

ECB to begin great cash mop-up as banks repay billions in loans

The European Central Bank is set to begin on Friday the biggest withdrawal of cash from the euro zone's banking system in its history, as it gives banks a first chance to repay hundreds of billions of euros in ECB loans.

The move is part of ECB efforts to fight record-high inflation in the euro zone by raising the cost of credit and it is its first step towards mopping up even more liquidity next year by trimming its multi-trillion-euro bond portfolio.

The euro zone's central bank will announce at 1105 GMT how much banks plan to repay of the 2.1-trillion-euros (\$2.17 trillion), multi-year credit they have taken under its Targeted Longer-Term Refinancing Operations (TLTRO).

While this early TLTRO reimbursement is voluntary, the ECB has given banks an incentive to get rid of those loans by taking away a rate subsidy last month.

Analysts expect banks to repay around half a trillion euros worth of TLTRO loans at this week's window - the first of several - which would make this the biggest drop in excess liquidity since records began in 2000.

ECB policymakers will look at how the market digests this sudden drop in cash to gauge how fast they can proceed with reversing the ECB's 3.3-trillion-euro Asset Purchase Programme, which they will discuss at their Dec. 15 meeting.

The greatest impact from the repayments will be seen in peripheral countries, which would see a bigger proportion of their government bonds come back on the market after being locked at the ECB as collateral for the TLTRO loans.

"Clearly, Italy, Spain, Portugal and Greece would suffer from big repayments, whereas the impact would be smaller for Germany and France," said Louis Harreau, a strategist at Credit Agricole (OTC:CRARY).

But he cautioned there was less of an incentive for banks in southern European to repay because they relied on TLTRO for their funding to a greater extent than their northern peers.

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