EUROPEAN CENTRAL BANK

EUROSYSTEM

DG MARKET OPERATIONS

21 March 2025

ECB Money Market Contact Group (MMCG)

Thursday, 13 March 2025, 13:30-17:30 CET, Frankfurt, in-person meeting

Summary of the discussion[1]

The MMCG discussed three main topics: (A) Main developments in money markets and ECB policy outlook, (B) Operational readiness for accessing ECB refinancing operations and (C) Primary dealers' intermediation capacity and repo markets.

(A) Money market functioning was seen as robust, with no signs of stress in terms of prices or liquidity, despite unprecedented rise in geopolitical uncertainty. The repo market was functioning well with rates close to the ECB deposit facility rate driven by ample collateral supply in view of the increased government bond issuance and the ongoing gradual maturity of monetary policy portfolios. **In the unsecured market, the issuance of commercial papers (CPs) is slowly growing meeting a strong demand, with growing appetite from investors for ESG-labelled CPs.** Members noted that the perceived shift in attitude towards ESG investments did not impact the European ESG markets at this stage, which continue to benefit from strong interest and a solid regulatory framework. The ESG CP market, however, remained small in comparison to the ESG bond market with limited price premium to incentivise issuance, which is anyway constrained by the availability of earmarkable uses. **As regards the EURUSD cross currency basis,** some members attributed the disappearance of a premium to borrow USD to an increased appetite to invest in euro-denominated assets in view of their relative attractiveness, also as a result of geopolitical risks.

(B) Members shared banks' best practices for ensuring their operational readiness to access the Eurosystem's standard refinancing operations (SRO), including banks' internal decision-making processes, arrangements to mobilise collateral and testing access to operations. The discussion highlighted the importance of preparation, aiming to optimise the processes to ensure readiness and accessibility to collateral in times of need. In this respect, members also stressed the importance of harmonised collateral mobilisation practices across euro area national central banks, in particular for credit claims, to enable swift mobilisation across entities of the same banking group located in different jurisdictions. Another key aspect that was highlighted by members was an agile internal governance process for participation decisions in SROs but also an organisational setup that allows the bank's treasury function to have a complete overview of available collateral, its eligibility and the time to mobilisation with the relevant central banks, as well as the technical ability to mobilise it. **Regular participation in tenders was viewed by members as very helpful to enhance operational readiness in real world conditions, in view of the prospect of larger recourse to SROs becoming the norm.** The recent lack of participation by many banks in

[1] The views expressed in this summary are those of the MMCG members and do not necessarily reflect the views of the ECB.

Eurosystem operations and facilities was seen as a potential risk to operational readiness. Suggested solutions included regular euro area-wide tests of access to SROs after the Eurosystem Collateral Management System's launch to ensure that staff at banks are adept at participating in SROs from a procedural and system perspective, including the pre-positioning of collateral at the central banks. The discussion noted that in the context of the ongoing reduction of excess liquidity, banks will need to gradually use SROs on an increasingly large scale. This should not be seen as a sign of stress, but as part of banks' regular, day-to-day liquidity management, in line with the Eurosystem's operational framework. In this respect, members noted the acknowledgement provided by representatives of the ECB, both in its capacity as a monetary policy authority and a supervisor, of the central role that Eurosystem standard refinancing operations play in the operational framework, as an integral part of their day-to-day liquidity management.[2]

(C) Primary dealers' intermediation capacity in the repo market is coming into focus in the context of increasing European government bond (EGB) supply and ongoing central bank balance sheet normalisation. EGB supply is set to rise in view of new planned sovereign issuance for defence and infrastructure spending as announced by Germany and the European Commission, which will increase the utilisation of the market's intermediation capacity. Members, overall, viewed current intermediation capacity as sufficient. Some members, however, expressed concerns about the ability of banks to meet the anticipated increase in demand as they expected bank balance sheets to grow at a slower pace than sovereign debt, also in the context of regulatory constraints. The additional demand for intermediation might accelerate further the concentration of repo activity with the largest market players, who were viewed as having most scope to scale up their activity. The results from a survey ran among MMCG and Bond Market Contact Group members prior to the meeting showed that the median respondent reported a fair degree of spare intermediation capacity but also that leverage ratios and internal risk limits were the main factors constraining it. **The discussion highlighted the potential benefits but also some limitations of central clearing as a way to boost intermediation capacity in a euro area context.** The use of sponsored repo and clearing in the US was cited as a model that has increased intermediation capacity, the move to mandatory Treasury Clearing, however, requires further margin considerations and requirements. In Europe, the repo landscape was viewed as more complex, with a fragmented infrastructure and more limited adoption of central clearing by the buy-side. It was suggested that clearing could be a voluntary tool, which would support market functioning during times of stress. Overall, the discussion underscored the need to enhance intermediation capacity with various methods, including bilateral netting and adjustments in the regulatory treatment, in order to support the growing supply of government bonds and demand for repo activity.

[2] On 18 March the ECB also published a blog post by Claudia Buch, Chair of the Supervisory Board of the SSM, and Isabel Schnabel, ECB Executive Board member, entitled "Managing liquidity in a changing environment". The blog post explains that in the context of declining excess liquidity, the ECB new operational framework relies on the banking system as a whole participating in Eurosystem monetary policy operations (MPO) to borrow reserves. It stresses that banks should hence be operationally prepared to participate in MPOs, and that they should consider such participation as an integral part of their day-to-day liquidity management.

Participant’s organisation	Name of participant	
Amundi Asset Management	Mr Patrick Siméon	
Banco Santander	Mr Luis Barrigon Rodriguez	
Barclays	Mr Isaac Davies	
Belfius Bank	Ms Julie Lardinois	
BlackRock	Ms Emma Cooper	
BNP Paribas	Mr Sébastien Figué	
BPCE/Natixis	Mr Olivier Hubert	
CaixaBank	Mr Xavier Combis	
Coöperatieve Rabobank	Mr Niek Smeitink	
Crédit Agricole/CACIB-CASA	Mr Pierre Le Veziel	
Deutsche Bank	Mr Jürgen Sklarczyk	
DZ Bank	Mr Oliver Deutscher	
Erste Bank	Mr René Brunner	
Eurex Clearing	Mr Frank Odendall	
Eurobank	Mr Dimitris Psichogios	
ING Bank	Mr Leif Domeyer	
Intesa Sanpaolo	Ms Maria Cristina Lege	
Société Générale	Ms Ileana Pietraru	
Unicredit	Mr Michele Montani	
European Central Bank	Mr Thomas Vlassopoulos	Chairperson
European Central Bank	Mr Vladimir Tsonchev	Secretary
European Central Bank	Ms Emily Witt	
European Central Bank	Mr Tobias Linzert	
European Central Bank	Ms Marta Skrzypińska	
European Central Bank	Mr Raúl Novelle Araujo	
European Central Bank	Mr Arthur Charles Laborde	