

## LIQUIDITY CONDITIONS AND MONETARY POLICY OPERATIONS IN THE PERIOD FROM 12 NOVEMBER 2014 TO 27 JANUARY 2015

This box describes the ECB's monetary policy operations during the reserve maintenance periods ending on 9 December 2014 and 27 January 2015, i.e. the eleventh and twelfth maintenance periods of 2014. During the period under review, the interest rates on the main refinancing operations (MROs), the marginal lending facility and the deposit facility all remained unchanged at 0.05%, 0.30% and -0.20% respectively.<sup>1</sup> On 11 December 2014, the second targeted longer-term refinancing operation (TLTRO) was conducted, with €129.8 billion being allotted, compared with €82.6 billion for the first operation.<sup>2-3</sup> In addition to the new covered bond purchase programme (CBPP3), the first purchases under the new asset-backed securities purchase programme (ABSPP) took place at the end of November 2014.

### Liquidity needs

In the period under review, the aggregate daily liquidity needs of the banking system, defined as the sum of autonomous factors and reserve requirements, increased by €26 billion in comparison with the previous review period, that from 13 August to 11 November 2014, to average €605.7 billion. This increase was due to higher autonomous factors, which stood at an average level of €499.4 billion.

The increase in autonomous factors resulted from the combined effects of several components. Where liquidity-absorbing factors are concerned, banknotes in circulation increased by, on average, €24 billion. Developments followed the usual end-of-year pattern, with an increase of €41 billion between 12 November 2014 and 2 January 2015 preceding a decline until the end of the twelfth maintenance period. In addition, government deposits continued to decrease over the last maintenance period under review, to an average of €66 billion, compared with €72 billion in the previous maintenance period that ended in December 2014. Indeed, national treasuries increasingly tried to invest their excess liquidity in the market, which explains the lower volume of government deposits held with the Eurosystem to some extent.

Where liquidity-providing factors are concerned, net assets denominated in euro decreased by, on average, €7 billion to €526 billion. This reflected, among other things, an increase in foreign official institutions' euro denominated deposits with the Eurosystem, and reversed the trend observed in the preceding review period, when some foreign official institutions tried to reduce their cash holdings with the Eurosystem in order to avoid the application of a negative interest rate.

1 MROs continued to be conducted as fixed rate tender procedures with full allotment. The same procedure remained in use for the three-month longer-term refinancing operations (LTROs). The interest rate in each LTRO was fixed at the average of the rates on the MROs over the respective LTRO's lifetime.

2 With respect to the first TLTRO, see the box entitled "Liquidity conditions and monetary policy operations in the period from 13 August to 11 November 2014", *Monthly Bulletin*, ECB, December 2014 (available at: <https://www.ecb.europa.eu/pub/pdf/mobu/mb201412en.pdf>).

3 In the first two TLTROs conducted in September and December 2014, counterparties were entitled to an initial borrowing allowance equal to 7% of the total amount of their loans to the euro area non-financial private sector as at 30 April 2014, excluding loans to households for house purchase. All TLTROs are conducted as fixed rate tender procedures with full allotment, and the rate is fixed over the life of the operation. For the first two operations, the rate was set at the MRO rate prevailing at the time of the take-up, plus a fixed spread of 10 basis points.

**The volatility of autonomous factors increased considerably during the period under review**, reversing the decline observed in the previous period. This increase was due primarily to more volatile net assets denominated in euro, as well as to the demand for banknotes, which reflected the end-of-year pattern. Although the volatility of government deposits remained high, it was in line with that observed since the rate cut of September 2014.

**The average absolute error of weekly forecasts of autonomous factors increased considerably in the period under review**, from €4.8 billion to €8.7 billion, mainly on account of forecasting errors with respect to government deposits. It remains difficult to anticipate investment activities of treasuries against the background of increasingly negative short-term money market rates and volatile excess liquidity.

### Liquidity provision

**The average amount of liquidity provided through open market operations increased by €61 billion, to €759 billion, in the period under review**, on account of both the increase (of €44 billion) in the take-up in tender operations and the increase (of €17.4 billion) in outright portfolios.

**Liquidity provided through the tender operations increased to average €546.5 billion, compared with €502.7 billion in the previous period.** Overall, the decline resulting from early repayments of the three-year LTROs, in a total amount €111.7 billion, was more than offset by the €129.8 billion allotted in the second TLTRO, as well as by increases of €11 billion and €17.6 billion in the average take-up of the MROs and the three-month LTROs respectively. Given that the maturity of the two three-year LTROs was approaching, the pace of early repayments had accelerated. In particular, some counterparties repaid €39.8 billion on 17 December 2014, to participate into the second TLTRO, which was allotted on the same day.

**In addition, the liquidity provided through outright portfolios increased by, on average, €17.4 billion on the back of the implementation of the CBPP3 and the ABSPP.** These purchases (€37.2 billion and €2.3 billion respectively at the end of the period under review) largely offset the decline that resulted from the maturity of some bonds in the Securities Markets Programme portfolio, and in the two previous covered bond purchase programmes.

**Looking slightly beyond the period under review, the maturity of the first three-year LTRO on 29 January 2015 did not trigger any significant drop in excess liquidity**, which remained above €150 billion. Indeed, the repaid amount was partially offset by a higher take-up in both the three-month LTRO and the MRO, and coincided with a temporary decrease in the autonomous factors.

### Excess liquidity

**Excess liquidity rose by €35.1 billion to average €153 billion over the period under review, with significant differences between the two maintenance periods.** In the eleventh maintenance period, excess liquidity decreased slightly to a level of, on average, €105.1 billion, the lowest average level recorded since the settlement of the first three-year LTRO at the end of 2011. In the twelfth maintenance period, by contrast, excess liquidity increased considerably to average €176 billion, notably reflecting the allotment of the second TLTRO and the end-of-year effects.

**Excess liquidity fluctuated significantly**, especially during the twelfth maintenance period, which was also the first maintenance period with an extended length of 49 days.<sup>4</sup> From a low of €70.9 billion on 24 November 2014, excess liquidity rose to €261.2 billion on 31 December 2014, before declining to €126.5 billion on 27 January 2015, owing to higher autonomous factors and the relative decline in open market operations.

## EUROSYSTEM – liquidity situation

	12. November 2014 to 27. January 2015	13. August to 11. November		Twelfth maintenance period		Eleventh maintenance period	
<b>Liabilities – liquidity needs (averages, EUR billions)</b>							
<b>Autonomous liquidity factors</b>	<b>1,597.1</b>	<b>(+35.7)</b>	<b>1,561.4</b>	<b>1603.6</b>	<b>(+17.9)</b>	<b>1,585.7</b>	<b>(+8.5)</b>
Banknotes in circulation	996.2	(+23.9)	972.3	1,005.5	(+25.7)	979.8	(+6.2)
Government deposits	68.3	(-5.5)	73.8	66.3	(-5.3)	71.6	(-4.5)
Other autonomous factors	532.6	(+17.3)	515.3	531.7	(-2.5)	534.3	(+6.7)
<b>Monetary policy instruments</b>							
Current accounts	217.8	(+21.4)	196.3	236.3	(+50.8)	185.4	(-2.8)
Minimum reserve requirements	106.3	(+0.9)	105.4	106.2	(-0.2)	106.5	(+0.7)
Deposit facility	41.9	(+14.7)	27.1	50.2	(+23.0)	27.3	(-3.7)
Liquidity-absorbing fine-tuning operations	0.0	(+0.0)	0.0	0.0	(+0.0)	0.0	(+0.0)
<b>Assets – liquidity supply (averages, EUR billions)</b>							
<b>Autonomous liquidity factors</b>	<b>1,098.0</b>	<b>(+10.5)</b>	<b>1,087.5</b>	<b>1,098.6</b>	<b>(+1.7)</b>	<b>1,096.9</b>	<b>(+1.4)</b>
Net foreign assets	572.0	(+17.4)	554.6	576.4	(+12.2)	564.3	(+2.3)
Net assets denominated in euro	526.0	(-7.0)	532.9	522.2	(-10.4)	532.6	(-0.8)
<b>Monetary policy instruments</b>							
Open market operations	758.6	(+61.2)	697.4	791.3	(+89.8)	701.5	(+0.4)
Tender operations provided	546.5	(+43.8)	502.7	573.4	(+73.9)	499.5	(-8.2)
MROs	113.3	(+11.0)	102.3	119.0	(+15.7)	103.3	(+8.1)
Special-term refinancing operations	0.0	(+0.0)	0.0	0.0	(+0.0)	0.0	(+0.0)
Three-month LTROs	43.4	(+17.6)	25.8	49.0	(+15.5)	33.5	(+7.3)
Three-year LTROs	236.4	(-93.7)	330.1	211.5	(-68.5)	280.0	(-23.6)
Targeted LTROs	153.4	(+108.9)	44.5	193.9	(+111.3)	82.6	(+0.0)
Outright portfolios	212.1	(+17.4)	194.7	217.9	(+15.9)	202.0	(+8.6)
First covered bond purchase programme	29.0	(-2.9)	31.9	28.8	(-0.7)	29.5	(-1.4)
Second covered bond purchase programme	12.8	(-0.8)	13.6	12.8	(-0.1)	12.9	(-0.4)
Third covered bond purchase programme	25.0	(+23.9)	1.1	30.5	(+15.2)	15.3	(+12.5)
Securities Markets Programme	144.1	(-4.0)	148.1	144.1	(+0.1)	144.0	(-2.3)
Asset-backed securities purchase programme	1.2	(+1.2)	0.0	1.7	(+1.5)	0.2	(+0.2)
Marginal lending facility	0.4	(+0.2)	0.2	0.5	(+0.3)	0.2	(-0.0)
<b>Other liquidity-based information (averages, EUR billions)</b>							
Aggregate liquidity needs	605.7	(+26.1)	579.6	611.6	(+16.1)	595.4	(+7.7)
Autonomous factors	499.4	(+25.3)	474.1	505.3	(+16.3)	489.0	(+7.0)
Excess liquidity	153.0	(+35.1)	117.8	179.8	(+73.7)	106.0	(-7.2)
Repayment of three-year LTROs <sup>1)</sup>	111.7	(+36.5)	75.2	88.9	(+66.1)	22.8	(-0.7)
<b>Interest rate developments (percentages)</b>							
MROs	0.05	(-0.03)	0.08	0.05	(+0.00)	0.05	(+0.00)
Marginal lending facility	0.30	(-0.03)	0.33	0.30	(+0.00)	0.30	(+0.00)
Deposit facility	-0.20	(-0.03)	-0.17	-0.20	(+0.00)	-0.20	(+0.00)
EONIA average	-0.031	(-0.033)	0.002	-0.047	(-0.044)	-0.003	(+0.000)

Source: ECB

Note: Since all figures in the table are rounded, in some cases the figure indicated as the change relative to the previous period does not represent the difference between the rounded figures provided for these periods (differing by €0.1 billion).

1) For the repayments of the three-year LTROs the sum in EUR billions is used instead of the average.

4 A new reserve maintenance period calendar was implemented to align it to the new frequency of six weeks for Governing Council meetings.

**Given the higher level of excess liquidity, daily current account holdings increased considerably**, by €21 billion, on average, to €218 billion, as compared with the previous period. The use of the deposit facility also increased further, from an average of €27.1 to €41.9 billion. In the period under review, relative recourse to the deposit facility increased to 27% of excess reserves<sup>5</sup>, compared with an average of 23% during the previous review period. The increasing use of the deposit facility could signal a stronger interest by several counterparties for holding excess liquidity at the deposit facility for operational and regulatory purposes.

### Interest rate developments

**The EONIA averaged -0.3 basis point and -4.7 basis points in the eleventh and twelfth maintenance period respectively.** The decrease in the EONIA resulted from a slightly stronger pass-through of the September 2014 interest rate cut to short-term rates, which could partly relate to generally more ample liquidity conditions and a better acceptance of the possibility of passing the negative deposit facility rate on to the deposit base. However, overnight rates remained well above the deposit facility rate of -20 basis points.

<sup>5</sup> Average current account holdings in excess of minimum reserve requirements.