

# CAN THE PROVISION OF LONG-TERM LIQUIDITY HELP TO AVOID A CREDIT CRUNCH? EVIDENCE FROM THE EUROSISTEM'S LTRO

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## **Abstract**

We exploit the Eurosystem's longer-term refinancing operations (LTROs) of 2011–2012 to assess whether a large provision of central bank liquidity to banks during a financial crisis has a positive impact on banks' credit supply to firms. We control for credit demand by examining firms that borrow from several banks, in addition to controlling for confounding factors at the level of banks. We find that the LTROs enhanced loan supply: according to our baseline estimate, banks borrowing 1 billion euros from the facility increased their loan supply by 186 million euros over one year. We also find that the transmission mostly took place with the first operation of December 2011, in which banks that were more capital constrained bid more. Moreover, we show that the opportunity to substitute long-term central bank liquidity for short-term liquidity enhanced this transmission. Lastly, the operations benefited larger borrowers more and did not lead banks to increase their lending to riskier firms. (JEL: E44, E51, E52, G01, G21)

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