

Money Market Report for the week ending 7 March 2025

ECB Decisions

On 6 March 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 2.50%, 2.65% and 2.90% respectively, with effect from 12 March 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 as staff expected, and the latest projections closely align with the previous inflation outlook. Staff now see headline inflation averaging 2.3% in 2025, 1.9% in 2026 and 2.0% in 2027. The upward revision in headline inflation for 2025 reflects stronger energy price dynamics. For inflation excluding energy and food, staff project an average of 2.2% in 2025, 2.0% in 2026 and 1.9% in 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 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.

Monetary policy is becoming meaningfully less restrictive, as the interest rate cuts are making new borrowing less expensive for firms and households and loan growth is picking up. At the same time, a headwind to the easing of financing conditions comes from past interest rate hikes still transmitting to the stock of credit, and lending remains subdued overall. The economy faces continued challenges and staff have again marked down their growth projections – to 0.9% for 2025, 1.2% for 2026 and 1.3% for 2027. The downward revisions for 2025 and 2026 reflect lower exports and ongoing weakness in investment, in part originating from high trade policy uncertainty as well as broader policy uncertainty. Rising real incomes and the gradually fading effects of past rate hikes remain the key drivers underpinning the expected pick-up in demand over time.

The Governing Council is determined to ensure that inflation stabilises sustainably at its 2% medium-term target. Especially in current conditions of rising uncertainty, it will follow a data-dependent and meeting-by-meeting approach to determine 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.

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 3 March 2025, the ECB announced the 7-day MRO. The operation was conducted on 4 March 2025 and attracted bids from euro area eligible counterparties of €7,935.00 million, €4,485.50 million less than the previous week. The amount was allotted in full at a fixed rate equivalent to the prevailing MRO rate of 2.90%, in accordance with current ECB policy.

On 5 March 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 \$140.40 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 6 March 2025, maturing on 5 June and 4 September 2025, respectively. Bids of €20.02 million were submitted for the 91-day bills, with the Treasury accepting €8.29 million, while bids of €16.23 million were submitted for the 182-day bills, with the Treasury accepting €3.84 million. Since €34.09 million worth of bills matured during the week, the outstanding balance of Treasury bills decreased by €21.97 million, standing at €661.62 million.

The yield from the 91-day bill auction was 2.467%, decreasing by 8.40 basis points from bids with a similar tenor issued on 27 February 2025, representing a bid price of €99.3803 per €100 nominal. The yield from the 182-day bill auction was 2.345%, decreasing by 5.00 basis points from bids with a similar tenor also issued on 27 February 2025, representing a bid price of €98.8284 per €100 nominal.

During the week, secondary market turnover in Malta Government Treasury bills amounted to €2,000,000, 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 12 June and 11 September 2025, respectively.