PRESS RELEASE

Growing dependence on the ECB: Southern European banks are steering towards a funding cliff

- Eurozone banks have already borrowed more than an additional 1 trillion euros in 2020 alone under the European Central Bank's (ECB) TLTRO III operations
- Calculations by Deposit Solutions show Greek, Italian, Spanish and Portuguese banks especially use TLTRO III intensively
- Dr. Andreas Dombret, former Bundesbank and ECB board member: "Banks must be cautious not to become dependent on cheap liquidity."
- Dr. Tim Sievers, Deposit Solutions: "TLTRO distorts the funding situation of banks".

Hamburg, 11 December 2020 Banks in the Eurozone have drawn on around 1 trillion euros in additional low-cost refinancing under the ECB's Targeted longer-term refinancing operations (TLTRO III) this year alone. In relative terms, Greek banks are using the refinancing operations to the greatest extent, with an outstanding TLTRO volume corresponding to 12% of these banks' total assets. This is followed by Italy with volumes equaling 10% of the assets, Spain (9%) and Portugal (8%), according to calculations of the FinTech company Deposit Solutions based on ECB data. German banks also make intensive use of TLTRO. In 2020, they have more than quadrupled their total volume of ECB refinancing to over 350 billion euros.

TLTRO distorts banks' funding situation

Dr. Andreas Dombret, Senior Advisor for Deposit Solutions and former board member of the Deutsche Bundesbank (2010-2018), says: "There is no question that the ECB's TLTRO program is financially attractive for European banks. It provides them with liquidity at very favourable rates and therefore has a positive effect on their profitability. But as helpful as TLTRO may be to fight the pain of the banks in times of crisis, they have to be careful not to become addicted to this painkiller."

Dr. Tim Sievers, founder and CEO of Deposit Solutions, says: "While the ECB is providing banks with additional liquidity, people in Europe have also been depositing more and more money into their accounts since the beginning of the Covid crisis. By now, banks could already refinance 90% of their total loan portfolio through customer deposits alone. However, the conditions of TLTRO financing are so attractive for them that many banks temporarily replace customer deposits with TLTRO funds. This distorts the funding situation of the banks and is also a problem for savers: They are now even less likely to receive attractive interest rates on their savings."

According to analysis by Deposit Solutions, the volume of deposits in the Eurozone has increased significantly since the beginning of the Covid crisis: By the end of the third quarter of 2020, net retail deposit inflows had reached 400 billion euros, which is already more than the total inflows in 2019.

Banks steering towards a funding cliff

The ECB also describes the permanent availability of cheap refinancing as a risk. In its Financial Stability Review in November 2020, the central bank warned of negative consequences for financial market stability if banks became too dependent on central bank funding. There is a particularly high refinancing risk for smaller banks with limited market access that are unable to adjust their refinancing at the same pace, if the central bank's activities normalized too quickly.

Dr. Andreas Dombret sees the ECB's refinancing program as a temporary instrument: "TLTRO is likely to be one of the first instruments that the ECB will phase out as soon as monetary policy returns to normal. Having the central bank intervene in the market in this manner can only be justifiably maintained in times of crisis."

Dr. Tim Sievers says: "In around 30 months, 1.3 trillion euros of the money borrowed to date are going to mature. Banks that continue to fund themselves heavily through TLTRO must find other refinancing channels in time to avoid the imminent funding cliff. A predestined source of refinancing is the deposit market, which has received a further boost this year. It provides the banks with sufficient liquidity and, in contrast to TLTRO III, also provides them with stable funding in the long term."

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About Deposit Solutions:

Deposit Solutions is a globally recognized FinTech company and the Open Banking platform for deposits. Its proprietary Open Banking technology provides an infrastructure for the global USD 50 trillion deposit market that benefits banks and savers alike. Deposit Solutions is already connecting more than 150 banks from 20 countries on two continents. In addition, the company operates proprietary B2C Points-of-Sale (ZINSPILOT, Savedo, SaveBetter) that market selected deposit offers of its partners directly to savers in Europe and the USA. Founded in 2011 by Dr. Tim Sievers, the company is headquartered in Hamburg, has additional offices in Berlin, London, Zurich and New York. Deposit Solutions is backed by leading tech investors, such as e.ventures, Vitruvian Partners, Greycroft, FinLab, Kinnevik, Peter Thiel, Top Tier Capital Partners, Angel Investor Stefan Wiskemann as well as by Deutsche Bank AG. For further information please visit: www.deposit-solutions.com

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