



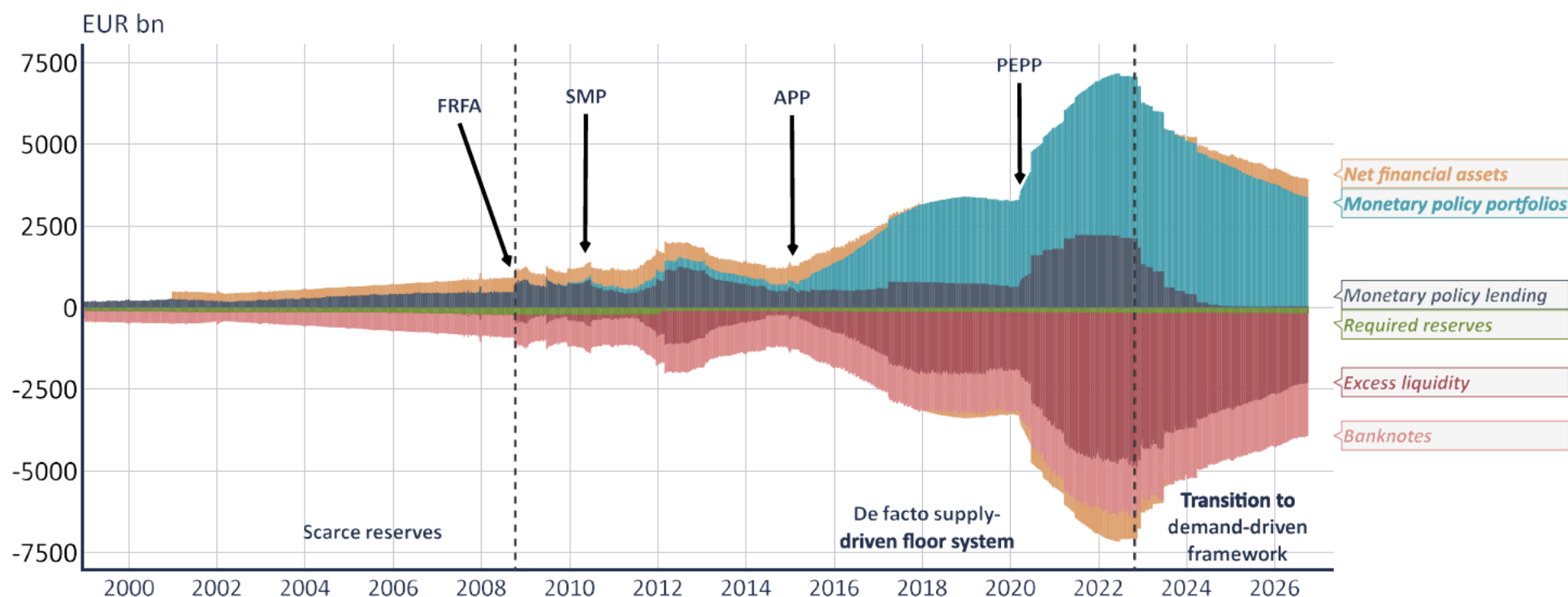
The courage not to act: Moving towards a demand-driven operational mode

Bank of Finland stakeholder event, 14 October 2026

Board Member Tuomas Välimäki
Bank of Finland

The Eurosystem is moving to a new liquidity regime

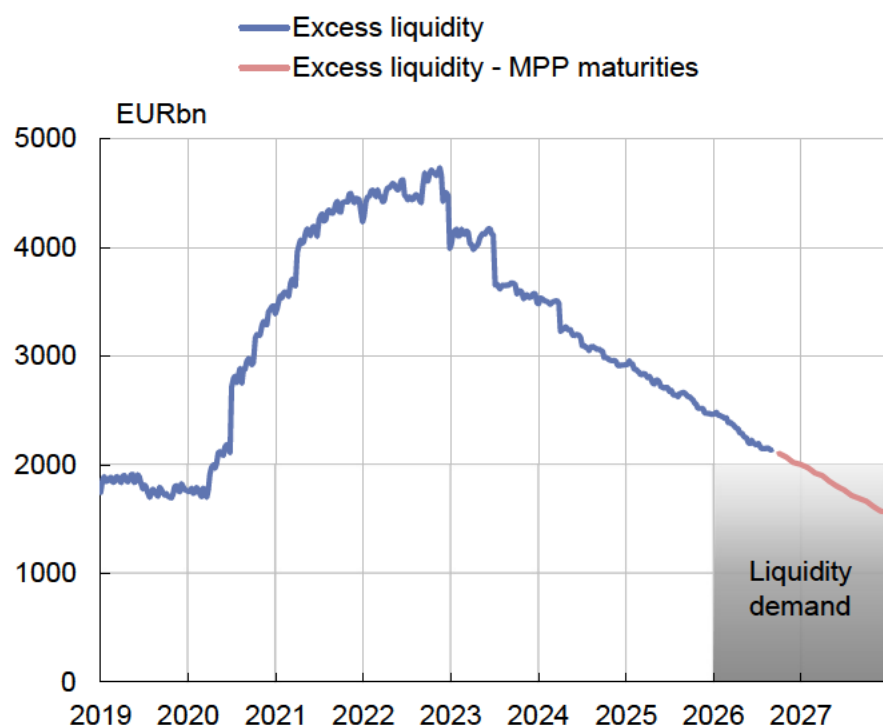
Eurosystem simplified balance sheet: assets (+) and liabilities (-)



Sources: European Central Bank and Macrobond. FRFA = fixed rate full allotment. SMP = Securities Markets Programme. APP = asset purchase programme. PEPP = pandemic emergency purchase programme.
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Reserves will decline until banks turn to standard refinancing operations on a larger scale

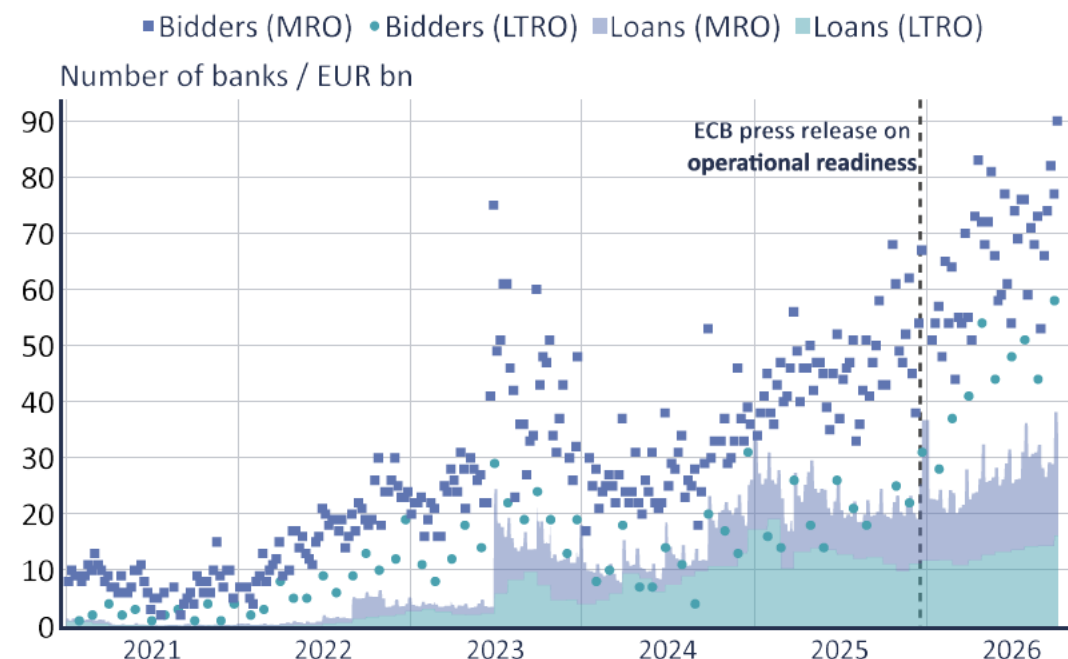
Excess liquidity developments and outlook



MPP = monetary policy portfolios.

Sources: European Central Bank and Bank of Finland calculations.

Number of bidders and outstanding loans in standard refinancing operations

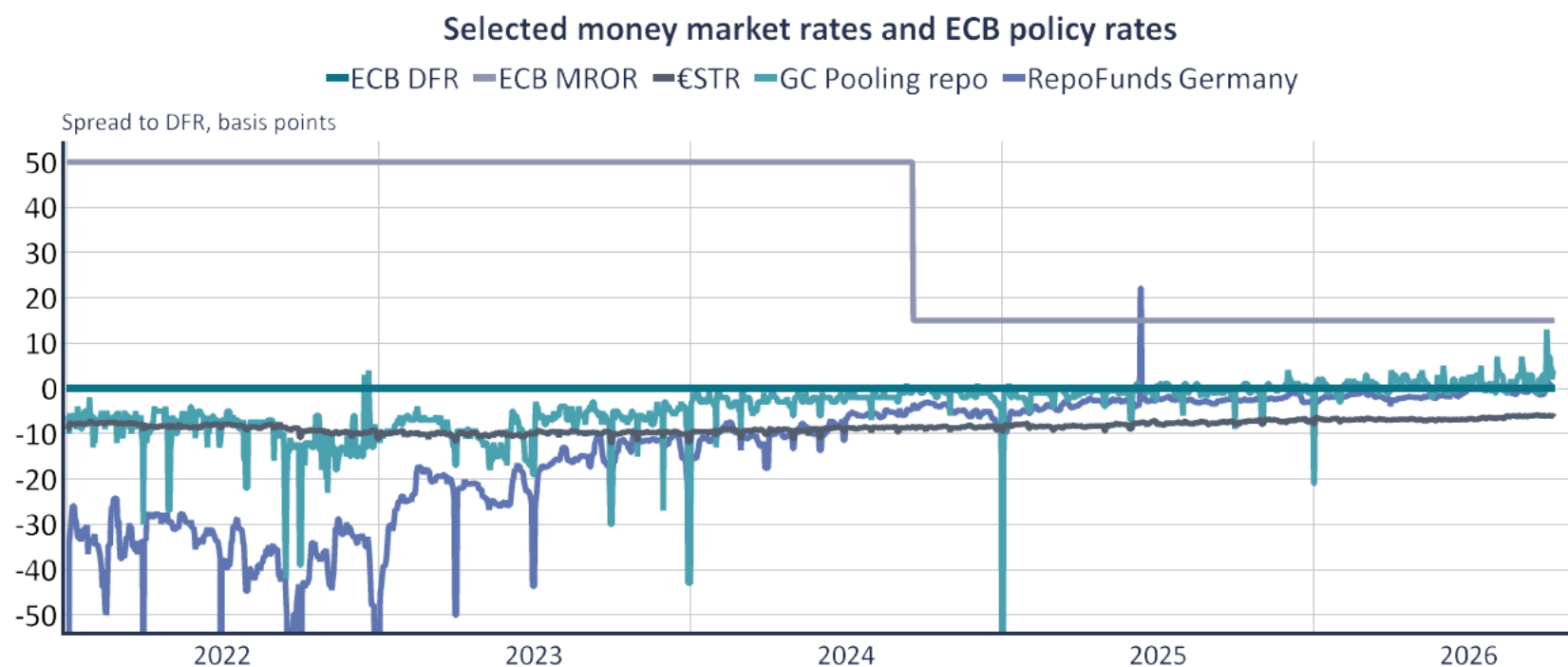


MRO = main refinancing operation. LTRO = longer-term refinancing operation (3 month).

Sources: European Central Bank, Bloomberg, Macrobond.

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Different money market rates tell different stories



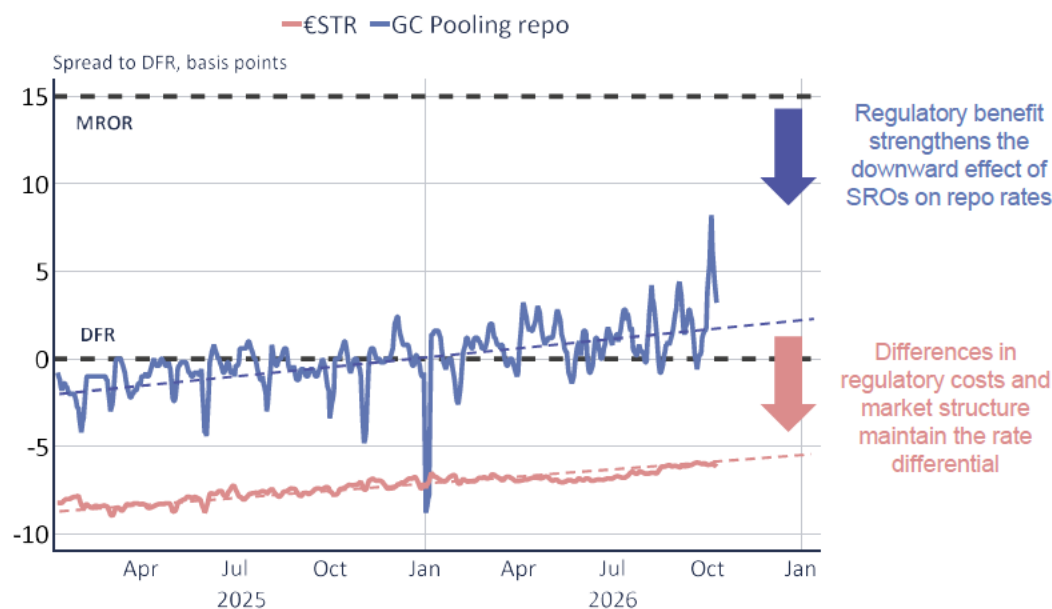
DFR = deposit facility rate. MROR = main refinancing operation rate. RepoFunds Germany = overnight repo rate against German government collateral. GC Pooling = overnight general collateral repo rate based on standardized Eurex collateral baskets.

Sources: European Central Bank, Bloomberg, Macrobond. Y-axis restricted to -50 bps.

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Money market rates must adjust before demand for refinancing operations rises

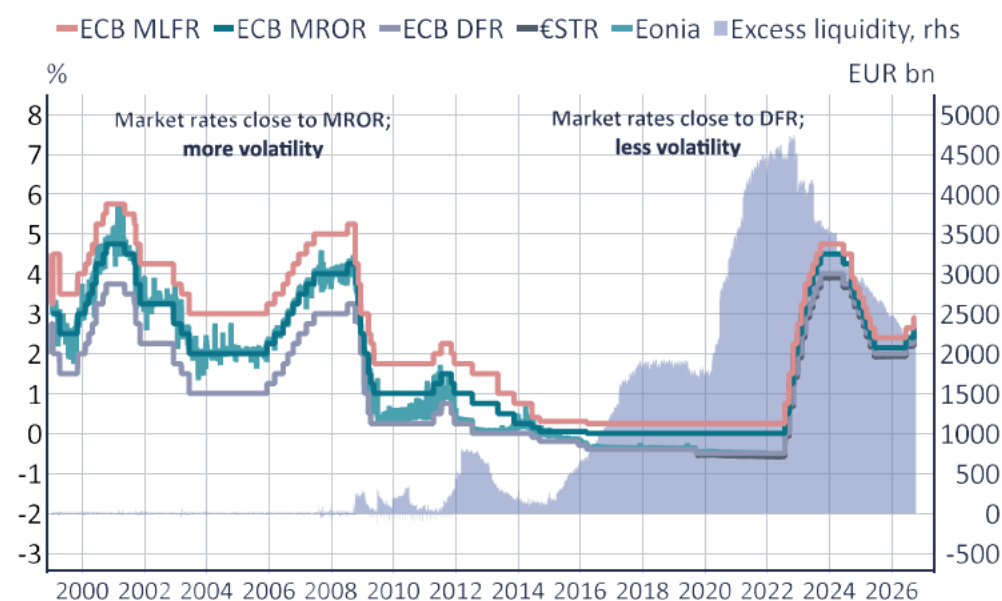
Money market rates and ECB policy rates in the new framework



DFR = deposit facility rate. MROR = main refinancing operation rate. GC Pooling = overnight general collateral repo rate based on standardized Eurex collateral baskets.

Sources: European Central Bank, Bloomberg, Macrobond. Rates are shown as five-day moving average values.
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ECB interest rate corridor and unsecured money market rates



MLFR = marginal lending facility rate. MROR = main refinancing operation rate. DFR = deposit facility rate.

Sources: European Central Bank and Bloomberg.

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Which money market variables should we monitor?

1. Rates	2. Market functioning	3. Broader transmission
€STR	Volumes	Overnight indexed swaps (OIS)
General collateral repo rates	Rate dispersion	Euribor
Other overnight rates	Participation in standard ECB refinancing operations	Other bank funding instruments

Orderly → Gradual, understandable, adequate volumes

Potentially problematic → Persistent and repeated spikes, falling volumes, unstable pass-through

Conclusion

- The transition towards a demand-driven operational mode is under way.
- The final destination is uncertain because reserve demand cannot be determined precisely beforehand.
- A successful transition to a demand-driven operational mode requires that market rates adjust before demand for our refinancing operations can emerge.
- The Eurosystem should not fix every rate and spread inside the corridor. Some additional volatility can be compatible with effective rate steering.
- Intervention is warranted when volatility or impaired transmission threatens the effective transmission of the policy stance to money market rates.

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