

CHART OF THE WEEK

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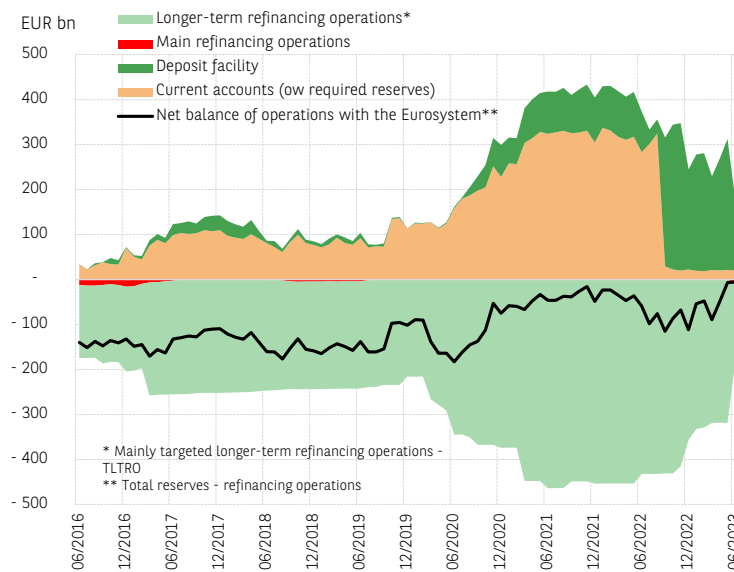
by BNP PARIBAS

13 September 2023

ITALY: BANK RESERVES FULLY COVER THE NEXT TLTRO MATURITIES

Thomas Humblot

Italian banks: operations with the Eurosystem



Source: ECB, BNP Paribas

Italian commercial banks have drawn heavily on their reserves with the Eurosystem in order to repay the pending portion of the 28 June 2023 TLTRO III¹ maturity. Their excess reserves in the broad sense (including deposit facility) fell from EUR 294 billion on 31 May 2023 to EUR 158 billion on 30 June 2023.

On 31 July 2023, the total outstanding excess reserves of Italian banks (EUR 191 billion) exceeded the outstanding amount of TLTROs still to be repaid (EUR 174 billion). Based on the extreme hypothesis of a full repayment of all TLTROs solely from the current excess reserves, the average Liquidity coverage ratio (LCR) of Italian banks, which stood at 194% on 31 March 2023², would, according to our calculations, remain higher than the regulatory requirements.

However, Italian banks will have to rebuild excess reserves in order to meet implicit market requirements and absorb the effects of the reduction in the Eurosystem's securities portfolio. This will be achieved through the disposal of liquid assets³ that are not eligible as High Quality Liquid Assets (HQLA) and by increasing refinancing with the ECB in the form of main refinancing operations. However, the cost of this last option (4.25% since 2 August 2023) tends to make it a second-rate solution.

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¹ 4th operation of the 3rd series of Targeted Longer-Term Refinancing Operations (TLTRO)

² Latest ECB figures

³ 'The survey [on banks' refinancing plans] found that Italian banks intend to repay these sums by drawing in part on their excess reserves with the Eurosystem and on the sale of liquid assets'. See Speech by Mr Ignazio Visco, Governor of the Bank of Italy, at the 29th Congress of ASSIOM FOREX (the Italian financial markets association), Milan, 4 February 2023

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