Re: Your letter

Honourable Members of the European Parliament,

Thank you for your letter, which was passed on to me by Mr Roberto Gualtieri, Chairman of the Committee on Economic and Monetary Affairs, accompanied by a cover letter dated 2 September 2014.

To serve the objective of the TLTRO programme, a number of specific criteria have been established, as laid down in Decision ECB/2014/341 and, in particular, Articles 4 to 7. Firstly, the additional borrowing allowances available to credit institutions will be determined by the extent to which they have expanded their eligible net lending.2 Secondly, in June 2016 credit institutions will be required to prove that they have lent at least as much as specific individual benchmarks, as established for the first phase of the programme. Should they not meet these benchmarks, they will be required to repay their borrowings two years ahead of the original maturity date of the programme.

These features of the TLTROs are specifically targeted at supporting lending to the real economy. In order to assess their effectiveness, the lending behaviour of participating credit institutions will be closely

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2 Eligible net lending is determined on the basis of the provision of loans to non-financial corporations and households (excluding lending for house purchases), as further detailed in Annex II to Decision ECB/2014/34.
monitored by the Eurosystem. To this end, participants will be required to report regularly on their loan portfolios until they repay in full the borrowed TLTRO funds.

At the same time, it cannot be excluded that credit institutions will use funds borrowed to invest, at least temporarily, in highly liquid assets, as the origination of new loans is a time-consuming process. Indeed, such highly liquid assets could include government bonds. However, given the incentives for loan expansion mentioned above, we are confident that the investment of TLTRO funds in these assets would neither substitute for nor prevent lending to the real economy, but would simply represent a temporary allocation of funds preceding actual loan origination.

For further details of the TLTROs, please refer to the documentation recently published on the ECB’s website.³

Yours sincerely,

[signed]

Mario Draghi

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