

Money Market Report for the week ending 6 June 2025

ECB Decisions

On 5 June 2025, 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 2.00%, 2.15% and 2.40% respectively, with effect from 11 June 2025.

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.

Inflation is currently at around the Governing Council's 2% medium-term target. In the baseline of the new Eurosystem staff projections, headline inflation is set to average 2.0% in 2025, 1.6% in 2026 and 2.0% in 2027. The downward revisions compared with the March projections, by 0.3 percentage points for both 2025 and 2026, mainly reflect lower assumptions for energy prices and a stronger euro. Staff expect inflation excluding energy and food to average 2.4% in 2025 and 1.9% in 2026 and 2027, broadly unchanged since March.

Staff see real GDP growth averaging 0.9% in 2025, 1.1% in 2026 and 1.3% in 2027. The unrevised growth projection for 2025 reflects a stronger than expected first quarter combined with weaker prospects for the remainder of the year. While the uncertainty surrounding trade policies is expected to weigh on business investment and exports, especially in the short term, rising government investment in defence and infrastructure will increasingly support growth over the medium term. Higher real incomes and a robust labour market will allow households to spend more. Together with more favourable financing conditions, this should make the economy more resilient to global shocks.

In the context of high uncertainty, staff also assessed some of the mechanisms by which different trade policies could affect growth and inflation under some alternative illustrative scenarios. These scenarios will be published with the staff projections on the ECB's website. Under this scenario analysis, a further escalation of trade tensions over the coming months would result in growth and inflation being below the baseline projections. By contrast, if trade tensions were resolved with a benign outcome, growth and, to a lesser extent, inflation would be higher than in the baseline projections.

Most measures of underlying inflation suggest that inflation will settle at around the Governing Council's 2% medium-term target on a sustained basis. Wage growth is still elevated but continues to moderate visibly, and profits are partially buffering its impact on inflation. The concerns that increased uncertainty and a volatile market response to the trade tensions in April would have a tightening impact on financing conditions have eased.

The Governing Council is determined to ensure that inflation stabilises sustainably at its 2% medium-term target. Especially in current conditions of exceptional uncertainty, it will follow a data-dependent and meeting-by-meeting approach to determining the appropriate monetary policy stance. 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 asset purchase programme and pandemic emergency purchase programme portfolios

are declining at a measured and predictable pace, as the Eurosystem no longer reinvests the principal payments from maturing securities.

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 2 June 2025, the ECB announced the 7-day MRO. The operation was conducted on 3 June 2025 and attracted bids from euro area eligible counterparties of €7,444.00 million, €3,246.00 million less than the previous week. The amount was allotted in full at a fixed rate equivalent to the prevailing MRO rate of 2.40%, in accordance with current ECB policy.

On 4 June 2025, 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 \$45.00 million, which were allotted in full at a fixed rate of 4.58%.

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 5 June 2025, maturing on 4 September and 4 December 2025, respectively. Bids of €24.87 million were submitted for the 91-day bills, with the Treasury accepting €24.43 million, while bids of €26.83 million were submitted for the 182-day bills, with the Treasury accepting €15.50 million. Since €11.78 million worth of bills matured during the week, the outstanding balance of Treasury bills increased by €28.15 million, standing at €654.15 million.

The yield from the 91-day bill auction was 1.999%, increasing by 0.20 basis point from bids with a similar tenor issued on 29 May 2025, representing a bid price of €99.4972 per €100 nominal. The yield from the 182-day bill auction was 1.977%, increasing by 1.80 basis points from bids with a similar tenor also issued on 29 May 2025, representing a bid price of €99.0104 per €100 nominal.

During the week, secondary market turnover in Malta Government Treasury bills amounted to €1,441,000, 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 11 September 2025 and 11 December 2025, respectively.