ECB Decisions

On 3 February 2022, the Governing Council of the European Central Bank (ECB) confirmed the decisions taken at its monetary policy meeting last December.

Pandemic emergency purchase programme (PEPP)

In the first quarter of 2022, the Governing Council is conducting net asset purchases under the PEPP at a lower pace than in the previous quarter. It will discontinue net asset purchases under the PEPP at the end of March 2022.

The Governing Council intends to reinvest the principal payments from maturing securities purchased under the PEPP until at least the end of 2024. In any case, the future roll-off of the PEPP portfolio will be managed to avoid interference with the appropriate monetary policy stance.

The pandemic has shown that, under stressed conditions, flexibility in the design and conduct of asset purchases has helped to counter the impaired transmission of monetary policy and made the Governing Council’s efforts to achieve its goal more effective. Within the Governing Council’s mandate, under stressed conditions, flexibility will remain an element of monetary policy whenever threats to monetary policy transmission jeopardise the attainment of price stability. In particular, in the event of renewed market fragmentation related to the pandemic, PEPP reinvestments can be adjusted flexibly across time, asset classes and jurisdictions at any time. This could include purchasing bonds issued by the Hellenic Republic over and above rollovers of redemptions in order to avoid an interruption of purchases in that jurisdiction, which could impair the transmission of monetary policy to the Greek economy while it is still recovering from the fallout from the pandemic. Net purchases under the PEPP could also be resumed, if necessary, to counter negative shocks related to the pandemic.

Asset purchase programme (APP)

In line with the step-by-step reduction in asset purchases decided on in December 2021 and to ensure that the monetary policy stance remains consistent with inflation stabilising at the Governing Council’s target over the medium term, monthly net purchases under the APP will amount to €40 billion in the second quarter of 2022 and €30 billion in the third quarter. From October onwards, the Governing Council will maintain net asset purchases under the APP at a monthly pace of €20 billion for as long as necessary to reinforce the accommodative impact of its policy rates. The Governing Council expects net purchases to end shortly before it starts raising the key ECB interest rates.

The Governing Council also intends to continue reinvesting, in full, the principal payments from maturing securities purchased under the APP for an extended period of time past the date when it starts raising the key ECB interest rates and, in any case, for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation.

Key ECB interest rates

The interest rate on the main refinancing operations (MRO) and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 0.00%, 0.25% and -0.50% respectively.
In support of its symmetric 2% inflation target and in line with its monetary policy strategy, the Governing Council expects the key ECB interest rates to remain at their present or lower levels until it sees inflation reaching 2% well ahead of the end of its projection horizon and durably for the rest of the projection horizon, and it judges that realised progress in underlying inflation is sufficiently advanced to be consistent with inflation stabilising at 2% over the medium term. This may also imply a transitory period in which inflation is moderately above target.

Refinancing operations

The Governing Council will continue to monitor bank funding conditions and ensure that the maturing of operations under the third series of targeted longer-term refinancing operations (TLTRO-III) does not hamper the smooth transmission of its monetary policy. The Governing Council will also regularly assess how targeted lending operations are contributing to its monetary policy stance. As announced, it expects the special conditions applicable under TLTRO-III to end in June this year. The Governing Council will also assess the appropriate calibration of its two-tier system for reserve remuneration so that the negative interest rate policy does not limit banks’ intermediation capacity in an environment of ample excess liquidity.

The Governing Council stands ready to adjust all of its instruments, as appropriate, to ensure that inflation stabilises at its 2% target over the medium term.

ECB Monetary Operations

On 31 January 2022, ECB announced the 7-day MRO. The operation was conducted on 1 February 2022 and attracted bids from euro area eligible counterparties of €192.00 million, €6.00 million less than the previous week. The amount was allotted in full at a fixed rate equivalent to the prevailing MRO rate of 0.00%, in accordance with current ECB policy.

On 2 February 2022, the ECB conducted the 7-day US dollar funding operation through collateralised lending in conjunction with the US Federal Reserve. This operation attracted bids of $199.50 million, which was allotted in full at a fixed rate of 0.33%.

Domestic Treasury Bill Market

In the domestic primary market for Treasury bills, the Treasury invited tenders for 91-day and 273-day bills for settlement value 3 February 2022, maturing on 5 May and 3 November 2022, respectively. Bids of €60.50 million were submitted for the 91-day bills, with the Treasury accepting €37.00 million, while bids of €56.00 million were submitted for the 273-day bills, with the Treasury accepting €3.00 million. Since €37.00 million worth of bills matured during the week, the outstanding balance of Treasury bills increased by €3.00 million, standing at €633.52 million.

The yield from the 91-day bill auction was -0.409%, decreasing by 0.2 basis point from bids with a similar tenor issued on 20 January 2022, representing a bid price of €100.1035 per €100 nominal. The yield from the 273-day bill auction was -0.397%, unchanged from bids with a similar tenor issued on 13 January 2022, representing a bid price of €100.3020 per €100 nominal.

During this week, there was no trading on the Malta Stock Exchange.

This week the Treasury will invite tenders for 92-day and 183-day bills maturing on 12 May and 11 August 2022, respectively.