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Letter | 22.09.2022

Letter to ECB on banking windfall profits

Greens/EFA MEPs write to ECB President Lagarde

Dear President Lagarde,

We would like to bring your attention to the issue of banks' windfall profits and call on the ECB and the Governing Council to address it as a matter of urgency.

The Governing Council decided to increase interest rates by 50 basis points in July, 75 in September, and signaled further aggressive rate hikes in the months to come. The decisions of the ECB will make borrowing more expensive, reducing the supply of cheap credit. Higher deposit rates will also incentivise commercial banks to park their liquidity at the ECB instead of lending to the real economy, as they will get an interest on their deposits at the ECB.

At the same time, the ECB has been providing banks with €2.2 trillion of subsidized loans since March 2020, by easing the conditions for targeted longer-term refinancing operations (TLTROs). The borrowing conditions were extremely advantageous, with interest rates as low as -1% for the Jun 2020 Jun 2022 period. This means that banks received a lot of cash during the pandemic that was meant to reach consumers in the form of bank loans. This measure made sense in the context of an expansionary monetary policy with low to negative interest rates.

However, the TLTROs will run for two more years before the loans mature. This means that rather than using it to provide credit, banks could now simply park this liquidity received by the TLTRO back at the ECB and collect interest on those deposits - a classic tax-payer subsidized carry trade. There is talk of 20 to 40 billion euros in risk-free additional income, which the financial institutions in the euro zone are expected to collect in the next few months.

At a time when citizens and the economy as a whole face a crippling energy price shock eroding peoples' incomes, it is unacceptable that the ECB is providing banks with taxpayer-backed profits, while the borrowing costs of all other companies and households will increase significantly. Avoiding such unfair distribution of revenues is precisely the rationale behind the Commission Proposal to tax windfall profits from energy companies, another sector benefiting from the crisis with ballooning profits.

Following reports in July,^[1] as well as the recent joint EU efforts to redistribute extra profits, we fully

expected the ECB to address this issue of banks' windfall gains at the September Governing Council. But when asked during the press conference, you maintained this was not even debated. This means that banks will continue to benefit in full from a higher deposit rate and from low TLTRO rates, while citizens are struggling to make ends meet. Most commercial banks will be paying out bonuses and distributing dividends to investors, while raising interests on loans to the real economy and mortgages.

As the ECB has been warning of the 'sacrifice'^[2] needed to tame surging inflation and talks about the unavoidable pain central banks will need to inflict in terms of weaker growth and higher unemployment to bring inflation back under control, it is unacceptable that banks will privatize windfall gains after having socialized their losses. Euro area banks have already benefited massively from cheap liquidity during the pandemic. Now the least that the ECB can do is ensure that banks are not the winners of yet another crisis.

In light of the ongoing cost of living crisis that is exacerbating inequality in our societies, we urge the ECB to stop lenders from making windfall gains.

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^[1] FT: ECB to discuss blocking banks from multibillion-euro windfall as rates rise, 3 July 2022

^[2] Isabel Schnabel, Monetary policy and the Great Volatility, 27 August 2022

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