

Bank on it: Payback time! Banks pay back the ECB only €79bn in TLTRO-III

European banks will early repay early the ECB only €79bn in TLTRO-III funding this September. We do not consider a repayment amount such as this to reflect a change in the attractiveness of the TLTRO-III funding operation. Instead, we consider this more as finetuning from banks.



Source: ING, EBA

The ECB announced today that European banks will repay €79bn across the first five tranches of the TLTRO-III operation on 29 September 2021. Without a repayment the funds would have matured in the course of 2022-2023 depending on the tranche. The repayments will result in the outstanding amount of the TLTRO-III operations to only slightly shrink to €2,110bn, down from €2,190bn.

We do not consider a repayment amount such as this to reflect any larger shift in the attractiveness of the TLTRO-III funding operation, but instead consider this more as finetuning from banks. For the banking system the net liquidity impact should be assessed only once the take-up in the TLTRO-III tranche 9 is announced next Tuesday.

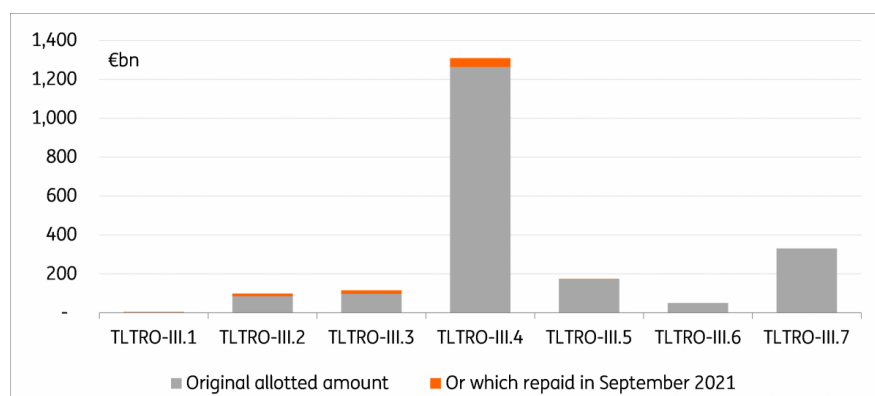
The early repayments are spread across the different tranches with the fourth tranche seeing the largest repayment of €46bn on an absolute basis. As this tranche is also the largest tranche allocated to date (original allotted amount €1,308bn), proportionally only 4% of its outstanding amount will be paid back this month. Percentage-wise the largest payback was for the first tranche (38%) that was also the smallest tranche to start with (original amount €3bn).

The ECB also published the number of banks that chose to pay back funds early. Especially in tranches one and two more banks used the early option. 39% of banks in the first tranche chose to pay back early followed by 25% in the tranche two. The proportions were smaller for tranches 3-5, amounting 18%, 8% and 3%, respectively. This reflects in our view both the large number of bidders in tranches 4 and 5, but also the shortening tenor in tranches 1-2 making them less attractive as a source of longer-term funding.

Banks that have drawn funds from the ECB’s funding operation TLTRO-III have an option to repay the amounts early in full or in part. We did not expect many banks to utilise the early repayment option as we consider there to be several drawbacks to this, especially relating to the possibility of obtaining the most attractive -1% rate for the funding. Read more on this [here](#).

The reasons for banks to choose to pay back early could include, but are obviously not limited to, that: 1. the bank in question does not actually anymore need the liquidity anymore, 2. its lending development is less strong than expected, which would in turn have an impact on the expected cost of the funding, 3. the funding is getting too short (NSFR considerations), or 4. perhaps the bank is looking to spread out its TLTRO-III refinancing risk by switching to a later tranche.

The outstanding amounts of the ECB’s TLTRO-III funding operation



Source: Source: ING, ECB

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