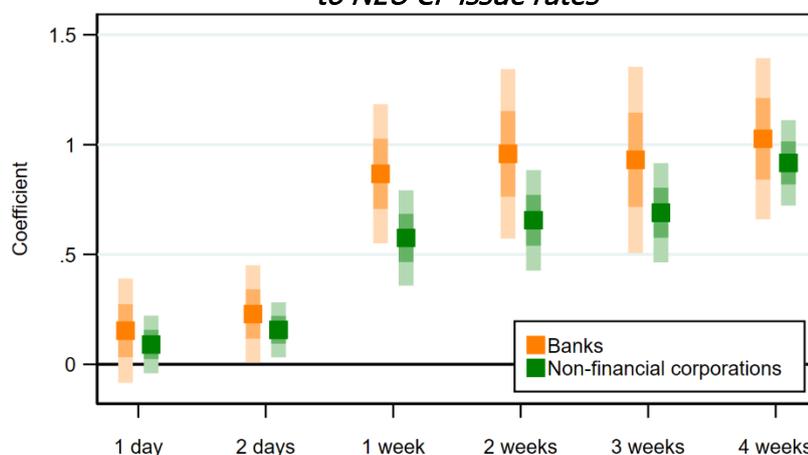


The pass-through of monetary policy to the short-term debt market

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The short-term debt market plays a key role in financing banks and businesses. We show that, over the period between January 2005 and November 2024, there was complete pass-through of monetary policy after one month for all categories of issuers. For companies, pass-through was relatively faster than for intermediated credit.

Chart 1 – Pass-through of changes in ECB key interest rates to NEU CP issue rates



Source: Banque de France. Note: Period from January 2005 to November 2024. Confidence intervals at 1 and 2 standard errors.

This blog post presents the main findings of an analysis of the pass-through of European Central Bank (ECB) monetary policy decisions to interest rates at issuance observed on the Negotiable European Commercial Paper (NEU CP) market, the European Union's main short-term debt market (see [Eco Notepad, Post No. 367](#)). The key players in this (money) market are financial institutions (more than 85% of issuances), mainly banks. The other categories of issuers are non-financial corporations (NFCs) and public entities.

This analysis uses granular market data collected daily by the Banque de France from market participants to study the effect of 200 key interest rate decisions (rate for main refinancing operations or deposit facility rate) taken by the Governing Council of the ECB between January 2005 and November 2024, on the financing conditions of NEU CP market issuers, especially banks and companies. The pass-through of monetary policy is assessed in terms of both the speed and magnitude of the adjustment (see also [Eco Notepad, Post No. 354](#) for an analysis of pass-through for households and businesses over a longer horizon).

Complete pass-through of monetary policy over a one-month horizon

The analysis consists primarily of studying the effect of ECB rate changes on changes in the weighted average rate of NEU CP securities issuances over different time horizons (ranging

from 1 day to 4 weeks after the ECB decision) over the entire period, differentiating between banks and non-financial companies. The hypothesis tested is that of a one-to-one pass-through (i.e. full adjustment), with the next monetary policy decision as the maximum horizon.

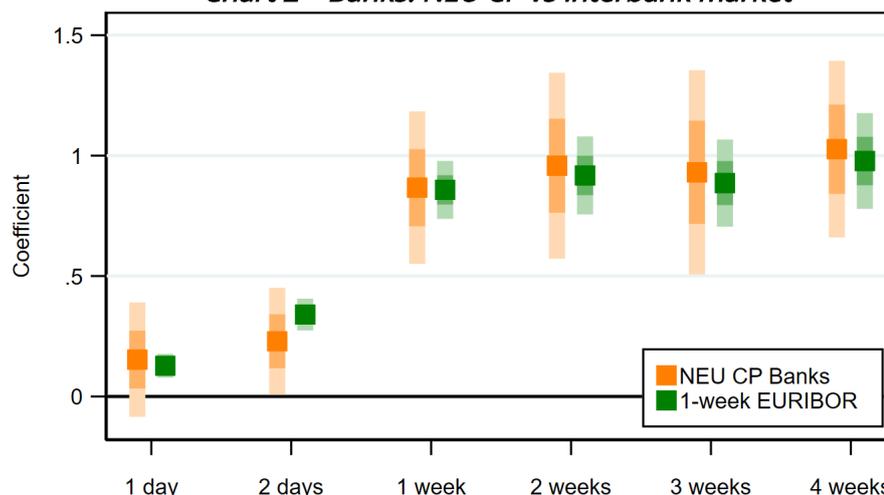
The estimates (Chart 1) show weak pass-through in the first few days, which can be attributed to two mechanical factors. First, in this market it is common practice to execute transactions primarily in the morning, i.e. before being aware of the Governing Council's decision, which is announced in the early afternoon. Second, rate changes normally become effective for monetary policy counterparties six calendar days after the announcement of the ECB's decision (i.e. Wednesday of the following week), or four working days after the announcement. Issuances with a maturity of less than five days should therefore not react, as the financing conditions remain those in force prior to the announcement and, more generally, a rate change can only influence financing conditions for issuances with maturities of more than five days. One week after the ECB's announcement, pass-through accelerates and becomes complete (coefficient equal to 1) after four weeks for securities issued by banks and non-financial corporations.

Over a one-month horizon on the NEU-CP market, there are no significant differences due to the size (changes of 25 basis points versus changes of greater than 25 basis points) or the direction of changes in key interest rates (upwards or downwards). Estimates by sub-period also show that during the 2014-21 period, when key interest rates remained very stable at historically low and negative levels (five rate changes in eight years, with most decisions being fully anticipated when key interest rates were close to their lower bound), it is not possible, by construction, to identify any monetary policy pass-through. However, the mechanism was reactivated from 2022 on with the start of normalisation of monetary policy (10 rate hikes between July 2022 and September 2023), with pass-through similar to that which prevailed before 2014. An analysis by maturity pillar (from 1 day to 1 year) at issuance shows that, four weeks after the ECB's announcement, the impact of changes in key interest rates affects all maturities to the same extent.

Pass-through comparable to the interbank market for financial issuers

The analysis then focuses on differences in monetary policy pass-through to alternative markets which issuers may use: changes in key interest rates are passed through in very similar proportions to another segment of the money market: the interbank market (1-week EURIBOR) (Chart 2).

Chart 2 – Banks: NEU CP vs interbank market

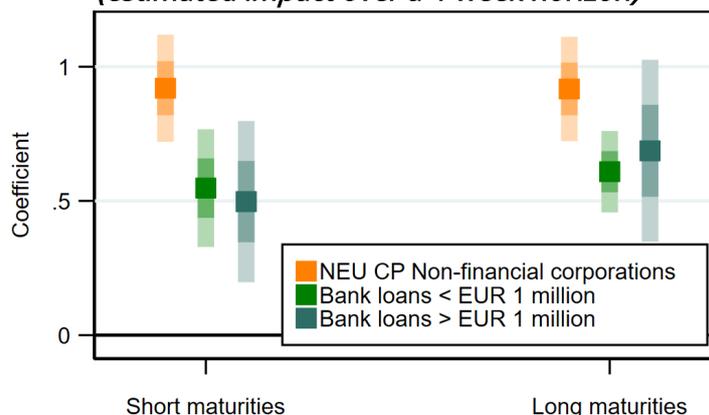


Source: Banque de France. Confidence intervals at 1 and 2 standard errors. Parameters estimated using the OLS method. The equation is estimated for banks on the NEU CP market and for 1-week Euribor rates.

Stronger pass-through than bank lending rates for non-financial issuers

For non-financial corporations, a comparison with the rates they can obtain by contracting alternative bank loans highlights a relatively stronger pass-through on the NEU CP market over a 4-week horizon (Chart 3). The incomplete adjustment of bank loan rates after 4 weeks (and beyond) is widely documented in the literature ([de Bondt, Mojon and Valla 2005](#), [Blot and Labondance 2013](#), [Gregor, Melecký and Melecký 2021](#), [Beyer et al. 2024](#)), which shows that this is close to 0.8 over the longer term. For companies, as a way of diversifying financing (see [Fourel and Schwenninger 2024](#)), the NEU CP market offers advantages in terms of financing conditions, not only structurally in terms of levels (average rates paid on the market are lower than bank lending rates and less rigid downwards) but also during periods of monetary easing due to faster pass-through.

Chart 3 – Non-financial corporations: NEU CP vs bank loans (estimated impact over a 4-week horizon)



Source: Banque de France. Confidence intervals at 1 and 2 standard errors. Parameters estimated using the OLS method. Short maturities are less than 3 months, long maturities less than 1 year.