



EUROPEAN CENTRAL BANK

EUROSYSTEM

Christine LAGARDE

President

Mr Markus Ferber
Member of the European Parliament
European Parliament
60, rue Wiertz
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Frankfurt am Main, 30 October 2020

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Honourable Member of the European Parliament, dear Mr Ferber,

Thank you for your letter on the eligibility criteria for loans under the third series of targeted longer-term refinancing operations (TLTRO III), 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 4 September 2020.

The European Central Bank (ECB) launched TLTROs in 2014 to enhance the functioning of the monetary policy transmission mechanism by supporting lending to the real economy. TLTROs reflect the fact that the functioning of the bank lending channel is important for the transmission of monetary policy in the euro area. Empirical evidence suggests that, since their launch, TLTROs have led to a broad-based easing of bank-based financing conditions, supported the recovery in credit provision and shielded euro area banks from adverse global shocks, thereby providing substantial support to the euro area recovery and improving the outlook for price stability.

Following the outbreak of the COVID-19 pandemic, borrowing conditions under TLTRO III were made considerably more favourable, particularly with respect to the interest rate, in order to protect the smooth flow of credit to businesses and households and to preserve highly accommodative financing conditions. TLTRO III aims to preserve favourable bank lending conditions and support the accommodative stance of monetary policy. As in the first two series of TLTROs, eligible loans continue to be defined as loans to euro area non-financial corporations and households (including non-profit institutions serving households), excluding loans to households for house purchase.

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Loans for house purchase were considered to be adequately served by the banking sector and their exclusion was designed to avoid contributing to potential financial imbalances in housing markets. In line with their treatment in the statistical framework¹, which is the basis for TLTRO reporting, loans to households for house purchases include loans for refurbishment purposes in all euro area countries.

With a view to ensuring the credit flow, which is crucial in the pandemic crisis, all euro area banks can make use of additional longer-term refinancing operations, called pandemic emergency longer-term refinancing operations (PELTROs). These operations have been designed to ensure sufficient liquidity and smooth money market conditions during the pandemic period, and are allotted on a near-monthly basis, maturing in the third quarter of 2021. Counterparties participating in PELTROs will be able to benefit from the collateral easing measures in place until the end of September 2021. PELTROs are conducted as fixed rate tender procedures with full allotment and no bid limits, and are offered on highly accommodative terms. The interest rate is 25 basis points below the average rate applied in the Eurosystem's main refinancing operations (currently 0%) over the life of the respective PELTRO. TLTROs and PELTROs, together with the other monetary policy measures taken by the ECB since the start of the pandemic, are helping to sustain access to financing for the real economy, including small and medium-sized enterprises, and are providing support for the economic recovery.

Yours sincerely,

[signed]

Christine Lagarde

¹ See [Regulation \(EU\) No 1071/2013 of the European Central Bank of 24 September 2013 concerning the balance sheet of the monetary financial institutions sector \(recast\) \(ECB/2013/33\) \(OJ L 297, 7.11.2013, p. 1\)](#) and [Manual on MFI balance sheet statistics](#), ECB, January 2019.