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

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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)**

- TLTRO 3.1 set-19
- TLTRO 3.2 dic-19
- TLTRO 3.3 mar-20
- TLTRO 3.4 giu-20
- TLTRO 3.5 set-20
- TLTRO 3.6 dic-20
- TLTRO 3.7 mar-21
- TLTRO 3.8 giu-21
- TLTRO 3.9 set-21
- TLTRO 3.10 dic-21

**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)

- PEPP Monthly net purchases
- APP Monthly net purchases
- 3M rolling average
- Total average

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

- Covered Bonds
- Corporate Bonds
- Commercial Paper
- Public Sector Securities
- ABS

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)

- Central govt
- Unsecured bank
- Covered
- Corporate
- ABS
- Non marketable

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

Source: ECB, Bloomberg, Intesa Sanpaolo
EXIT STRATEGY FROM TLTROs III

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

TLTROs III outstanding amount without early repayments (EUR Bn)

TLTROs III – Cumulative eligible early-repayments (EUR Bn)

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.”
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
EXIT STRATEGY FROM QE

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

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

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

<table>
<thead>
<tr>
<th></th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bond redemptions</td>
<td>658</td>
<td>741</td>
<td>719</td>
</tr>
<tr>
<td>Deficit</td>
<td>819</td>
<td>498</td>
<td>317</td>
</tr>
<tr>
<td>RRF loans</td>
<td>20</td>
<td>25</td>
<td>27</td>
</tr>
<tr>
<td>Net Issuance</td>
<td>549</td>
<td>473</td>
<td>290</td>
</tr>
<tr>
<td>Gross Issuance</td>
<td>1207</td>
<td>1213</td>
<td>1010</td>
</tr>
<tr>
<td>ECB net purchases</td>
<td>706</td>
<td>497</td>
<td>174</td>
</tr>
<tr>
<td><strong>Net supply net</strong></td>
<td><strong>-157</strong></td>
<td><strong>-25</strong></td>
<td><strong>117</strong></td>
</tr>
</tbody>
</table>

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

Source: Bloomberg, Intesa Sanpaolo
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.


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)

<table>
<thead>
<tr>
<th></th>
<th>Actual Multiplier 6x</th>
<th>Scenario 1 Multiplier 8x</th>
<th>Scenario 2 Multiplier 9x</th>
<th>Scenario 3 Multiplier 12x</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total reserves</strong></td>
<td>4,541</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>of which:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Minimum reserve</td>
<td>151</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Excess liquidity</td>
<td>4,390</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Reserves at 0%</strong></td>
<td>906</td>
<td>1,208</td>
<td>1,359</td>
<td>1,812</td>
</tr>
<tr>
<td><strong>Reserves at -0.5%</strong></td>
<td>3,484</td>
<td>3,182</td>
<td>3,031</td>
<td>2,578</td>
</tr>
<tr>
<td><strong>Cost of excess liq.</strong></td>
<td>17</td>
<td>16</td>
<td>15</td>
<td>13</td>
</tr>
<tr>
<td><strong>% operating income</strong></td>
<td>3.2%</td>
<td>2.9%</td>
<td>2.8%</td>
<td>2.4%</td>
</tr>
</tbody>
</table>

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.
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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