EUROPEAN CENTRAL BANK

EUROSYSTEM

COURTESY TRANSLATION

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President

Mr Dimitrios Papadimoulis
Member of the European Parliament
European Parliament
60, rue Wiertz
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Frankfurt am Main, 4 February 2022

L/CL/22/24

Re: Your letter (QZ-051)

Honourable Member of the European Parliament, dear Mr Papadimoulis,

Thank you for your letter, 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 7 December 2021.

By providing additional monetary policy accommodation, the measures implemented by the European Central Bank (ECB) have made a crucial contribution to easing financing conditions across all sectors and euro area jurisdictions. In this context, targeted longer-term refinancing operations (TLTROs) play an important role as they have a particular focus on fostering lending for productive activities. TLTROs are targeted operations, as the amount that banks can borrow is linked to their loans to non-financial corporations (NFCs) and households[1], and the interest rate to be applied is linked to the participating banks' lending patterns. Banks that provide more loans to the real economy, including NFCs and households[2], benefit from more attractive interest rates on their borrowings under the third series of TLTROs. NFCs that have been most exposed to turbulence in the context of the COVID-19 pandemic have required more external funding and therefore benefited in particular from these measures that have enabled banks to meet the increased demand for credit. In the case of Greece, compared with May 2014, the cost of borrowing for firms had fallen by 288 basis points (and by 284 basis points in the case of loans up to €1 million) in October 2021. Nonetheless, in that same month, bank lending rates for firms were still 165 basis points higher than the euro area average. The higher bank lending rates in Greece reflect the fact that interest rates are generally higher in Greece than in other euro area countries, as evidenced by the spread of ten-year sovereign bond yields in Greece over those in

1 Excluding loans to households for house purchases.

2 Excluding loans to households for house purchases.

Germany and the euro area average, which stood at 1.6 and 1.2 percentage points respectively in January 2022. All of the ECB's measures have meant that lending to firms in Greece has increased substantially compared with the aftermath of the financial crisis, and its trend has stabilised since 2019, as it has in most other euro area countries.

This picture is also reflected in the results of the November 2021 survey on the access to finance of enterprises in the euro area.[3] While the results indicate a strong improvement in the financial situation of small and medium-sized enterprises (SMEs) in Greece between April and September 2021, they also show that these SMEs face tighter constraints on their access to finance than SMEs in most other euro area countries. The reasons for the tighter constraints, as stated by the SMEs in the survey, include larger financing gaps owing to loan demand exceeding loan availability, a greater need to refinance and pay off previous obligations, and a lower appetite than other euro area SMEs to apply for bank loans owing to fear of rejection. Furthermore, Greek SMEs saw their deteriorating capital position and the general economic outlook as impediments to their access to finance.

As explained in a previous written reply to your honourable colleague MEP Kyrtsos,[4] these factors, as well as the persistently high level of non-performing loans and elevated credit risk associated with some types of lending in Greece, are pushing bank lending rates above the euro area average. Addressing these factors lies beyond the realm of monetary policy. Instead, reform measures that are being undertaken by the relevant authorities in the context of Greece's enhanced surveillance process[5], such as implementing all elements of the new insolvency code, avoiding impediments to collateral enforcement and improving the efficiency of the judicial system, can support a convergence of lending rates to euro area averages.

Greek banks' overall recourse to Eurosystem monetary policy operations amounted to around €46.9 billion at the end of October 2021, roughly three-quarters of which took the form of TLTROs.[6] Borrowing rates in these operations can be as low as 50 basis points below the average interest rate on the deposit facility over the period from 24 June 2020 to 23 June 2022, provided that banks meet the lending targets aimed at easing private sector credit conditions and stimulating bank lending to the real economy. The main effect of TLTROs operates through reducing the cost of loans – both outstanding and newly created – for the real economy. Thus, assessing the effectiveness of TLTROs simply by considering new lending relative to the TLTRO take-up results is an incomplete measure, as it only captures the impact of TLTROs on the creation of *new* loans.

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3 The latest survey round was conducted between 6 September and 15 October 2021 and covered the period from April to September 2021. The results are available at: https://www.ecb.europa.eu/stats/ecb_surveys/safe/html/ecb.safe202111~0380b0c0a2.en.html.

4 See *Letter from the ECB President to Mr Georgios Kyrtsos, MEP, on monetary policy*, ECB, 28 May 2021, available at: https://www.ecb.europa.eu/pub/pdf/other/ecb.mepletter210528_Kyrtsos~6ee4b2580c.en.pdf?733ce1bd45841548d7e24db3a7f77d4a.

5 See *Enhanced Surveillance Report – Greece*, European Commission, November 2021, available at: https://ec.europa.eu/info/publications/twelfth-enhanced-surveillance-report_en.

6 See the financial statement of the Bank of Greece, available at: https://www.bankofgreece.gr/en/publications-and-research/publications/publications-list?types=a78773fb-02a6-43d0-9cd6-041e5800509f; and the monthly disaggregated financial statement of the Eurosystem, available at: https://www.ecb.europa.eu/press/pr/wfs/dis/html/index.en.html.

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Moreover, when assessing this impact, it is important to keep in mind that, in the absence of policy support, banks would most likely have had to reduce their lending significantly following the outbreak of the pandemic.

Yours sincerely,

[signed]

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