Re-Define Press Release – The ECB second LTRO Announcement
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Please find below **Re-Define's** Comments on the ECB’s second LTRO and some concerns about its effects. All comments are attributable to **Sony Kapoor,** Managing Director of Re-Define an Economic Think Tank.

General comments

"What really matters is how much, if any, of this Euro 529 billion ends up as additional lending to the real economy."

"The fact net new liquidity at almost Euro 400 billion is almost twice that of the previous LTRO operation means that banks will now have more funds." "Whether they use it to fund a carry trade or to lend more to the real economy will strongly shape what direction the crisis takes next."

“While this will ease the crisis in the short term, an LTRO of this size is disturbing in what it reveals about the depth of banking problems in the EU.”

“The easing of collateral rules before this round made it possible for a broader group of smaller banks to participate."

"The broader uptake of the LTRO by a larger group of banks that includes smaller institutions is likely to have a more positive impact on the real economy."

Potential concerns

"This is Euro 529 billion more of private funding that EU banks will need to find all more or less at the same time when this facility runs out. But that is a problem for another day."

“While this is likely to be the last LTRO offered by the ECB it will not mean an end to other exceptional policies." "The continuing Eurocrisis will need the ECB to stay involved in one way or another.”

“The ECB faces a tough challenge balancing its crisis mitigation role against the risks to its reputation that could arise from continuing such exceptional operations.”

“The funds provide a massive subsidy to the banking sector for which the public sector is not demanding enough in return." "Any explicit or implicit bank support which is exceptional must be accompanied by a banking compact binding them to support the real economy.”

“The Greek banks may come to rue missing out on this round of the LTRO because of the temporary suspension of the eligibility of their collateral.”

“These three year funds from the ECB are likely to restrict its ability to conduct monetary policy somewhat." "While that is not important now, this may change soon.”

“The LTRO is in danger of hardwiring the fragmentation of the EU banking system which is already underway by making the ECB the de-facto market maker of last resort intermediating between banks in Germany and those in Italy and Spain.”

“The private funding sources the ECB is replacing will not park funds waiting for demand from EU banks to return." "They will find better things to do with their money and will structurally reduce allocations to EU banks." "This would make an exit from ECB support doubly difficult for EU banks.”

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