

## Operational readiness for accessing ECB refinancing operations



Alessandro Calza Armin Leistenschneider

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### Main design features of the "soft floor" framework with a narrow corridor



€STR intended to evolve in vicinity of the Deposit Facility Rate (DFR)

Small spread between DFR and MROR (15 bps) and between MROR and MLFR (25bps). Some volatility in money market rates can be tolerated if it does not blur the signal about the intended monetary policy stance.

The Eurosystem will provide liquidity through a **broad mix of instruments**, including 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** in the short-term credit operations and a **broad collateral framework** ensure liquidity provision in an **elastic manner** and contribute to absorbing liquidity shocks.

Framework helps to ensure **financially sound and leaner balance sheet**, also supporting financial stability.

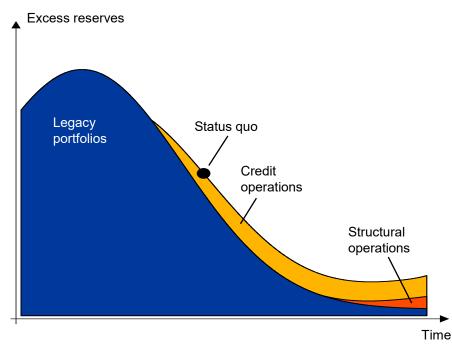
Opportunity cost of holding reserves **incentivises money market activity** and strengthens incentives for prudent liquidity risk management. Framework **reduces market footprint**.

Without prejudice to the price stability primary objective, the framework will aim to incorporate climate change-related considerations to meet the **ECB's secondary objectives**.

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#### Banks are expected to increasingly tap Eurosystem operations as excess reserves decline

#### Stylised breakdown of reserve supply over time



# Statement by the Governing Council of the ECB, 13 April 2024:

"[MROs] are intended to play a central role in meeting banks' liquidity needs and their use by counterparties is an integral part of a smooth implementation of monetary policy."

Source: ECB.

### Recent supervisory work on liquidity and funding areas

# 2024 supervisory priority: Shortcomings in asset and liability management frameworks

- Targeted reviews of the soundness and reliability of funding plans, contingency planning and the adequacy of collateral optimisation capabilities, as well as of ALM governance and strategies.
- Deficiencies identified among others in (i) identification and preparedness for mobilisation of collateral (ii) assumptions used in modelling projections for deposits (iii) ALM models and (iv) general ALM governance frameworks.

#### > Ongoing since September 2023: weekly liquidity monitoring for all SIs

### Maintaining liquidity resilience going forward

#### The central role that ECB standard refinancing operations play in the operational framework is fully acknowledged by supervisors.

- Banks should consider these operations as an integral part of their day-to-day liquidity management. Banks' liquidity situation and management are always assessed on a comprehensive basis\*.
- Supervisory expectations on operational preparedness covers among other a robust IT infrastructure for collateral identification and mobilisation and the relevant organisational and contractual arrangements.
- Joint Supervisory Teams are trained on the revised operational framework and the role of standard refinancing operations in a context of declining excess liquidity.