

3 Liquidity conditions and monetary policy operations in the period from 25 January to 2 May 2017

This box describes the ECB's monetary policy operations during the first and second reserve maintenance periods of 2017, which ran from 25 January to 14 March 2017 and from 15 March to 2 May 2017 respectively. During these periods 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 29 March the fourth targeted longer-term refinancing operation (TLTRO) in the second series of TLTROs (TLTRO-II) was settled and provided €233.4 billion to 474 bidders. The level of participation was significantly above market expectations and mostly related to the attractive pricing and the fact that this operation was the last in the series. The liquidity injected by the operation was only slightly offset by voluntary repayments in respect of the first and the second operations of the first series of TLTROs (TLTRO-I), which absorbed €16.7 billion. As a result of the net liquidity injection of €216.7 billion, the total outstanding amount under both TLTRO programmes rose to stand at €761.7 billion at the end of the review period. The settlement of the fourth TLTRO-II operation coincided with a decline in the average MRO allotment compared with the seventh and eighth maintenance periods of 2016, which fell by €10.5 billion to €23.8 billion.

In addition, the Eurosystem continued to buy 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 until March 2017 and a reduced target of €60 billion per month from April 2017.

Liquidity needs

In the period under review the average daily liquidity needs of the euro area banking system, defined as the sum of autonomous factors and reserve requirements, stood at €1,086.2 billion – an increase of €93 billion compared with the previous review period (i.e. the seventh and eighth maintenance periods of 2016). This increase in liquidity needs was attributable almost exclusively to an increase in average net autonomous factors, which rose by €90.6 billion to a record high of €965.7 billion during the period under review, while minimum reserve requirements rose only marginally, increasing by €2.5 billion to €120.5 billion.

The growth in aggregate autonomous factors mainly resulted from an increase in liquidity-absorbing factors. The main contribution was made by government deposits, which grew by €19.1 billion to stand at €171.1 billion on average in the period under review. Average other autonomous factors also increased, rising by €15.7 billion to stand at €698 billion. Average demand for banknotes rose by only €4.1 billion to stand at €1,146.6 billion, stabilising after the usual year-end increase.

Table

Eurosystem liquidity conditions

| | 25 January 2017 to 2 May 2017 | 26 October 2016 to 24 January 2017 | 2nd maintenance period of 2017 | 1st maintenance period of 2017 | | | |
|---|----------------------------------|---------------------------------------|-----------------------------------|-----------------------------------|-----------------|----------------|-----------------|
| Liabilities – liquidity needs (averages; EUR billions) | | | | | | | |
| Autonomous liquidity factors | 1,983.7 | (+39.0) | 1,944.8 | 2,014.9 | (+62.3) | 1,952.6 | (+9.8) |
| Banknotes in circulation | 1,114.6 | (+4.1) | 1,110.5 | 1,118.4 | (+7.5) | 1,110.8 | (-8.3) |
| Government deposits | 171.1 | (+19.1) | 152.0 | 182.0 | (+21.6) | 160.3 | (+17.3) |
| Other autonomous factors | 698.0 | (+15.7) | 682.3 | 714.6 | (+33.1) | 681.4 | (+0.8) |
| Current accounts | 1,021.0 | (+153.2) | 867.8 | 1,081.1 | (+120.2) | 960.9 | (+41.9) |
| Monetary policy instruments | 635.1 | (+80.0) | 555.1 | 670.6 | (+71.0) | 599.6 | (+46.4) |
| Minimum reserve requirements | 120.5 | (+2.5) | 118.0 | 120.6 | (+0.3) | 120.4 | (+1.6) |
| Deposit facility | 514.6 | (+77.5) | 437.1 | 550.0 | (+70.7) | 479.2 | (+44.8) |
| Liquidity-absorbing fine-tuning operations | - | (+0.0) | - | - | (+0.0) | - | (+0.0) |
| Assets – liquidity supply (averages; EUR billions) | | | | | | | |
| Autonomous liquidity factors | 1,018.3 | (-51.7) | 1,070.0 | 1,014.7 | (-7.2) | 1,021.9 | (-20.2) |
| Net foreign assets | 670.5 | (-11.1) | 681.5 | 678.6 | (+16.2) | 662.4 | (-12.3) |
| Net assets denominated in euro | 347.8 | (-40.6) | 388.4 | 336.2 | (-23.4) | 359.5 | (-7.9) |
| Monetary policy instruments | 2,501.3 | (+321.2) | 2,180.1 | 2,631.5 | (+260.4) | 2,371.1 | (+116.6) |
| Open market operations | 2,501.0 | (+321.1) | 2,179.9 | 2,631.2 | (+260.4) | 2,370.8 | (+116.5) |
| Tender operations | 654.6 | (+91.4) | 563.2 | 725.9 | (+142.7) | 583.3 | (-0.2) |
| MROs | 23.8 | (-10.5) | 34.3 | 18.5 | (-10.5) | 29.0 | (-5.6) |
| Three-month longer-term refinancing operations (LTROs) | 8.2 | (-5.0) | 13.3 | 7.4 | (-1.6) | 9.1 | (-2.7) |
| First series of targeted LTROs (TLTRO-I) | 32.5 | (-14.7) | 47.2 | 26.5 | (-12.0) | 38.5 | (-2.4) |
| Second series of targeted LTROs (TLTRO-II) | 590.1 | (+121.6) | 468.5 | 673.5 | (+166.8) | 506.7 | (+10.4) |
| Outright portfolios | 1,846.4 | (+229.7) | 1,616.7 | 1,905.3 | (+117.9) | 1,787.5 | (+116.6) |
| First covered bond purchase programme | 10.3 | (-2.8) | 13.1 | 9.6 | (-1.4) | 11.0 | (-1.5) |
| Second covered bond purchase programme | 6.4 | (-0.6) | 7.0 | 6.1 | (-0.6) | 6.7 | (-0.2) |
| Third covered bond purchase programme | 213.3 | (+10.5) | 202.7 | 215.3 | (+4.1) | 211.3 | (+6.3) |
| Securities Markets Programme | 99.5 | (-2.7) | 102.2 | 99.3 | (-0.6) | 99.8 | (-2.4) |
| Asset-backed securities purchase programme | 23.8 | (+1.4) | 22.4 | 24.1 | (+0.6) | 23.5 | (+0.5) |
| Public sector purchase programme | 1,422.0 | (+200.8) | 1,221.2 | 1,473.5 | (+103.0) | 1,370.5 | (+101.9) |
| Corporate sector purchase programme | 71.1 | (+23.1) | 48.0 | 77.5 | (+12.7) | 64.7 | (+12.1) |
| Marginal lending facility | 0.3 | (+0.1) | 0.2 | 0.3 | (-0.0) | 0.3 | (+0.1) |
| Other liquidity-based information (averages; EUR billions) | | | | | | | |
| Aggregate liquidity needs | 1,086.2 | (+93.0) | 993.2 | 1,121.1 | (+69.8) | 1,051.3 | (+31.5) |
| Autonomous factors ¹ | 965.7 | (+90.6) | 875.2 | 1,000.5 | (+69.5) | 931.0 | (+29.9) |
| Excess liquidity | 1,414.8 | (+228.1) | 1,186.7 | 1,510.2 | (+190.7) | 1,319.4 | (+84.9) |
| 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 | -0.354 | (-0.004) | -0.350 | -0.356 | (-0.003) | -0.352 | (-0.001) |

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".

In addition, liquidity-providing autonomous factors decreased over the review period, as a result of the continuing decline in net assets denominated in euro and a slight decrease in net foreign assets. Average net assets denominated in euro fell to €347.8 billion, down €40.6 billion from the previous review period, on

account of a decline in financial assets held by the Eurosystem for purposes other than monetary policy. Moreover, there was an increase in liabilities held with national central banks by foreign official institutions. Average net foreign assets decreased by €11.1 billion to €670.5 billion.

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

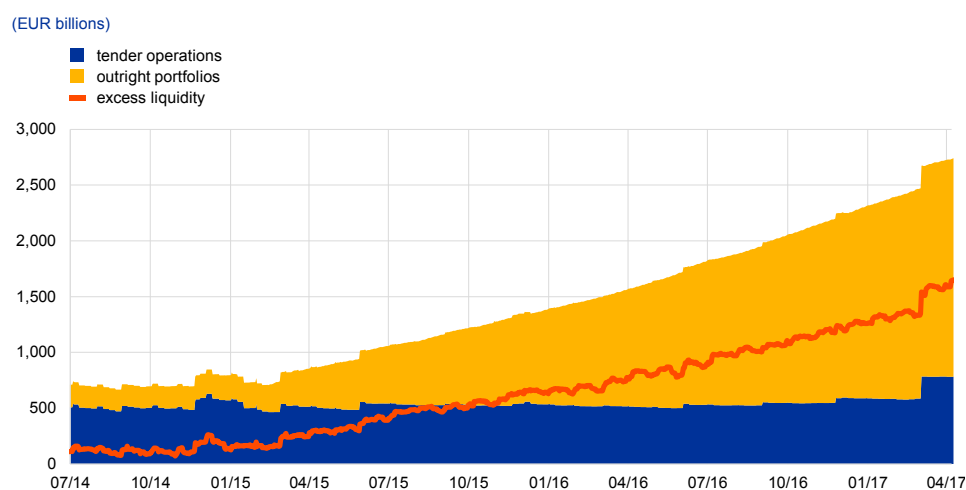
Liquidity provided through monetary policy instruments

The average amount of liquidity provided through open market operations – both tender operations and the asset purchase programmes – increased by €321.1 billion to stand at €2,501 billion at the end of the period (see the chart).

This increase was primarily due to the ECB’s expanded APP and the fourth TLTRO-II operation, which was settled for an amount of €233.4 billion on 29 March 2017.

Chart

Evolution of monetary policy instruments and excess liquidity



Source: ECB.

The average amount of liquidity provided through tender operations increased by €1.4 billion to stand at €654.6 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 €10.5 billion and €5 billion respectively, while the average outstanding amount under the TLTROs increased by €106.9 billion as a net effect of the settlement of the fourth TLTRO-II operation and voluntary early repayments of funds borrowed via the first and second operations of the TLTRO-I series.

Average liquidity provided through the APP increased by €29.7 billion to stand at €1,846.4 billion, mainly on account of the public sector purchase programme (PSPP). Average liquidity provided under the PSPP, the third covered bond purchase programme, the asset-backed securities purchase programme and

the corporate sector purchase programme rose on average by €200.8 billion, €10.5 billion, €1.4 billion and €23.1 billion respectively. The redemption of bonds held under the Securities Markets Programme and the first and second covered bond purchase programmes totalled €6.1 billion.

Excess liquidity

As a consequence of the developments detailed above, average excess liquidity rose by €228.1 billion to stand at €1,414.8 billion in the period under review (see the chart). Most of that increase materialised in the second maintenance period of 2017, when average excess liquidity rose by €190.7 billion on account of liquidity provided by the fourth operation of the TLTRO-II series. At the same time, the target for average monthly asset purchases under the purchase programmes was reduced to €60 billion from April 2017. The smaller increase of €84.9 billion recorded in the first maintenance period was largely due to developments in the liquidity provided by outright purchases, which increased by €116.6 billion but was partially offset by a €20.2 billion decline in liquidity-providing autonomous factors.

The increase in excess liquidity translated into higher average current account holdings, which rose by €153.2 billion to stand at €1,021 billion in the period under review, while the average recourse to the deposit facility increased further, rising by €77.5 billion to stand at €514.6 billion.

Interest rate developments

Overnight money market rates remained close to the deposit facility rate, with rates for specific collateral baskets in the secured segments even falling below that level. In the unsecured market, the euro overnight index average (EONIA) averaged -0.354% , down marginally from an average of -0.350% in the previous review period. The EONIA fluctuated within a relatively narrow range, recording a high of -0.345% on the final day of both January and February 2017 and a historical low of -0.363% in the run-up to the end of April. Furthermore, in the secured market, average overnight repo rates in the GC Pooling market¹³ declined slightly, with the standard collateral basket standing at -0.423% and the extended basket standing at -0.403% , down 0.018 and 0.005 percentage point respectively relative to the previous review period.

The quarter-end decline in the core repo rates recorded in March was less pronounced than the decline recorded at the year-end. This may be taken as an indication that market participants prepared earlier, and to a greater degree, for collateral liquidity shortfalls. Moreover, this development could reflect positive effects from the cash collateral facility for PSPP securities lending.

¹³ The GC Pooling market allows repurchase agreements to be traded on the Eurex platform against standardised baskets of collateral.