

## Money Market Report for the week ending 11 December 2020

### ECB Decisions

In view of the economic fallout from the resurgence of the pandemic, the Governing Council of the European Central Bank (ECB) decided on the 10 December 2020 to recalibrate its monetary policy instruments as follows:

First, 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. The Governing Council expects the key ECB interest rates to remain at their present or lower levels until it has seen the inflation outlook robustly converge to a level sufficiently close to, but below, 2% within its projection horizon, and such convergence has been consistently reflected in underlying inflation dynamics.

Second, the Governing Council decided to increase the envelope of the pandemic emergency purchase programme (PEPP) by €500 billion to a total of €1,850 billion. It also extended the horizon for net purchases under the PEPP to at least the end of March 2022. In any case, the Governing Council will conduct net purchases until it judges that the coronavirus crisis phase is over.

The Governing Council also decided to extend the reinvestment of principal payments from maturing securities purchased under the PEPP until at least the end of 2023. In any case, the future roll-off of the PEPP portfolio will be managed to avoid interference with the appropriate monetary policy stance.

Third, the Governing Council decided to further recalibrate the conditions of the third series of targeted longer-term refinancing operations (TLTRO-III). Specifically, it decided to extend the period over which considerably more favourable terms will apply by twelve months, to June 2022. Three additional operations will also be conducted between June and December 2021. Moreover, the Governing Council decided to raise the total amount that counterparties will be entitled to borrow in TLTRO-III operations from 50% to 55% of their stock of eligible loans. In order to provide an incentive for banks to sustain the current level of bank lending, the recalibrated TLTRO-III borrowing conditions will be made available only to banks that achieve a new lending performance target.

Fourth, the Governing Council decided to extend to June 2022 the duration of the set of collateral easing measures adopted by the Governing Council on 7 and 22 April 2020. The extension of these measures will continue to ensure that banks can make full use of the Eurosystem's liquidity operations, most notably the recalibrated TLTROs. The Governing Council will reassess the collateral easing measures before June 2022, ensuring that Eurosystem counterparties' participation in TLTRO III operations is not adversely affected.

Fifth, the Governing Council also decided to offer four additional pandemic emergency longer-term refinancing operations (PELTROs) in 2021, which will continue to provide an effective liquidity backstop.

Sixth, net purchases under the asset purchase programme (APP) will continue at a monthly pace of €20 billion. The Governing Council continues to expect monthly net asset purchases under the APP to run for as long as necessary to reinforce the accommodative impact of its policy rates, and 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.

Seventh, the Eurosystem repo facility for central banks (EUREP) and all temporary swap and repo lines with non-euro area central banks will be extended until March 2022.

Finally, the Governing Council decided to continue conducting its regular lending operations as fixed rate tender procedures with full allotment at the prevailing conditions for as long as necessary.

### **ECB Monetary Operations**

On 4 December 2020, the ECB announced the 7-day MRO. The operation was conducted on 7 December 2020 and attracted bids from euro area eligible counterparties of €0.24 billion, €0.01 billion less than the bid amount of 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 9 December 2020, the ECB conducted the 7-day and 84-day US dollar funding operations through collateralised lending in conjunction with the US Federal Reserve. The 7-day USD operation attracted bids of \$0.04 billion, which was allotted in full at a fixed rate of 0.34%. The 84-day USD operation attracted bids of \$0.08 billion, also allotted in full at a fixed rate of 0.33%.

On 10 December 2020, the ECB conducted the sixth operation of the TLTRO-III programme. This operation attracted bids of €50.41 billion, with the rate fixed at the average rate of the MROs over the life of the operation. However, the final interest rate applied to this operation may differ and will be determined according to the TLTRO-III Decision.

### **Domestic Treasury Bill Market**

In the domestic primary market for Treasury bills, the Treasury invited tenders for 91-day bills and 273-day bills for settlement value 10 December 2020, maturing on 11 March and 9 September 2021, respectively. Bids of €125.00 million were submitted for the 91-day bills, with the Treasury accepting €22.00 million, while bids of €119.00 million were submitted for the 273-day bills, with the Treasury accepting €3.00 million. Since €40.00 million worth of bills matured during the week, the outstanding balance of Treasury bills decreased by €15.00 million, standing at €614.50 million.

The yield from the 91-day bill auction was -0.493%, a decrease of 0.5 basis point from bids with a similar tenor issued on 3 December 2020, representing a bid price of €100.1248 per €100 nominal. The yield from the 273-day bill auction was also -0.493%, a decrease of 0.7 basis points from bids with a similar tenor issued on 26 November 2020, representing a bid price of €100.3753 per €100 nominal.

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

This week the Treasury will invite tenders for 91-day bills and 182-day bills maturing on 18 March and 17 June 2021, respectively.