

Box 2

Liquidity conditions and monetary policy operations in the period from 27 January 2016 to 26 April 2016

This box describes the ECB's monetary policy operations during the first and second reserve maintenance periods of 2016, which ran from 27 January to 15 March and from 16 March to 26 April respectively. On 10 March 2016, the Governing Council announced a comprehensive package of monetary policy decisions, which included a cut in all key ECB interest rates, an expansion of the asset purchase programme in terms of monthly volumes and asset eligibility, plus a series of four new targeted longer-term refinancing operations (TLTROs)⁷. Thus, during the second maintenance period the interest rates on the main refinancing operations (MROs), the marginal lending facility and the deposit facility were lowered to 0.00%, 0.25% and -0.40% respectively as of 16 March⁸. On 30 March 2016 the seventh TLTRO was settled for €7.3 billion, compared with €18.3 billion in the previous TLTRO in December 2015. This brought the total allotted amount in the first seven TLTROs to €425.3 billion.⁹ In addition, the Eurosystem continued buying public sector securities, covered bonds and asset-backed securities as part of its asset purchase programme (APP)¹⁰, with a targeted purchase amount that increased from €60 billion to €80 billion per month in the second maintenance period.

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, stood at €778.6 billion, an increase of €72 billion compared with the previous review period (i.e. the seventh and eighth maintenance periods of 2015). This greater liquidity need is almost exclusively attributable to an increase in autonomous factors, which rose on average by €71.1 billion to stand at €664.5 billion (see table).

⁷ The ECB's press release of 10 March 2016 is available on the ECB's website: <http://www.ecb.europa.eu/press/pr/date/2016/html/pr160310.en.html>

⁸ 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 relevant LTRO's lifetime. TLTROs continued to be conducted as fixed-rate tender procedures with an interest rate equal to the MRO rate.

⁹ For information on the amounts allotted in TLTROs, see similar boxes in previous issues of the Economic Bulletin, as well as information on open market operations on the ECB's website: www.ecb.europa.eu/mopo/implement/omo/html/index.en.html.

¹⁰ Detailed information on the expanded APP is available on the ECB's website: www.ecb.europa.eu/mopo/implement/omt/html/index.en.html

Table
Eurosystem liquidity situation

	27 Jan. 2016 to 26 Apr. 2016		28 Oct. 2015 to 26 Jan. 2016		Second maintenance period		First maintenance period	
Liabilities – liquidity needs (averages; EUR billions)								
Autonomous liquidity factors	1,770.1	(+54.3)	1,715.8	1,799.8	(+55.2)	1,744.6	(+24.5)	
Banknotes in circulation	1,066.1	(+0.9)	1,065.3	1,069.3	(+5.9)	1,063.4	(-9.4)	
Government deposits	130.3	(+42.7)	87.6	147.4	(+31.7)	115.6	(+33.2)	
Other autonomous factors	573.7	(+10.7)	563.0	583.2	(+17.6)	565.6	(+0.8)	
Monetary policy instruments								
Current accounts	562.7	(+34.9)	527.9	570.0	(+13.5)	556.5	(-0.6)	
Minimum reserve requirements	114.1	(+0.9)	113.2	114.3	(+0.5)	113.9	(+0.6)	
Deposit facility	245.0	(+59.3)	185.7	262.0	(+31.5)	230.5	(+33.9)	
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	1,105.9	(-17.0)	1,122.9	1,113.0	(+13.3)	1,099.8	(-24.0)	
Net foreign assets	616.8	(+5.0)	611.9	627.3	(+19.5)	607.8	(-3.8)	
Net assets denominated in euro	489.0	(-22.0)	511.0	485.7	(-6.2)	491.9	(-20.2)	
Monetary policy instruments								
Open market operations	1,472.2	(+165.3)	1,306.9	1,518.9	(+86.8)	1,432.1	(+81.8)	
Tender operations	521.9	(-10.6)	532.5	518.8	(-5.7)	524.5	(-14.0)	
MROs	60.6	(-8.4)	69.1	58.1	(-4.8)	62.9	(-8.7)	
Special-term refinancing operations	0.0	(+0.0)	0.0	0.0	(+0.0)	0.0	(+0.0)	
Three-month LTROs	41.1	(-14.3)	55.3	37.9	(-5.8)	43.7	(-7.9)	
Three-year LTROs	0.0	(+0.0)	0.0	0.0	(+0.0)	0.0	(+0.0)	
Targeted LTROs	420.2	(+12.1)	408.1	422.8	(+4.9)	417.9	(+2.6)	
Outright portfolios	950.3	(+175.9)	774.4	1,000.1	(+92.5)	907.6	(+95.8)	
First covered bond purchase programme	19.5	(-1.1)	20.6	19.2	(-0.6)	19.8	(-0.7)	
Second covered bond purchase programme	8.8	(-0.9)	9.8	8.7	(-0.3)	9.0	(-0.6)	
Third covered bond purchase programme	161.3	(+21.1)	140.2	167.0	(+10.7)	156.4	(+11.9)	
Securities markets programme	120.8	(-2.3)	123.1	119.7	(-2.0)	121.7	(-1.2)	
Asset-backed securities purchase programme	18.7	(+3.4)	15.2	19.2	(+0.9)	18.3	(+2.8)	
Public sector purchase programme	621.2	(+155.7)	465.5	666.3	(+83.8)	582.5	(+83.6)	
Marginal lending facility	0.1	(-0.0)	0.1	0.2	(+0.1)	0.1	(-0.1)	
Other liquidity-based information (averages; EUR billions)								
Aggregate liquidity needs	778.6	(+72.0)	706.5	801.4	(+42.4)	759.0	(+48.9)	
Autonomous factors*	664.5	(+71.1)	593.3	687.1	(+41.9)	645.1	(+48.3)	
Excess liquidity	693.6	(+93.3)	600.3	717.5	(+44.4)	673.1	(+32.9)	
Interest rate developments (percentages)								
MROs	0.03	(-0.02)	0.05	0.00	(-0.05)	0.05	(+0.00)	
Marginal lending facility	0.28	(-0.02)	0.30	0.25	(-0.05)	0.30	(+0.00)	
Deposit facility	-0.35	(-0.09)	-0.25	-0.40	(-0.10)	-0.30	(+0.00)	
EONIA average	-0.286	(-0.101)	-0.184	-0.340	(-0.101)	-0.239	(-0.013)	

Source: ECB.

*The overall value of the autonomous factors also includes the "items in course of settlement".

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).

The increase in autonomous factors was mainly a result of an increase in liquidity-absorbing factors.

The main contributor to this increase was government deposits, which increased on average by €42.7 billion to stand at €130.3 billion in the period under review. This increase was equally divided between the first and second maintenance periods. The increase in government deposits reflects the reluctance of some treasuries to place their excess liquidity at negative rates in the market, owing to both demand and rate constraints. Other autonomous factors averaged €573.7 billion, up €10.7 billion from the previous review period, mainly reflecting an increase in other liabilities to euro area residents denominated in euro. In addition, banknotes averaged €1,066.1 billion, up €0.9 billion compared with the previous review period, contributing the least to the overall increase in autonomous factors.

Liquidity-providing factors declined over the period on the back of lower net assets denominated in euro.

Net assets denominated in euro averaged €489.0 billion, down €22 billion from the previous review period. Most of this fall occurred during the first maintenance period on account of a decline in financial assets held by the Eurosystem for purposes other than monetary policy, together with a small increase in liabilities held by foreign institutions with the national central banks. Foreign institutions increased their holdings despite the further cut to the deposit facility rate, possibly owing to fewer attractive investment alternatives in the market. In addition, net foreign assets increased by €5 billion to stand at €616.8 billion. This increase occurred exclusively in the second maintenance period, while the first maintenance period saw a marginal decline. This appreciation of net foreign assets was mainly driven by an increase in the US dollar value of gold, which was only partially offset by an appreciation of the euro in the first quarter of 2016.

The volatility of autonomous factors remained elevated during the period under review.

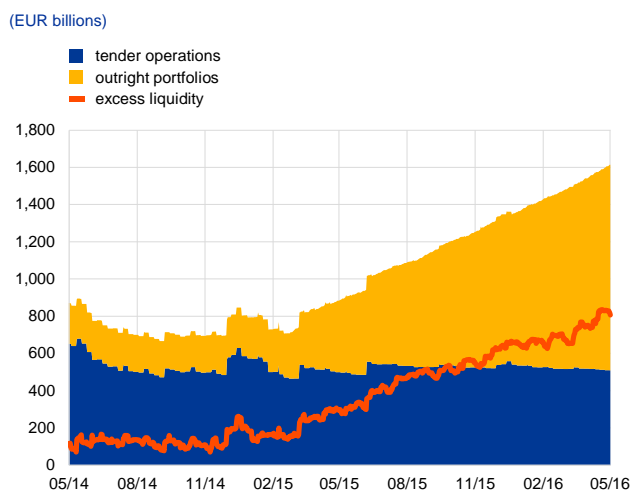
Such volatility primarily reflected strong fluctuations in government deposits and, to a lesser extent, the quarterly revaluation of net foreign assets and net assets denominated in euro. The level of volatility remained broadly unchanged compared to the previous review period, while the level of autonomous factors continued its upward trend. Still, the average absolute error in weekly forecasts of autonomous factors declined by €1.4 billion to €6.0 billion in the period under review, due to lower forecast errors for government deposits.

Liquidity provided through monetary policy instruments

The average amount of liquidity provided through open market operations – both tender operations and the asset purchase programme – increased by €165.3 billion to stand at €1,472.2 billion (see chart). This increase was entirely due to the Asset Purchase Programme.

Chart

Evolution of monetary policy instruments and excess liquidity



Source: ECB.

The average amount of liquidity provided through tender operations declined slightly – by €10.6 billion – during the period under review to stand at €21.9 billion.

The increase in average liquidity provided by the TLTROs was more than offset by a decrease in liquidity provided by regular operations. More specifically, the liquidity provided in MROs and the three-month LTROs decreased by €8.4 billion and €14.3 billion respectively, while the outstanding amount of TLTROs increased by €12.1 billion over the review period. As the only TLTRO so far in 2016 was allotted in March, the overall decline in liquidity provided through tender operations was less pronounced in the second maintenance period than in the first.

The average liquidity amount provided through the asset purchase programme increased by €175.9 billion to stand at €50.3 billion, mainly on account of the public sector purchase programme.

The average liquidity provided by the public sector purchase programme, the third covered bond purchase programme and the asset-backed securities purchase programme rose by €155.7 billion, €21.1 billion and €3.4 billion respectively. The redemption of bonds held under the securities markets programme and the previous two covered bond purchase programmes amounted to €4.3 billion.

Excess liquidity

As a consequence of the developments detailed above, average excess liquidity rose by €93.3 billion to stand at €93.6 billion in the period under review (see chart). The increase in liquidity was more noticeable in the second maintenance period, when average excess liquidity rose by €44.4 billion on account of increased purchases and slightly smaller increases in autonomous factors compared with the first maintenance period. The relatively small increase during the first maintenance period was mainly driven by the larger rise in autonomous factors, which partially absorbed the increase in the asset purchase programme.

The rise in excess liquidity was mostly reflected in higher average recourse to the deposit facility, which increased by €59.3 billion to stand at €45 billion in the period under review. Average current account holdings also increased, albeit to a lesser extent, by €34.9 billion, to stand at €562.7 billion.

Interest rate developments

In the review period, money market rates decreased further on the back of the cut in the deposit facility rate to -0.40%. In the unsecured market, the EONIA (euro overnight index average) averaged -0.286%, down from an average of -

0.184% in the previous review period. While the EONIA was almost flat in the first maintenance period, the cut in the deposit facility rate by an additional 0.10%, with effect from the start of the second maintenance period, led to a 0.101 percentage-point decline in the EONIA. In the context of the continued increase in excess liquidity, the pass-through of the negative rates was almost immediate. Furthermore, secured overnight rates declined in line with the deposit facility rate to levels closer to the deposit facility rate. Average overnight repo rates in the GC Pooling market¹¹ declined to -0.332% and -0.321% for the standard and extended collateral baskets respectively, down 0.088 percentage point and 0.083 percentage point compared with the previous review period.

¹¹ The GC Pooling market allows repurchase agreements to be traded on the Eurex platform against standardised baskets of collateral.