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ECB eyes longer term loans for banks

By Ralph Atkins in Frankfurt and Tracy Alloway in London

The European Central Bank could offer banks loans lasting up to two or three years under plans being looked at to give extra support to the eurozone banking system.

The introduction of longer term liquidity facilities would be part of an escalated ECB response to the eurozone debt crisis and difficulties banks face raising crucial funding. Another option being considered is broadening the range of assets banks can use as collateral to obtain ECB funds.

The ECB is under pressure from eurozone politicians to step up its government bond purchases. But boosting instead its support for banks would prove far less controversial, especially in Germany, where the Bundesbank has voiced strong opposition to any move seen as weakening the incentives for fiscal reforms.

Mario Draghi, the new ECB president, hinted at possible extra measures when he told a Frankfurt banking conference last week: "We are aware of the current difficulties for banks due to stress on sovereign bonds, the tightness of funding markets and the scarcity of eligible collateral."

New liquidity facilities could be announced after the ECB's next governing council meeting on December 8.

Last month the ECB reintroduced offers of unlimited one-year liquidity – but demand was relatively modest, with a total of just €57bn ($76bn) being borrowed by 181 banks. Demand is expected to be higher for an offer of 13 months liquidity in December, which will cover two year-end periods when banks like to show strong balance sheets.

However, executives from eurozone banks argued at a meeting with ECB policymakers last week that by allowing banks to secure funding for a significantly longer period and allowing longer term planning, offers of two- to three-year liquidity could prove significantly more attractive.

At the same meeting Federico Ghizzoni, chief executive of UniCredit, urged the ECB to widen the collateral it accepted when providing liquidity. Pressures on banks' sovereign bond holdings have reduced the value of collateral they have available – which has almost certainly resulted in a further squeeze on some banks.

The ECB has noted how many European banks have been shut out of wholesale funding markets in recent months – or unwilling to raise financing at the high prices demanded by markets. That has left some increasingly dependent on the ECB, while others are shrinking their balance sheets and curtailing their lending to deal with the funding gap.

"A lot of these banks have been on a starvation diet for a while in terms of funding," Oliver Sedgwick, financial debt specialist at Goldman Sachs, told attendees of the Thomson Reuters bank capital conference on Thursday.

"I think it's fair to say we are in a bad spot," said Stefano Marsaglia, chairman of the global financial institutions group at Barclays Capital. The ability of banks to refinance bonds that are due to mature next year would be crucial, he added.

Overall ECB lending to eurozone banks has this week risen above €500bn, the first time since August.