EUROPEAN CENTRAL BANK

EUROSYSTEM

COURTESY TRANSLATION

Christine LAGARDE
President

Ms Julie Lechanteux
Member of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt am Main, 22 December 2020

L/CL/20/326

Re: Your letter (QZ-069)

Honourable Member of the European Parliament, dear Ms Lechanteux,

Thank you for your letter, which was passed on to me by Ms Irene Tinagli, Chair of the Committee on Economic and Monetary Affairs (ECON), accompanied by a cover letter dated 17 November 2020.

The results of the October 2020 bank lending survey (BLS), referred to in the November 2020 Economic Bulletin, clearly point to a favourable impact on lending to firms and households from the ECB's monetary policy measures, complemented by the support provided by government measures, especially loan guarantees and debt moratoria.[1] The favourable impact of the ECB's monetary policy measures on bank lending conditions and lending volumes is documented by the ad hoc questions included in the BLS on the impact of the ECB's asset purchase programmes (including the asset purchase programme and pandemic emergency purchase programme) and the third series of targeted longer-term refinancing operations (TLTRO III). In particular, 72% of the surveyed banks indicated that they used the TLTRO III liquidity for granting loans to the non-financial private sector over the past six months, and more than 50% of banks expect to keep doing so over the next six months.[2]

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[1] See *Euro area bank lending survey for the third quarter of 2020*, ECB, Frankfurt am Main, October: https://www.ecb.europa.eu/stats/ecb_surveys/bank_lending_survey/html/index.en.html.

[2] Euro area banks also pointed to the net easing impact of the TLTRO III on their terms and conditions for loans to enterprises over the past six months (net percentage of banks at -19%). Moreover, a net percentage of 47% of the euro area banks indicated a positive impact of the TLTRO III on their lending volumes to enterprises over the past six months, as well as on housing loans (net percentage of 14%) and consumer credit (10%).

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As you also acknowledge in your letter, the latest BLS results also point to a tightening of credit standards in the third quarter of 2020. It is important to put this development into perspective, particularly in relation to how credit standards have changed over time. For firms, credit standards tightened in the third quarter of 2020 after remaining broadly unchanged in the previous quarter. Nevertheless, they are still considerably looser than they were at the height of the global financial crisis in 2008-09, even though the collapse in economic activity has been much more abrupt during the current crisis. For households, there was a further tightening of credit standards in the third quarter, to levels similar to those seen during the sovereign debt crisis in the second half of 2011, an episode that was also milder than the economic shock triggered by this pandemic. Importantly, banks' responses reveal that their funding cost and balance sheet conditions had either an easing or a neutral impact on credit standards for firms and households, whereas these factors significantly contributed to a tightening of standards during earlier crises. This development confirms that the determined and targeted policy actions taken by the ECB and other authorities have prevented a much more pronounced tightening of credit standards. Instead, the tightening of credit standards for firms and households is a reflection of banks' heightened risk perceptions caused by the pandemic and related mainly to the deterioration in the economic outlook and in the creditworthiness of affected borrowers.

Leaving bank credit standards to one side, it is important to remember that, since the onset of the pandemic, euro area banks have been very forthcoming in meeting firms' exceptional liquidity needs at an unprecedented pace, granting about €292 billion in loans over eight months (from March to October 2020). Moreover, these loans have been extended at very favourable rates, which were close to or at their historical lows, despite the material deterioration in the outlook for the creditworthiness of borrowers.

As I explained during my latest hearing before the ECON Committee on 19 November 2020, preserving favourable conditions for as long as needed is key to keep credit flowing, to support people's spending and to discourage mass lay-offs.[3] The role of monetary policy in the current environment is to provide a bridge until widespread immunity is achieved and the economy has recovered from the economic impact of the pandemic. A key pillar of this bridge is to ensure that financing conditions for all sectors of the economy remain favourable. Therefore, the Governing Council in December 2020 decided as regards TLTRO III operations to extend the period over which the considerably more favourable terms will apply by twelve months, to June 2022, with three additional operations taking place between June and December 2021.[4] Moreover, the total amount that counterparties can borrow in TLTRO III operations is raised from 50% to 55% of their eligible loan stock. The duration of the set of collateral easing measures adopted by the Governing Council in April 2020 has also been extended to June 2022, to ensure that banks can make full

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[3] See *Introductory statement by Christine Lagarde*, *President of the ECB, at the ECON Committee of the European Parliament (by videoconference)*, ECB, Frankfurt am Main, 19 November 2020: https://www.ecb.europa.eu/press/key/date/2020/html/ecb.sp201119~c21450a2d2.en.html.

[4] The full set of monetary policy measures decided upon in the 10 December 2020 Governing Council meeting can be found in the press release: https://www.ecb.europa.eu/press/pr/date/2020/html/ecb.mp201210~8c2778b843.en.html.

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use of the Eurosystem's liquidity operations. Finally, four additional pandemic emergency longer-term refinancing operations (PELTROs) will be offered in 2021. The recalibration of the TLTRO conditions will preserve the very attractive funding conditions for banks, which will help to ensure that they can continue to offer favourable lending conditions and have ample liquidity to extend loans to households and firms.

Yours sincerely,
[signed]

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