TLTRO-III: new operations
Recent changes in TLTRO-III operations (10 December 2020)

• Increase in borrowing allowance from 50% to 55%

• Extension of lower interest rate from 24 June 2021 to 23 June 2022

• New condition: eligible net lending $\geq$ benchmark from 1 Oct 2020 to 31 Dec 2021

• Three new operations: June, September and December 2021
Interest rate calculation: “old” operations versus “new” operations

• First seven (“old”) TLTRO-III operations can benefit from lower interest rate by exceeding thresholds in one or more of the three lending assessment criteria:
  • Initial criterion: 1.15% from 1 April 2019 to 31 March 2021
  • Special criterion: 0% from 1 March 2020 to 31 March 2021
  • Additional special criterion: 0% from 1 October 2020 to 31 December 2021

• Last three (“new”) TLTRO-III operations can only benefit from lower interest by exceeding the threshold of the additional special lending criterion
  Previous criteria cannot be applied as they have expired at the time of participation
TLTRO-III interest rate calculation
Amounts borrowed in first seven operations
(TLTRO-III.1 – TLTRO-III.7)

*Assuming ECB rates remain unchanged
TLTRO-III interest rate calculation
Borrowing in the last three operations
(TLTRO-III.8 – TLTRO-III.10)

The initial criterion and the special criterion cannot be applied

*Assuming ECB rates remain unchanged
Counterparties can voluntary repay operations in Sept and Dec 2021 and simultaneously participate in the last two operations – No rollover:

- Interest rate is paid at repayment
- Maturing and new borrowing amounts are netted
- Collateral can be reused

Implications of shifting to new operations:

- Rate from 24 June 2021 until the repayment date will always be average MRO - 50 bps: the assessment of the additional special criteria cannot be done at the time of repayment.
- Amounts borrowed in the new operations are not subject to the benefits of the three criteria (slide 3), but only the benefits of the additional special criteria: for the amounts repaid, the first two criteria are applied
Best and worst performers (with and without repayment)

Best performers (both special criteria exceeded) shifting to new TLTRO-III.9 in Sept 21: Higher rate from June 21 to Sept 21

Best performers (both special criteria exceeded) staying in “old” operation

Worst performers (no criteria exceeded)

MRO = 0%
DFR = -0.50%
-1%

Bank A
Bank C
Bank B

June 2020
June 2021
June 2022
Repayment

*Assuming ECB rates remain unchanged
Banks not exceeding first two criteria but exceeding additional special criteria

- MRO = 0%
- DFR = -0.50%
- -1%

Bank D (staying in “old” operation): Rate from June 21-Sept 21 is average MRO-50 bp
Bank E (shifting to new TLTRO-III.9 in Sept 21)

As of here additional special criterion applies

*Assuming ECB rates remain unchanged
Banks exceeding two first criteria but not exceeding additional special criteria

MRO = 0%
DFR = -0.50%

-1%

Banks shifting to “new” operations (only additional criterion counts as of June 2021, previous benefit are not maintained)

Banks staying in “old” operations (old criteria better than additional criteria as of June 2021, the former applies)

June 2020 | June 2021 | June 2022 | Repayment

*Assuming ECB rates remain unchanged
Summary

Consequences of shifting amounts from old to new operations

• (1) Not possible to get -1% from June 2021 to repayment-date (during this period average MRO -50 bp applies - either for 3 or 6 months)

• (2) Lock in operations which rate depends on a single criterion instead of depending on three criteria (for old operations, if new criterion not met, the other criteria still apply to avoid less favourable rates)

From the Eurosystem point of view,

• Incentives to “enter early and stay-in”: the programme serve the purpose of maintaining favourable lending conditions in the system.

• The three new operations offer maturity flexibility and average DFR in the worst-case scenario until June 2022: better conditions than previous TLTROs (average MRO)
Collateral composition and developments over time

EUR billion, after valuation and haircuts

Use of collateral: averages of end of month data over each time period shown

Credit: based on daily data