



EUROPEAN CENTRAL BANK
EUROSYSTEM

ECB-PUBLIC

COURTESY TRANSLATION

Christine LAGARDE
President

Ms Manon Aubry
Member of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt am Main, 25 November 2022

L/CL/22/241

Re: Your letter (QZ-031)

Honourable Member of the European Parliament, dear Ms Aubry,

Thank you for your letter, which was passed on to me by Ms Irene Tinagli, Chair of the Committee on Economic and Monetary Affairs, accompanied by a cover letter dated 28 October 2022.

Your letter and its questions concerning the third series of targeted longer-term refinancing operations (TLTRO III) coincided with the Governing Council's decision, on 27 October 2022, to recalibrate the terms and conditions of TLTRO III to ensure consistency with broader monetary policy normalisation. In particular, from 23 November 2022 until the maturity date or early repayment date of each respective outstanding TLTRO III operation, the interest rate on outstanding TLTRO III operations will be indexed to the average applicable key ECB interest rates over this period. With this recalibration, as of 23 November 2022, banks that hold TLTRO III funds (and fulfil the benchmark net lending condition) are having to pay the deposit facility rate on those funds; if those banks choose to deposit the funds with the ECB's deposit facility, they will earn exactly the same rate.

Our recalibration has to be seen in the context of the recent monetary policy measures adopted to restore price stability. The expected increase in bank funding costs due to the recalibration and the ensuing normalisation of financing conditions for firms and households will exert downward pressure on inflation, thus contributing to a timely return of inflation to the ECB's 2% medium-term target. In addition, the change in TLTRO III conditions has removed deterrents to early voluntary repayment of outstanding TLTRO III funds by increasing the expected average cost of TLTRO III funds. Early voluntary repayments of TLTRO III funds contribute to reducing the Eurosystem balance sheet, and thus to monetary policy normalisation. As at 23

Address
European Central Bank
Sonnemannstrasse 20
60314 Frankfurt am Main
Germany

Postal address
European Central Bank
60640 Frankfurt am Main
Germany

Tel: +49-69-1344-0
Fax: +49-69-1344-7305
Website: www.ecb.europa.eu

November 2022 banks had repaid €296.3 billion. Changing TLTRO III conditions is more efficient in achieving the stated objective than, for instance, changing the remuneration of banks' excess liquidity through a reverse tiering system, as it addresses the deterrents to early voluntary TLTRO III repayment more directly.

During the acute phase of the pandemic, the ECB granted exceptionally favourable conditions to banks with the aim of sustaining lending to the real economy at a time of intense stress. TLTRO III played a key role in countering downside risks to price stability. It was the rapid and unexpected rise in inflation, to levels that are unprecedented since the introduction of the euro, that made it necessary to recalibrate the instrument to ensure its consistency with broader monetary policy normalisation and to reinforce the transmission of our policy rate increases to bank lending conditions. The change also underlines that we stand ready to adjust all of our instruments within our mandate to ensure that inflation returns to the 2% medium-term target.

Turning to the draft law on the imposition of temporary levies on certain credit institutions, currently being discussed in the Spanish Parliament, please be aware that the ECB has expressed its views, of a non-binding character, in Opinion CON/2022/36.¹ From a monetary policy perspective, the Opinion generally recalls that credit institutions play a special role in ensuring the smooth transmission of monetary policy measures to the wider economy and, in this context, an adequate capital position helps credit institutions avoid abrupt adjustments in lending to the real economy. From a financial stability perspective, the Opinion notes that the introduction of the levy should be accompanied by a thorough analysis of potential negative consequences for the banking sector to ensure that its application does not pose risks to financial stability, banking sector resilience or the provision of credit. From a prudential supervisory perspective, the Opinion notes that the amount of the temporary levy might not be commensurate with the profitability of a credit institution, as the amount on which it would be calculated does not take into consideration the full business cycle and does not include, inter alia, operational expenses and the cost of credit risk.

Finally, let me also highlight that the ECB's observations in Opinion CON/2022/36 are mostly linked to the specific aspects of this draft law and, in that sense, they cannot be automatically extended to other legislative initiatives targeting banks' profits.

Yours sincerely,

[signed]

Christine Lagarde

¹ See Opinion of the European Central Bank of 2 November 2022 on the imposition of temporary levies on certain credit institutions, available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52022AB0036&from=EN>.