



**The repo market, the public debt management  
and  
the implementation of the ECB monetary  
policy**

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EUROPEAN CENTRAL BANK

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# I Eurosystem MP operations and the repo market

## 1. The repo as an instrument for MP operations

– All liquidity providing MP operations can take the legal form of a repo transaction:

• Weekly main refinancing operations	192 bn <sup>1</sup>
• Monthly longer-term refinancing operations	45 bn
• Fine-tuning operations	0
• Marginal lending facility operations	0.2 bn

1) Average outstanding amount in 2003



EUROPEAN CENTRAL BANK

# I Eurosystem MP operations and the repo market

In practice, the 12 National Central Banks specify MP operations either as the repo or as collateralised credit (pledge) or both of them

- **Banque de France and CBFSA Ireland: repo**
- **Deutsche Bundesbank, Bank of Greece, Banque centrale du Luxembourg, Österreichische Nationalbank: pledge**
- **Other NCBs: repo and pledge**  
Most often, the repo is used for open market operations and the pledge for the intraday credit and the marginal lending facility

**All NCBs can support both procedures (cf. cross-border collateral) and conduct the repo for their operations with FX reserves and domestic portfolios.**





# I Eurosystem MP operations and the repo market

- To protect the Eurosystem from financial losses, all credit operations have to be based on adequate collateral

The Eurosystem accepts a broad range of eligible assets de-supranational government securities, debt instruments issued by central banks, nominated in euro institutions, the public sector, the private sector and, for some NCBs, equities and bank loans

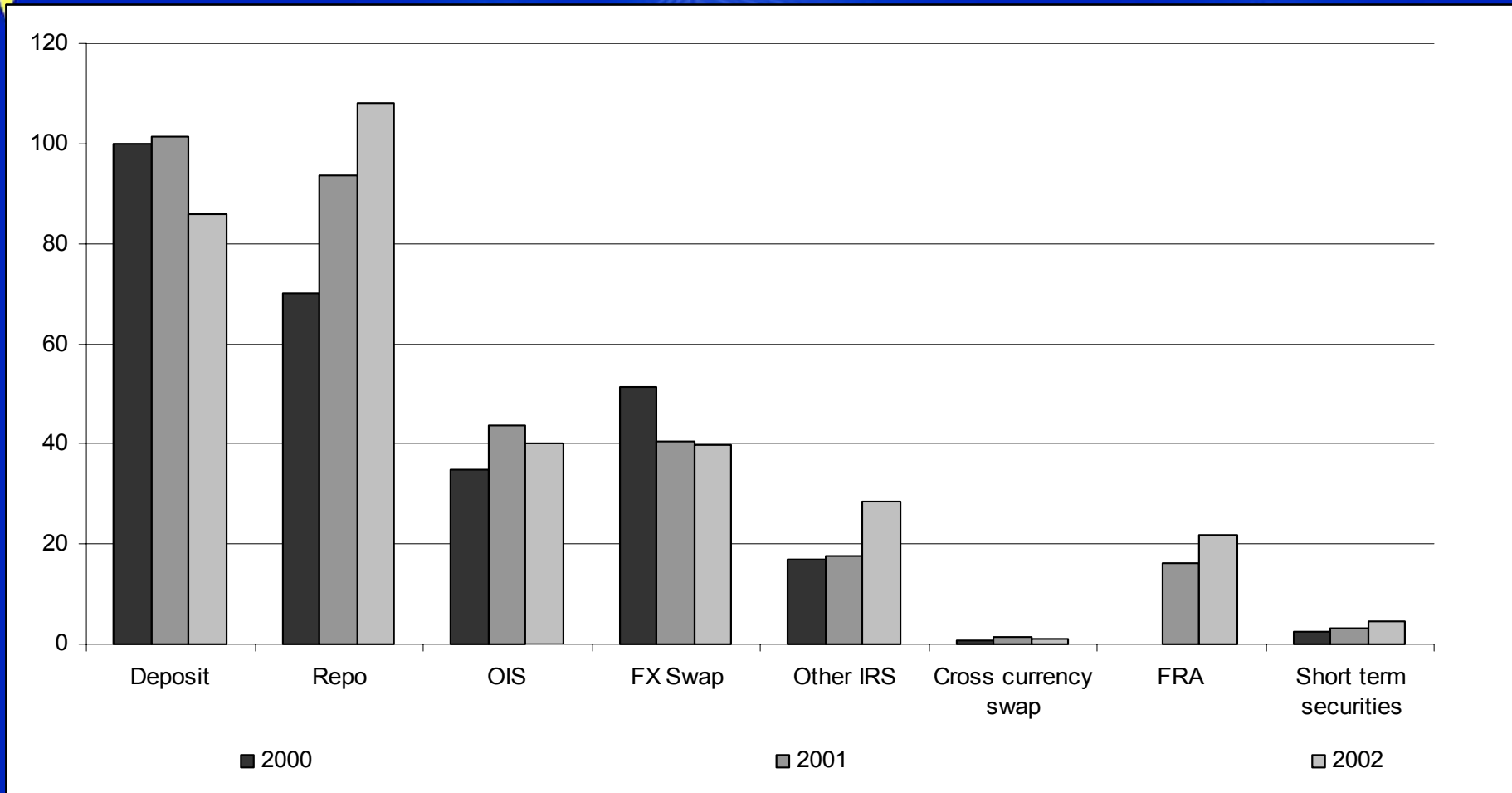
**Total outstanding amount: around 7.2 trn EUR**



# I Eurosystem MP operations and the repo market

## 2. The repo market and MP implementation

The repo market has become the most important segment of the euro money market



# I Eurosystem MP operations and the repo market

- **The repo market can be an important source of collateral for MP operations and facilitates the circulation of collateral between market participants**
- **The rates of the repo market are a key source of information on the short-term rates and allow monitoring the credit conditions in the interbank market (spreads Eurepo - Eonia swap - Euribor)**



## II Public debt management and Eurosystem MP operations

### 1. No interference between public debt management and MP implementation

- The Eurosystem implements its monetary policy independently of national authorities
- There is no privileged access of central governments to central banks (article 102 of the Treaty)
- The managers of the national public debt are free to conduct their operations
- Some central banks are involved in the management of the public debt, separately from their Eurosystem responsibilities

### 2. Still one important interrelation: the government deposits possibly held at the central bank affect liquidity conditions





## II Public debt management and Eurosystem MP operations

### Eurosystem consolidated balance sheet (26 Sept. 2003)

<b>Assets</b>	<b>bn EUR</b>		<b>Liabilities</b>	
<u>Autonomous liquidity factors</u>			<u>Autonomous liquidity factors</u>	
Net foreign assets	314.7		Banknotes in circulation	391.5
Other factors	7.5		<b>Government deposits</b>	<b>70.9</b>
<u>Monetary policy operations</u>	276.0		<u>Current account holdings</u>	135.7
Total	598.2		<u>Monetary policy operations</u>	0.1
			Total	598.2



## II Public debt management and Eurosystem MP operations

**To avoid excessive fluctuations of the liquidity situation of the banking system, the ECB incited the Treasuries to maintain stable deposits at the central bank**

- **Various solutions are possible. One option consists in investing funds above a certain threshold into the market through quasi-automatic repo operations (e.g. Spain)**



# III The interest of the ECB in the repo market

## 1. Sources of interest for the ECB

- **The repo market as a segment of the money market**  
**It contributes to the circulation of the central bank liquidity and to the transmission of monetary policy**
- **The repo market as support to financial stability**  
**As a guardian of financial stability, the ECB is interested in the development of secured money market transactions**



# III The interest of the ECB in the repo market

- The repo market as a key segment for the integration of the euro area financial system

The ECB commitment towards fostering the integration of the financial system has a particular relevance in the case of the repo market (link between various markets)

## 2. Initiatives of the ECB towards the integration of the repo market

- The support to the standardisation of the legal documentation

**Role of the European Master Agreement**





# III The interest of the ECB in the repo market

- The broad range of securities accepted by the Eurosystem as collateral which might facilitate the extension of a euro GC approach
- The attention given to the further integration of the security settlement systems in Europe
- The definition of standards by the ECB/CESR in the field of securities clearing and settlement
- The dialogue between the ECB and market participants, market associations on the repo market





## Conclusions

- **The growing role held by the repo market is welcome by the ECB**
- **The implementation of the Eurosystem monetary policy benefits from the development of the repo market**
- **The public debt management is not impacted by the implementation of Eurosystem monetary policy**

