

Box 3

Treasury activities affecting the liquidity situation in the euro area

In a few euro area countries the amount of Treasury deposits with the central bank is large and these deposits are the most volatile of the autonomous factors, i.e. those changes in the balance sheet of central banks not resulting from monetary policy decisions. The standard deviation of the daily changes in the case of government deposits since the start of Stage Three of Economic and Monetary Union is €5,507 million, whereas it is €963 million for banknotes and €506 million for net foreign assets.

Treasury accounts are affected by any operation conducted by the Treasury, such as debt issuance, redemption and coupon payment activity, the collection of tax and social security contributions, the acquisition of goods and services, and the payment of wages, pensions and other social security benefits. Typically, such operations follow a defined calendar, which determines the pattern of the inflows and outflows on the Treasury account. However, these flows only bring about liquidity effects if a Treasury keeps all or most of its accounts with the central bank. Whether a national Treasury keeps its accounts with the central bank or with commercial banks basically depends on two factors: regulations, sometimes in the form of a law or an agreement with the central bank, and the payment of interest on the deposits held with the central bank. In countries where Treasury accounts bring about limited liquidity changes, there are either limits on the amount the Treasury can hold with the central bank or interest is paid on the Treasury's account (at least above a certain, relatively low threshold) at a zero rate or at a rate below the market rate, such that the Treasury has an incentive to place its funds in the market at the end of the day.

The euro area countries can be divided into three groups according to the volatility and size of the liquidity effects triggered by Treasury activity. The first group, where the volatility of the Treasury accounts is negligible, comprises Belgium, Germany, Luxembourg, the Netherlands, Austria and Finland. In these countries the overnight balances on the Treasury's account with the central bank are low or even close to zero, therefore not affecting liquidity. In the second group (Ireland and Portugal), although some volatility occurs on the Treasury's account with the central bank, this is limited in scale. Finally, in the case of the third group of countries, namely Spain, Italy and, to a lesser extent, France, the liquidity effects of Treasury activities are considerable. The main public sources of information on Treasury activities are available from the ECB's Web site (<http://www.ecb.int>).

Liquidity effects related to government deposits

(EUR millions)



Note: The vertical lines give the 23rd of each month, i.e. the last day of a reserve maintenance period. The figures provided on the graph give the daily average for the aggregate government deposits in the respective reserve maintenance period.

The chart above shows the development, since the start of Monetary Union, of aggregate “general government” deposits with the Eurosystem, i.e. liability item 4.1 of the Eurosystem’s consolidated weekly financial statement. It should be noted that on the Eurosystem’s balance sheet the asset position towards the general government sector is rather constant at around €60 billion and therefore need not be considered here. The largest change affecting Treasury deposits in the course of a reserve maintenance period is due to the Italian tax collection scheduled on the 23rd of each month (or on the following business day), i.e. on the last day of each reserve maintenance period, which absorbs liquidity. The effects of this change on deposits of the Italian Treasury normally continue into the beginning of the following reserve maintenance period. In evaluating the behaviour of Treasury deposits, it should also be noted that at the beginning of May 1999 an institutional change took place in France. Since then, interest has been paid on the French Treasury’s balances with the Banque de France above a given threshold at a rate below the market rate, therefore giving incentives to the French Treasury to hold these funds in the market. The standard deviation of the daily changes in aggregate government deposits has decreased to €4,020 million since May.