

Article | 7 September 2021

Financial Institutions

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 threeyear 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 <u>published a study</u> 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 \in 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 ($+ \notin 40$ bn YoY to $\notin 71$ bn), the

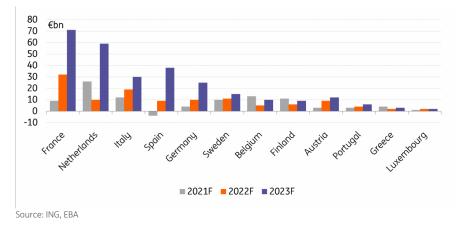
Netherlands (+€50bn YoY to €59bn) and Spain (+€30bn YoY to €38bn). German banks had indicated plans to print €39bn in net terms in 2021-2023 with €25bn in 2023.

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 $\in 1.648$ tr. Tranches seven to eight amount to $\notin 440$ bn 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 $\notin 456$ bn 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

Author

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

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("**ING**") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group* (being for this purpose ING Group N.V. and its subsidiary and affiliated companies). The information in the publication is not an

investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.