

Box 2

Liquidity conditions and monetary policy operations in the period from 22 April to 21 July 2015

This box describes the ECB's monetary policy operations during the third and fourth reserve maintenance periods of 2015, which ran from 22 April to 9 June 2015 and from 10 June to 21 July 2015 respectively. During the period under review, the interest rates on the main refinancing operations (MROs), the marginal lending facility and the deposit facility remained unchanged at 0.05%, 0.30% and -0.20% respectively.¹ On 24 June 2015, the fourth targeted longer-term refinancing operation (TLTRO) was settled for an amount of €73.8 billion, slightly more than markets expected but below the €97.8 billion allotted in March. This brought the total allotment in the first four TLTROs to €384 billion.² In addition, the Eurosystem continued buying public sector securities, covered bonds and asset-backed securities as part of its expanded asset purchase programme (APP) with a targeted rate of €60 billion per month.³

Liquidity needs

In the period under review, the average daily liquidity needs of the banking system, defined as the sum of autonomous factors and reserve requirements, increased by €24.6 billion compared with the previous review period to stand at €606.8 billion. The increase was explained mainly by higher average autonomous factors, which rose by €23.7 billion to €496.8 billion (see the table).

The increase in autonomous factors resulted mainly from an increase in liquidity-absorbing factors, including a significant change in the level of government deposits. The average level of government deposits increased by €19.5 billion to €85.6 billion. After the deposit facility rate was cut to -0.20% in September 2014, government deposits followed a downward trend, as the introduction of the negative deposit facility rate and the decision on the remuneration of government deposits⁴ gave national treasuries incentives to

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 LTRO's lifetime.

² For information on the TLTRO allotments, see similar boxes in previous issues of the Bulletin or the ECB's website: <http://www.ecb.europa.eu/mopo/implement/omo/html/index.en.html>.

³ Detailed information on the expanded APP is available on the ECB's website: <http://www.ecb.europa.eu/mopo/implement/omt/html/index.en.html>.

⁴ Available at: https://www.ecb.europa.eu/ecb/legal/pdf/oj_jol_2014_168_r_0015_en_txt.pdf.

reduce their cash holdings with the Eurosystem. However, the downward trend in government deposits halted in the second maintenance period of 2015, and deposits increased again in the third and fourth maintenance periods. Low market rates and abundant liquidity reduced the alternatives for treasuries to place cash. In addition, the average level of banknotes in circulation rose by €23.8 billion, reflecting a long-term upward trend in demand for banknotes and recent country-specific developments.

Among the liquidity-providing factors, net foreign assets continued to rise in the period under review but were offset by changes in other autonomous factors. The depreciation of the euro at the beginning of 2015 led to a revaluation of net foreign assets as of the second quarter of 2015. On average over the two reserve maintenance periods, net foreign assets were €42.2 billion higher than in the first and second maintenance periods, at €649.8 billion. However, the effect was offset by an increase of €45.4 billion in other autonomous factors. Apart from this, revaluations in other financial assets of the Eurosystem were the main driver of a €22.9 billion increase in assets denominated in euro, which only partly offset the increase in liquidity-absorbing factors.

The volatility of autonomous factors remained elevated during the period under review. That primarily reflected strong fluctuations in government deposits and somewhat high levels of volatility in demand for banknotes. As a result of the quarterly revaluations at the end of June, net foreign assets and net assets denominated in euro declined, which added to the volatility, but by less than in the previous review period.

The average absolute error in weekly forecasts of autonomous factors increased slightly in the period under review, rising to €6.4 billion, mostly as a result of higher forecasting errors for government deposits. This shows that it remained difficult to anticipate the investment activities of treasuries in the presence of increasingly negative short-term money market rates and high levels of excess liquidity.

Liquidity provision

The average amount of liquidity provided through open market operations – tender operations and outright purchases – increased by €165.3 billion in the period under review, rising to €937.2 billion. This increase was driven almost entirely by outright purchases, while tender operations remained almost unchanged.

The average level of liquidity provided through tender operations increased only slightly, rising to €513.2 billion, albeit with significant substitution among the operations. The two three-year LTROs which matured in the previous

review period and the reduced participation in regular operations (i.e. MROs and three-month LTROs) in this review period were, on average, compensated for by TLTRO allotments. While the average outstanding amount of TLTROs increased by €87.9 billion, the average for MROs decreased by €41.0 billion, the average for three-month LTROs decreased by €6.3 billion, and the average for the three-year LTROs (which stood at €38.6 billion in the previous review period) declined to zero.

Average liquidity provided through outright portfolios increased by €163.4 billion to €424.0 billion owing to the implementation of the expanded APP. The increases in the average liquidity provided by the public sector purchase programme, the third covered bond purchase programme and the asset-backed securities purchase programme (which rose by €135.4 billion, €31.7 billion and €3.7 billion respectively) more than offset the declines caused by the maturing of some bonds held under the Securities Markets Programme and the previous two covered bond purchase programmes.

Excess liquidity

Excess liquidity increased further during the review period, rising to an average of €329.2 billion, on account of the APP and the TLTROs. That increase was fairly evenly distributed across the two maintenance periods, with the respective increases being €73.0 billion and €79.2 billion. While the monthly APP purchases support a steady upward trend in excess liquidity, swings in autonomous factors may contribute to significant fluctuations around this trend within a maintenance period.

Average daily current account holdings increased by €95.8 billion to €339.4 billion on account of the higher level of excess liquidity. Average use of the deposit facility also increased further, rising from €55.5 billion to €101.3 billion. Average recourse to the deposit facility increased only slightly as a percentage of excess liquidity, standing at 46%, compared with 42% in the previous review period.

Interest rate developments

Reflecting the increase in excess liquidity and growing acceptance of trading at negative rates, money market rates decreased further in the period under review. The EONIA decreased to averages of -0.098% and -0.119% in the third and fourth maintenance periods respectively, compared with an average of -0.045% in the previous review period. In the secured segment, overnight rates decreased to levels close to the deposit facility rate. In particular, average overnight repo rates

Eurosystem liquidity situation

	22 April to 21 July	28 January to 21 April	Fourth maintenance period	Third maintenance period
Liabilities – liquidity needs (averages; EUR billions)				
Autonomous liquidity factors	1,690.3 (+88.7)	1,601.6	1,696.2 (+11.0)	1,685.2 (+58.0)
Banknotes in circulation	1,034.5 (+23.8)	1,010.7	1,042.7 (+15.3)	1,027.4 (+11.5)
Government deposits	85.6 (+19.5)	66.1	96.3 (+19.8)	76.5 (+6.3)
Other autonomous factors	570.2 (+45.4)	524.8	557.1 (-24.2)	581.3 (+40.3)
Monetary policy instruments				
Current accounts	339.4 (+95.8)	243.6	381.4 (+78.0)	303.4 (+41.6)
Minimum reserve requirements	111.2 (+0.9)	109.1	112.3 (+1.9)	110.3 (-0.2)
Deposit facility	101.3 (+45.8)	55.5	103.1 (+3.4)	99.7 (+31.1)
Liquidity-absorbing fine-tuning operations	0.0 (+0.0)	0.0	0.0 (+0.0)	0.0 (+0.0)
Assets – liquidity supply (averages; EUR billions)				
Autonomous liquidity factors	1,193.8 (+65.1)	1,128.7	1,183.2 (-19.8)	1,203.0 (+40.8)
Net foreign assets	649.8 (+42.2)	607.6	642.9 (-12.8)	655.7 (+29.8)
Net assets denominated in euro	544.1 (+22.9)	521.1	540.3 (-7.0)	547.3 (+11.0)
Monetary policy instruments				
Open market operations	937.2 (+165.3)	771.9	997.5 (+111.9)	885.6 (+90.0)
Tender operations	513.2 (+2.0)	511.2	525.7 (+23.2)	502.5 (-2.4)
MROs	89.7 (-41.0)	130.7	82.4 (-13.4)	95.9 (-23.0)
Special-term refinancing operations	0.0 (+0.0)	0.0	0.0 (+0.0)	0.0 (+0.0)
Three-month LTROs	90.5 (-6.3)	96.9	83.8 (-12.6)	96.3 (-12.1)
Three-year LTROs	0.0 (-38.6)	38.6	0.0 (+0.0)	0.0 (+0.0)
Targeted LTROs	333.0 (+87.9)	245.1	359.5 (+49.2)	310.3 (+32.6)
Outright portfolios	424.0 (+163.4)	260.7	471.8 (+88.6)	383.1 (+92.6)
First covered bond purchase programme	24.4 (-2.1)	26.5	23.3 (-2.0)	25.3 (-0.7)
Second covered bond purchase programme	11.1 (-0.8)	11.9	10.8 (-0.5)	11.3 (-0.2)
Third covered bond purchase programme	87.1 (+31.7)	55.4	95.1 (+14.9)	80.2 (+16.7)
Securities Markets Programme	136.6 (-4.5)	141.1	134.6 (-3.7)	138.3 (-2.5)
Asset-backed securities purchase programme	7.5 (+3.7)	3.8	8.8 (+2.4)	6.4 (+1.7)
Public sector purchase programme	157.4 (+135.4)	22.0	199.1 (+77.5)	121.6 (+77.6)
Marginal lending facility	0.2 (-0.1)	0.3	0.3 (+0.2)	0.1 (-0.1)
Other liquidity-based information (averages; EUR billions)				
Aggregate liquidity needs	606.8 (+24.6)	582.2	622.9 (+29.9)	593.0 (+17.2)
Autonomous factors	496.8 (+23.7)	473.1	513.3 (+30.7)	482.6 (+17.4)
Excess liquidity	329.2 (+139.5)	189.7	371.9 (+79.2)	292.7 (+73.0)
Interest rate developments (percentages)				
MROs	0.05 (+0.00)	0.05	0.05 (+0.00)	0.05 (+0.00)
Marginal lending facility	0.30 (+0.00)	0.30	0.30 (+0.00)	0.30 (+0.00)
Deposit facility	-0.20 (+0.00)	-0.20	-0.20 (+0.00)	-0.20 (+0.00)
EONIA average	-0.107 (-0.063)	-0.045	-0.119 (-0.021)	-0.098 (-0.037)

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).

in the GC Pooling⁵ market declined to -0.18% and -0.17% for the standard and extended collateral baskets respectively, down 5 and 7 basis points compared with the previous review period.

⁵ The GC Pooling market allows repurchase agreements to be traded on the Eurex platform against standardised baskets of collateral.