

## Money Market Report for the week ending 31 January 2025

### ECB Decisions

On 30 January 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 2.75%, 2.90% and 3.15% respectively, with effect from 5 February 2025.

In particular, the decision to lower the deposit facility 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. Inflation has continued to develop broadly in line with the staff projections and is set to return to the Governing Council's 2% medium-term target in the course of this year. Most measures of underlying inflation suggest that inflation will settle at around the target on a sustained basis. Domestic inflation remains high, mostly because wages and prices in certain sectors are still adjusting to the past inflation surge with a substantial delay. But wage growth is moderating as expected, and profits are partially buffering the impact on inflation.

The Governing Council's recent interest rate cuts are gradually making new borrowing less expensive for firms and households. At the same time, financing conditions continue to be tight, also because monetary policy remains restrictive and past interest rate hikes are still transmitting to the stock of credit, with some maturing loans being rolled over at higher rates. The economy is still facing headwinds but rising real incomes and the gradually fading effects of restrictive monetary policy should support a pick-up in demand over time.

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 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.

On 18 December 2024 banks repaid the remaining amounts borrowed under the targeted longer-term refinancing operations, thus concluding 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 27 January 2025, the ECB announced the 7-day MRO. The operation was conducted on 28 January 2025 and attracted bids from euro area eligible counterparties of €11,859.00 million, €2,763.30 million more than the previous week. The amount was allotted in full at a fixed rate equivalent to the prevailing MRO rate of 3.15%, in accordance with current ECB policy.

Also on 28 January 2025, the ECB conducted the three-month, longer-term refinancing operation to be settled as a fixed rate tender procedure with full allotment, with the rate fixed at the average MRO rate over the life of the operation. The operation attracted bids of €3,766.00 million from euro area eligible counterparties.

On 29 January 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 \$73.50 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 90-day and 182-day bills for settlement value 30 January 2025, maturing on 30 April and 31 July 2025, respectively. Bids of €89.95 million were submitted for the 90-day bills, with the Treasury accepting €45.58 million, while bids of €4.99 million were submitted for the 182-day bills, with the Treasury accepting €4.64 million. Since €29.78 million worth of bills matured during the week, the outstanding balance of Treasury bills increased by €20.44 million, standing at €774.61 million.

The yield from the 90-day bill auction was 2.875%, decreasing by 1.10 basis point from bids with a similar tenor issued on 23 January 2025, representing a bid price of €99.2864 per €100 nominal. The yield from the 182-day bill auction was 2.595%, decreasing by 1.20 basis point from bids with a similar tenor also issued on 23 January 2025, representing a bid price of €98.7051 per €100 nominal.

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

This week the Treasury will invite tenders for 91-day and 182-day bills maturing on 8 May and 7 August 2025, respectively.