

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

### ECB Decisions

On 12 December 2024, the Governing Council of the European Central Bank (ECB) decided to lower the three key ECB interest rates by 25 basis points. Accordingly, the interest rates on the deposit facility, the main refinancing operations (MRO) and the marginal lending facility will be decreased to 3.00%, 3.15% and 3.40% respectively, with effect from 18 December 2024.

In particular, the decision to lower the deposit facility rate – the rate through which the Governing Council steers the monetary policy stance – is based on its updated assessment of the inflation outlook, the dynamics of underlying inflation and the strength of monetary policy transmission. The disinflation process is well on track. ECB's staff see headline inflation averaging 2.4% in 2024, 2.1% in 2025, 1.9% in 2026 and 2.1% in 2027 when the expanded EU Emissions Trading System becomes operational. For inflation excluding energy and food, staff project an average of 2.9% in 2024, 2.3% in 2025 and 1.9% in both 2026 and 2027.

Most measures of underlying inflation suggest that inflation will settle at around the Governing Council's 2% medium-term target on a sustained basis. Domestic inflation has edged down but remains high, mostly because wages and prices in certain sectors are still adjusting to the past inflation surge with a substantial delay.

Financing conditions are easing, as the Governing Council's recent interest rate cuts gradually make new borrowing less expensive for firms and households. But they continue to be tight because monetary policy remains restrictive and past interest rate hikes are still transmitting to the outstanding stock of credit.

ECB's staff now expect a slower economic recovery than in the September projections. Although growth picked up in the third quarter of this year, survey indicators suggest it has slowed in the current quarter. Staff see the economy growing by 0.7% in 2024, 1.1% in 2025, 1.4% in 2026 and 1.3% in 2027. The projected recovery rests mainly on rising real incomes – which should allow households to consume more – and firms increasing investment. Over time, the gradually fading effects of restrictive monetary policy should support a pick-up in domestic demand.

The Governing Council is determined to ensure that inflation stabilises sustainably at its 2% medium-term target. It will follow a data-dependent and meeting-by-meeting approach to determining the appropriate monetary policy stance. 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 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 will discontinue reinvestments under the PEPP at the end of 2024.

Banks will repay the remaining amounts borrowed under the targeted longer-term refinancing operations this month, which concludes this part of the balance sheet normalisation process.

The Governing Council stands ready to adjust all of its instruments within its mandate to ensure that inflation stabilises sustainably at 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 December 2024, the ECB announced the 7-day MRO. The operation was conducted on 10 December 2024 and attracted bids from euro area eligible counterparties of €4,872.00 million, €1,791.00 million less than the previous week. The amount was allotted in full at a fixed rate equivalent to the prevailing MRO rate of 3.40%, in accordance with current ECB policy.

On 11 December 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 \$83.00 million, which were allotted in full at a fixed rate of 4.83%.

### **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 December 2024, maturing on 13 March and 12 June 2025, respectively. Bids of €54.35 million were submitted for the 91-day bills, while bids of €33.64 million were submitted for the 182-day bills, with the Treasury accepting all of them. Since €17.86 million worth of bills matured during the week, the outstanding balance of Treasury bills increased by €70.14 million, standing at €607.57 million.

The yield from the 91-day bill auction was 2.960%, decreasing by 2.30 basis points from bids with a similar tenor issued on 5 December 2024, representing a bid price of €99.2573 per €100 nominal. The yield from the 182-day bill auction was 2.651%, increasing by 5.50 basis points from bids with a similar tenor also issued on 5 December 2024, representing a bid price of €98.6775 per €100 nominal.

During the week, secondary market turnover in Malta Government Treasury bills amounted to €149,000, 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 20 March and 19 June 2025, respectively.