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ECB provides €57bn in bank support

By Ralph Atkins in Frankfurt

The European Central Bank's expanded eurozone bank liquidity support measures saw it providing €57bn in one-year loans on Wednesday but not triggering the surge in demand seen when similar steps were taken in the depths of Europe's 2009 recession.

The take-up of unlimited 12-month liquidity offered by the ECB fell slightly short of analysts' expectations but still pointed to a strong desire by eurozone banks to buttress their finances with longer-term liquidity. Some 181 banks applied for the loans.

The offer followed a decision by the ECB governing council earlier this month to respond to the escalating eurozone debt crisis by ramping up further the support it is providing to banks.

Back in June 2009, when one-year offers were first introduced, the ECB lent €442bn – the largest amount ever in a single liquidity operation. Then, demand was driven higher as banks seized the opportunity of borrowing cheaply and using the funds to buy other assets. This time around "the 'speculative' bidding will be more limited than in 2009", said Laurent Fransolet, analyst at Barclays Capital.

On Wednesday, many banks appeared simply to have rolled over funds from maturing three-month loans into 12-month loans.

The ECB sees its unlimited liquidity offers as the most important of the "non-standard" measures it has taken to combat the crisis. As well as reintroducing one-year loans, it has pledged to continue providing unlimited weekly, monthly and three-monthly liquidity until at least the middle of next year.

in Rome on Wednesday, Mario Draghi, who takes over as ECB president next week, indicated such steps would remain in place as long as financial market tensions continued. The ECB was "preventing, with its non-standard measures, the malfunctioning of the money and financial markets from obstructing the monetary transmission mechanism", he said. That also suggested the ECB would maintain its government bond buying programme.

Demand for liquidity from eurozone banks is expected to be significantly higher in December when the ECB launches an offer of unlimited 13-month liquidity which will span two end-of-year periods, when banks are keen to show a strong financial position on their books.

However, after three years of unlimited liquidity offers, the ECB has still to see a lasting improvement in market conditions. "The ECB is too confident about the capacity of its liquidity offers to do the trick. It is not a silver bullet," said Gilles Moec, economist at Deutsche Bank.