Central Bank's Targeted Longer-Term Refinancing Operations**. The share of public sector funding is expected to decline to 2.5% by 2023 from 7% in 2020.

The TLTRO-III tranches three to six expire in 2023 with these four tranches currently amounting to €1.648tr. Tranches seven to eight amount to €440bn and they expire in the first half of 2024. Tranches nine to ten, due in the second half of 2024, have not yet been allocated. According to the EBA, eurozone banks are planning to issue €456bn in net terms by end-2023, meaning that **only a quarter of the maturing TLTRO-III volumes are planned to be refinanced**.

The EBA attributes this either to 1.) banks not yet fully reflecting the maturing volumes in their funding plans, 2.) the existence of further TLTRO-III tranches, 3.) a favourable net stable funding ratio and liquidity coverage ratio, 4.) high central bank reserves, or 5.) expectations for future central bank funding opportunities potentially beyond the current TLTRO-III programme.

Based on the ECB's balance sheet data, banks in France, Italy, Germany and Spain are among the heavy users of the ECB's funding operations. **The positive net supply of Dutch banks looks relatively large in the context of their expected TLTRO-III redemptions, while the indicated net supply of German banks looks more limited versus other heavy LTRO users, in our view.**

Net supply expectations of banks for years 2021-2023



Source: ING, EBA

Author

Suvi Platerink Kosonen
Senior Sector Strategist, Financials
suvi.platerink-kosonen@ing.com