

4 Liquidity conditions and monetary policy operations in the period from 26 October 2016 to 24 January 2017

This box describes the ECB's monetary policy operations during the seventh and eighth reserve maintenance periods of 2016, which ran from 26 October to 13 December 2016 and from 14 December 2016 to 24 January 2017 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 21 December, the third targeted longer-term refinancing operation (TLTRO) in the second series of TLTROs (TLTRO-II) was settled for an amount of €62.2 billion. The liquidity injected by that operation was partially offset by voluntary repayments for the second TLTRO-I operation, which totalled €14.2 billion. The net liquidity injection of €48.0 billion resulted in the total outstanding amount for both TLTRO programmes rising to €545.7 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 €993.2 billion, an increase of €85.2 billion compared with the previous review period (i.e. the fifth and sixth maintenance periods of 2016). This increase in liquidity needs was attributable almost exclusively to an increase in average net autonomous factors, which rose by €84.3 billion to a record high of €875.2 billion, while minimum reserve requirements rose only marginally (see the table).

Table
Eurosystem liquidity situation

	26 October 2016 to 24 January 2017	27 July 2016 to 25 October 2016	Eighth maintenance period		Seventh maintenance period		
Liabilities – liquidity needs (averages; EUR billions)							
Autonomous liquidity factors	1,944.8	(+28.1)	1,916.7	1,942.8	(-3.7)	1,946.5	(+8.1)
Banknotes in circulation	1,110.5	(+14.9)	1,095.5	1,119.1	(+16.1)	1,103.1	(+8.3)
Government deposits	152.0	(+0.1)	151.9	143.0	(-16.6)	159.7	(-8.6)
Other autonomous factors	682.3	(+13.0)	669.3	680.6	(-3.2)	683.7	(+8.4)
Monetary policy instruments							
Current accounts	867.8	(+105.8)	762.0	919.0	(+95.2)	823.9	(+46.5)
Minimum reserve requirements	118.0	(+0.8)	117.2	118.8	(+1.4)	117.4	(-0.4)
Deposit facility	437.1	(+67.2)	369.9	434.4	(-4.9)	439.4	(+52.1)
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	1,070.0	(-56.2)	1,126.2	1,042.1	(-51.8)	1,093.9	(-21.6)
Net foreign assets	681.5	(-4.7)	686.3	674.7	(-12.8)	687.4	(-0.4)
Net assets denominated in euro	388.4	(-51.5)	439.9	367.4	(-39.1)	406.5	(-21.3)
Monetary policy instruments							
Open market operations	2,179.9	(+257.2)	1,922.7	2,254.3	(+138.3)	2,116.0	(+128.1)
Tender operations	563.2	(+29.7)	533.5	583.5	(+37.8)	545.8	(+4.9)
MROs	34.3	(-6.4)	40.6	34.6	(+0.6)	34.0	(-3.4)
Three-month LTROs	13.3	(-6.1)	19.3	11.7	(-2.9)	14.6	(-3.1)
TLTRO-I operations	47.2	(-13.1)	60.3	40.8	(-11.8)	52.6	(-3.7)
TLTRO-II operations	468.5	(+55.2)	413.2	496.4	(+51.8)	444.6	(+15.1)
Outright portfolios	1,616.7	(+227.4)	1,389.2	1,670.8	(+100.6)	1,570.2	(+123.2)
First covered bond purchase programme	13.1	(-2.8)	15.9	12.5	(-1.0)	13.5	(-1.7)
Second covered bond purchase programme	7.0	(-0.4)	7.4	6.9	(-0.1)	7.0	(-0.2)
Third covered bond purchase programme	202.7	(+11.2)	191.6	205.0	(+4.2)	200.8	(+6.1)
Securities Markets Programme	102.2	(-4.9)	107.1	102.2	(-0.0)	102.2	(-3.2)
Asset-backed securities purchase programme	22.4	(+1.9)	20.5	23.0	(+1.0)	21.9	(+1.2)
Public sector purchase programme	1,221.2	(+198.2)	1,023.0	1,268.6	(+88.0)	1,180.6	(+107.7)
Corporate sector purchase programme	48.0	(+24.2)	23.9	52.6	(+8.5)	44.1	(+13.3)
Marginal lending facility	0.2	(+0.1)	0.1	0.2	(+0.1)	0.2	(+0.1)
Other liquidity-based information (averages; EUR billions)							
Aggregate liquidity needs	993.2	(+85.2)	908.0	1,019.9	(+49.5)	970.3	(+29.3)
Autonomous factors ¹	875.2	(+84.3)	790.8	901.1	(+48.2)	852.9	(+29.6)
Excess liquidity	1,186.7	(+172.0)	1,014.7	1,234.5	(+88.8)	1,145.7	(+98.9)
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	-0.350	(-0.008)	-0.342	-0.351	(-0.003)	-0.348	(-0.003)

Source: ECB.

Notes: 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".

The increase in autonomous factors was largely the result of an increase in liquidity-absorbing factors. The main contributor to that increase was average demand for banknotes, which increased by €14.9 billion to stand at €1,110.5 billion, broadly in line with usual year-end patterns. Average other autonomous factors also increased, rising by €13.0 billion to stand at €682.3 billion. Average government deposits were more or less unchanged, increasing by just €0.1 billion to stand at €152.0 billion.

Liquidity-providing autonomous factors decreased over the review period, as a result of the continuing decline in net assets denominated in euro, coupled with a slight decrease in net foreign assets. Average net assets denominated in euro fell to €388.4 billion, down €51.5 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. It is likely that these institutions increased their holdings as a result of limited investment opportunities in the market. Average net foreign assets decreased by €4.7 billion to €681.5 billion.

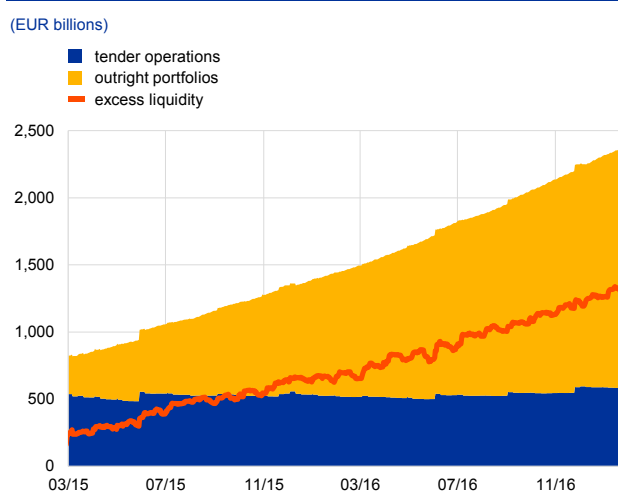
The volatility of autonomous factors remained elevated, broadly unchanged from the previous review period. That volatility primarily reflected fluctuations in both government deposits and net assets denominated in euro.

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 €257.2 billion to stand at €2,179.9 billion (see the chart). This increase was primarily 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 €29.7 billion to stand at €563.2 billion. The increase in the liquidity provided by TLTROs more than offset the decline in the liquidity supplied via regular operations. Average liquidity provided via MROs and three-month LTROs decreased by €6.4 billion and €6.1 billion respectively, while the average outstanding amount of TLTROs increased by €42.1 billion, largely as a net effect of the settlement of the third TLTRO-II operation and voluntary early repayments for funds borrowed via the second TLTRO-I operation.

Average liquidity provided through the APP increased by €227.4 billion to stand at €1,616.7 billion, mainly on account of the public sector purchase programme (PSPP). 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 €198.2 billion, €11.2 billion, €1.9 billion and €24.2 billion respectively. The redemption of bonds held under the Securities Markets Programme and the two previous covered bond purchase programmes totalled €8.1 billion.

Excess liquidity

As a consequence of the developments detailed above, average excess liquidity rose by €172.0 billion to stand at €1,186.7 billion in the period under review (see the chart). In the seventh maintenance period, average excess liquidity rose by €98.9 billion on account of liquidity provided by the APP. The smaller increase of €88.8 billion in the eighth maintenance period was mainly the result of a €51.8 billion decline in liquidity-providing autonomous factors, which partially offset the liquidity provided by the expanded asset purchase programme. In addition, the pace of asset purchases under the purchase programmes was somewhat slower in the eighth maintenance period owing to the Christmas period.

The increase in excess liquidity was mainly reflected in higher average current account holdings, which rose by €105.8 billion to stand at €867.8 billion in the period under review. Average recourse to the deposit facility increased by €67.2 billion to stand at €437.1 billion.

Interest rate developments

Overnight money market rates remained close to the deposit facility rate (with some rates falling below it), while record low rates were observed over the year-end period in the repo market. In the unsecured market, the EONIA (euro overnight index average) averaged -0.350%, down marginally from an average of -0.342% in the previous review period. The EONIA fluctuated within a relatively narrow range, with a high of -0.329% on the final day of 2016 and a low of -0.356%. Furthermore, in the secured market, average overnight repo rates in the GC Pooling market declined slightly to stand at -0.405% and -0.399% for the standard and extended collateral baskets respectively, both down 0.004 percentage point relative to the previous review period.

Core collateral rates reached historic lows over the year-end period amid supply constraints. For instance, the one-day RepoFunds Rate for German collateral reached -4.9% over the year-end period, while the French equivalent reached -5.3%. In comparison, the one-day RepoFunds Rate for German collateral averaged -0.86% over the whole of the period under review, while the rate for French collateral averaged -0.75%. Rates for Italian and Spanish collateral saw smaller declines over the year-end period. Following year-end, repo rates reverted to the levels observed in November.

As of 8 December, Eurosystem central banks can also accept cash as collateral in their PSPP securities lending facilities, and they do not have to reinvest it in a cash-

neutral manner. This measure acts to support the liquidity and functioning of the euro area repo market and helps to alleviate potential collateral-related tensions in the market.