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Big banks prepare to pay back LTRO loans

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By Patrick Jenkins

A clutch of Europe's biggest banks are preparing to return a chunk of the cheap three-year funding they recently took from the European Central Bank as early as this year.

Senior bankers said Italy's UniCredit, France's BNP Paribas and Société Générale, and La Caixa in Spain are preparing to pay back up to a third of the money they borrowed – estimated at €80bn-€100bn in total – within the next 12 months.

The so-called longer-term refinancing operation, or LTRO, has been widely hailed as the defining policy measure by Mario Draghi, the ECB president, which stabilised jittery eurozone markets. The unprecedented scheme, launched last December and repeated in February, gave hundreds of banks an aggregate €1tn of ECB money at an interest rate of just 1 per cent.

The money is repayable in December 2014 and February 2015. But under the rules of the operation, banks are allowed to begin repayment after the first 12 months – in December this year.

The early repayment plans echo moves by some US banks in 2009 to repay their government bailout money as quickly as possible.

The LTRO is credited with having relaxed the pressure on eurozone bank funding at a time when liquidity for some looked threatened. It also helped reopen commercial funding markets. After raising virtually no bond finance in the second half of 2011, Europe's biggest banks have sold a combination of unsecured and covered bonds in the first quarter of 2012, though issuance remains lower than normal volumes.

Despite the accolades for the LTRO, some sceptics have expressed concern that the mechanism is bound to deflate the supply of commercial issuance in the short term, and threatens much of the European banking system with a "cliff" of simultaneous refinancing needs in three years' time.

One European bank chief executive said: "There are two reasons to repay early. First, I don't think it will be wise for us all to be paying back everything in three years' time. Second, we need longer-term finance than three years. We have been busy raising it over the past few months, even though we've had to pay a lot more for it."

- Some banks are already seeking longer-term commercial funding. BNP, for example, is 60 per cent of the way through its annual €20bn funding programme, mostly through private placements, and with an average maturity of six years.

Not all banks are planning to return the LTRO money early. Deutsche Bank and Lloyds, among others, have indicated privately that they plan to hold on to the cheap ECB money for the full three-year term.

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