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3rd December 2025

ECB MMCG Dec 2025

Enhancing the functioning of euro money markets

Agenda

Intro: Importance of an Integrated Euro Money Market

Euro Money-markets function smoothly

Fragmentation, Inefficiencies in Euro Money Markets

Strengthening Resilience and Integration in Euro Money markets

Summary: Towards a More Resilient and Integrated Euro Money Market

Discussion – Enhancing the functioning of euro money markets

- How can euro money markets become more accessible and attractive?
- What challenges and opportunities exist to deepen market liquidity?
- How would greater global demand for euro assets affect money markets and bank funding?
- Why does an integrated euro money market matter for the euro's global role?

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Importance of an Integrated Euro Money Markets

"An integrated euro money market is the foundation of both effective monetary policy and the euro's international role."

Critical for the Euro's International Role: Deep, liquid, harmonised short-term markets boost global confidence in euro-denominated assets.

Improves Monetary Policy Transmission: Reduces fragmentation, ensures uniform funding conditions across jurisdictions and ensures adequacy between market segments (secured vs unsecured)

Supports Financial Stability: Provides depth and resilience in funding and collateral markets.

"What would a truly integrated euro liquidity ecosystem look like?"

Euro Money-markets function smoothly

Euro money markets remain efficient, but activity has shifted toward the secured sector.

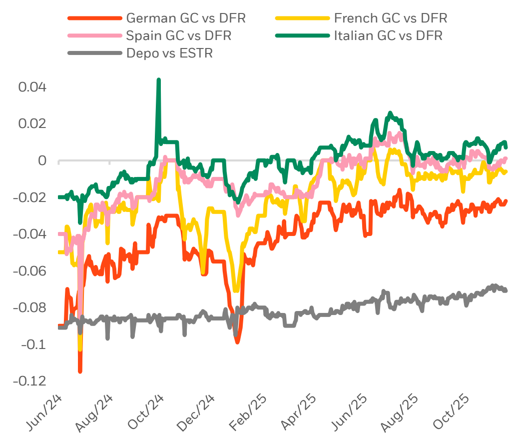
Repo Rates

- ESTR continues to rise relative to the ECB's Deposit Facility Rate (DFR), **expectation DFR –6 bp late 2027.**
- **Repo rates have been stable** through 2025, trading at or just below DFR keeping repo/ESTR spreads compressed.

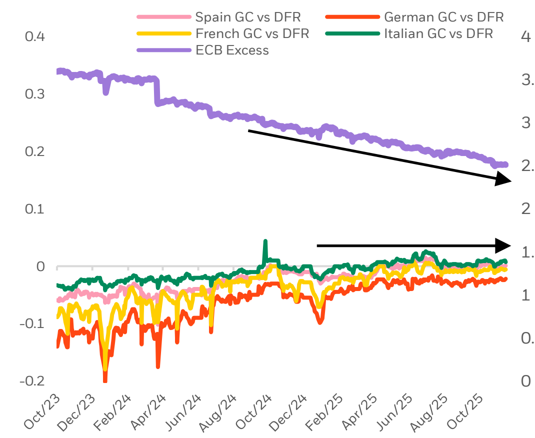
<u>**Drivers for stable repo rates:**</u>

- **Abundant excess liquidity** keeps short-term rates anchored.
- **Cross-border funding remains efficient** within euro area markets.
- **Public cash holdings** and active repo lending pockets help **stabilise rates** despite fragmentation.

GC repo and ESTR vs DFR



GC repo & Excess Liquidity

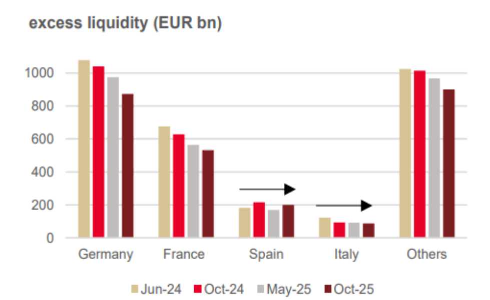


Excess Liquidity

- Excess liquidity appears to have already reached a floor in **Italy** and **Spain**, without triggering any tensions in the repo market.
- There is **more room for redistribution** as the share of reserves in the **Core** European countries is still high.
- Participation in **MROs** and **LTROs remains weak**—around €20bn in total and has not increased in 2025, contrary the ECB Survey given the spread to depo (+15bps) vs repo market levels (~flat)
- **Public-sector cash** remains a key stabilizer of euro liquidity, following the ECB's ESTR – 20bp ceiling on government deposits, **DMO now lends 70bn per day.**

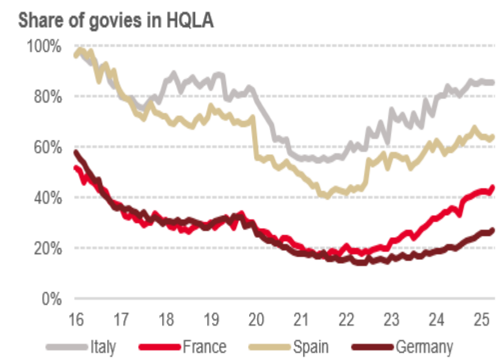
By Country

Graph 12. Excess liquidity has already reached a floor in Spain and Italy – still declining in Germany and France



Source: SG Cross Asset Research/Rates, Bloomberg, ECB

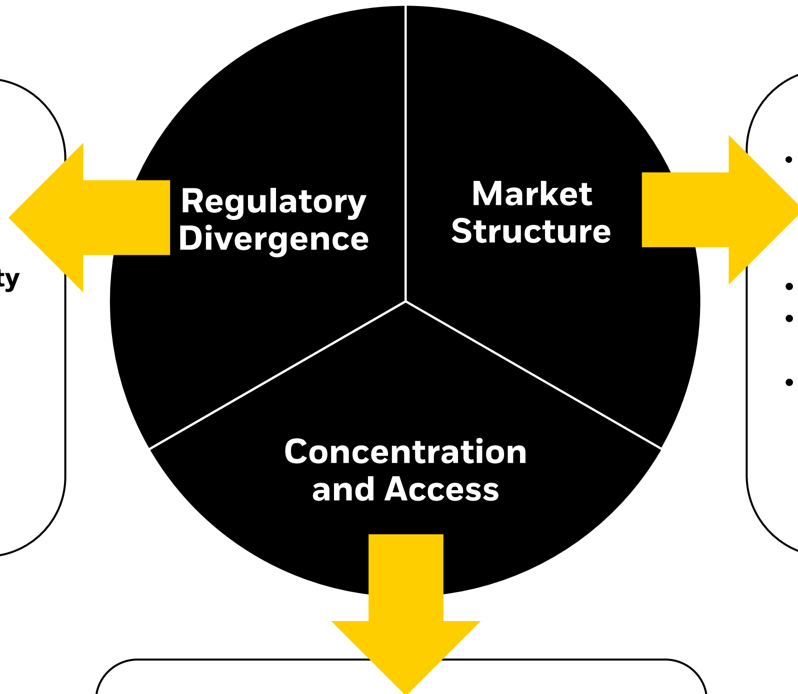
HQLA



A significant move in repo rates above DFR would signal the euro system nearing its minimum liquidity buffer.

Fragmentation, Inefficiencies in Euro Money Markets

Fragmentation continues to limit liquidity, integration, and efficient policy transmission in euro money markets



- Fragmented collateral and **liquidity rules across jurisdictions**, uneven access to ECB facilities
- **Inconsistent HQLA and LCR eligibility** criteria across jurisdictions
- **Divergent NSFR treatment** of short-term funding instrument

- **Multi-CCP, multi-CSD**, and settlement fragmentation **limits collateral mobility** and payment **interoperability** (TARGET2/T2S.)
- Secured vs. **unsecured pricing gaps**
- Different **collateral eligibility standards**.
- **Liquidity concentration** in core jurisdictions; lower cross-border flows to periphery

- Reliance on **bank intermediation** and **limited non-bank access**.
- Limited access for non-banks to **CCP-cleared repo** and **ECB facilities**
- Multiple client clearing models

Deepening integration requires action across all fronts — regulation, infrastructure, market structure, and access.

Fragmentation, Inefficiencies in Euro Money Markets

Regulatory

Fragmented regulatory frameworks continue to segment liquidity National variations in collateral, LCR, and access to ECB facilities constrain cross-border liquidity flow and keep money markets segmented along jurisdictional lines.

LCR composition: EBA monitoring reveals **wide dispersion** in HQLA mixes across banks/jurisdictions, implying different liquidity-buffer incentives and costs.

Market: lack of ECB facility access skew euro MMF activity towards other, more balance sheet intensive options, and we are seeing a greater demand in secured vs unsecured more broadly.

Market Structure

Liquidity is fragmented by different sovereign-risk, collateral standards, and gaps between secured and unsecured pricing.

Core–periphery dynamics and domestic bias continue to constrain cross-border flow and integration.

Variations in settlement platforms (TARGET2, T2S), collateral mobility, and repo clearing practices create **frictions that trap liquidity** within national systems, limiting cross-border efficiency and integration.

CCP: Different **collateral eligible** and **haircut frameworks** for each CCP shows a variety of risk approach leading to fragmentation.

Fragmented reporting (MMSR, SFTR, EMIR) and inconsistent data standards.

Concentration & Access

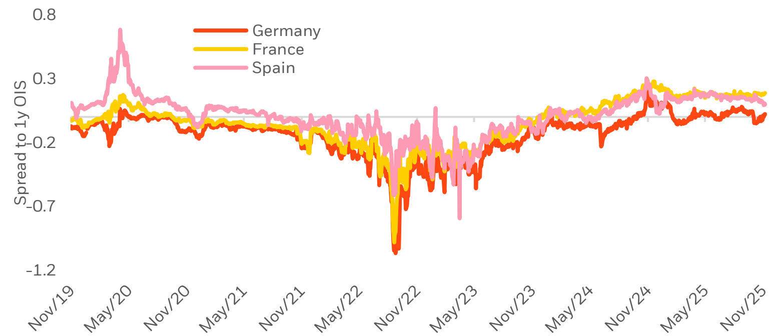
Concentrated intermediation: Concentration for the top 10 counterparties has increased to 70% over the years with a lack of outlets for non-banks

Limited unsecured interbank activity: Constraints on CP money market depth and weakens price discovery.

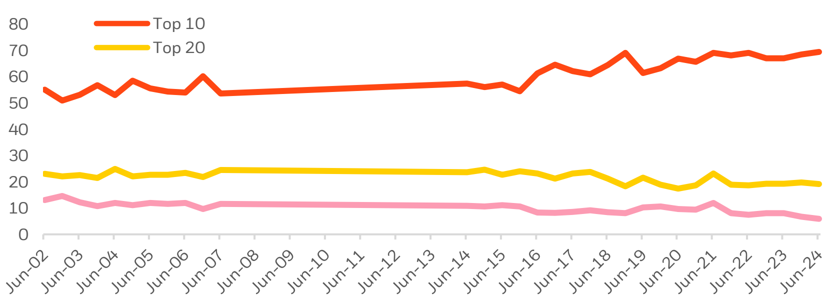
Restricted access for non-banks: face barriers to CCP clearing and central bank operations. Expanding non-bank participation could deepen liquidity and reduce reliance on dealer balance sheets.

1Y Bond Yields

French yields decouple from Germany to Spain following the political uncertainty and downgrade of French sovereign collateral despite sharing one currency



Counterparty Concentration



Infrastructure	US	Europe (EEA,UK,CH)
Listing Exchanges	3	35
Trading Exchanges	16	41
CCPs	1	18
CSD's	2	31
Local CCY	1	14

Strengthening Resilience and Integration in Euro Money markets

Deepening Resilience and Integration in the Euro Money Market

Market Plumbing & Collateral

- **Harmonise and standardise** collateral frameworks and settlement systems.
- Inclusion of **CP/CD/MMFs** in **liquidity frameworks**.
- **Broaden collateral eligibility,** less reliance on cash
- Enable **cross-border collateral mobility** and CCP interoperability.
- **CCP: – Harmonise CCP risk frameworks** and collateral eligibility to improve circulation
  – Increase Central Clearing adoption for non-banks
- **Increase data transparency (**SFTR, MMSR) – monitoring fragmentation
- **Enhance liquidity channels** T2S to reduce fails.

Central Bank Facilities

- Maintain **scalable, balance-sheet-efficient** ECB facilities**.**
- **RRP repo facility** for non-bank to deposit excess cash
- Differentiate ECB refinancing operations pricing for HQLA / non-HQLA collateral
- **Reduce spread** for **refinancing rate** vs DFR for HQLA.
  A system purely exchanging Central Bank reserves vs EGB at or very close to the DFR would reduce fragmentation
- **Increase** usage of **MRO** vs non-HQLA eligible to LCR
- Set up LTRO tools eligible to NSFR
- **Exempt** mandatory reserves/excess reserves from **leverage ratio**
- **Enhance intraday liquidity** channels (ECMS/T2-T2S) to reduce settlement bottlenecks

Tokenisation

- **Tokenisation technology** has the potential to streamline issuance, settlement and increase collateral mobility.
- As market structures digitise, support interoperability standards between DLT platforms and TARGET Services
- **Regulatory clarity** with expansion of tokenisation initiatives

Non-Banks

- Evolve CCP Access
- Collateral eligibility – MMF Units
- RRP Style Facility
- Accept CP/CD as HQLA
- Alternative Solutions

Positive changes

+

- Eurex cross-margining Model (non-banks 2026)
- ECB Lending programme via CCP
- ECB DLT Pilot

Integrating plumbing, policy and technology to build a more resilient Euro money market.

Summary: Towards a More Resilient and Integrated Euro Money Market

Euro Money Markets

- Euro money **markets remain efficient**, with sufficient liquidity
- Activity has **shifted toward** the **secured market**; unsecured depth remains thin.
- **Public-sector** cash continues to **stabilise liquidity conditions**.
- Important to ensure that **underlying fragmentation** is **addressed** now to **increase resiliency** in times of market volatility.

Core Challenges

- Divergent implementation of **regulatory frameworks** (collateral, LCR, NSFR) segment liquidity across jurisdictions.
- **Infrastructure fragmentation** across CCPs, CSDs and settlement platforms limits collateral mobility.
- **Concentration and limited access requires** greater bank intermediation.
- **Fragmented data** reporting (MMSR, SFTR, EMIR) weakens visibility and market monitoring.

Solutions

- **Harmonise:** Align collateral frameworks and enable real-time cross-border mobility via platforms and T2/T2S.
- **Broaden Access:** Expand central-clearing models and introduce RRP-style facilities for non-banks.
- **Reinforce Backstops:** Maintain scalable ECB liquidity tools ensuring efficiency of balance sheet usage.
- **Leverage Technology:** Advance tokenisation and DLT interoperability for issuance and settlement efficiency.
- **Integrate Data:** Combine MMSR–SFTR–EMS feeds to monitor fragmentation in real time.

Summary: Let's smooth the road before we hit any bumps — strengthening resilience now while conditions are stable

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