

2 Liquidity conditions and monetary policy operations in the period from 27 July to 25 October 2016

This box describes the ECB's monetary policy operations during the fifth and sixth reserve maintenance periods of 2016, which ran from 27 July to 13 September and from 14 September to 25 October respectively. During this period the interest rates on the main refinancing operations (MROs), the marginal lending facility and the deposit facility remained unchanged at 0.00%, 0.25% and -0.40% respectively. On 28 September the second targeted longer-term refinancing operation (TLTRO) in the second series of TLTROs (TLTRO-II) was settled for an amount of €45.3 billion. The liquidity injected by means of that operation was partially offset by mandatory repayments for the first series of TLTROs (TLTRO-I) and voluntary repayments for the first TLTRO-I operation, totalling €11.0 billion. That net liquidity injection of €34.2 billion resulted in the total outstanding amount for both TLTRO programmes rising to €497.2 billion at the end of the review period. In addition, the Eurosystem continued buying public sector securities, covered bonds, asset-backed securities and corporate sector securities as part of its expanded asset purchase programme (APP), with a target of €80 billion of purchases on average per month.

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 €908.0 billion, an increase of €65.0 billion compared with the previous review period (i.e. the third and fourth maintenance periods of 2016). This increase in liquidity needs was attributable almost exclusively to an increase in average net autonomous factors, which rose by €63.2 billion to stand at a record €790.8 billion, while the minimum reserve requirements rose only marginally (see the table).

Table
Eurosystem liquidity situation

	Current period (27 July to 25 October 2016)		Previous period (27 April to 26 July 2016)		Sixth maintenance period (14 September to 25 October 2016)		Fifth maintenance period (27 July to 13 September 2016)	
Liabilities – liquidity needs (averages; EUR billions)								
Autonomous liquidity factors	1,916.7	(+65.0)	1,851.7	1,938.4	(+40.3)	1,898.0	(+0.3)	
Banknotes in circulation	1,095.5	(+13.3)	1,082.3	1,094.7	(-1.5)	1,096.2	(+9.1)	
Government deposits	151.9	(+0.2)	151.6	168.3	(+30.5)	137.8	(-37.7)	
Other autonomous factors	669.3	(+51.5)	617.7	675.3	(+11.3)	664.0	(+28.9)	
Monetary policy instruments								
Current accounts	762.0	(+120.1)	641.9	777.4	(+28.6)	748.8	(+91.4)	
Minimum reserve requirements	117.2	(+1.7)	115.5	117.8	(+1.1)	116.7	(+0.8)	
Deposit facility	369.9	(+53.3)	316.6	387.3	(+32.2)	355.1	(+32.0)	
Liquidity-absorbing fine-tuning operations	-	(+0.0)	-	-	(+0.0)	-	(+0.0)	
Assets – liquidity supply (averages; EUR billions)								
Autonomous liquidity factors	1,126.2	(+1.7)	1,124.5	1,115.5	(-19.8)	1,135.3	(+3.0)	
Net foreign assets	686.3	(+32.1)	654.2	687.8	(+2.8)	685.0	(+18.9)	
Net assets denominated in euro	439.9	(-30.4)	470.3	427.8	(-22.6)	450.3	(-15.9)	
Monetary policy instruments								
Open market operations	1,922.7	(+236.8)	1,685.9	1,987.9	(+121.0)	1,866.9	(+120.6)	
Tender operations	533.5	(+18.4)	515.0	540.9	(+13.7)	527.2	(+8.0)	
MROs	40.6	(-9.8)	50.5	37.4	(-6.1)	43.5	(-4.1)	
Three-month LTROs	19.3	(-8.2)	27.6	17.7	(-3.0)	20.7	(-3.8)	
TLTRO-I operations	60.3	(-253.9)	314.1	56.3	(-7.4)	63.7	(-155.2)	
TLTRO-II operations	413.2	(+290.4)	122.9	429.5	(+30.2)	399.3	(+171.1)	
Outright portfolios	1,389.2	(+218.4)	1,170.9	1,447.0	(+107.3)	1,339.7	(+112.6)	
First covered bond purchase programme	15.9	(-2.4)	18.3	15.2	(-1.3)	16.5	(-1.3)	
Second covered bond purchase programme	7.4	(-0.7)	8.0	7.2	(-0.3)	7.5	(-0.2)	
Third covered bond purchase programme	191.6	(+11.8)	179.7	194.7	(+5.9)	188.8	(+5.6)	
Securities Markets Programme	107.1	(-4.0)	111.1	105.4	(-3.1)	108.5	(-2.4)	
Asset-backed securities purchase programme	20.5	(+1.0)	19.5	20.7	(+0.4)	20.3	(+0.4)	
Public sector purchase programme	1,023.0	(+192.3)	830.7	1,072.9	(+92.6)	980.3	(+99.1)	
Corporate sector purchase programme	23.9	(+20.4)	3.5	30.8	(+12.9)	17.9	(+11.4)	
Marginal lending facility	0.1	(-0.1)	0.2	0.1	(+0.0)	0.0	(-0.1)	
Other liquidity-based information (averages; EUR billions)								
Aggregate liquidity needs	908.0	(+65.0)	843.1	941.1	(+61.4)	879.7	(-2.0)	
Autonomous factors ¹	790.8	(+63.2)	727.6	823.3	(+60.3)	763.0	(-2.9)	
Excess liquidity	1,014.7	(+171.9)	842.8	1,046.8	(+59.6)	987.2	(+122.6)	
Interest rate developments (averages; percentages)								
MROs	0.00	(+0.00)	0.00	0.00	(+0.00)	0.00	(+0.00)	
Marginal lending facility	0.25	(+0.00)	0.25	0.25	(+0.00)	0.25	(+0.00)	
Deposit facility	-0.40	(+0.00)	-0.40	-0.40	(+0.00)	-0.40	(+0.00)	
EONIA	-0.342	(-0.008)	-0.333	-0.345	(-0.006)	-0.339	(-0.009)	

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

Liquidity-providing autonomous factors increased slightly over the review period, as the continuing decline in net assets denominated in euro was compensated for by an increase in net foreign assets. Average net assets

denominated in euro fell to €439.9 billion, down €30.4 billion from the previous review period, on account of a decline in financial assets held by the Eurosystem for purposes other than monetary policy, combined with an increase in liabilities held with national central banks by foreign official institutions. The fact that those institutions increased their holdings was possibly due to the dearth of attractive alternatives in the market. Net foreign assets increased by €32.1 billion to stand at €686.3 billion, mainly as a result of quarterly portfolio revaluations reflecting the weakening of the euro (which were ultimately offset by equivalent changes affecting the set of other liquidity-absorbing autonomous factors).

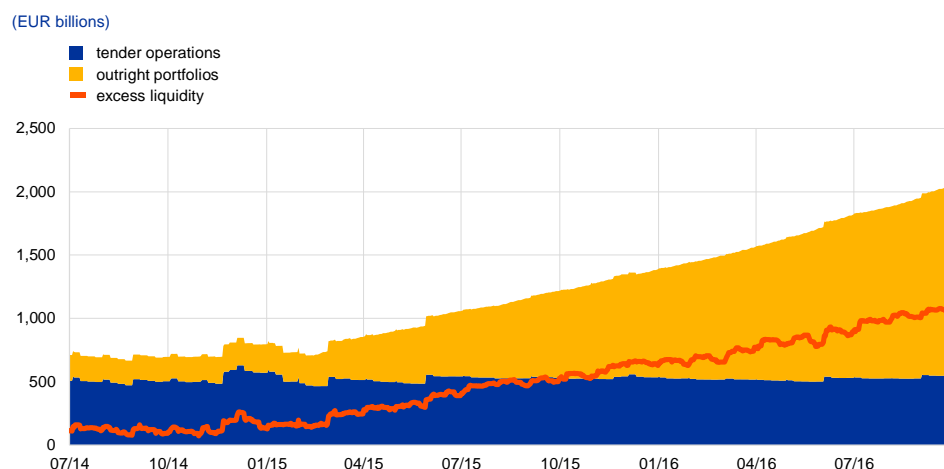
The volatility of autonomous factors remained elevated, broadly unchanged from the previous review period. That volatility primarily reflected both fluctuations in government deposits and – albeit to a much lesser extent – the quarterly revaluation of net foreign assets and net assets denominated in euro. At the same time, the average absolute error in the Eurosystem’s weekly forecasts of autonomous factors increased by €5.1 billion to stand at €11.3 billion in the period under review.

Liquidity provided through monetary policy instruments

The average amount of liquidity provided through open market operations – both tender operations and the asset purchase programmes – increased by €236.8 billion to stand at €1,922.7 billion (see the chart). That increase was mostly due to the ECB’s expanded asset purchase programme.

Chart

Evolution of monetary policy instruments and excess liquidity



Source: ECB

The average amount of liquidity provided through tender operations increased by €18.4 billion to stand at €33.5 billion. The increase in the liquidity provided by

the TLTROs more than offset the decrease in the liquidity supplied via regular operations. Specifically, liquidity provided via MROs and three-month LTROs decreased by €9.8 billion and €8.2 billion respectively, while the outstanding amount of TLTROs increased by an average of €36.5 billion as a net effect of the settlement of the second TLTRO-II operation, mandatory repayments for TLTRO-I operations and voluntary repayments for the first TLTRO-I operation.

Average liquidity provided through the expanded APP increased by €218.4 billion to stand at €1,389.2 billion, mainly on account of the public sector purchase programme. Average liquidity provided by the public sector purchase programme, the third covered bond purchase programme, the asset-backed securities purchase programme and the corporate sector purchase programme rose by €192.3 billion, €11.8 billion, €1.0 billion and €20.4 billion respectively. The redemption of bonds held under the Securities Markets Programme and the first and second covered bond purchase programmes totalled €7.1 billion.

Excess liquidity

As a consequence of the developments detailed above, average excess liquidity rose by €171.9 billion to stand at €1,014.7 billion in the period under review (see the chart). Most of that increase came in the fifth maintenance period, when excess liquidity rose by €122.6 billion on account of liquidity provided by the expanded APP, with autonomous factors remaining broadly unchanged. The smaller increase of €59.6 billion in the sixth maintenance period was mainly the result of a rise in autonomous factors, which partially absorbed the liquidity provided by the expanded APP.

The increase in excess liquidity was reflected mainly in higher average current account holdings, which rose by €120.1 billion to stand at €762.0 billion in the period under review. Average recourse to the deposit facility increased by €53.3 billion to stand at €369.9 billion.

Interest rate developments

Overnight money market rates remained close to – or even below – the deposit facility rate in the review period. In the unsecured market, the EONIA (euro overnight index average) averaged –0.342%, down marginally from an average of –0.333% in the previous review period. The EONIA fluctuated within a narrow range, with a high of –0.321% and a low of –0.354%. Furthermore, average overnight repo rates in the GC Pooling market declined to –0.401% and –0.395% for the standard and extended collateral baskets respectively, down 0.005 percentage point and 0.008 percentage point relative to the previous review period. Those repo rates also fluctuated within a narrow range with the exception of the end of the third quarter, when the overnight GC Pooling rate for the standard collateral basket spiked downwards to stand at –0.457%. The spike reflected the reduced supply of high

quality collateral in the repo market around regulatory reporting days, such as the quarter-end.