

Policy Fatigue in Europe

There is policy fatigue in Europe. The recent LTRO has had poor take up, a mere 83 billion eur compared to 290 billion at the first 3 year LTRO.

The first LTRO allowed banks in the euro area to do something they had not been able to before, to trade out of their foreign debt and into their local debt, and to buy more bonds. It was an outsourced QE. The current LTRO allows banks to do nothing new. In fact, the conditional nature of this LTRO makes it less attractive. Moreover, the euro area banks are in the midst of recapitalization and until this is done, LTRO's are merely liquidity operations that require capital for animation, capital which is yet scarce.

This is positive for **Europe**. A 'big gun' solution might be a better analgesic but this current incremental policy provides a protracted and incremental support for European risk assets. It is, to be clear, a dangerous game, but it lifts the market steadily. Given the tepid response to the LTRO the ECB will be forced to do more, and do more it will.

Let me make a wild and reckless forecast. The ECB will design a TBA market for ABS underwriting not only secondary market ABS but blind pool primary issues, in effect co-opting the commercial banks to be their originators.