

Money Market Report for the week ending 8 March 2024

ECB Decisions

On 7 March 2024, the Governing Council of the European Central Bank (ECB) decided that 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 4.50%, 4.75% and 4.00%, respectively. Since the last Governing Council meeting in January, inflation has declined further. In the latest ECB staff projections, inflation has been revised down, in particular for 2024 which mainly reflects a lower contribution from energy prices. ECB staff now project inflation to average 2.3% in 2024, 2.0% in 2025 and 1.9% in 2026. The projections for inflation excluding energy and food have also been revised down and average 2.6% for 2024, 2.1% for 2025 and 2.0% for 2026. Although most measures of underlying inflation have eased further, domestic price pressures remain high, in part owing to strong growth in wages. Financing conditions are restrictive and the past interest rate increases continue to weigh on demand, which is helping push down inflation. ECB staff have revised down their growth projection for 2024 to 0.6%, with economic activity expected to remain subdued in the near term. Thereafter, staff expect the economy to pick up and to grow at 1.5% in 2025 and 1.6% in 2026, supported initially by consumption and later also by investment.

The Governing Council is determined to ensure that inflation returns to its 2% medium-term target in a timely manner. Based on its current assessment, the Governing Council considers that the key ECB interest rates are at levels that, maintained for a sufficiently long duration, will make a substantial contribution to this goal. The Governing Council's future decisions will ensure that policy 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 determining 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. On the pandemic emergency purchase programme (PEPP), the Governing Council intends to continue to reinvest, in full, the principal payments from maturing securities purchased under the PEPP during the first half of 2024. Over the second half of the year, it intends to reduce the PEPP portfolio by €7.50 billion per month on average. The Governing Council intends to discontinue reinvestments under the PEPP at the end of 2024. 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 4 March 2024, the ECB announced the 7-day MRO. The operation was conducted on 5 March 2024 and attracted bids from euro area eligible counterparties of €3,571.00 million, €1,773.00 million less than the previous week. The amount was allotted in full at a fixed rate equivalent to the prevailing MRO rate of 4.50%, in accordance with current ECB policy.

On 6 March 2024, the ECB conducted a 7-day US dollar funding operation through collateralised lending in conjunction with the US Federal Reserve. This operation attracted bids of \$179.00 million, which were allotted in full at a fixed rate of 5.58%.

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 7 March 2024, maturing on 6 June and 5 September 2024, respectively. Bids of €83.26 million were submitted for the 91-day bills, with the Treasury accepting €10.62 million, while bids of €29.99 million were submitted for the 182-day bills, with the Treasury accepting €1.57 million. Since €37.93 million worth of bills matured during the week, the outstanding balance of Treasury bills decreased by €25.74 million, standing at €583.99 million.

The yield from the 91-day bill auction was 3.063%, decreasing by 14.00 basis points from bids with a similar tenor issued on 29 February 2024, representing a bid price of €99.2317 per €100 nominal. The yield from the 182-day bill auction was 2.968%, decreasing by 14.50 basis points from bids with a similar tenor also issued on 29 February 2024, representing a bid price of €98.5217 per €100 nominal.

During this week, secondary market turnover in Malta Government Treasury bills amounted to €450,000, all executed on the On-exchange market of the Malta Stock Exchange.

This week the Treasury will invite tenders for 91-day bill maturing on 13 June 2024.