

## Money Market Report for the week ending 13 September 2024

### ECB Decisions

On 12 September 2024, the Governing Council of the European Central Bank (ECB) decided to lower the deposit facility rate by 25 basis points. The deposit facility rate is the rate through which the Governing Council steers the monetary policy stance. In addition, as announced on 13 March 2024 following the operational framework review, the spread between the interest rate on the main refinancing operations (MRO) and the deposit facility rate will be set at 15 basis points. The spread between the rate on the marginal lending facility and the rate on the main refinancing operations will remain unchanged at 25 basis points. Accordingly, the deposit facility rate will be decreased to 3.50%. The interest rates on the main refinancing operations and the marginal lending facility will be decreased to 3.65% and 3.90% respectively. The changes will take effect from 18 September 2024.

Based on the Governing Council's updated assessment of the inflation outlook, the dynamics of underlying inflation and the strength of monetary policy transmission, it is now appropriate to take another step in moderating the degree of monetary policy restriction.

Recent inflation data have come in broadly as expected, and the latest ECB staff projections confirm the previous inflation outlook. Staff see headline inflation averaging 2.5% in 2024, 2.2% in 2025 and 1.9% in 2026, as in the June projections. Inflation is expected to rise again in the latter part of this year, partly because previous sharp falls in energy prices will drop out of the annual rates. Inflation should then decline towards our target over the second half of next year. For core inflation, the projections for 2024 and 2025 have been revised up slightly, as services inflation has been higher than expected. At the same time, staff continue to expect a rapid decline in core inflation, from 2.9% this year to 2.3% in 2025 and 2.0% in 2026.

Domestic inflation remains high as wages are still rising at an elevated pace. However, labour cost pressures are moderating, and profits are partially buffering the impact of higher wages on inflation. Financing conditions remain restrictive, and economic activity is still subdued, reflecting weak private consumption and investment. Staff project that the economy will grow by 0.8% in 2024, rising to 1.3% in 2025 and 1.5% in 2026. This is a slight downward revision compared with the June projections, mainly owing to a weaker contribution from domestic demand over the next few quarters.

The Governing Council is determined to ensure that inflation returns to its 2% medium-term target in a timely manner. It will keep policy rates sufficiently restrictive for as long as necessary to achieve this aim. The Governing Council will continue to follow a data-dependent and meeting-by-meeting approach to determining the appropriate level and duration of restriction. In particular, its 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 is not pre-committing to a particular rate path.

The Governing Council notes that the asset purchase programme is declining at a measured and predictable pace, as the Eurosystem no longer reinvests the principal payments from maturing securities.

The Eurosystem no longer reinvests all of the principal payments from maturing securities purchased under the pandemic emergency purchase programme (PEPP), reducing the PEPP portfolio by €7.5 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 9 September 2024, the ECB announced the 7-day MRO. The operation was conducted on 10 September 2024 and attracted bids from euro area eligible counterparties of €2,053.00 million, €224.00 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 11 September 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 \$141.30 million, which were allotted in full at a fixed rate of 5.59%.

During the week under review, participants in the tenth operation from the third series of targeted longer-term refinancing operation had the option of terminating or reducing their outstanding amount before maturity. Accordingly, on 25 September 2024, a total of €5,048.86 million will be repaid.

### **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 12 September 2024, maturing on 12 December 2024 and 13 March 2025, respectively. Bids of €61.33 million were submitted for the 91-day bills, with the Treasury accepting €13.09 million, while bids of €12.64 million were submitted for the 182-day bills, with the Treasury accepting €2.77 million. Since €30.97 million worth of bills matured during the week, the outstanding balance of Treasury bills decreased by €15.11 million, standing at €396.48 million.

The yield from the 91-day bill auction was 2.630%, decreasing by 15.70 basis points from bids with a similar tenor issued on 5 September 2024, representing a bid price of €99.3396 per €100 nominal. The yield from the 182-day bill auction was 2.497%, decreasing by 18.90 basis points from bids with a similar tenor also issued on 5 September 2024, representing a bid price of €98.7534 per €100 nominal.

During this week, secondary market turnover in Malta Government Treasury bills amounted to €202,000, all executed on the On-exchange market of the Malta Stock Exchange.

This week the Treasury will invite tenders for 91-day and 182-day bills maturing on 19 December 2024 and 20 March 2025, respectively.