ECB Says Banks to Repay Less Than Forecast of Second Loan (2)

2013-02-22 12:37:07.793 GMT

(Updates with analyst's comment in fourth paragraph. For more on the debt crisis, see TOP CRIS.)

By Jana Randow

Feb. 22 (Bloomberg) -- The European Central Bank said banks will repay only half the amount of emergency loans economists forecast, indicating financial institutions remain wary of lending to each other.

Some 356 banks will hand back 61.1 billion euros ($80.5 billion) of the ECB's second three-year loan on Feb. 27, the first opportunity for early repayment, the central bank said in a statement today. That compares with a forecast of 122.5 billion euros in a Bloomberg News survey of economists. The euro fell almost half a cent after the report to $1.3157.

The ECB flooded banks with more than 1 trillion euros in two three-year loans after money markets froze because of Europe's debt crisis. Banks have the option of repaying the funds after a year. They returned more than forecast of the first loan in January.

"Expectations after the initial repayment of the first loan became exaggerated," said Jan von Gerich, chief fixed-income analyst at Nordea Bank AB in Helsinki. "The current number shows much better how the banking sector is doing. We're seeing improvements, but it is a slow process."

21 Percent

The ECB said nine banks will repay a further 1.7 billion euros from the first three-year Longer Term Refinancing Operation next week. That takes the total amount of funds repaid early to 212.3 billion euros, or 21 percent of the overall amount lent. Banks can continue to repay the loans over coming weeks.

"The ECB will welcome the repayment as long as banks make it for the right reasons," said Nick Matthews, senior economist at Nomura International Plc in London. "If banks are comfortable that they don't need the money anymore or can get funding in the market, it's alright. The last thing you want, though, is to see banks rushing to repay only to get into trouble because they don't have their funding in place."

ECB President Mario Draghi has urged financial institutions to be responsible in determining repayment amounts.

They "must appropriately assess their funding situation, their ability to provide new loans to the economy and their

resilience to shocks," he said on Feb. 7. "We will closely
monitor conditions in the money market and their potential
impact on the stance of monetary policy."

Euribor Futures

Interest rates in the futures market surged last month after banks repaid three-year funds for the first time. The rate on three-month Euribor futures expiring in December 2013 rose as high as 0.58 percent on Jan. 28, the most since July. It dropped to as low as 0.31 percent after today's data from 0.39 percent yesterday.

Banks that have returned funds so far include Spanish lenders Banco Santander SA, Banco Bilbao Vizcaya Argentaria SA, or BBVA, and CaixaBank. Belgian, Portuguese and German banks have also handed money back.

The ECB approved the temporary use of credit claims as collateral by seven euro-area member central banks ahead of the second three-year operation last year. That provided as much as 70 billion euros of additional funding for Italian banks alone, Fabrizio Saccomanni, director general of the Bank of Italy, said at the time.

The move allowed smaller banks in Ireland, Spain, France, Italy, Cyprus, Austria and Portugal with weaker collateral to tap ECB funds, von Gerich said. Those banks may not yet be in a position to take advantage of the improved environment in financial markets, he said, adding "many banks are still very reliant on ECB funding."

The ECB still allows banks to borrow as much money as they want against eligible collateral for periods of one week, one month and three months.

For Related News and Information:
Search for central bank stories: NSE MONETARY POLICY <GO>
Stories on ECB interest rates: STNI ECBACTION <GO>
Stories related to the ECB: NI ECB <GO>
Euro-region economic stories: TNI ECO EUROP <GO>

--With assistance from Kristian Siedenburg in Vienna. Editors: Matthew Brockett, John Fraher

To contact the reporter on this story:
Jana Randow in Frankfurt at +49-69-92041-206 or
jrandow@bloomberg.net

To contact the editor responsible for this story:
Craig Stirling at +44-20-7673-2841 or
cstirling1@bloomberg.net