EUROPEAN CENTRAL BANK

EUROSYSTEM

Repo markets amid a declining Eurosystem balance sheet

SUERF BAFFI Bocconi webinar

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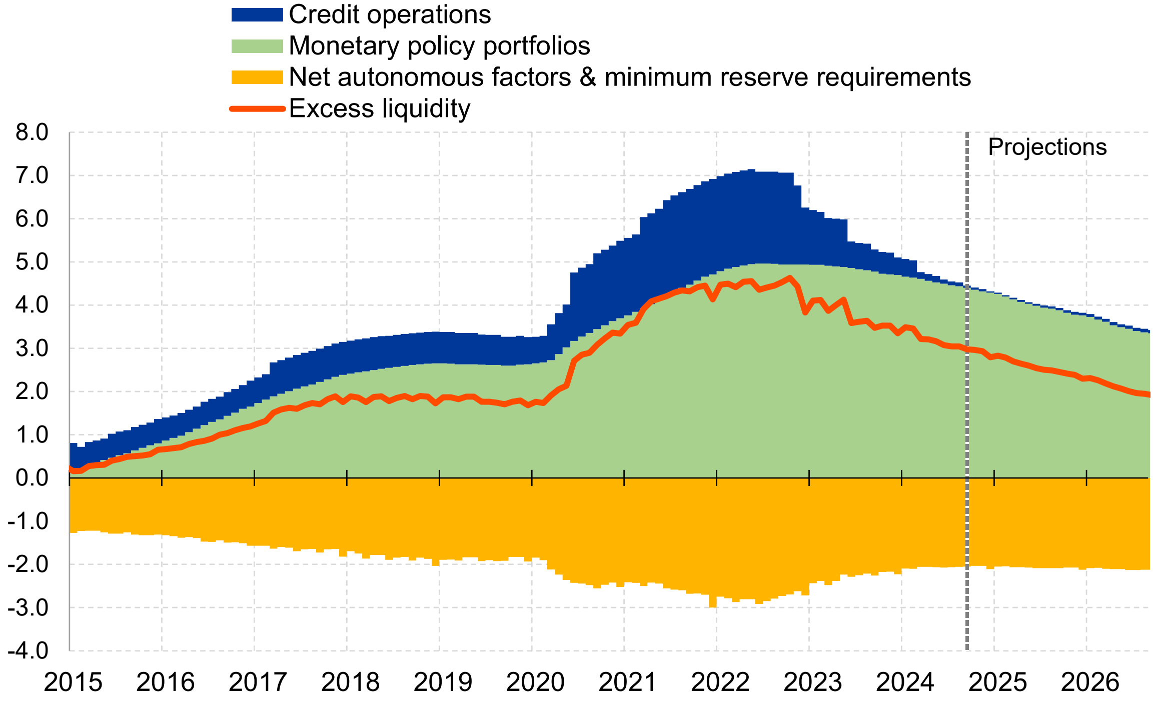
Tobias Linzert
Head of Cross Market Analysis & Intelligence Division

Eurosystem balance sheet on a declining path

Eurosystem balance sheet: actual and projected

(EUR trillion)

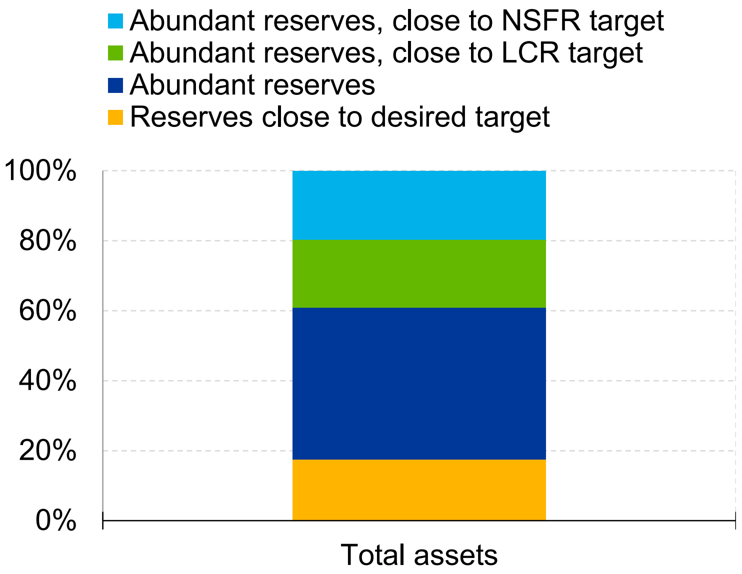


Sources: ECB, ECB calculations.
Notes: The projection of banknotes is based on ECB internal models.

Uneven liquidity distribution gives rise to both reserve and term liquidity demand

Share of banking sector split by liquidity position relative to desired target

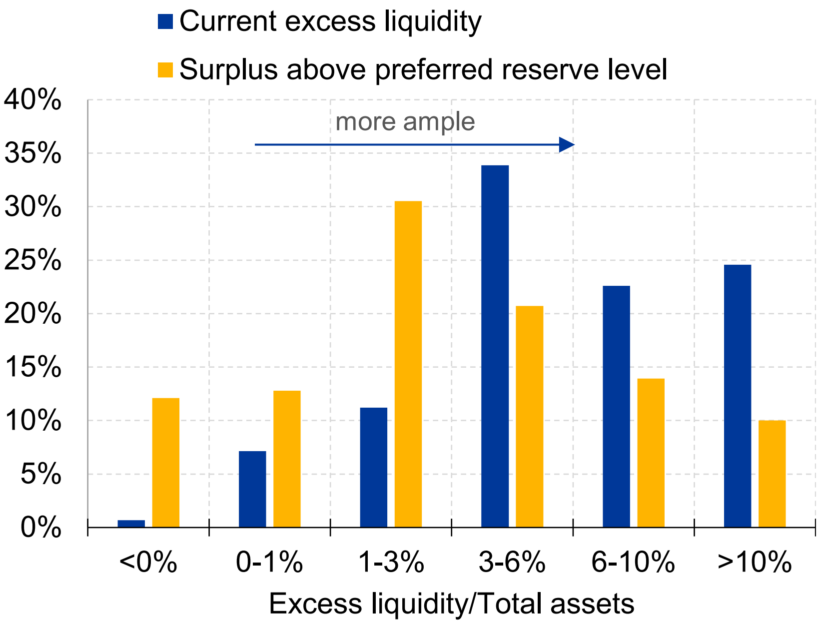
(percentage share)



Source: ECB (MOPDB, COREP, FINREP, IBSI, LMN survey), ECB calculations.
Notes: Chart takes bank-level answers to the survey of bank treasurers about their preferred internal targets for reserves, LCR and NSFR, and it compares these against regulatory ratios reported in the third quarter of 2024 and level of reserves held in the fourth quarter of 2024. Where bank answers to the survey are not available, internal targets are extrapolated. Banks are identified as close to LCR/NSFR targets if they hold reported regulatory ratios less than 10 percentage points above the target. Banks are classified as close to reserve targets if their distance to the internal reserve target is in the bottom 25th percentile of the distribution, equivalent to 1.1% of total assets surplus reserves.

Distribution of excess liquidity and excess liquidity above preferred reserve levels

(share of bank total assets)

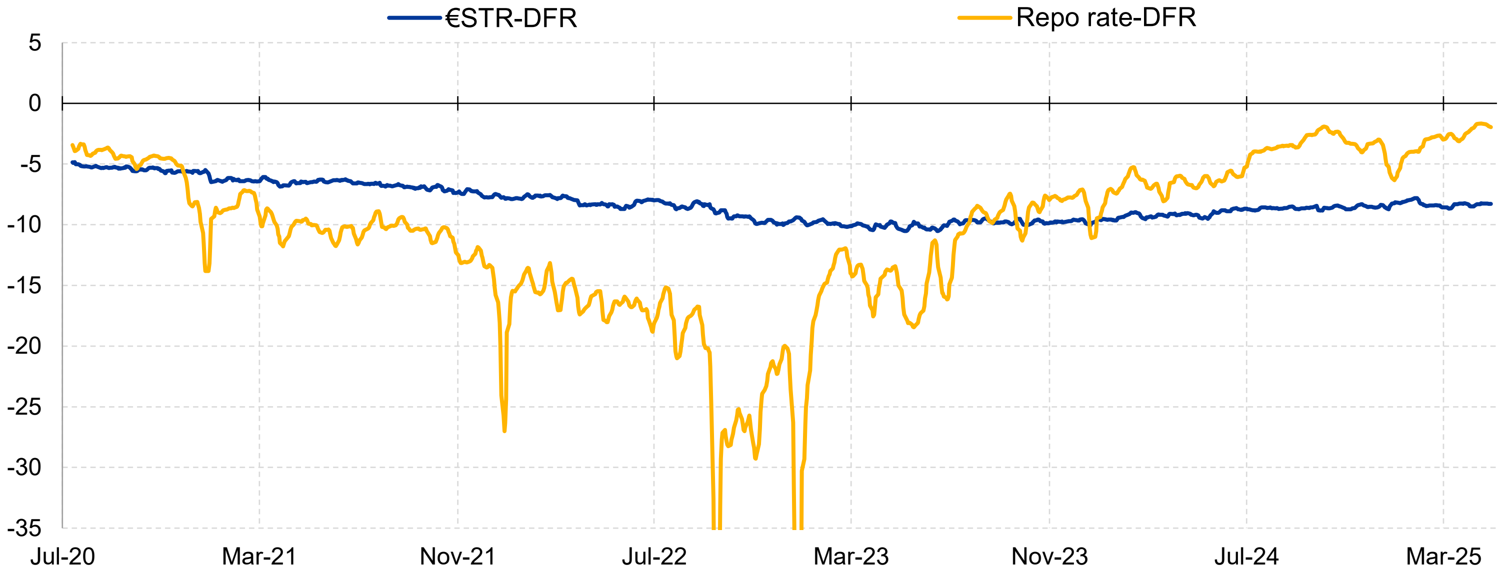


Source: ECB (MOPDB, COREP, FINREP, IBSI, LMN survey), ECB calculations.
Notes: Distribution of all bank’s current excess liquidity in blue. Distribution of the surveyed banks excess liquidity above the indicated preferred reserve level in yellow.

Money market rates anchored around the DFR as rate constellation inverted

Spread of overnight money market rates to DFR

(basis points)

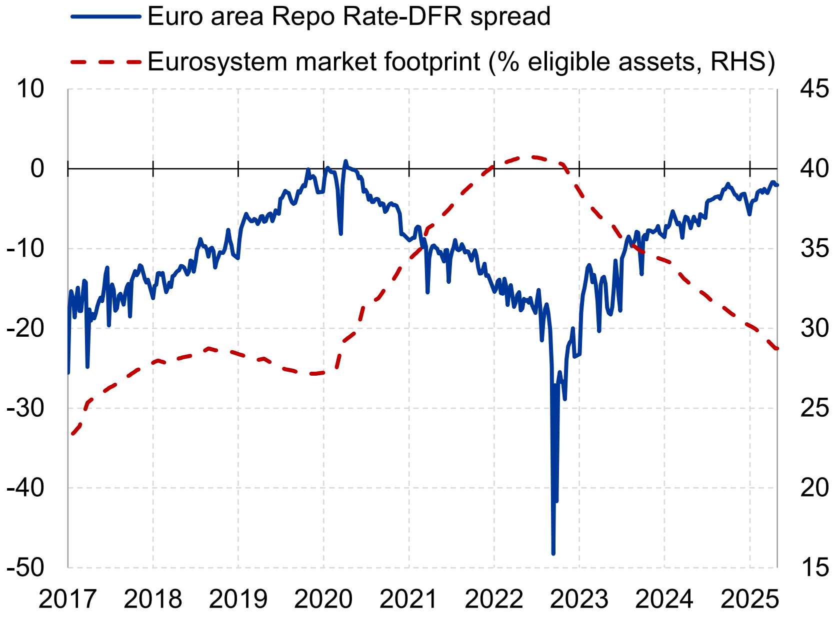


Source: MMSR, Bloomberg, ECB calculations.
Notes: The repo rate is based on borrowing transactions with fixed rates, wholesale transactions (minimum volume >EUR 1mn) against only financial counterparties. Volumes are trimmed by removing the top and bottom 25% of transactions ordered by rate. The rate represents a volume-weighted average rate. The rate is derived from transactions with 1-day maturity (ON, SN, TN) and only against securities issued by euro area governments.Smoothed 5-day moving averages excluding the month-ends.

Shift from collateral scarcity to collateral abundance without signs of reserve scarcity

Repo rate and Eurosystem market footprint

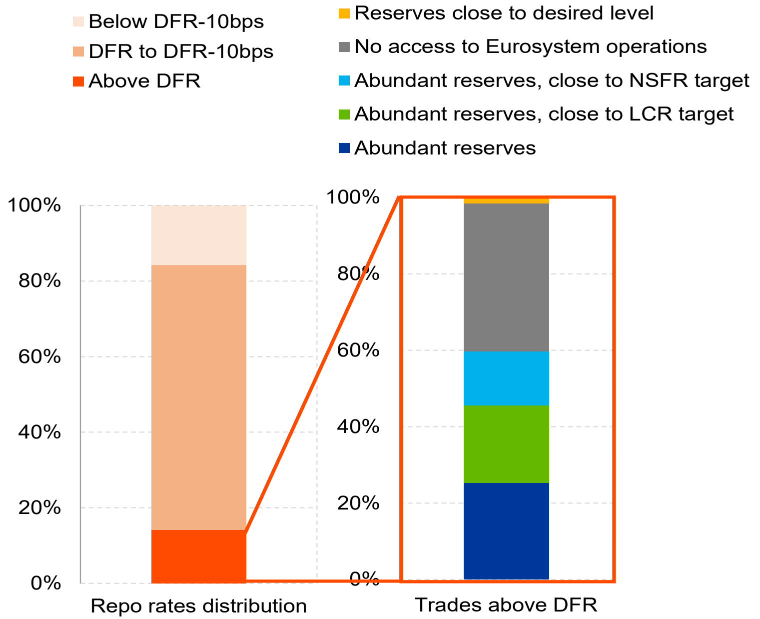
(LHS: basis points, RHS: % of eligible assets)



Sources: MMSR and ECB calculations.
Notes: Footprint measured as share of Eurosystem's euro area government bond holdings and mobilised collateral compared to nominal amount outstanding. Outright holdings are euro area government bonds held by the Eurosystem via purchase programmes, adj. with euro area government bonds lent back via the Securities Lending against cash programme. Mobilised collateral includes euro area government bonds mobilised as collateral for open market operations. Chart displays weekly level data, excluding month-ends and period between December 23rd and January 6th. See slide 4 for Repo rate definition.

Share of repo trading above the DFR

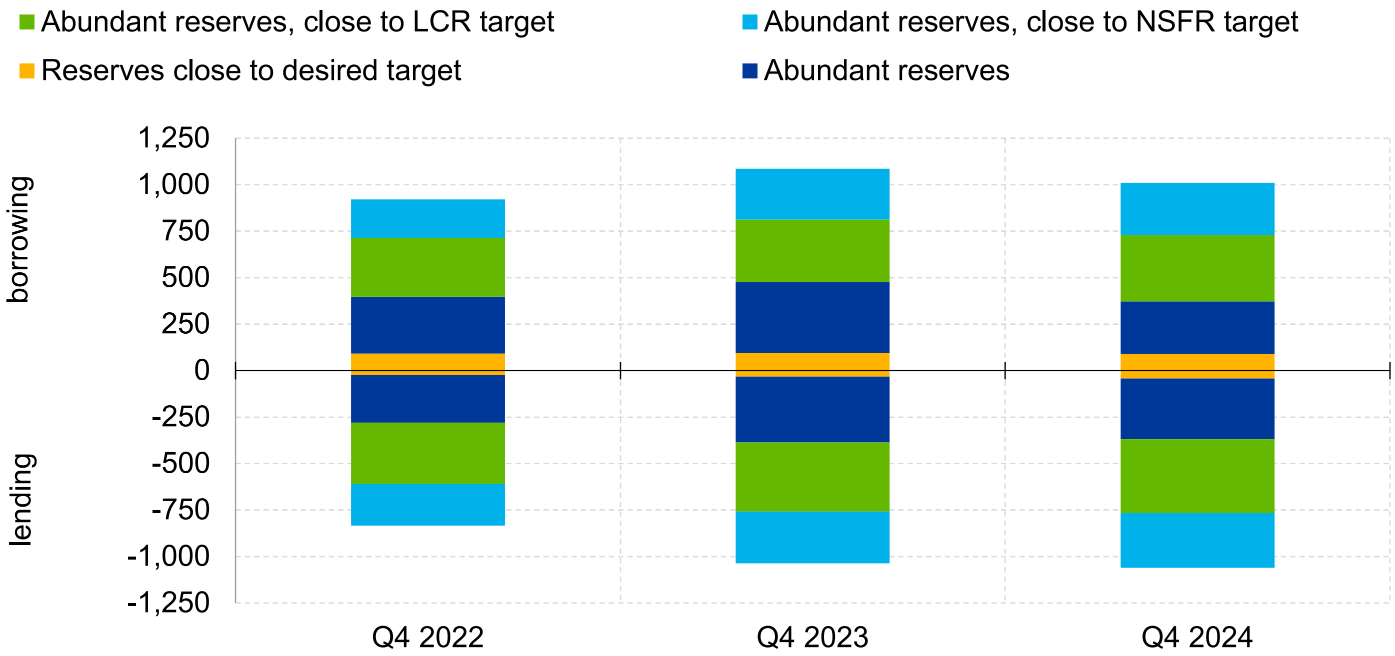
(%)



Sources: MMSR data, Securities Financing Transaction Data (SFTD), Bloomberg, ECB calculations.
Notes: The chart shows the share of the one-day repo trading volume by rate bucket and which counterparties trade above the DFR. Euro area banks borrowing in repo are classified based on their liquidity positions, foreign banks or entities without access to Eurosystem operations are represented by the grey part in the bar.

Effective redistribution of reserves through repo market, still with small volumes

Outstanding borrowing and lending in repo against government bonds
(EUR bn)

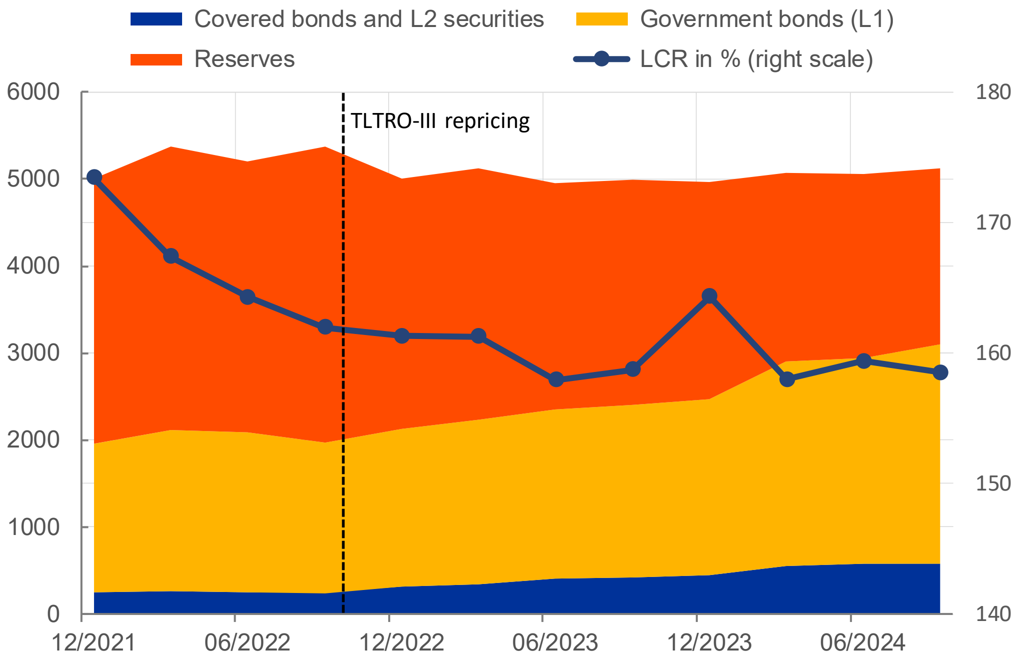


Source: SFTD, ECB calculations
Notes: Includes only euro area banks trading collateralised in repo with euro area government bonds. Quarter average.

TLTRO repayments reduced banks' reserves, yet overall HQLA remained stable

HQLA decomposition and LCR evolution

(LHS: EUR bn, RHS: LCR %)

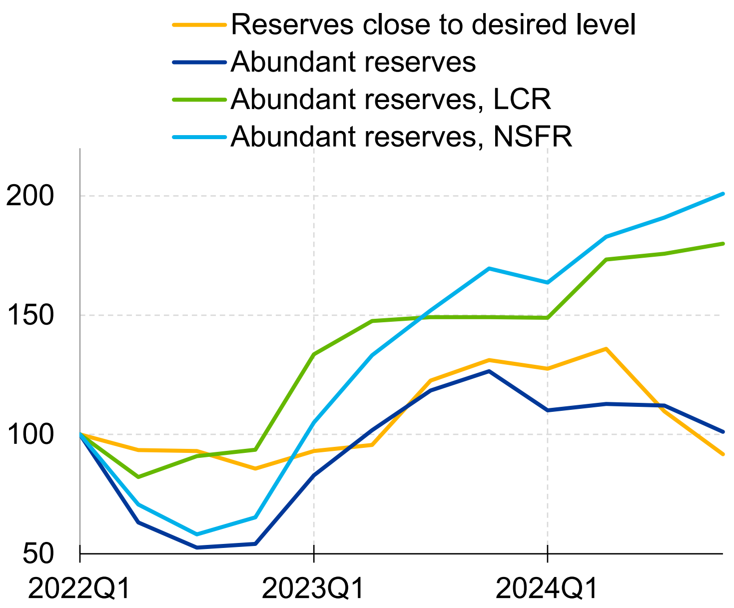


Source: C2D/UC, ECB Supervisory data on LCR components
Notes: Chart shows the composition of HQLA held by euro area significant institutions (Dec 2021 - Sep 2024). Reserves refer to excess liquidity holdings and L1 (non-reserves) is the residual when subtracting excess liquidity from aggregate L1 holdings.

Banks resort to market funding to satisfy term liquidity demand…

Term liquidity sourced from commercial paper market

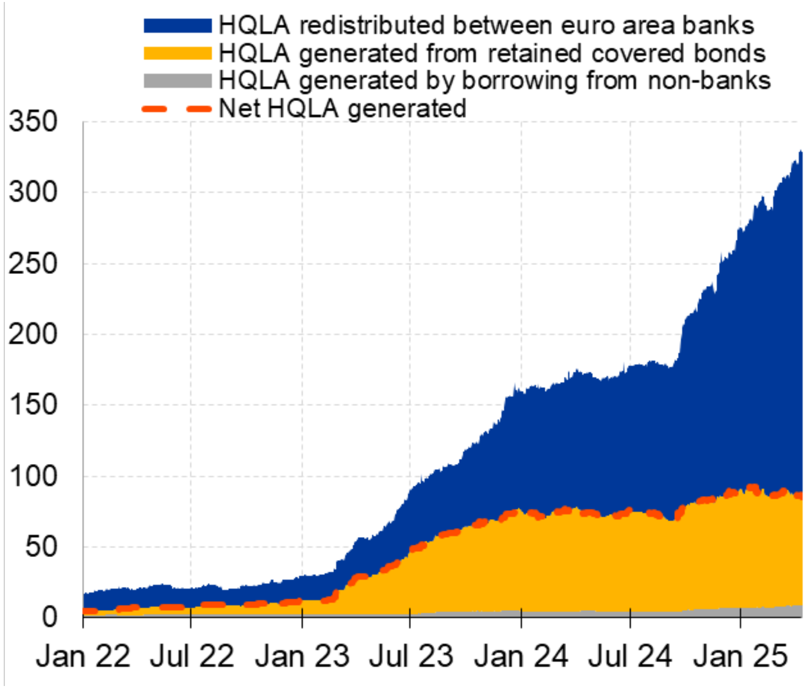
(index=100 in Q1 2022)



Source: CMD, ECB calculations.
Notes: Average outstanding amount of CP/CD per quarter by euro area domiciled banks in any currency, the outstanding amount is indexed to 100 in 2022 Q1. All currencies converted to EUR bn, maturities above 6M only. This segment amounts to EUR 180bn in total at the end of 2024.

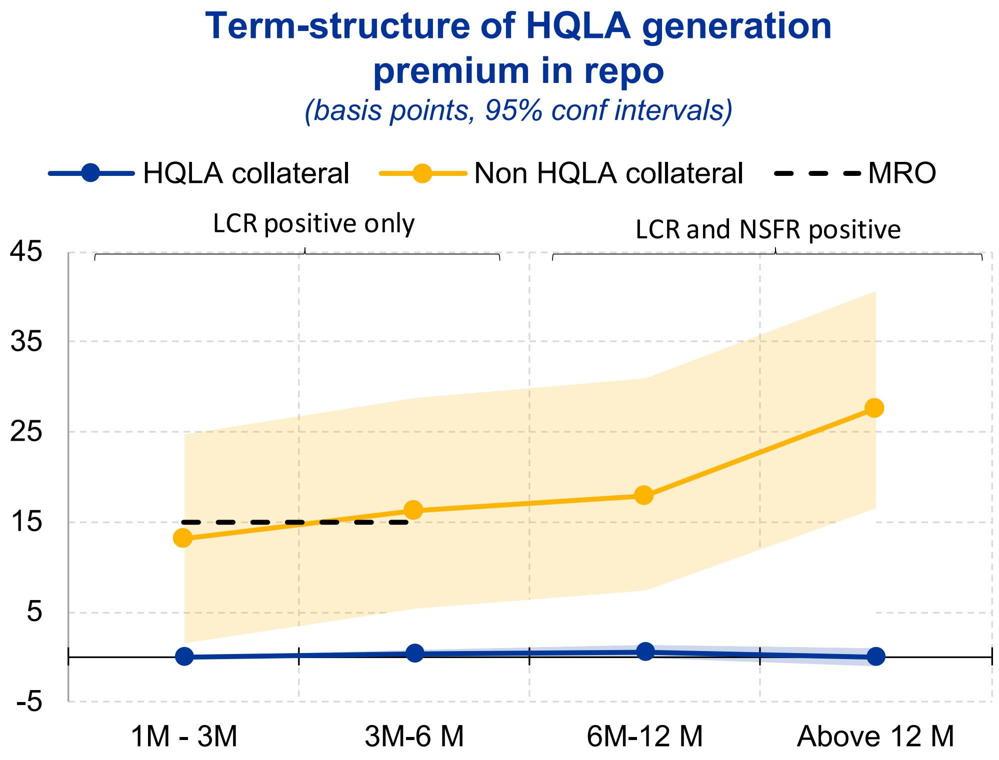
Redistribution and generation of HQLA via term-repo market

(EUR bn)



Source: SFT, ECB (MOPDB), ECB calculations.
Notes: The chart shows outstanding volumes of HQLA generated for the borrower, based on a deduplicated SFT sample and collateral HQLA quality data. Open-term repo or evergreen transactions are excluded.

… while banks pay premium for term repo with regulatory value

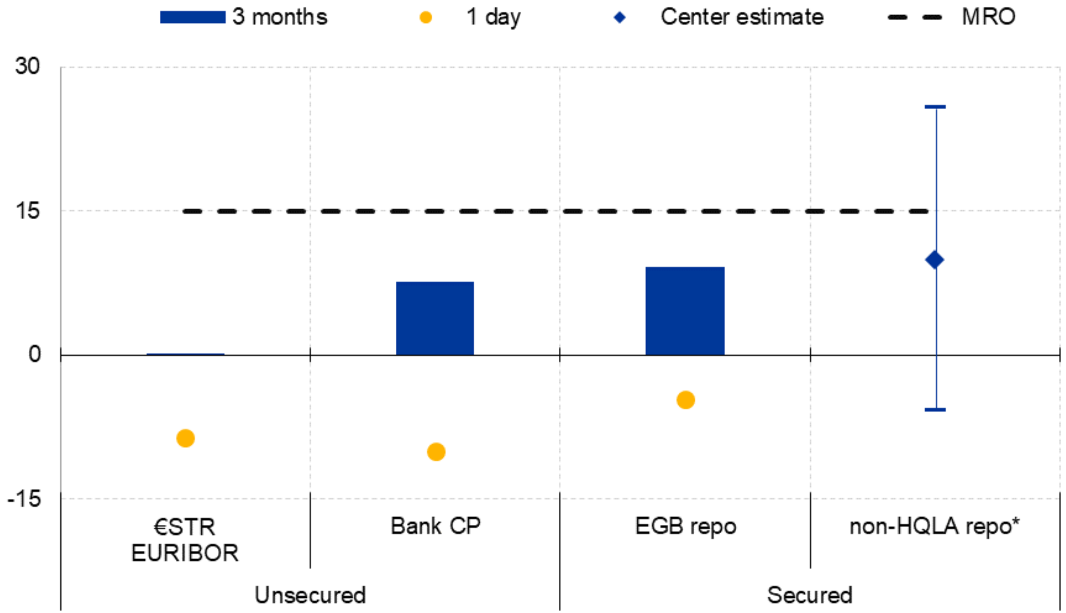


Source: ECB (MOPDB), ECB calculations, SFTD, Bloomberg.
Notes: The chart shows regression-based estimates for the term-structure in repos backed by HQLA collateral (e.g. government bonds) versus non-HQLA with a 0% HQLA weight (retained covered bonds, equities, etc.). The term structure is calculated based on a SFTD sample with term-repo (maturity>30 days) transactions. The regression includes controls for transaction size and haircut, as well as time, final cash borrower, final cash lender and collateral issuer fixed effects. The coloured area represents 95% confidence intervals. Regression sample includes transactions between 01.01.2023 up to 15.12.2024.

Overall market-based sources of funding remain attractive vs. MRO pricing…

Relative market pricing of money market instruments to DFR

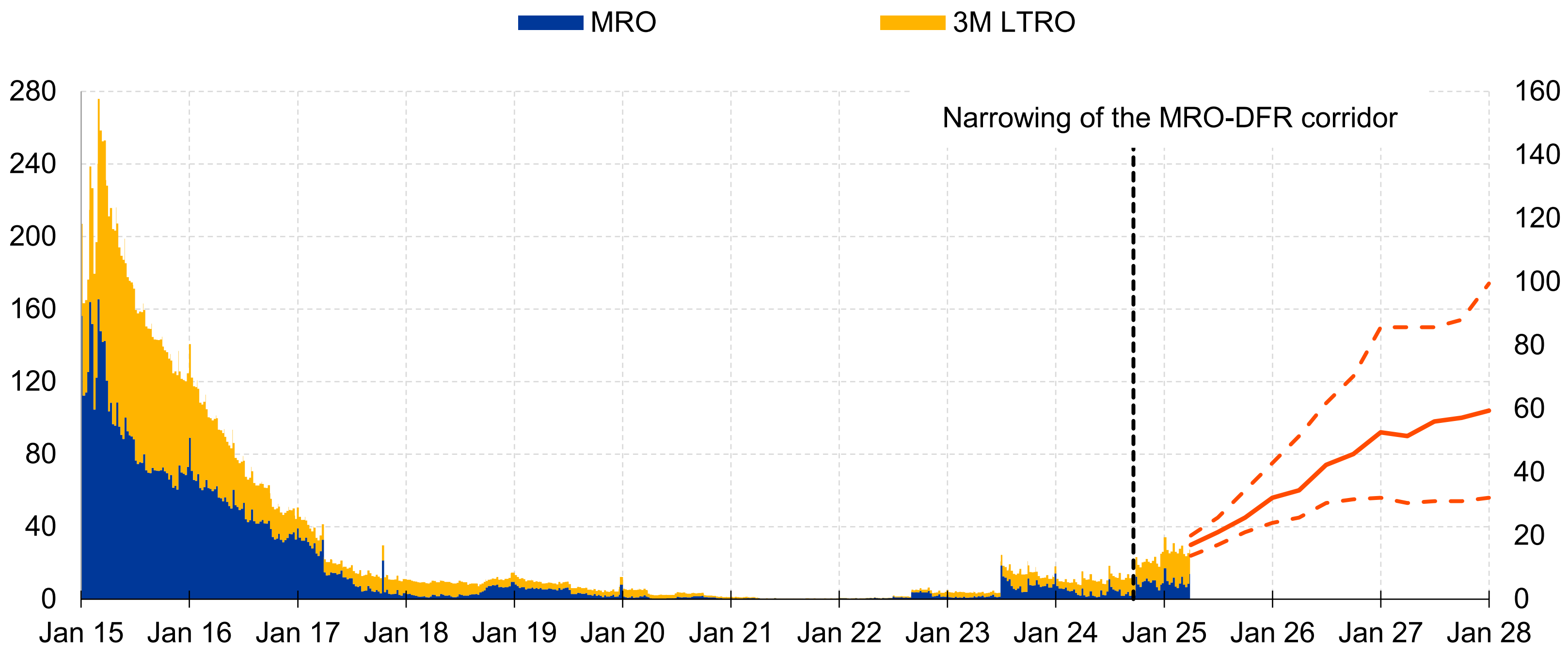
(basis points)



Source: ECB, Bloomberg.
Notes: In the chart the one-day rates spread to DFR is captured by the yellow dots. The three-month (3M) 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 three months. The "non-HQLA repo" category is based on an estimation which includes all trades with maturity of one to three months similarly corrected for the market implied DFR. The central estimate is captured by the blue diamond with 90% confidence intervals depicted by the whiskers. Remaining rates show average since 1 Jul 2024- 27 March 2025.

… helping to explain limited SRO take-up, which is expected to grow as liquidity declines

Credit outstanding and expected MRO and 3-m LTRO
(EUR bn)



Source: ECB, SMA.
Notes: March 2025 SMA projection for SRO.
Last observation: 31. March 2025

References

For more details, please see:

Hartung, Benjamin, Tobias Linzert, Imène Rahmouni-Rousseau, Yannik Schneider, and Marta Skrzypińska (2025), **The first year of the Eurosystem's new operational framework**, ECB Blog, April 2025
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Thank you