EUROPEAN CENTRAL BANK

EUROSYSTEM

Changes to the Eurosystem operational framework

Conference on Markets and Intermediaries

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Deutsche Bundesbank

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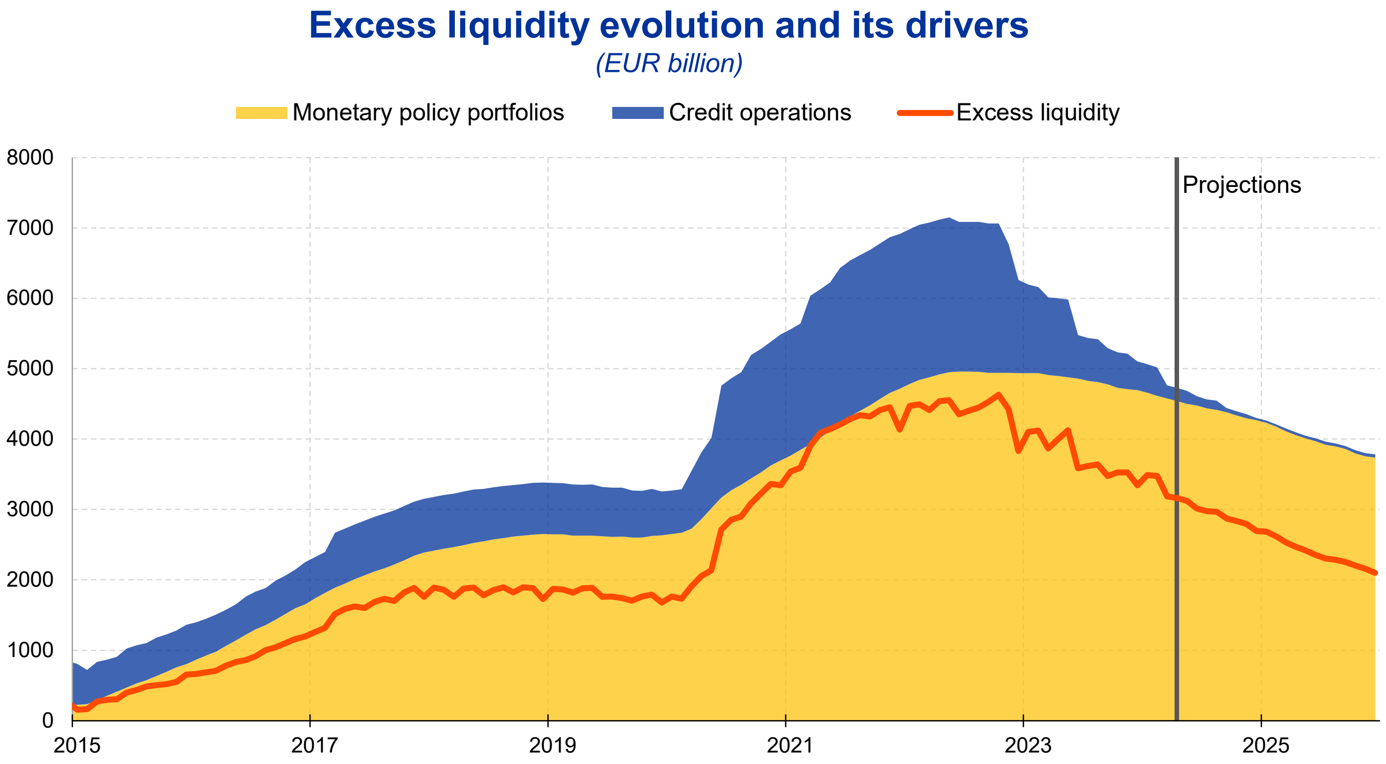
Excess liquidity is expected to decline further as monetary policy portfolios run off

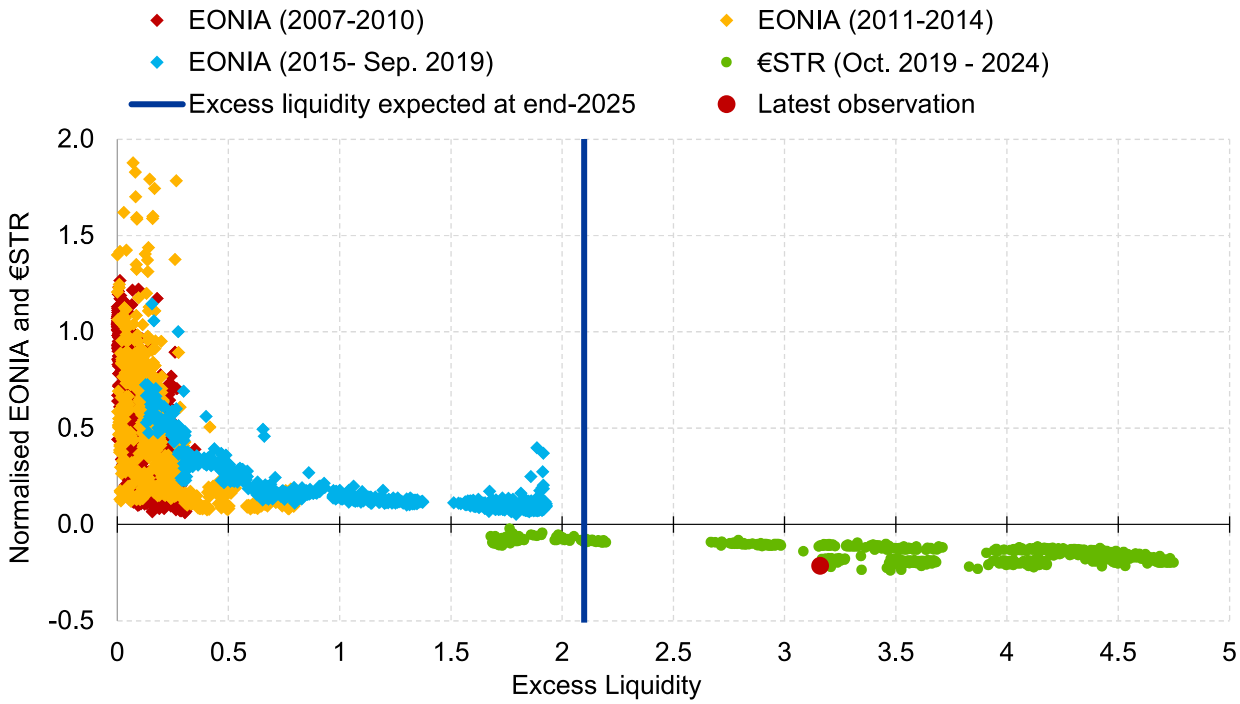


Source: ECB, ECB calculations.
Notes: The future paths of monetary policy portfolios and credit operations are based on the median expectations by analysts as reported in the latest SMA surveys. The projection of excess liquidity is based on these projections subtracting the projections of autonomous factors and minimum reserve requirements, based on ECB internal assumptions and models.

Uncertain reserve demand may imply pressure on rates at higher excess liquidity than in the past

EONIA and €STR as a function of excess liquidity

(Y-axis: ratio; X-axis: EUR trillion)



Sources: ECB, EMMI.
Notes: Y-axis shows the normalised EONIA = (EONIA to DFR spread) / (MRO to DFR spread). Before the normalisation EONIA is reduced by the long-term historic spread between EONIA and the €STR of 8.5 bps spread.
Last observation: 31 May 2024.

Main design features of operational framework effective as of 18 September 2024

Effectiveness

DFR as **policy rate anchor**

Spread of 15bps between **DFR and MROR** and **25 bps** between **MROR and MLFR**

Tolerance for some volatility in money market rates if signal about the intended monetary policy stance is not blurred

Flexibility

Robustness

Broad mix of instruments: short-term credit operations and 3m-longer-term operations and, at a later stage, **structural longer-term credit operations** and a **structural bond portfolio**

Fixed rate full allotment and a **broad collateral framework** for provision of liquidity in an **elastic manner** and liquidity shock absorption

Efficiency

Financially sound and leaner balance sheet, also supporting financial stability

Open market economy

Incentives to money market activity and prudent liquidity risk management from opportunity cost of holding reserves

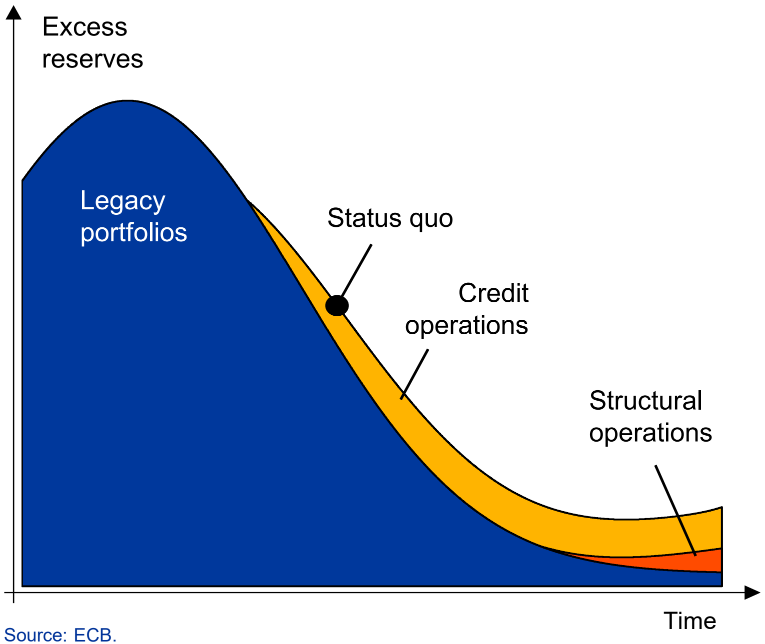
Demand-driven system **reduces market footprint**

Secondary objectives

Incorporating climate change-related considerations to meet the **ECB's secondary objectives**, without prejudice to the price stability primary objective

Demand-driven system implies higher recourse to credit operations

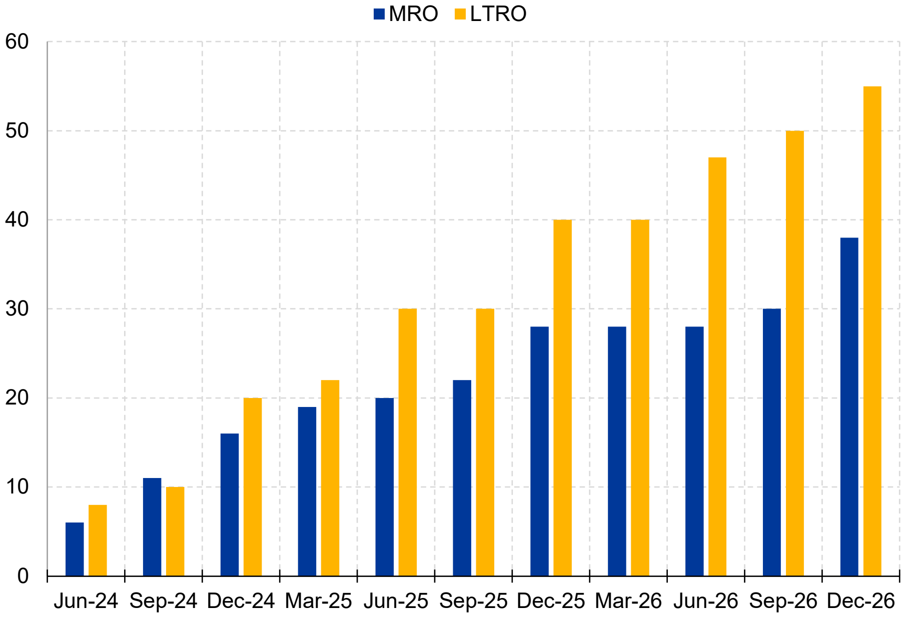
Stylised breakdown of interest rate corridor and reserve supply over time



Source: ECB.

Expectations for outstanding amounts of refinancing operations

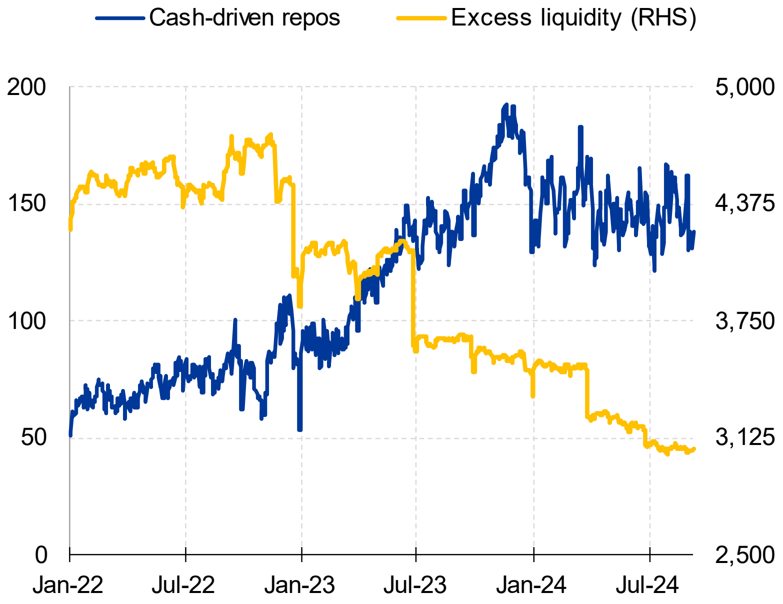
(EUR billion)



Source: ECB Survey of Monetary Analysts (June 2024), ECB calculations.
Notes: Chart displays median expectations for the outstanding amounts of refinancing operations distinguishing between MRO and LTROs.

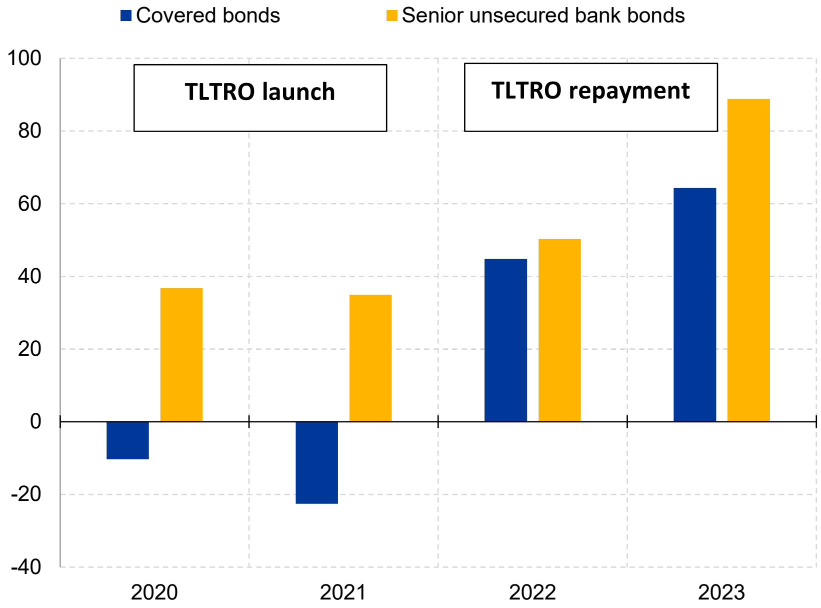
TLTRO repayments went hand in hand with higher recourse to market funding

Excess liquidity and outstanding volumes of liquidity-motivated repo transactions
(EUR billion)



Sources: ECB, SFTD, BrokerTec, MTS, ECB calculations.
Notes: Chart displays liquidity-motivated (general collateral, GC) repo volumes based on BrokerTec/MTS one-day repo transactions and on Eurex GC pooling trades as reported in SFTD. Calculations are based on a single-counting approach.
Last observation: 10 September 2024.

Net issuance of covered and senior unsecured bonds
(EUR billion)

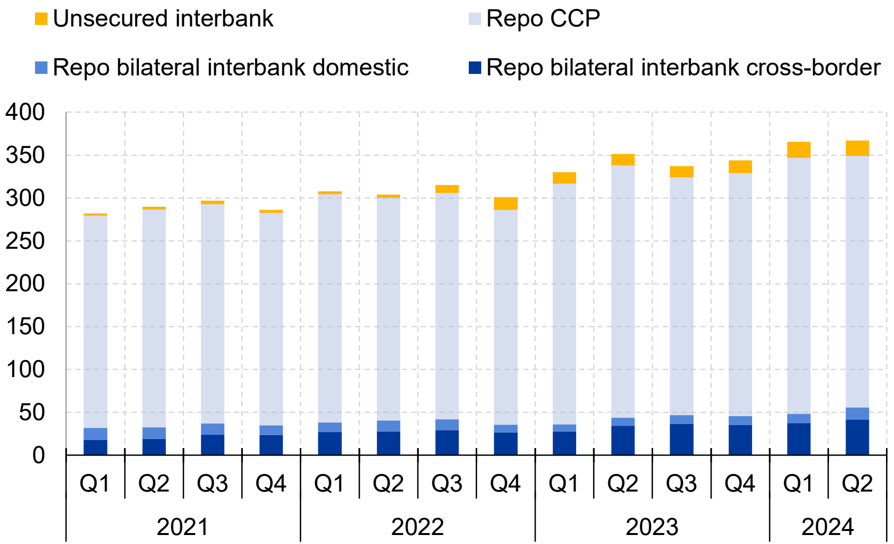


Sources: ECB, Dealogic.
Notes: Net issuance of euro-denominated bonds from euro area banks (excludes own used).
Last observation: December 2023.

Repo market will be a major vehicle of liquidity redistribution in the euro area

Borrowing volumes in the unsecured and secured money market with banks and CCPs

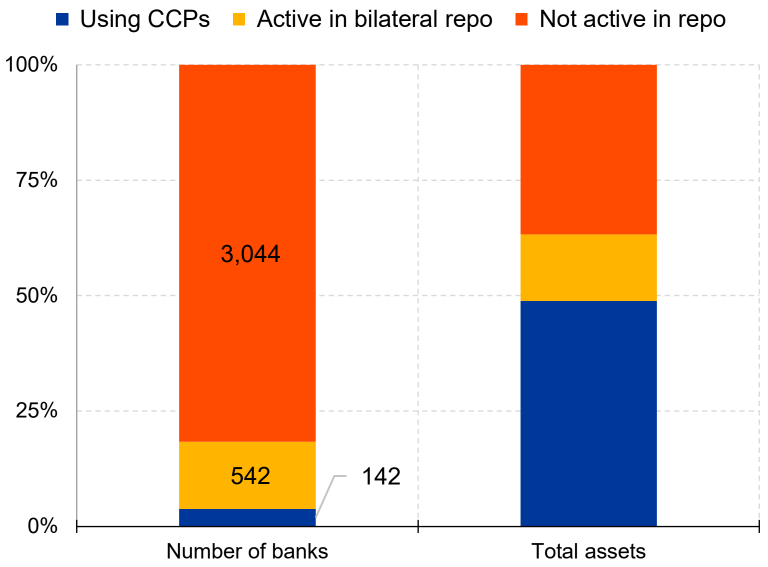
(EUR billion)



Sources: ECB, MMSR, ECB calculations.
Notes: Chart displays secured (repo) volumes based on MMSR reporting agents borrowing cash from euro area banks or from CCPs against any collateral. The bilateral volumes are further split between the domicile of the trade counterparties highlighting the cross-country distribution. Transactions with centrally cleared counterparties (CCPs) do not allow to identify the location of the ultimate counterparty or its sector, therefore might capture also trades with non-banks. Unsecured interbank trades capture activity between euro area banks which remain limited. For more details about activity in the different euro area money market segments, please see the Euro money market study.
Last observation: 16 May 2024.

Banks' activity in repo markets

(percentage, number of banks)

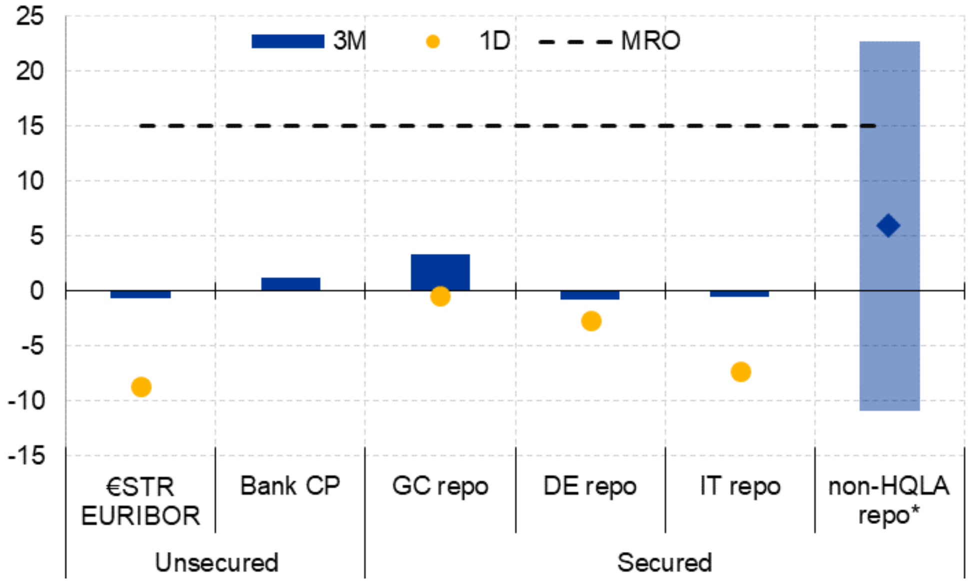


Source: SFTDS.
Notes: Chart takes all banks active in repo trading according to SFTDS and compares it to all banks in the euro area. It then specifies the banks active that are also trading with CCPs. Banks are scaled by their total assets. Considered data reflects the horizon of SFTDS (starting in 2020 Q3, until February 2024).

Market-based sources of funding remain attractive vs. MRO pricing

Relative market pricing of money market instruments to DFR

(basis points)



Source: ECB, Bloomberg.
Notes: The 1-day rates spread to DFR is captured by the yellow dots. The 3-m rates are adjusted for the 3M €STR OIS and the €STR-DFR spread to show the relative yield over the market-implied DFR over the next 3M. The Repo against non-HQLA is based on estimation which includes all trades with maturity 1-12M and matches it the OIS. The central estimate is captured by a blue diamond with 90% confidence intervals depicted by the light blue bar. The average maturity of the repo against non-HQLA is 63-days.

Initial market reaction to and analysis of changes in the Eurosystem operational framework

Extent of **corridor** narrowing not anticipated, but mostly welcomed

- Helpful to **prevent stigma**
- **Caps repos** against ECB collateral up to 3 months
- **Uncertainty** about impact on **market activity**

Focus on features of **structural** operations

- **Structural lending operations**: variable rate tenders at fixed amount expected; tenor expectations vary: 1-3 years
- **Structural portfolio**: euro-denominated marketable debt securities

MRR unchanged noted by all

Marginal increase in take-up of standard refinancing operations following the reduction of the MRO-DFR spread as of 18 September