

Box 3

LIQUIDITY CONDITIONS AND MONETARY POLICY OPERATIONS IN THE PERIOD FROM 12 AUGUST TO 10 NOVEMBER 2009

This box describes the ECB's liquidity management during the three reserve maintenance periods ending on 8 September, 13 October and 10 November 2009 respectively. During this three-month period the ECB continued implementing the non-standard measures that were introduced in October 2008 in response to the intensification of the financial crisis.

Indeed, euro-denominated refinancing operations continued to be conducted as fixed rate tender procedures with full allotment against an extended list of assets eligible for use as collateral and with maturities ranging from one week to one year. In this connection, the second one-year longer-term refinancing operation (LTRO) was conducted on 30 September. This operation attracted bids from 589 counterparties and resulted in the allotment of €75 billion. By comparison, €442 billion was allotted in June in the first one-year operation. At the same time, the Eurosystem continued to conduct purchases under its covered bond purchase programme. On 10 November the total value of purchases had reached €21.9 billion. Under this programme, Eurosystem central banks are planning to purchase covered bonds with a total value of €60 billion between 6 July 2009 and end-June 2010.

On 24 September the Governing Council of the ECB decided – in agreement with other central banks, including the Federal Reserve – to continue its one-week US dollar liquidity-providing operations until January 2010. These operations will continue to be conducted against collateral eligible for Eurosystem operations in fixed rate tender procedures with full allotment. The Governing Council also decided, in agreement with the Swiss National Bank, to continue conducting one-week Swiss franc liquidity-providing swap operations until 31 January 2010. The refinancing provided in foreign currency by the Eurosystem is obtained by means of foreign exchange swaps with the relevant central banks.

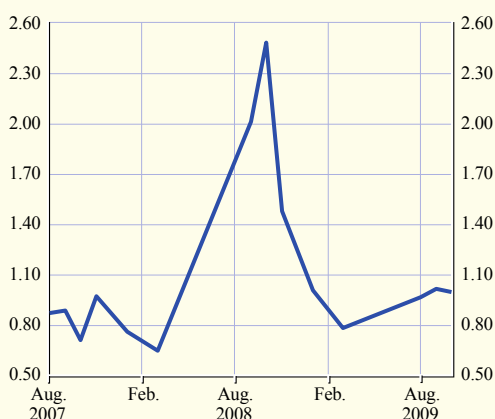
Liquidity needs of the banking system

In the three maintenance periods under review, banks' average daily liquidity needs – defined as the sum of autonomous factors, reserve requirements and excess reserves (i.e. current account holdings in excess of reserve requirements) – totalled €591 billion, €7 billion less than the average for the previous three maintenance periods.

Average autonomous factors declined slightly to €372.6 billion (see Chart B), down from €380.2 billion in the previous three maintenance periods. Average reserve requirements fell by a further €3.2 billion to stand at €213.8 billion. Average excess reserves rose slightly in the first two maintenance periods, continuing the

Chart A Banks' current account holdings in excess of reserve requirements

(EUR billions; average level in each maintenance period)



Source: ECB.

increases observed in July and August. Average excess reserves then declined marginally in the maintenance period ending on 10 November. Overall, average excess reserves were around €0.1 billion lower than in the previous three maintenance periods (see Chart A).

Net recourse to the deposit facility progressively declined over the period under review, falling from an average of €136.4 billion in the maintenance period ending on 8 September to an average of €86.2 billion in the maintenance period ending on 10 November (with average net recourse to the deposit facility of €110.5 billion for the three maintenance periods as a whole). This reflected a gradual decline in the amount of outstanding refinancing operations following the settlement of €442 billion on 25 June in the first one-year operation.

In the period under review the level of participation in the liquidity-absorbing fine-tuning operation carried out by the Eurosystem on the last day of each maintenance period was relatively stable (see Chart B). Across the three operations, average absorption was around €185 billion. By comparison, average absorption was €264 billion in the previous three maintenance periods. Recourse to the marginal lending facility averaged €0.3 billion during the period under review, some €0.5 billion lower than in the previous three maintenance periods.

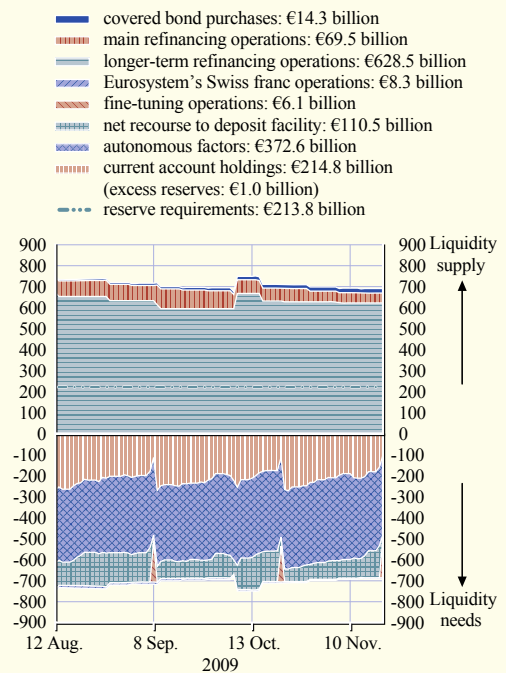
Liquidity supply and interest rates

The volume of outstanding refinancing operations averaged €683 billion over the three maintenance periods under review. This compares with €711 billion for the previous three maintenance periods (a period which covers 25 June 2009, when the first one-year LTRO was settled and the volume of outstanding refinancing reached a record high of €897 billion). The decline from this peak continued in each of the three maintenance periods under review, with the average volume of outstanding refinancing operations falling from €702 billion in the maintenance period ending on 8 September to €683 billion and €666 billion in the two subsequent maintenance periods.

As in the previous three maintenance periods, the one-week main refinancing operation accounted for only a limited, and declining, share (i.e. around 8-10%) of the total amount of outstanding refinancing. In fact, the average outstanding volume of weekly main refinancing operations declined steadily in the three maintenance periods under review, falling from €74.8 billion in the maintenance period ending on 8 September to €52.3 billion in the maintenance period ending on 10 November. At the same time, while €75 billion was allotted in the second one-year LTRO

Chart B Liquidity needs of the banking system and liquidity supply

(EUR billions; daily averages for the whole period are shown next to each item)



Source: ECB.

on 30 September, the average outstanding volume of three and six-month LTROs declined to €113 billion in the maintenance periods under review, compared with an average of €224 billion in the previous three maintenance periods.

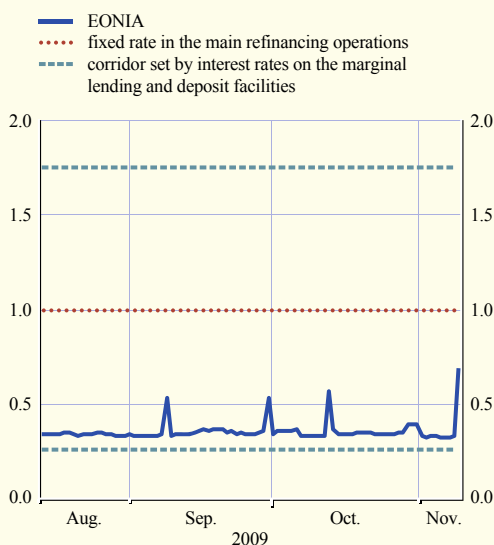
As regards the Eurosystem's covered bond purchase programme, a daily average of €176 million worth of covered bonds were purchased during the period under review, and the total value of settled purchases stood at €21.9 billion on 10 November. These developments, together with the marginal decline observed in the liquidity needs of the euro area banking system, resulted in an average liquidity surplus of €112 billion in the period under review, lower than the average for the previous three maintenance periods.

The ECB's key interest rates have been left unchanged since 13 May 2009, with the rate on the main refinancing operations standing at 1%, the marginal lending rate standing at 1.75% and the deposit rate standing at 0.25%. The EONIA was largely stable over the three maintenance periods under review, standing close to the rate on the deposit facility and averaging 0.358% (see Chart C). This compares with 0.464% over the previous three maintenance periods.

On 3 November the EONIA reached a record low of 0.324%. In addition, the spread between the three-month EURIBOR and the three-month EONIA swap rate – which indicates the level of credit and liquidity risk – continued to decline in the period under review, averaging around 35 basis points. This compares with 48 basis points in the previous three maintenance periods and 64 basis points in the maintenance period prior to the collapse of Lehman Brothers in mid-September 2008. Following that collapse a peak spread of 186 basis points was observed on 12 October 2008. Throughout the period under review the EONIA was higher on the last day of the maintenance period, when the ECB carried out its regular liquidity-absorbing fine-tuning operation. This is in line with the pattern observed for the previous three maintenance periods.

Chart C The EONIA and the ECB interest rates

(daily interest rates in percentages)



Source: ECB.