

Money Market Report for the week ending 15 April 2022

ECB Decisions

At the 14 April 2022 meeting, the Governing Council of the European Central Bank (ECB) judged that the incoming data since its last meeting reinforce its expectation that net asset purchases under its asset purchase programme (APP) should be concluded in the third quarter. Looking ahead, the ECB's monetary policy will depend on the incoming data and the Governing Council's evolving assessment of the outlook. In the current conditions of high uncertainty, the Governing Council will maintain optionality, gradualism and flexibility in the conduct of monetary policy. The Governing Council will take whatever action is needed to fulfil the ECB's mandate to pursue price stability and to contribute to safeguarding financial stability.

On 14 April 2022, the Governing Council took the following decisions:

APP

Monthly net purchases under the APP will amount to €40 billion in April, €30 billion in May and €20 billion in June. The Governing Council judged that the incoming data since its last meeting reinforce its expectation that net asset purchases under the APP should be concluded in the third quarter. The calibration of net purchases for the third quarter will be data-dependent and reflect the Governing Council's evolving assessment of the outlook.

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.

Any adjustments to the key ECB interest rates will take place some time after the end of the Governing Council's net purchases under the APP and will be gradual. The path for the key ECB interest rates will continue to be determined by the Governing Council's forward guidance and by its strategic commitment to stabilise inflation at 2% over the medium term. Accordingly, the Governing Council expects the key ECB interest rates to remain at their present 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.

Pandemic emergency purchase programme (PEPP)

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.

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.

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 within its mandate, incorporating flexibility if warranted, to ensure that inflation stabilises at its 2% target over the medium term. 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.

ECB Monetary Operations

On 11 April 2022, the ECB announced the 7-day MRO. The operation was conducted on 12 April 2022 and attracted bids from euro area eligible counterparties of €540.00 million, €132.00 million more 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 13 April 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 \$236.00 million, which was allotted in full at a fixed rate of 0.57%.

Domestic Treasury Bill Market

In the domestic primary market for Treasury bills, the Treasury invited tenders for 91-day and 182-day bills for settlement value 14 April 2022, maturing on 14 July and 13 October 2022, respectively. Bids of €51.50 million were submitted for the 91-day bills, with the Treasury accepting €46.50 million, while bids of €51.50 million were also submitted for the 182-day bills, with the Treasury accepting €11.50 million. Since €33.70 million worth of bills matured during the week, the outstanding balance of Treasury bills increased by €24.30 million, standing at €779.00 million.

The yield from the 91-day bill auction was -0.294%, increasing by 3.3 basis points from bids with a similar tenor issued on 7 April 2022, representing a bid price of €100.0744 per €100 nominal. The yield from the 182-day bill auction was -0.317%, increasing by 0.9 basis point from bids with a similar tenor issued on 7 April 2022, representing a bid price of €100.1605 per €100 nominal.

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

This week the Treasury will invite tenders for 91-day and 182-day bills maturing on 21 July and 20 October 2022, respectively.