

# The Value of Stable Relationships

## How euro area money markets' price formation rewards stable depositors

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 The views expressed are my own and do not reflect those of the ECB or the Eurosystem.



### Main Contribution

- Money markets are characterised by a very stable relationship trading pattern
- This depositor-bank relationship stability shapes money market rates
- The €STR-repo spread is likely to persist owing to the natural habitat of lenders
- Unsecured depositors benefit from the relationship daily, while repo clients benefit at month-ends

### Introduction

Money markets constitute the first step in the transmission of the monetary policy. Reserves are channelled between borrowers and lenders to where they are most valued. Market microstructure matters for price formation in both unsecured overnight deposits, which underpin the €STR benchmark, and in the secured repo market. The stability of depositor-bank relationships influences how banks price deposits. However, the nature of this reward varies across market segments and reflects regulatory and customer-specific considerations.

### Stability of depositor-borrower relations

Money market trading is dominated by relationship trading, where stable borrower-lender pairs are active every day. For both unsecured deposits and bilateral repo, nearly two-thirds of daily trading volume originates from depositor-bank relationships that are active on a *stable* basis (trading 95% of the days in a month), trading every day, while a further 20-24% of trade volume is placed on a highly *regular* basis (trading 75-95% of the days in a month).

Creating new relationships comes with entry costs. To establish new repo trading partners, banks need to establish Global Master Repurchasing Agreements (GMRA) and incur legal costs.

Relationship trading offers benefits of cross-selling other assets. Once a relationship is established in one product, it can be leveraged to sell other bank services in the future, such as derivatives or underwriting.

### Data

This analysis relies on transaction-level data from Money Market Statistical Reporting. The unsecured segment considers the overnight deposits where 54 MMSR reporting agents report deposits from their financial customers.

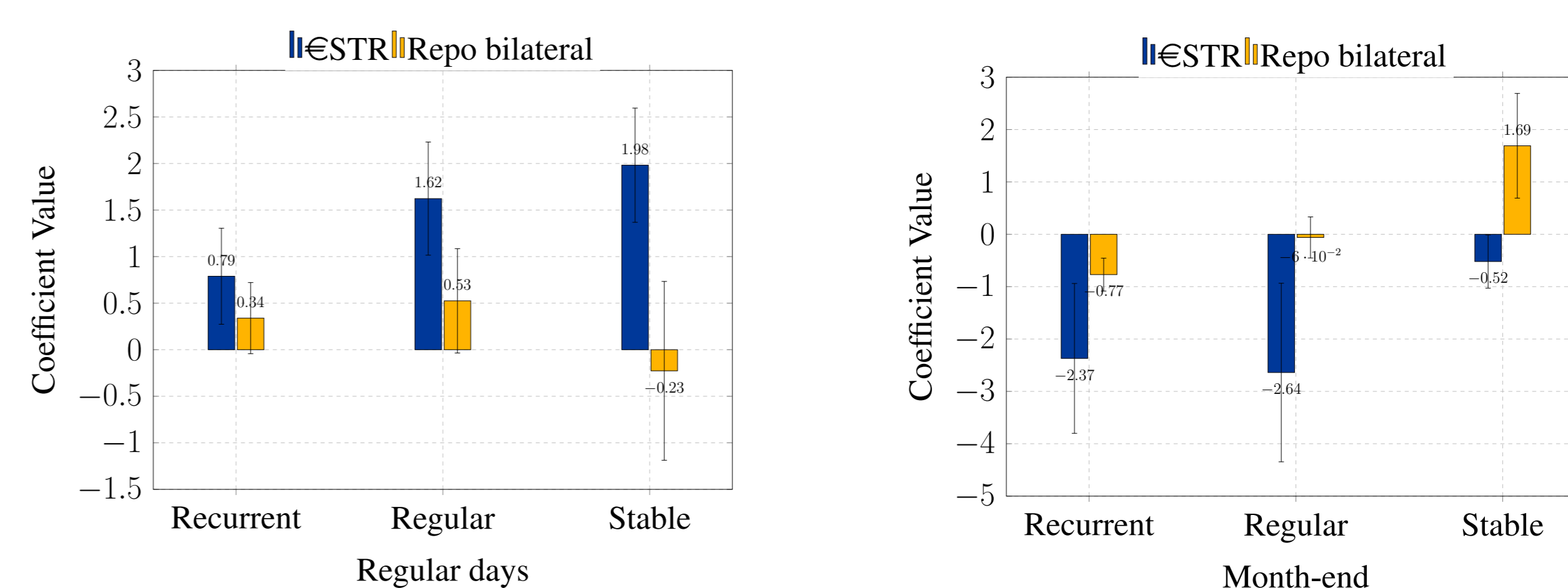
Repo data from Securities Financing Transaction includes only bilateral 1-day trades against euro area government collateral. Since cleared repo mitigates the exposure to credit risk and reduces the significance of the borrower-lender relationship, it is excluded from the analysis.

### Market microstructure

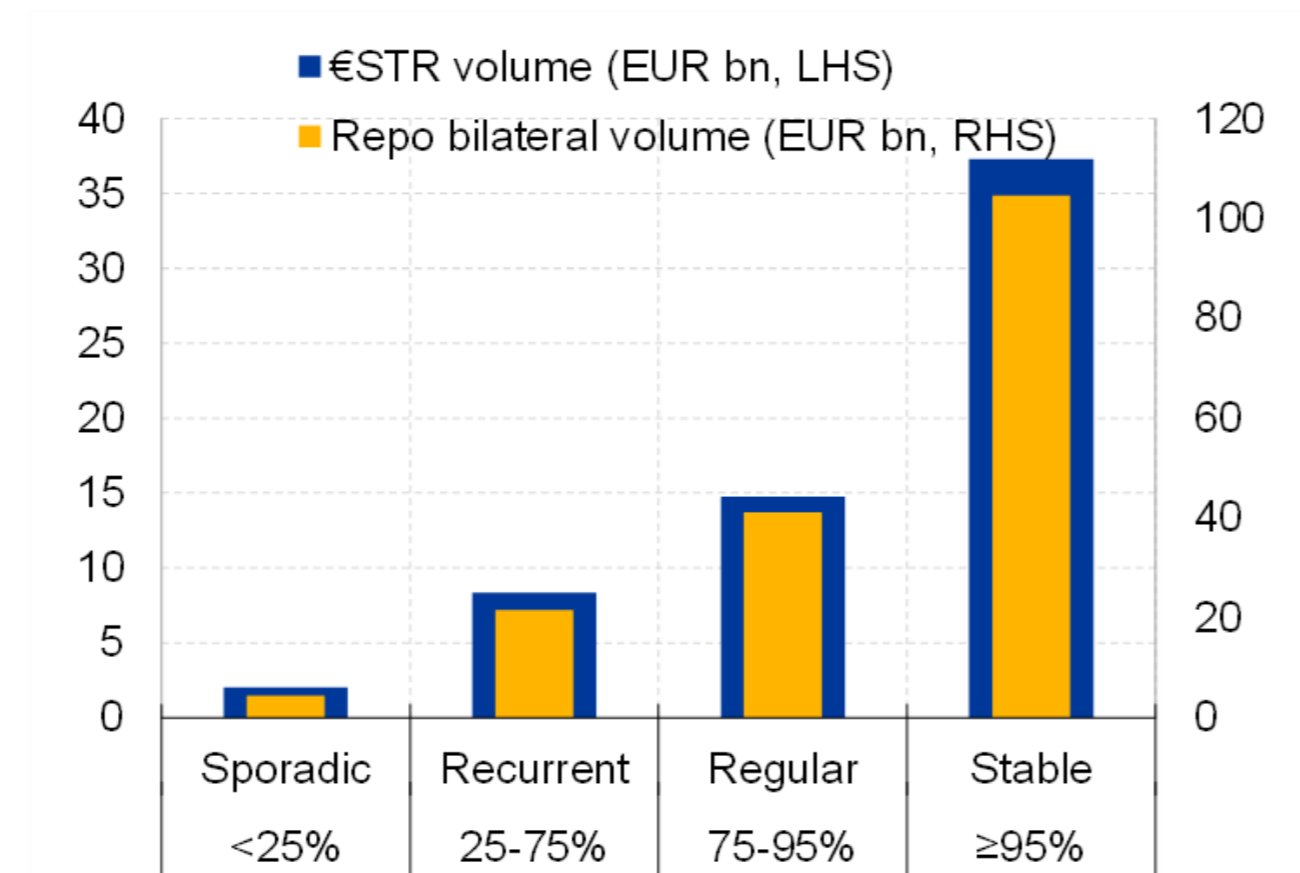
The fragmentation of the money market microstructure enables the price discrimination across the depositor relationship dimension. Depositors are often exclusively active in either the unsecured or repo segment, with most unsecured depositors maintaining only very few bank relationships. This limited diversification together with ample excess liquidity grants pricing power to depositor banks, particularly in the unsecured market. Even when a persistent spread between unsecured and

repo rates emerges, the fragmented microstructure and regulatory costs limit the ability of cash depositors to arbitrage the price differentials.

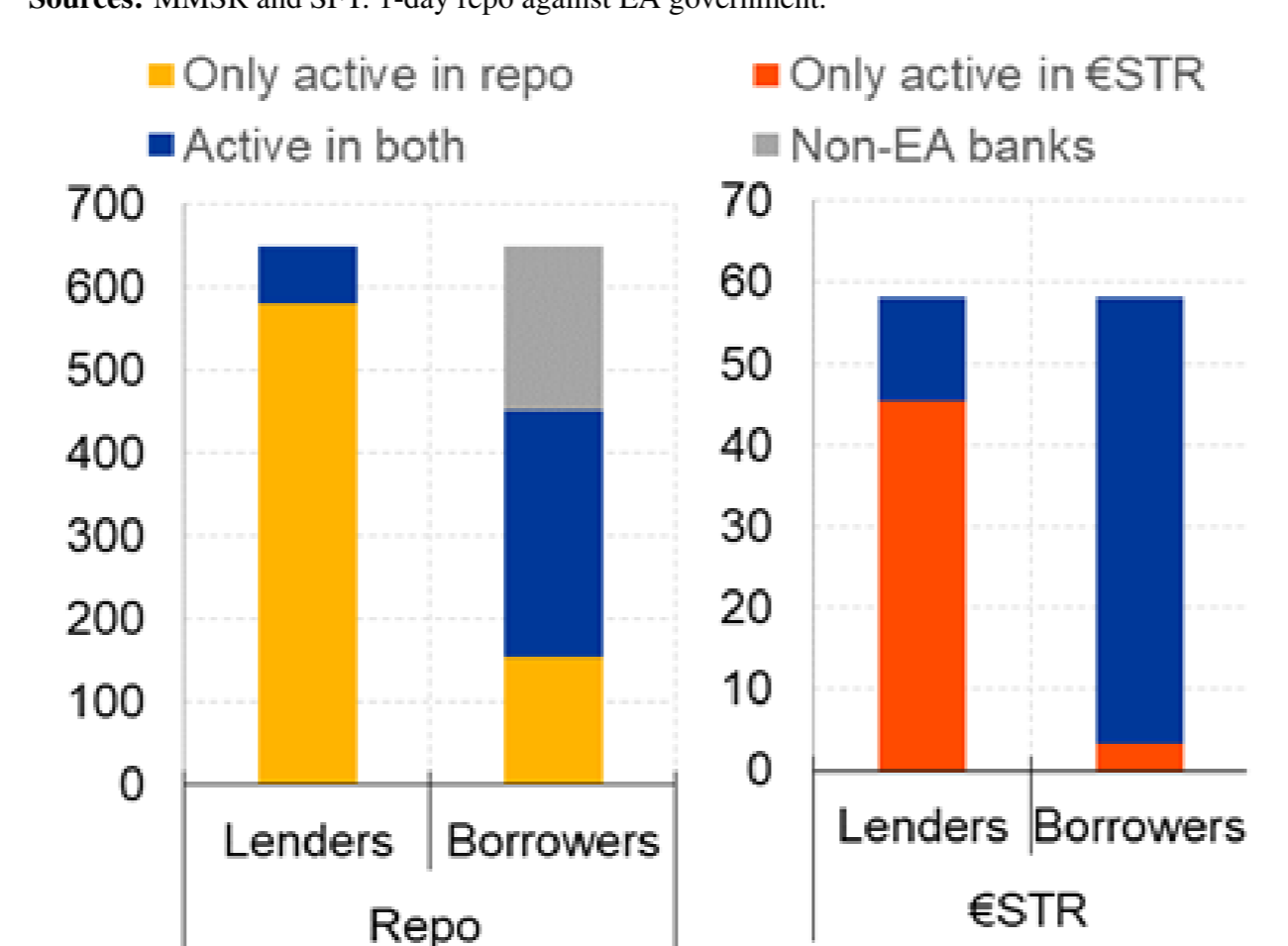
### Results - Relationships matter



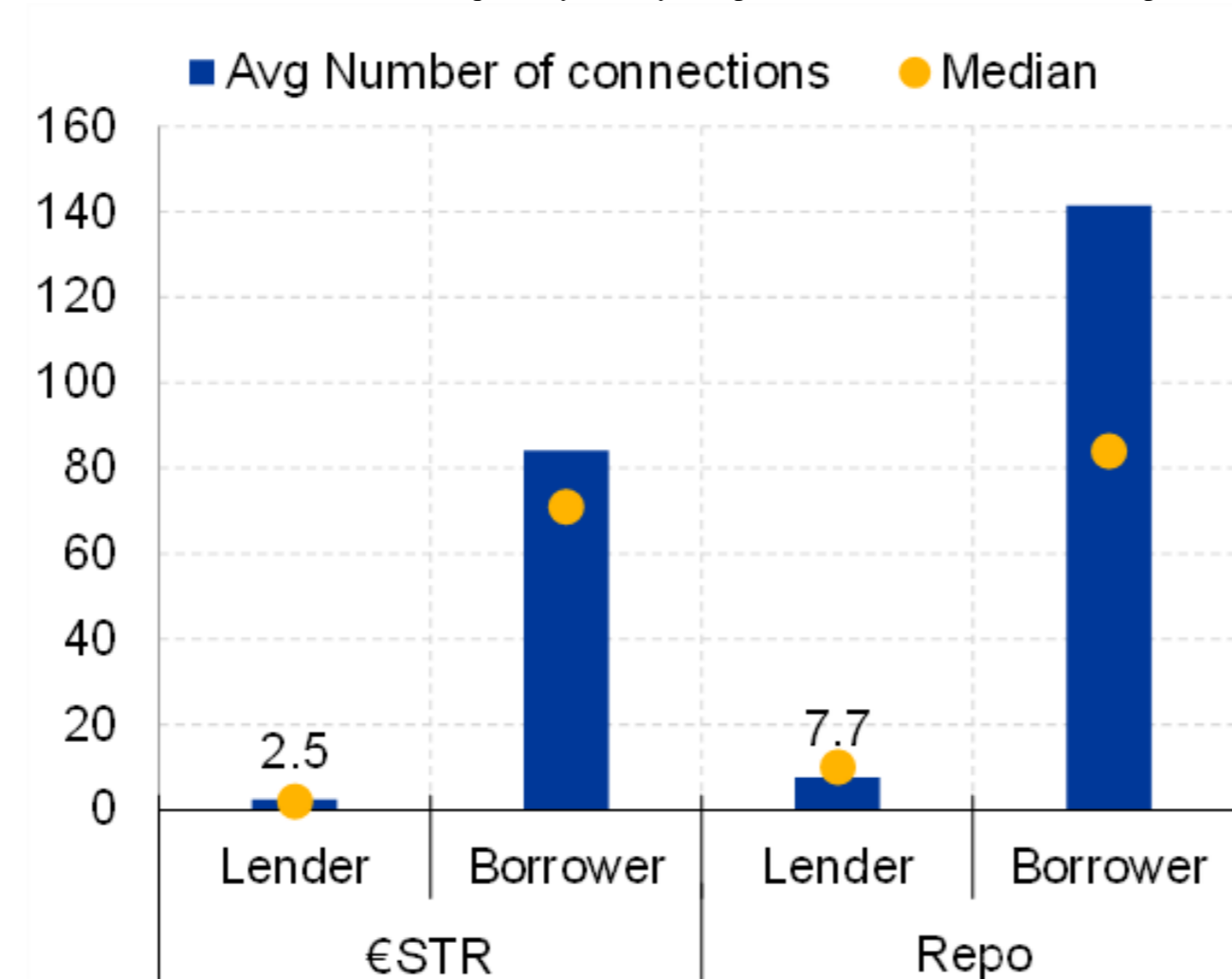
In the unsecured deposit market, banks reward their most stable depositors by partially shielding them from regulatory cost pass-through. On average trading days, this effect secures 2bps higher remuneration for stable depositors and 1.5bps higher remuneration for regular clients than for infrequent depositors. The partial shielding of customers from regulatory costs can also be explained by banks' ability to smooth out the regulatory costs over longer periods. In contrast, relationship considerations play an immaterial role in the secured segment on regular non-reporting days. On reporting dates, the money markets pass through the regulatory costs of accepting deposits more to the less frequent depositors than to the stable customers. On month-ends remuneration is lowered to disincentivise cash placement and balance sheet expansion. A larger balance sheet implies leverage ratio costs and may also influence other risk metrics such as concentration limits. On month-ends relevant for reserve base calculations banks pass the opportunity cost to unsecured depositors. Unsecured deposits increase the reserve base, minimum reserve requirements are non-remunerated since Sept 2023, and banks started passing on these opportunity costs to the customers. Unsecured depositors receive 3-4bps lower remuneration, while repo trades are excluded from the calculation.



Sources: MMSR and SFT. 1-day repo against EA government.



Sources: MMSR and SFT. Lenders quarterly activity in repo and €STR. Includes cleared repo.



Sources: MMSR and SFT. Number of active connections in Q3 2025.

<sup>6</sup>Some cash lenders are limited in their choice of deposit placement and may not be able to expand their number of connections. For example German banks belonging to an institutional protection scheme.

	€STR-DFR spread (bps)			Repo-DFR spread (bps)			
	(1)	(2)	(3)	(1)	(2)	(3)	(4)
<b>Recurrent</b>	0.44** (0.14)	0.59* (0.27)	0.79** (0.26)	0.62* (0.26)	0.29 (0.21)	0.23 (0.16)	0.34 (0.20)
<b>Regular</b>	0.73*** (0.17)	1.51*** (0.31)	1.62*** (0.31)	0.49 (0.47)	0.34 (0.31)	0.50* (0.24)	0.53 (0.29)
<b>Stable</b>	0.68*** (0.15)	1.84*** (0.31)	1.98*** (0.31)	0.13 (0.66)	-0.54 (0.51)	-0.49 (0.40)	-0.23 (0.49)
<b>Month-end</b>	-2.53*** (0.55)	-2.33*** (0.58)	-2.17*** (0.43)	-1.65*** (0.48)	-2.06*** (0.43)	-1.57** (0.59)	-2.13*** (0.43)
<b>Month-end × Recurrent</b>	0.19 (0.48)	-0.05 (0.51)	0.35 (0.41)	0.40 (0.59)	1.32** (0.41)	0.87 (0.63)	1.36** (0.44)
<b>Month-end × Regular</b>	-0.09 (0.62)	-0.32 (0.71)	-0.05 (0.67)	2.18*** (0.52)	2.14*** (0.41)	1.41* (0.63)	2.06*** (0.45)
<b>Month-end × Stable</b>	2.02** (0.74)	1.80* (0.76)	1.65** (0.57)	3.24*** (0.71)	3.74*** (0.59)	3.04*** (0.85)	3.81*** (0.55)
<b>Reserve month-end</b>	-3.75* (1.56)	-3.68* (1.54)	-3.33* (1.50)	-0.74*** (0.18)	-0.84*** (0.19)	-0.74*** (0.20)	-0.86*** (0.18)
<b>Log(volume)</b>	0.34*** (0.07)	0.42*** (0.09)	0.46*** (0.08)	-0.25*** (0.07)	-0.23** (0.09)	-0.13 (0.14)	-0.24** (0.08)
<b>Const</b>	-20.17*** (1.28)	-22.37*** (1.63)	-22.75*** (1.55)	-3.93*** (1.02)	-3.93*** (1.19)	-6.61*** (2.44)	-4.01*** (1.17)
<b>N transactions</b>	479,502	476,866	389,185	2,292,102	2,291,024	1,245,166	2,289,820
<b>Adj R<sup>2</sup></b>	0.84	0.89	0.88	0.48	0.51	0.59	0.56
<b>Borrower FE</b>	✓			✓	✓		
<b>Borrower-month FE</b>		✓	✓			✓	✓
<b>Large transaction only</b>			✓			✓	
<b>ISIN FE</b>				✓	✓		
<b>ISIN-month FE</b>						✓	✓
<b>Other FE</b>	✓	✓	✓	✓	✓	✓	✓

Note: Standard errors in parentheses clustered at borrower-level, \* p < 0.05, \*\* p < 0.01, \*\*\* p < 0.001.

Other fixed effects include lender LEI, borrower sector, borrower country, the geographical classification of the borrower-lender pair, month fixed effects to control for average spread trends. Observation period Jan 2023-Sep 2025. Large transactions have min volume of EUR 5mn.

### Avenues for further research

One avenue for further research is to identify which products banks cross-sell to their financial wholesale depositors to enable the remuneration of stable depositors. Another interesting angle would be to examine what happens after stable relationships are exogenously broken. How long does it take for the depositor to establish a new banking relationship and start enjoying the pricing benefits from that stability.