



EUROPEAN CENTRAL BANK

EUROSYSTEM

# PRESS RELEASE

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## ECB publishes its Euro Money Market Study 2014

- Euro money markets are in a healing phase following the deterioration identified in the 2012 study. Total turnover across money market segments has been rising since 2012. This improvement in market functioning over the past two years is underpinned by the stabilisation in risk budgets that market participants could exploit for trading activity in 2013, and by further improvement in the course of 2014.
- The local bias in money market trading activity remains a structural factor, as evidenced by the location of counterparties for unsecured transactions and the use of collateral for the secured market.

Today the European Central Bank (ECB) is publishing its biennial report entitled “Euro Money Market Study 2014”. This study focuses on euro money market developments during the second quarter of 2014 and compares them with the second quarters of previous years.

The euro money markets are in a healing phase following the deterioration identified in the 2012 study. The Eurosystem’s non-standard policy measures seem to have contributed favourably to the stabilisation of and the recovery in market activities in a context of declining excess liquidity. Following a fall in activity observed in 2012, total turnover in all market segments reported by the participating institutions improved steadily. In 2013 total turnover rose by 6% and in 2014 total turnover rose by a further 4%.

Activity increased in several market segments, particularly in the unsecured segment, where a slightly more favourable counterparty credit risk assessment and a reduction in excess liquidity were conducive to greater market activity. The secured segment has now reached a peak in activity since 2003, benefitting from enhanced protection against credit risk and more stringent regulatory requirements. Foreign exchange swap market activity continued to be one of the most dynamic and liquid areas of activity within the money market, with this segment ranking second in terms of total turnover, despite

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fluctuations in activity in 2013 and 2014. Activity in other segments since 2012 has been rather stable overall, despite some fluctuations mainly relating to changing hedging needs for overnight index swaps and other interest rate swaps.

The improvement in money market trading activity over the past two years is underpinned by the stabilisation in risk budgets in 2013 and a further improvement reported by participants in the 2014 survey. In 2013 banks did not expect a change to the risk limits in comparison to 2012. In 2014 the overall results suggest that the dynamics have improved: the number of banks expecting an increase in risk limits rose significantly, albeit from low levels, while the number of respondents expecting tighter or unchanged risk limits fell. Similarly, perceived efficiency and liquidity conditions in the unsecured and secured market segments improved, despite the large divergence between the unsecured funding instruments and the secured market.

Local bias remained a structural factor in the development of money market trading activity. Despite the broad improvements observed in the qualitative part of the survey, more granular data suggest that the higher activity in unsecured markets can be mainly attributed to non-distressed jurisdictions. By contrast, banks from distressed jurisdictions still report low usage of unsecured funding instruments. On the borrowing side, in particular, a limited number of banks are still active and transactions generally occur in shorter tenors compared with non-distressed jurisdictions, despite the considerable spread compression since 2012. In the repo market, the local bias also remains significant, illustrated by the use of national bonds as collateral in secured operations. However, this has declined somewhat. Nevertheless, thanks to continued access to secured markets, banks from distressed jurisdictions have benefitted from lower rates resulting from the noticeable spread compression observed in 2013 and in 2014.

The Euro Money Market Study has been conducted every two years since 2002 by the ECB under the auspices of the Market Operations Committee, which is composed of experts from the European System of Central Banks, i.e. the ECB and the national central banks of the European Union.

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