

The ECB's three-year bank-refinancing operations and Eurozone bank equity

René Hegglin, Jiri Woschitz

University of Zurich, Department of Banking and Finance

December 8, 2016

Abstract

We use an event study design to assess the impact of the three-year LTROs, the largest ECB bank-refinancing operations to date, on banks' equity values. We show that banks in weaker Eurozone countries experience higher positive abnormal equity returns following these operations. The ECB's target of these measures was to ease bank lending. We observe that positive abnormal returns correlate with large inter-bank asset exposures but not interbank liabilities. Furthermore, we find support for the claim that the ECB's three-year LTROs increased bank equity value by handing banks value creating opportunities through carry-trades, regulatory arbitrage, and risk-shifting.

JEL-Code: E58, G21

Keywords: European Central Bank, Longer-term refinancing operations (LTROs), EBA stress tests, event study, financial stability.