# Exit from unconventional monetary policy tools in response to the pandemic and its impact on euro money markets

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**ECB Money Market Contact Group**

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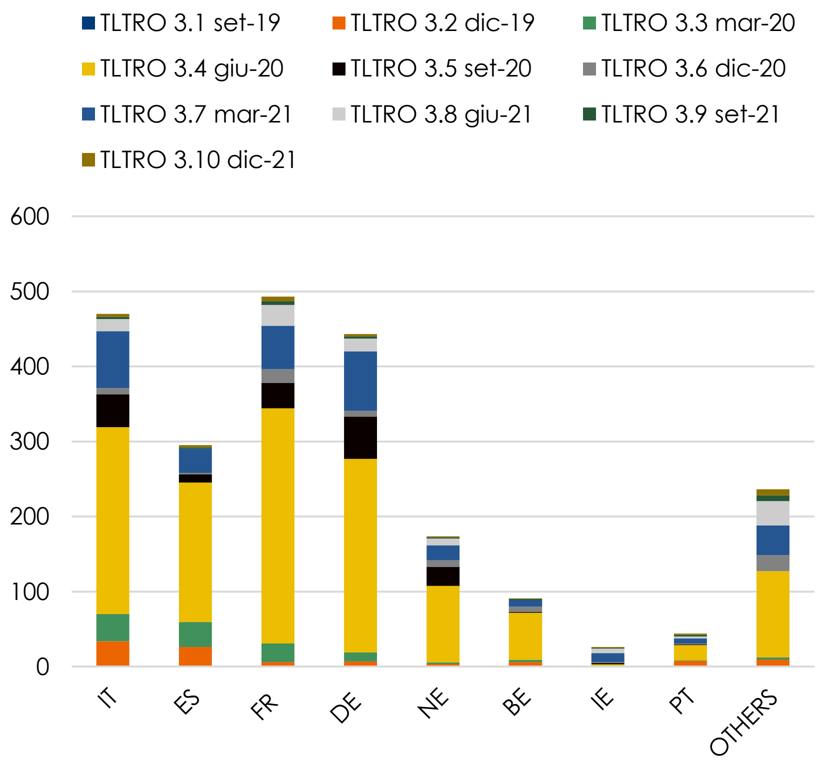
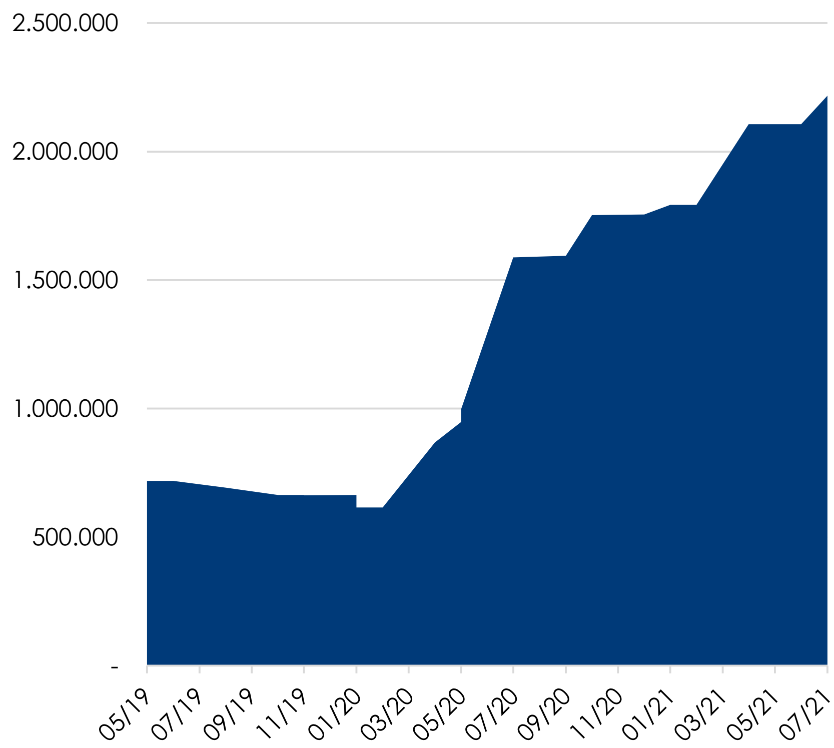
See Appendix for important notices.

# TLTROs III, an essential part of the monetary policy response to the coronavirus crisis

## TLTROs III – Allotted amount by country (EUR Bn)



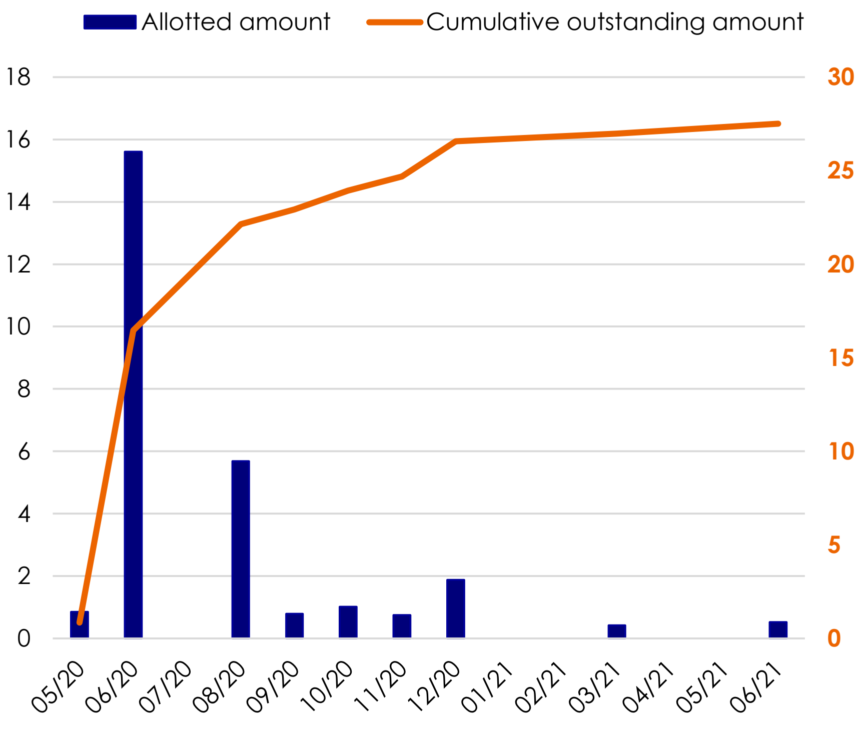

## ECB Liabilities- Longer-term refinancing operations (EUR Bn)



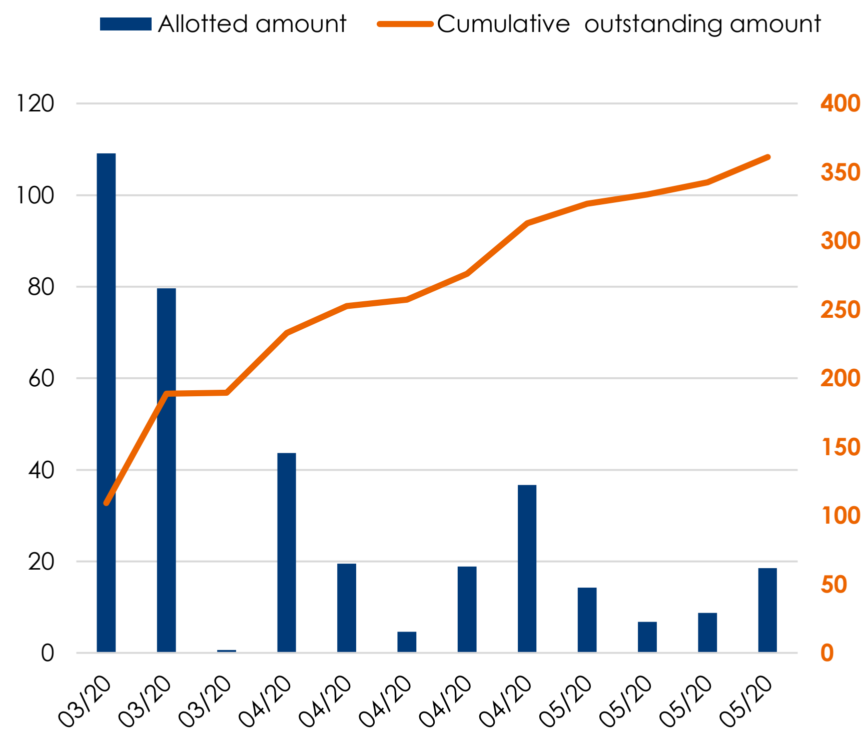

Source: Bloomberg, Intesa Sanpaolo

# PELTROs, as an effective backstop after the expiry of the bridge LTROs conducted since March 2020+

## Pandemic Emergency Longer-term Refinancing Operations (EUR Bn)



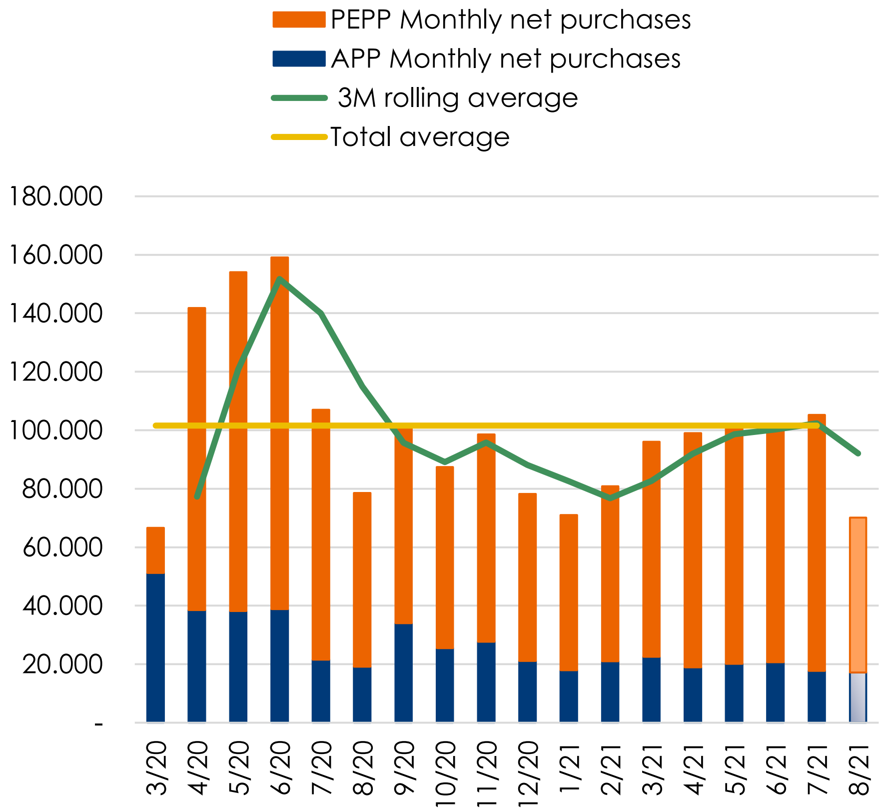

## Covid crisis: bridge longer-term refinancing operations (EUR Bn)



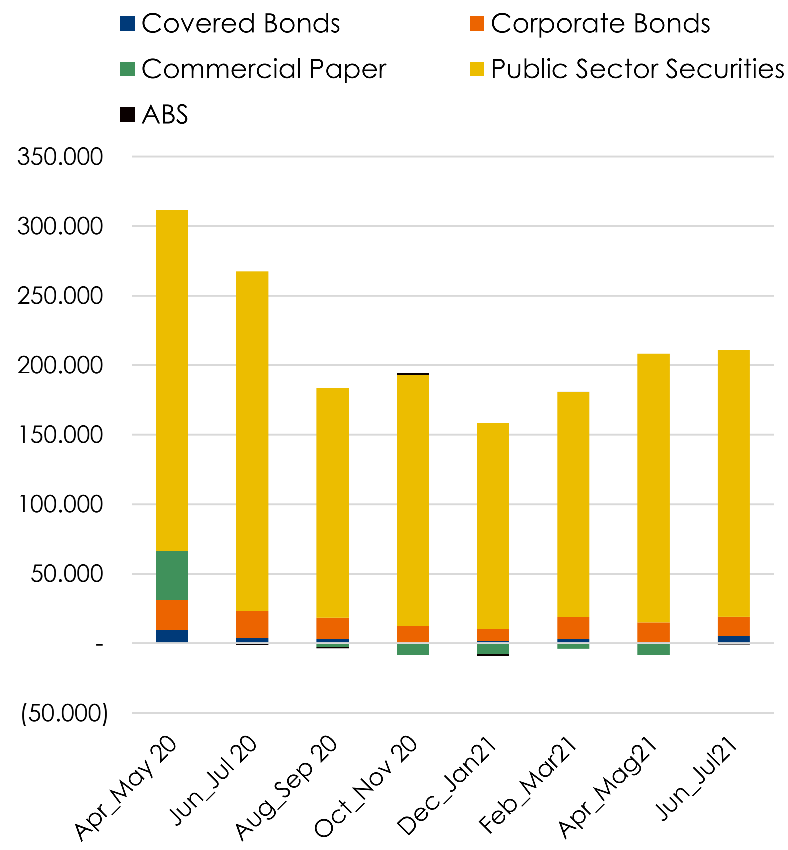

Source: Bloomberg, Intesa Sanpaolo

# QE: total net purchases averaged EUR 100Bn/M

## Monthly net purchases under APP & PEPP (EUR mln)



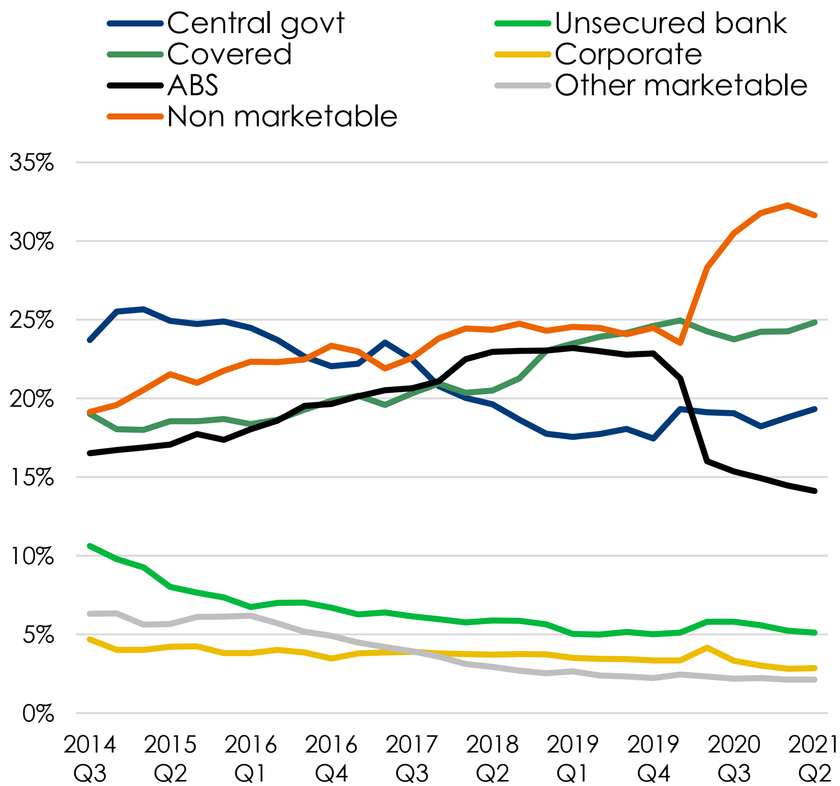

## Net purchases under APP & PEPP by sector (EUR mln)



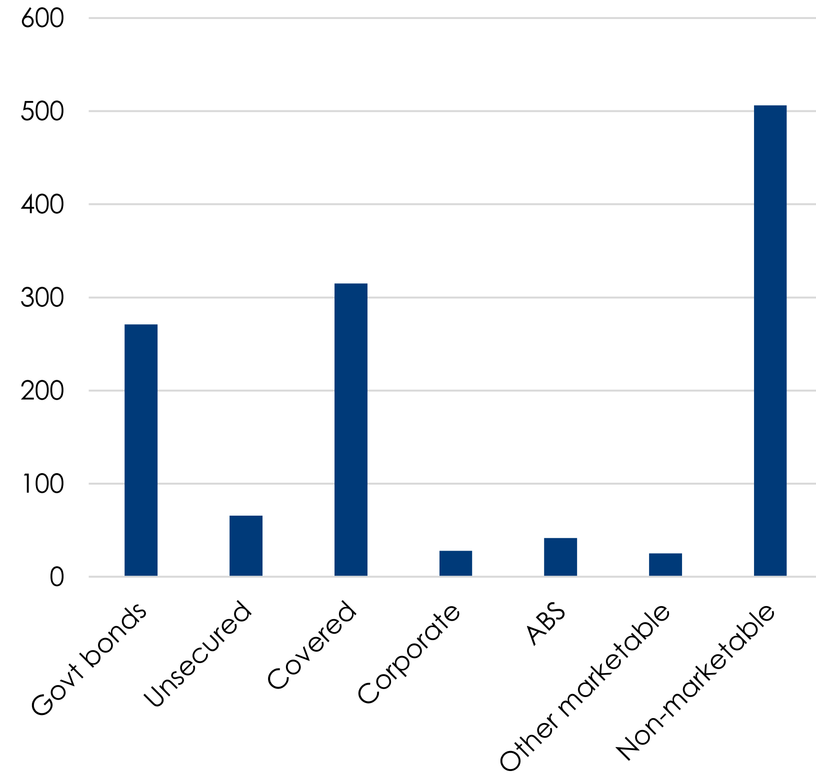

Source: Bloomberg, Intesa Sanpaolo

# Collateral easing measures, a temporary increase in the Eurosystem's risk tolerance

**Pledged collateral at the ECB by asset class (% total eligible assets , as of 4Q 2020)**

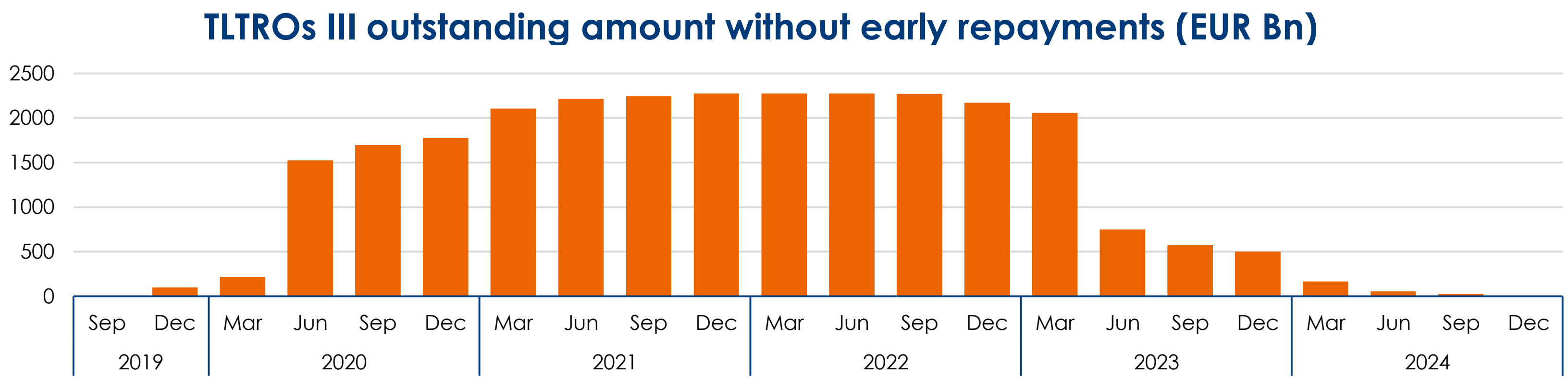


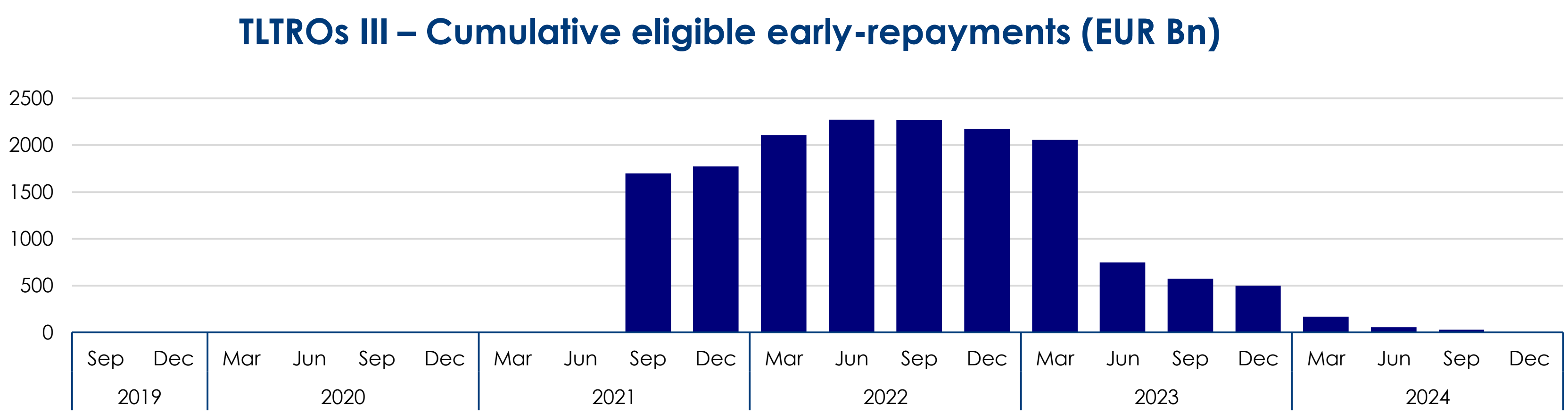

**Pledged collateral by asset class (Net change between 4Q19 and 2Q21, EUR Bn) )**




Source: ECB, Bloomberg, Intesa Sanpaolo

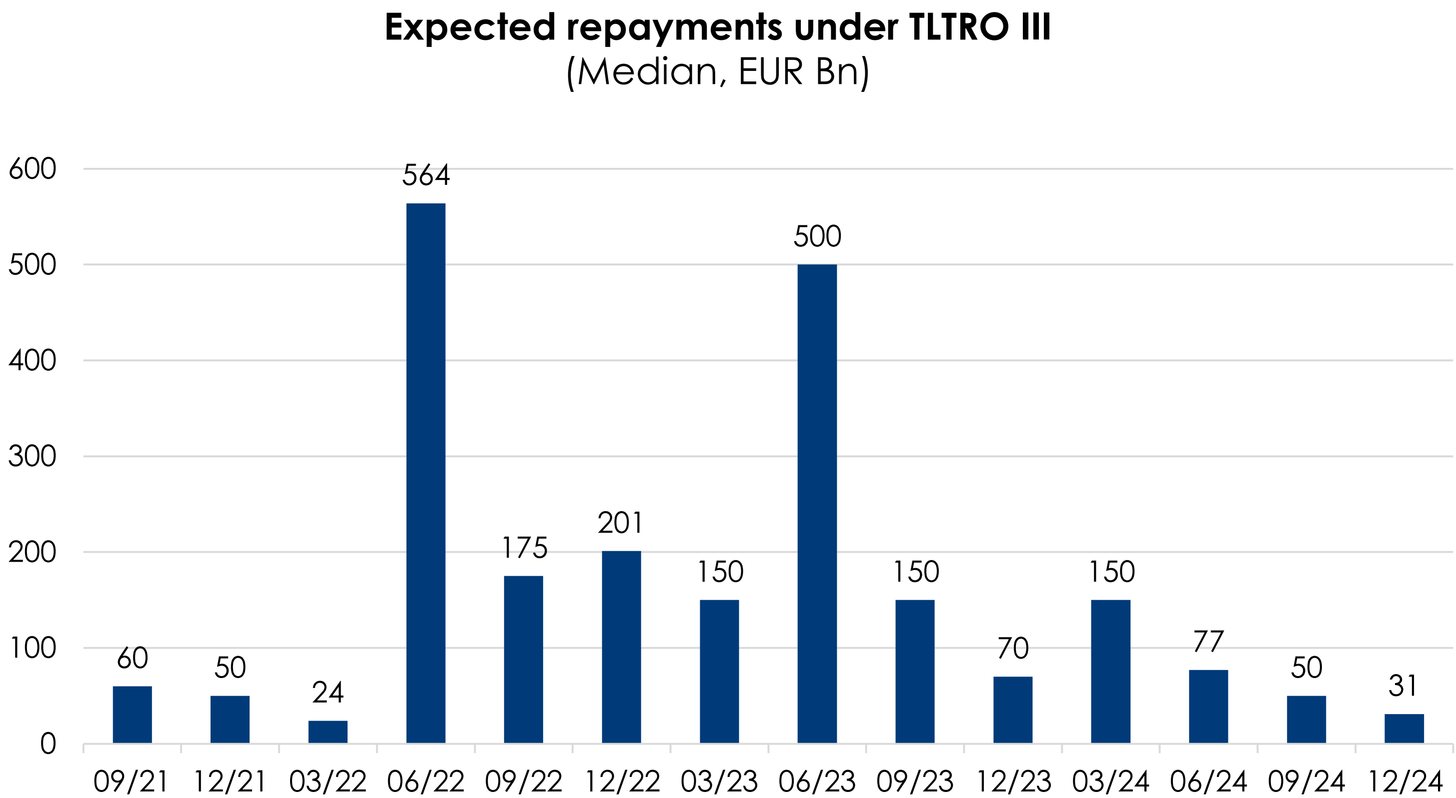
# The potential cliff related the possibility of early repayments worth EUR 2 trillion on average in 2022




NOTE: We assume a cumulative EUR 56Bn net take-up at TLTRO.9 and TLTRO.10
Source: Bloomberg, Intesa Sanpaolo

# According to the July survey, TLTRO III repayments will be concentrated between June 2022 and June 2023




Source: ECB Survey of Monetary Analysts Aggregate Results July 2021, Intesa Sanpaolo

# No urgency to signal an exit strategy from TLTROs 3

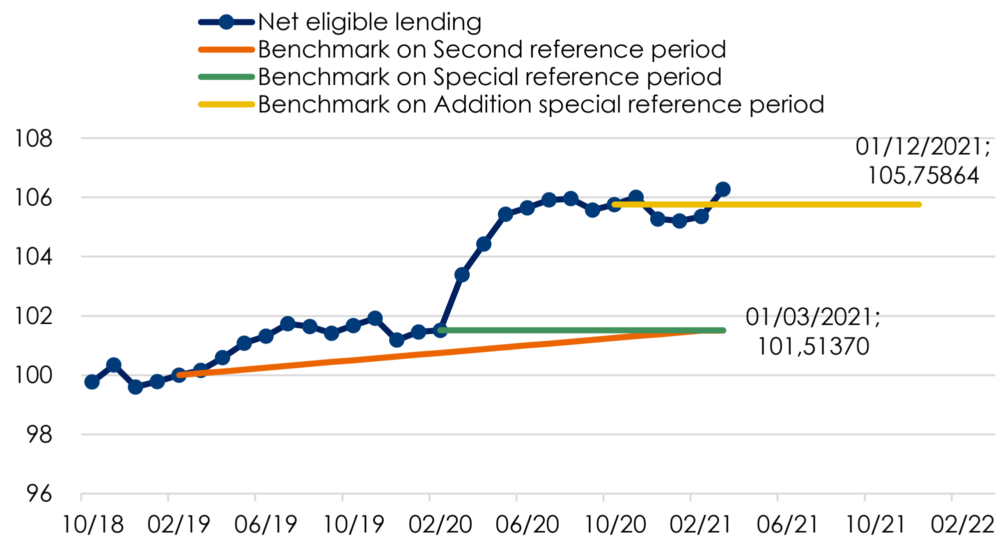
**Letter from the ECB President to Mr Sven Giegold, MEP, on monetary policy", 28 May 2021**

*"…However, considering the large lending flows observed at the start of the pandemic,* ***a considerable number of institutions are expected to be eligible for the most favorable interest conditions up to June 2021,*** *based on their lending performance between 1 March 2020 and 31 March 2021.* ***It is too early to speculate about banks' ability to obtain the most favorable rate in the period from June 2021 to June 2022*** *as this will depend on their lending performance between 1 October 2020 and 31 December 2021. …."*

**Philip R. Lane, Member of the Executive Board of the ECB, Interview with Reuters, 25 *August 2021***

*"Is it time to discuss the future of the TLTRO programme?" "It's too early in the sense in that repayments are still some way off. We do have a window of time to think about whether any new programmes will be needed in the future.* ***There's no urgency about TLTROs."***

## TLTROs III – Benchmarks on net lending for the aggregate Eurozone




Source: ECB, Bloomberg, Intesa Sanpaolo

**MONETARY POLICY STATEMENT - PRESS CONFERENCE**
**Christine Lagarde, President of the ECB,**
**Frankfurt am Main, 9 September 2021**

*"TLTROs, you're right, there will be one more operation in December, and we will clearly have to discuss what comes next on the basis of the situation at the time.* ***I think that that will be part of the overall re-examination that we conduct at the time of our December meeting."***

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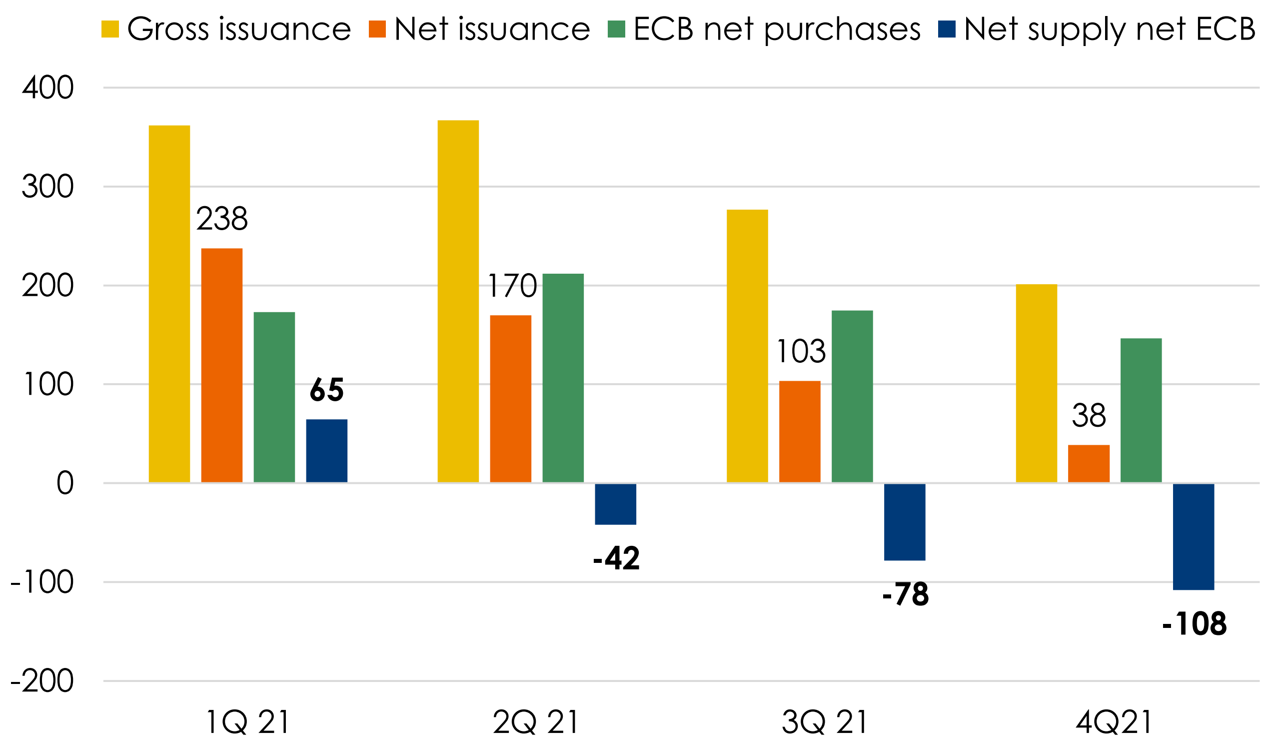
EXIT STRATEGY FROM QE

# QE still very supportive in Q4 21

**Baseline scenario with PEPP purchases down to EUR 12Bn/week in Q4 from 18Bn/w in Q2 and Q3 2021**

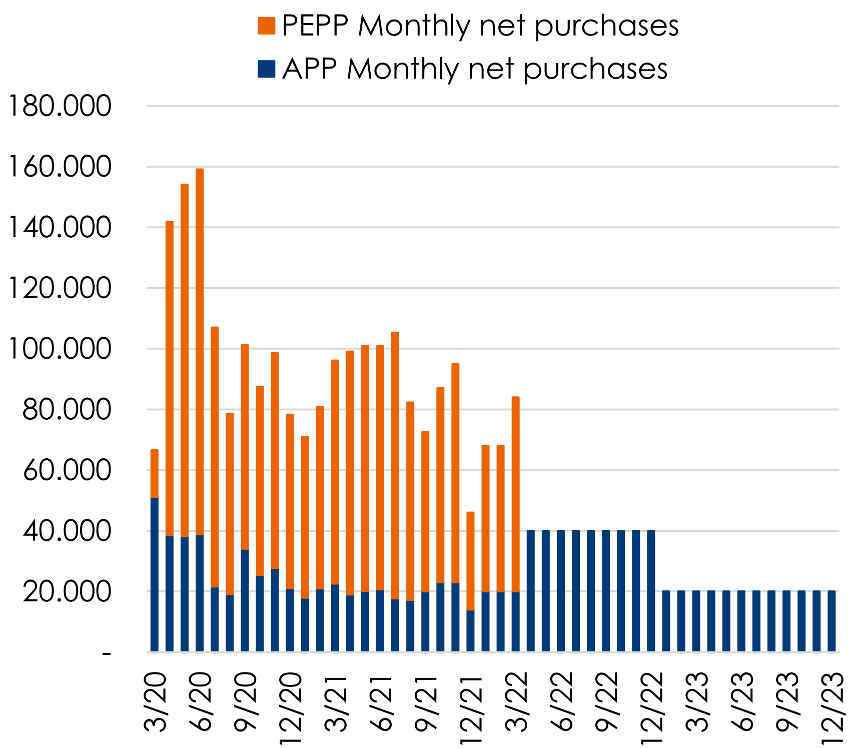
## Eurozone: net supply of sovereign bonds net ECB




Source: Bloomberg, Intesa Sanpaolo

# Scenario 2022-2023: gradually reducing the support to the primary market

## 2022-2023 tapering scenario - Monthly purchases under APP and PEPP (EUR Bn)




Source: Bloomberg, Intesa Sanpaolo

## Net and gross issuance net official purchases under a tapering scenario in 2022-2023 (ISP forecasts, EUR Bn)

| | 2021 | 2022 | 2023 |
|---|---|---|---|
| Bond redemptions | 658 | 741 | 719 |
| Deficit | 819 | 498 | 317 |
| RRF loans | 20 | 25 | 27 |
| Net Issuance | 549 | 473 | 290 |
| Gross Issuance | 1207 | 1213 | 1010 |
| ECB net purchases | 706 | 497 | 174 |
| **Net supply net QE** | **-157** | **-25** | **117** |

Note: RRF grants are not considered a funding source as directly included in the budget as a revenues.

# Excess liquidity will peak in mid-2022

## Expected excess liquidity of the Eurosystem (ISP forecast in green area, EUR Bn)


Source: Bloomberg, ECB, Intesa Sanpaolo

# Tiering: the share of exempted bank reserves has dropped to 21% today from 41% at its introduction

**François Villeroy de Galhau, Governor of the Banque de France, "Inflation and monetary policy in a post-Covid-19", Nordic Summit 25 May 2021**

*The tiering multiplier could be adapted flexibly to support the "low-for-longer" policy. I would favor a more rule-based approach to adjust the level of the multiplier.*

## Alternative multipliers of excess reserves (EUR Bn)

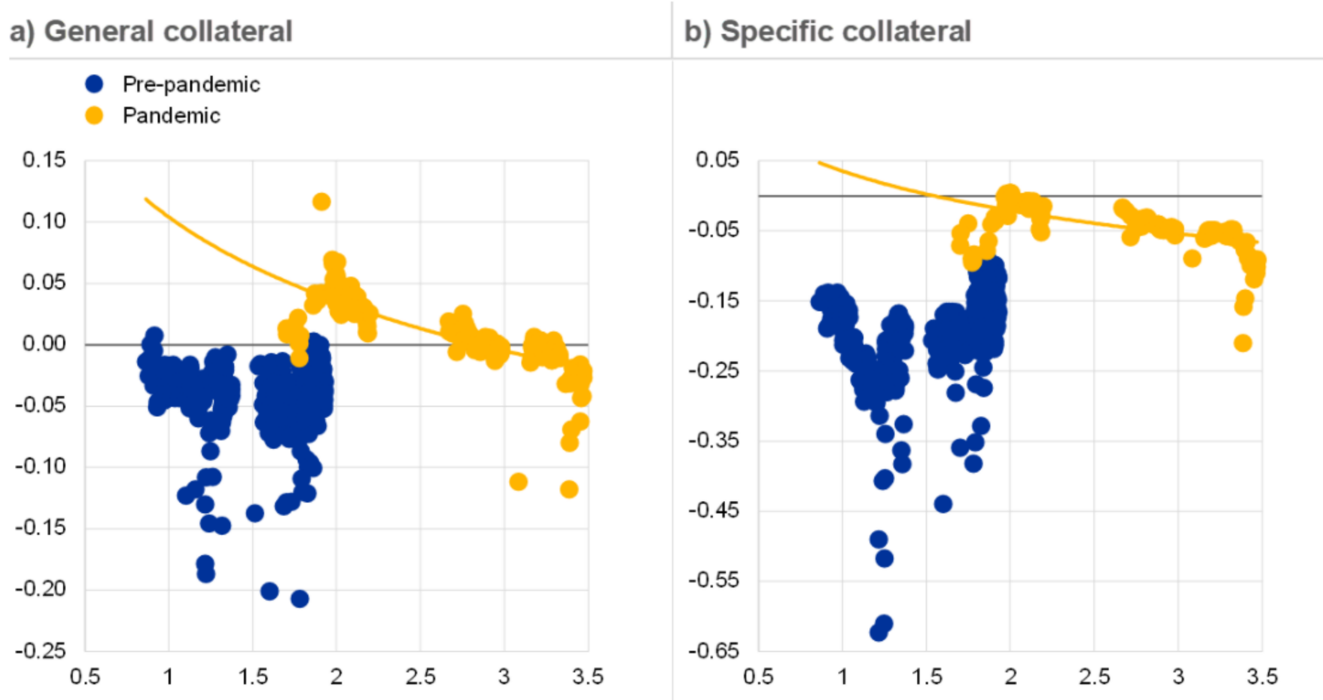
| | Actual Multiplier 6x | Scenario 1 Multiplier 8x | Scenario 2 Multiplier 9x | Scenario 3 Multiplier 12x |
|---|---|---|---|---|
| Total reserves | 4,541 | | | |
| of which: | | | | |
| - Minimum reserve | 151 | | | |
| - Excess liquidity | 4,390 | | | |
| | | | | |
| Reserves at 0% | 906 | 1,208 | 1,359 | 1,812 |
| Reserves at -0.5% | 3,484 | 3,182 | 3,031 | 2,578 |
| Cost of excess liq. | 17 | 16 | 15 | 13 |
| % operating income | 3,2% | 2,9% | 2,8% | 2,4% |

Source: Bloomberg, ECB, Intesa Sanpaolo

# The increase in excess reserves during the pandemic has coincided with both GC and SC repo rates decrease further below the DFR

## Correlation between the secured rates spread vs DFR and excess liquidity

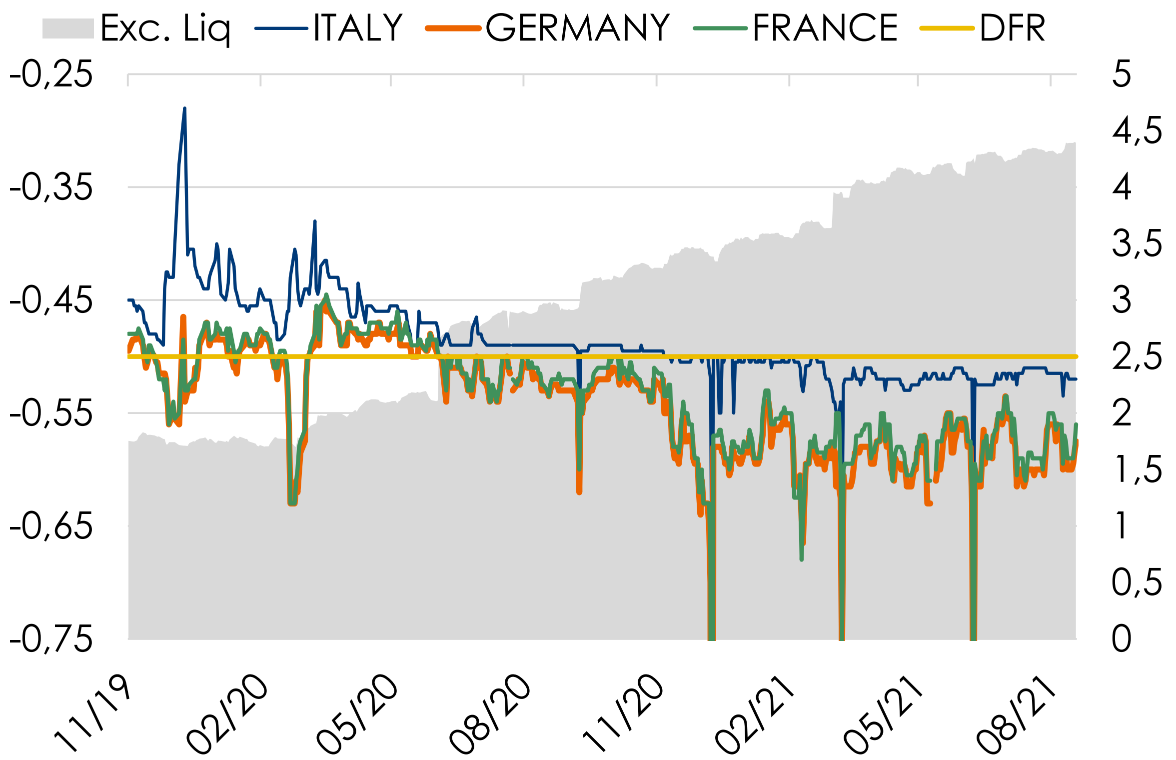
(y-axis: percentages; x-axis: EUR trillions)




Sources: BrokerTec/MTS and ECB (liquidity statistics published in wire services).
Notes: The blue dots represent period before the COVID-19 pandemic when excess liquidity was increasing (July 2016 – December 2018). The yellow dots represent the expansion of excess liquidity following the outbreak of COVID-19 pandemic (March – December 2020). The vertical axis depicts daily volume-weighted average secured O/N, S/N and T/N rates spread versus the DFR. Horizontal axis reflects the daily excess liquidity in the euro area. Only government collateral.

# Repo rates are expected to stay relatively close to the ECB deposit rate for peripheral GC.

## TLTRO 3 early repayments and impact from changes in the PEPP/APP program could change the picture but not in a short time

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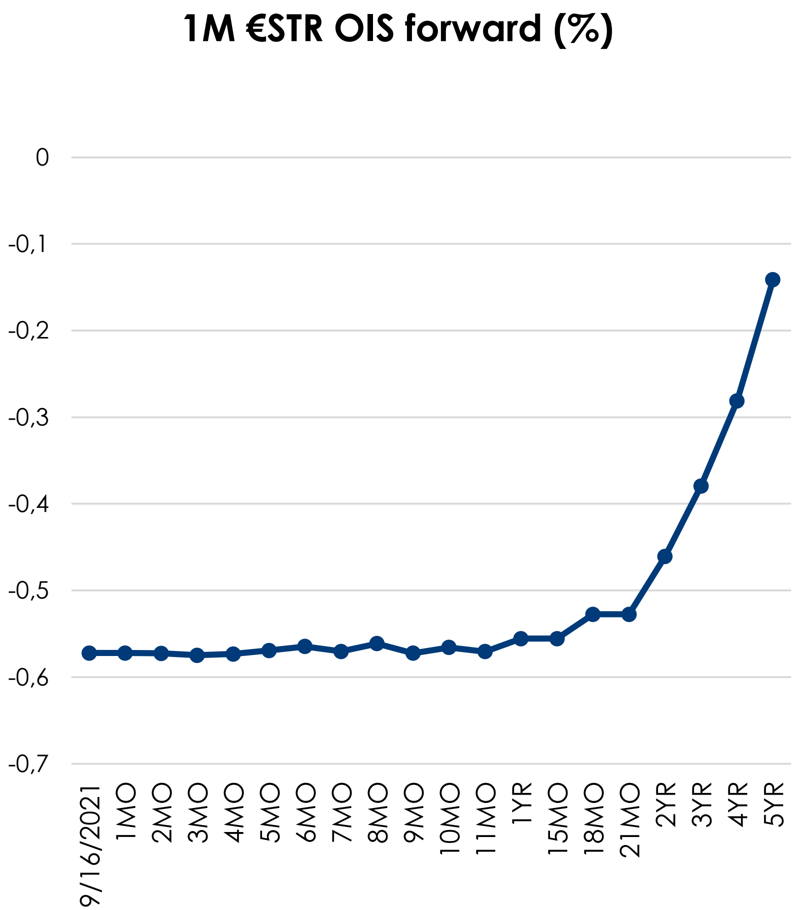
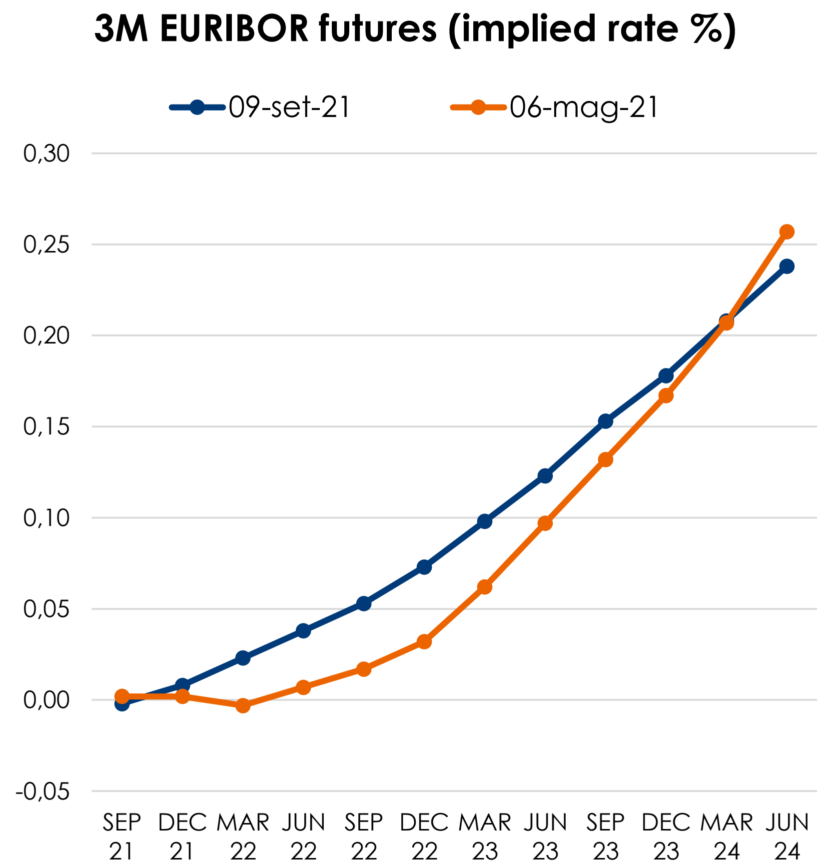
# And last but not least, the exit from negative rates is not envisaged by the market before 2026




Source: Bloomberg, ECB, Intesa Sanpaolo

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