

## **Money Market Report for the week ending 15 September 2023**

### **ECB Decisions**

Inflation continues to decline but is still expected to remain too high for too long. The Governing Council of the European Central Bank (ECB) is determined to ensure that inflation returns to its 2% medium-term target in a timely manner. In order to reinforce progress towards its target, on 14 September 2023, the Governing Council decided to raise the three key ECB interest rates by 25 basis points. Accordingly, the interest rate on the main refinancing operations (MRO) and the interest rates on the marginal lending facility and the deposit facility will be increased to 4.50%, 4.75% and 4.00% respectively, with effect from 20 September 2023. This rate increase reflects the Governing Council's assessment of the inflation outlook in light of the incoming economic and financial data, the dynamics of underlying inflation, and the strength of monetary policy transmission.

Based on its current assessment, the Governing Council considers that the key ECB interest rates have reached levels that, maintained for a sufficiently long duration, will make a substantial contribution to the timely return of inflation to the target. The Governing Council's future decisions will ensure that the key ECB interest rates will be set at sufficiently restrictive levels for as long as necessary. The Governing Council will continue to follow a data-dependent approach to determine the appropriate level and duration of restriction. In particular, the Governing Council's interest rate decisions will be based on its assessment of the inflation outlook in light of the incoming economic and financial data, the dynamics of underlying inflation, and the strength of monetary policy transmission.

The Governing Council notes that the asset purchase programme portfolio is declining at a measured and predictable pace, as the Eurosystem no longer reinvests the principal payments from maturing securities. As concerns the pandemic emergency purchase programme (PEPP), the Governing Council intends to reinvest the principal payments from maturing securities purchased under the programme 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 Governing Council will continue applying flexibility in reinvesting redemptions coming due in the PEPP portfolio, with a view to countering risks to the monetary policy transmission mechanism related to the pandemic.

As banks are repaying the amounts borrowed under the targeted longer-term refinancing operations, the Governing Council will regularly assess how targeted lending operations and their ongoing repayment are contributing to its monetary policy stance.

The Governing Council stands ready to adjust all of its instruments within its mandate to ensure that inflation returns to its 2% target over the medium term and to preserve the smooth functioning of monetary policy transmission. Moreover, the Transmission Protection Instrument is available to counter unwarranted, disorderly market dynamics that pose a serious threat to the transmission of monetary policy across all euro area countries, thus allowing the Governing Council to more effectively deliver on its price stability mandate.

### **ECB Monetary Operations**

On 11 September 2023, the ECB announced the 7-day MRO. The operation was conducted on 12 September 2023 and attracted bids from euro area eligible counterparties of €3,966.00 million, €20.00 million more than the previous week. The

amount was allotted in full at a fixed rate equivalent to the prevailing MRO rate of 4.25%, in accordance with current ECB policy.

On 13 September 2023, 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 \$234.50 million, which were allotted in full at a fixed rate of 5.59%.

During the week under review, participants in the third series of targeted longer-term refinancing operations 6 to 10 had the option of terminating or reducing their outstanding amount before maturity. Accordingly, on 27 September 2023 a total of €34,230.57 million will be repaid.

### **Domestic Treasury Bill Market**

In the domestic primary market for Treasury bills, the Treasury invited tenders for 91-day bills for settlement value 14 September 2023, maturing on 14 December 2023. Bids of €157.68 million were submitted, with the Treasury accepting €17.68 million. Since €44.38 million worth of bills matured during the week, the outstanding balance of Treasury bills decreased by €26.70 million, standing at €589.61 million.

The yield from the 91-day bill auction was 3.306%, increasing by 90.10 basis points from bids with a similar tenor issued on 7 September 2023, representing a bid price of €99.1712 per €100 nominal.

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

This week the Treasury will invite tenders for 92-day and 274-day bills maturing on 21 December 2023 and 20 June 2024, respectively.