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

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Contents

I  Eurosystem monetary policy operations and the repo market

II  Public debt management and Eurosystem monetary policy operations

III  The interests of the ECB in the development of the repo market
1 Eurosysten 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$^1$
  - Monthly longer-term refinancing operations: 45 bn
  - Fine-tuning operations: 0
  - Marginal lending facility operations: 0.2 bn

1) Average outstanding amount in 2003
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.
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)

<table>
<thead>
<tr>
<th>Assets</th>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Autonomous liquidity factors</strong></td>
<td><strong>Autonomous liquidity factors</strong></td>
</tr>
<tr>
<td>Net foreign assets</td>
<td>Banknotes in circulation</td>
</tr>
<tr>
<td>314.7</td>
<td>391.5</td>
</tr>
<tr>
<td>Other factors</td>
<td>Government deposits</td>
</tr>
<tr>
<td>7.5</td>
<td>70.9</td>
</tr>
<tr>
<td><strong>Monetary policy operations</strong></td>
<td>Current account holdings</td>
</tr>
<tr>
<td>276.0</td>
<td>135.7</td>
</tr>
<tr>
<td>Total</td>
<td>Monetary policy operations</td>
</tr>
<tr>
<td>598.2</td>
<td>0.1</td>
</tr>
<tr>
<td>Total</td>
<td>Total</td>
</tr>
<tr>
<td>598.2</td>
<td>598.2</td>
</tr>
</tbody>
</table>
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