

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

This box describes the ECB's monetary policy operations during the third and fourth reserve maintenance periods of 2017, which ran from 3 May to 13 June 2017 and from 14 June to 25 July 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.

In parallel, the Eurosystem continued purchasing 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 €60 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 €1,168.7 billion, an increase of €32.5 billion compared with the previous review period (i.e. the first and second maintenance periods of 2017). This increase in liquidity needs was attributable almost exclusively to an increase in average net autonomous factors, which rose by €80.6 billion to a record high of €1,046.3 billion during the period under review, while minimum reserve requirements rose only marginally, by €2 billion, to €122.5 billion.

The growth in aggregate autonomous factors mainly resulted from an increase in liquidity-absorbing factors. The principal contribution came from government deposits, which grew by €25.6 billion to stand at €196.7 billion, on average, in the period under review. Other autonomous factors also increased, rising by €22.5 billion to stand, on average, at €720.5 billion. The demand for banknotes increased, on average, by €16.6 billion, to stand at €1,131.2 billion, largely reflecting additional, seasonal demand over the summer period.

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 by €15.4 billion to €332.4 billion relative to the previous review period, largely on account of a decline in financial assets held by the Eurosystem for purposes other than monetary policy. In addition, there was an increase in liabilities held by foreign official institutions with national central banks, thus further lowering the net liquidity-providing effect of this autonomous factor. Average net foreign assets decreased marginally by €0.5 billion to €670 billion.

Table A
Eurosystem liquidity conditions

| | 3 May 2017 to 25 July 2017 | | 25 January 2017 to 2 May 2017 | | Fourth maintenance period | | Third maintenance period | |
|---|-------------------------------|-----------------|----------------------------------|----------------|------------------------------|----------------|-----------------------------|--|
| Liabilities – liquidity needs (averages; EUR billions) | | | | | | | | |
| Autonomous liquidity factors | 2,048.3 | (+64.6) | 1,983.7 | 2,071.6 | (+46.6) | 2,025.0 | (+10.2) | |
| Banknotes in circulation | 1,131.2 | (+16.6) | 1,114.6 | 1,136.3 | (+10.3) | 1,126.0 | (+7.7) | |
| Government deposits | 196.7 | (+25.6) | 171.1 | 229.8 | (+66.2) | 163.6 | (-18.3) | |
| Other autonomous factors | 720.5 | (+22.5) | 698.0 | 705.5 | (-29.9) | 735.4 | (+20.8) | |
| Current accounts | 1,174.0 | (+153.0) | 1,021.0 | 1,169.2 | (-9.5) | 1,178.7 | (+97.6) | |
| Monetary policy instruments | 717.0 | (+81.9) | 635.1 | 717.9 | (+1.9) | 716.0 | (+45.4) | |
| Minimum reserve requirements | 122.5 | (+2.0) | 120.5 | 122.6 | (+0.3) | 122.3 | (+1.7) | |
| Deposit facility | 594.5 | (+79.9) | 514.6 | 595.3 | (+1.6) | 593.7 | (+43.8) | |
| 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 | 1,002.4 | (-15.9) | 1,018.3 | 983.3 | (-38.2) | 1,021.5 | (+6.7) | |
| Net foreign assets | 670.0 | (-0.5) | 670.5 | 656.9 | (-26.2) | 683.1 | (+4.5) | |
| Net assets denominated in euro | 332.4 | (-15.4) | 347.8 | 326.4 | (-11.9) | 338.4 | (+2.2) | |
| Monetary policy instruments | 2,814.7 | (+313.4) | 2,501.3 | 2,853.1 | (+76.8) | 2,776.3 | (+144.8) | |
| Open market operations | 2,814.5 | (+313.5) | 2,501.0 | 2,852.9 | (+76.8) | 2,776.1 | (+144.9) | |
| Tender operations | 779.0 | (+124.4) | 654.6 | 776.8 | (-4.3) | 781.1 | (+55.2) | |
| MROs | 11.5 | (-12.2) | 23.8 | 9.4 | (-4.3) | 13.7 | (-4.8) | |
| Three-month LTROs | 6.1 | (-2.1) | 8.2 | 6.7 | (+1.2) | 5.5 | (-1.9) | |
| TLTRO-I operations | 21.1 | (-11.4) | 32.5 | 20.5 | (-1.2) | 21.7 | (-4.8) | |
| TLTRO-II operations | 740.2 | (+150.1) | 590.1 | 740.2 | (+0.0) | 740.2 | (+66.7) | |
| Outright portfolios | 2,035.5 | (+189.1) | 1,846.4 | 2,076.1 | (+81.1) | 1,995.0 | (+89.7) | |
| First covered bond purchase programme | 8.0 | (-2.3) | 10.3 | 7.7 | (-0.6) | 8.3 | (-1.3) | |
| Second covered bond purchase programme | 5.5 | (-0.9) | 6.4 | 5.3 | (-0.4) | 5.7 | (-0.3) | |
| Third covered bond purchase programme | 221.3 | (+8.1) | 213.3 | 223.3 | (+3.9) | 219.4 | (+4.1) | |
| Securities Markets Programme | 98.3 | (-1.2) | 99.5 | 98.2 | (-0.2) | 98.4 | (-0.8) | |
| Asset-backed securities purchase programme | 24.0 | (+0.2) | 23.8 | 24.2 | (+0.5) | 23.7 | (-0.4) | |
| Public sector purchase programme | 1,585.6 | (+163.6) | 1,422.0 | 1,619.7 | (+68.1) | 1,551.5 | (+78.0) | |
| Corporate sector purchase programme | 92.8 | (+21.7) | 71.1 | 97.7 | (+9.8) | 87.9 | (+10.4) | |
| Marginal lending facility | 0.2 | (-0.1) | 0.3 | 0.2 | (+0.0) | 0.2 | (-0.1) | |
| Other liquidity-based information (averages; EUR billions) | | | | | | | | |
| Aggregate liquidity needs | 1,168.7 | (+82.5) | 1,086.2 | 1,211.3 | (+85.0) | 1,126.2 | (+5.1) | |
| Autonomous factors ¹ | 1,046.3 | (+80.6) | 965.7 | 1,088.6 | (+84.7) | 1,003.9 | (+3.5) | |
| Excess liquidity | 1,645.8 | (+231.0) | 1,414.8 | 1,641.6 | (-8.3) | 1,649.9 | (+139.8) | |
| 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 | -0.358 | (-0.004) | -0.354 | -0.359 | (-0.002) | -0.357 | (-0.002) | |

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".

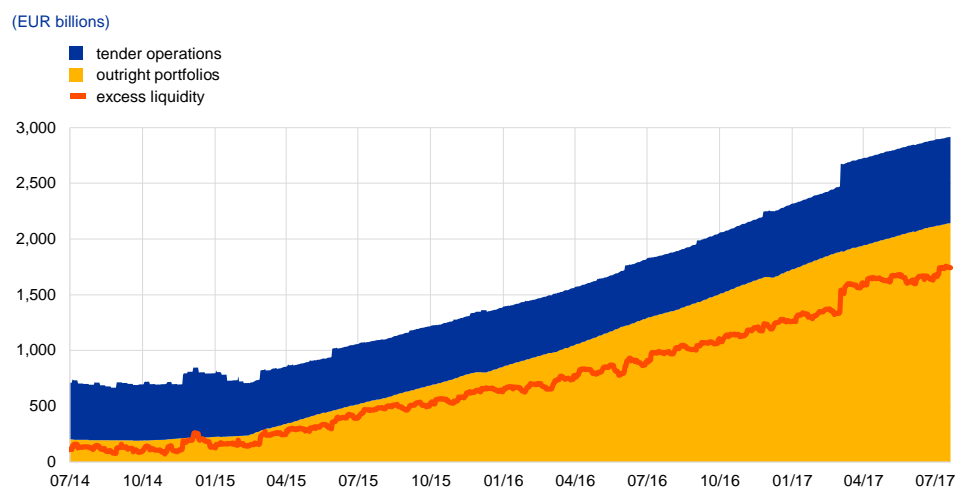
The volatility of autonomous factors remained high and was broadly unchanged from the previous review period. That volatility primarily reflected fluctuations in both government deposits and net assets denominated in euro.

Liquidity provided through open market operations

The average amount of liquidity provided through open market operations – both tender operations and the outright APP purchases – increased by €13.5 billion to stand at €2,814.5 billion (see chart A). This increase was primarily due to the ECB’s APP and the fourth targeted longer-term refinancing operation in the second series of TLTROs (TLTRO-II), which was settled for an amount of €233.4 billion on 29 March 2017.

Chart A

Evolution of open market operations and excess liquidity



Source: ECB.

The average amount of liquidity provided through tender operations increased by €124.4 billion to stand at €779 billion. This increase largely reflects the liquidity provided through the fourth TLTRO-II, which, unlike in the previous review period, is fully reflected in the average liquidity conditions of the current review period. The average outstanding amount of TLTROs increased by €138.7 billion as a net effect of the settlement of the fourth TLTRO-II operation and voluntary early repayments for funds borrowed via TLTRO-I operations. Average liquidity provided via MROs and three-month LTROs decreased by €12.2 billion and €2.1 billion respectively.

Liquidity provided through the Eurosystem’s outright monetary policy portfolios increased by €189.1 billion to stand at €2,035.5 billion on average, as APP purchases continued. Average liquidity provided by the public sector purchase programme (PSPP), the third covered bond purchase programme, the asset-backed securities purchase programme and the corporate sector purchase programme rose, on average, by €163.6 billion, €8.1 billion, €0.2 billion and €21.7 billion, respectively. The redemption of bonds held under the Securities Markets

Programme and the previous two covered bond purchase programmes totalled €4.4 billion.

Excess liquidity

As a consequence of the developments detailed above, average excess liquidity in the period under review rose by €231 billion compared with the previous period, to stand at €1,645.8 billion (see the chart). As mentioned above, this increase largely reflects the liquidity provided through the APP at a pace of €60 billion per month, as well as the allotment of €233.4 billion from the fourth TLTRO-II, somewhat offset by an increase in liquidity needs resulting from autonomous factors. Focusing only on the period under review, a more detailed analysis shows that excess liquidity increased in the third maintenance period, growing by €139.8 billion on account of liquidity provided by the fourth TLTRO-II operation and the APP purchases. The fourth maintenance period, however, saw a small decline in excess liquidity of €8.3 billion, as the liquidity injected via the APP purchases was more than offset by the increase in the liquidity-absorbing effect of autonomous factors and a decrease in the take-up of MROs and three-month LTROs, as mentioned earlier.

The increase in excess liquidity corresponded to higher average current account holdings, which rose by €153 billion to stand at €1,174 billion in the period under review, while the average recourse to the deposit facility increased by €79.9 billion to stand at €594.5 billion.

Interest rate developments

Overnight money market rates remained close to the deposit facility rate, with some rates falling below it for specific collateral baskets in the secured segments. In the unsecured market, the EONIA (euro overnight index average) averaged -0.358%, down marginally from an average of -0.354% in the previous review period. The EONIA fluctuated within a relatively narrow range, with a high of -0.331% ahead of the Whit Monday holiday in early June 2017 and the historical low of -0.373% in its immediate aftermath. Furthermore, in the secured market, average overnight repo rates in the GC Pooling market declined slightly to stand at -0.433% for the standard collateral basket, down 0.001 percentage points relative to the previous review period, while for the extended collateral basket the respective average overnight repo rate stood at -0.401%, up 0.002 percentage points compared with the previous review period.

The June 2017 quarter-end decline in the core repo rates was relatively mild compared with the 2016 year-end decline and the March 2017 quarter-end decline. This suggests that market participants have adopted more efficient collateral management practices. Moreover, this development also suggests positive effects from the cash-collateral facility for PSPP securities lending.