

Box 3

LIQUIDITY CONDITIONS AND MONETARY POLICY OPERATIONS IN THE PERIOD FROM 12 MAY 2010 TO 10 AUGUST 2010

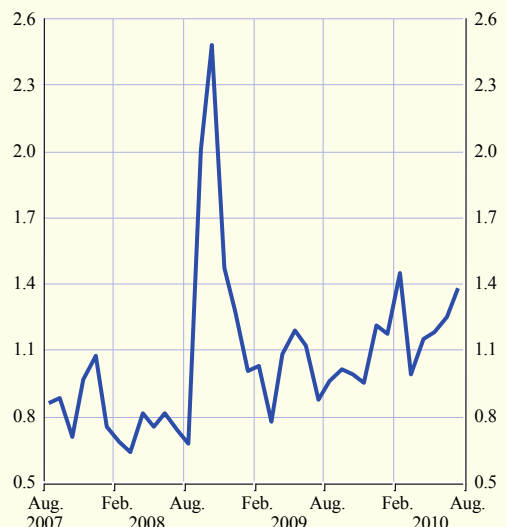
This box describes the ECB's liquidity management during the three reserve maintenance periods that ended on 15 June, 13 July and 10 August 2010. Over these periods, the Governing Council responded to the sudden re-intensification of financial market tensions in early May 2010 by reactivating some of the non-standard monetary policy measures that had been phased out shortly before. It also started implementing its Securities Markets Programme (SMP), as announced on 10 May. The regular three-month longer-term refinancing operations (LTROs) allotted on 26 May and 30 June were again conducted as fixed rate tender procedures with full allotment, and not as variable rate tenders. In addition, temporary liquidity swap lines with the Federal Reserve System were reactivated in coordination with other central banks, and US dollar liquidity-providing operations at terms of 7 and 84 days were resumed (only one 84-day operation was carried out during the periods under review). On 10 June 2010 the Governing Council announced that a fixed rate tender procedure with full allotment would be in place for the regular three-month LTROs to be allotted on 28 July, 25 August and 29 September 2010. A non-standard monetary policy measure that ended during the period under review was the covered bond purchase programme (CBPP). This was completed on 30 June 2010, with the targeted nominal amount of €60 billion having been purchased on the primary and secondary markets over the 12-month life of the programme. The central banks of the Eurosystem intend to keep the purchased covered bonds until maturity. The first and largest of the three 12-month LTROs conducted in 2009 matured during the period under review, leading to a reduction in the use of the deposit facility.

Liquidity needs of the banking system

In the three maintenance periods under review, the banking system's aggregate daily liquidity needs – defined as the sum total of autonomous factors, reserve requirements and excess reserves (i.e. current account holdings in excess of reserve requirements) – averaged €584.0 billion, which was €20.7 billion more

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

(EUR billions; average level in each maintenance period)



Source: ECB.

than the average level registered in the previous three maintenance periods.

This was mainly due to an increase of €16.8 billion in the average value of the autonomous factors, which stood at €369.9 billion. In addition, average reserve requirements rose by €1.5 billion to €212.7 billion. Daily excess reserves averaged €1.3 billion, an increase of €0.2 billion over the level in the previous three maintenance periods (see Chart A).

Liquidity supply

Over the three maintenance periods under review, the volume of outstanding refinancing operations averaged €724 billion,¹ up from the average level of €721 billion recorded in the previous three maintenance periods. In addition, as of 10 August 2010, assets with a total value of €121 billion were purchased under the CBPP and the SMP.

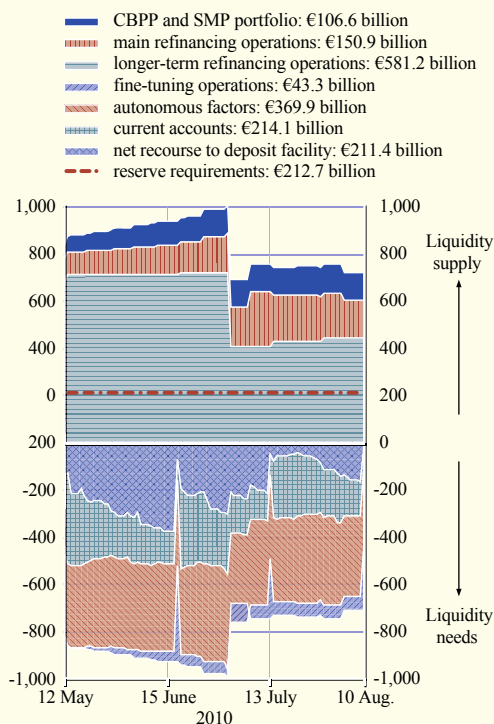
The average size of the one-week main refinancing operations stood at €150.9 billion, compared with an average of €78.2 billion in the previous three maintenance periods. The size of special term refinancing operations with a maturity of one maintenance period averaged €32.8 billion, up from €9.3 billion in the previous three maintenance periods. On 30 June 2010 the first 12-month LTRO of €442.2 billion matured. Of the maturing amount, €111 billion was rolled over in the form of a six-day bridging operation and €130 billion via a three-month LTRO. Accordingly, the total volume of outstanding three-month and six-month LTROs increased to €220.8 billion on 10 August 2010, compared with €37.5 billion on 11 May 2010.

In the period from 12 May to 10 August 2010, the liquidity absorbed via fine-tuning operations with an overnight maturity on the last day of each maintenance period averaged €255.4 billion. This compares with an average of €302.2 billion in the previous three maintenance periods (see Chart B).

The liquidity injected through the SMP was absorbed through weekly collections of fixed-term deposits. The first of these operations was carried out on 18 May 2010 for an amount of €16.5 billion, which increased to around €60 billion on 10 August 2010. Since then, the amounts involved in the liquidity-absorbing operations have increased only marginally, reflecting the diminishing interventions under the programme.

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.

¹ Disregarding weekly SMP-sterilising operations, which averaged €42 billion.

Use of standing facilities

As a result of the significant contraction of the liquidity supply after the maturity of the first 12-month LTRO,² net recourse to the deposit facility³ decreased to a daily average⁴ of €96.6 billion in the maintenance period ending on 10 August 2010, down from €288.4 billion in the maintenance period ending on 15 June 2010.

Interest rates

The ECB's key interest rates have remained unchanged since 13 May 2009, with the rate on the main refinancing operations standing at 1.00%, the marginal lending rate at 1.75% and the deposit rate at 0.25%.

As a result of the ample liquidity in the euro area, the EONIA continued to remain close to the deposit facility rate until the maturity of the first 12-month LTRO, averaging 0.343% (see Chart C), which is slightly lower than the average of 0.348% prevailing in the preceding three maintenance periods. After 30 June 2010 the EONIA shifted upwards, recording an average of 0.467% between 1 July and 10 August 2010. On the last day of the three maintenance periods under consideration, the EONIA stood at 0.728% on average, about 38 basis points above the average level observed on the previous day. This is explained by the absorption of liquidity via fine-tuning operations on those days.

In addition, the average spread between the three-month EURIBOR and the three-month EONIA swap rate – which is an indication of the level of credit and liquidity risk in the unsecured money market – increased somewhat to 38 basis points in the period under review, compared with an average level of 27 basis points in the three previous maintenance periods, on account of a renewed heightening of financial market tensions.

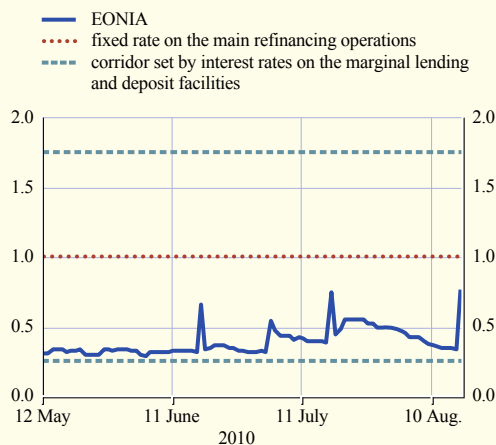
2 Total refinancing operations outstanding averaged €604 billion between 1 July and 10 August, compared with €822 billion between 12 May and 30 June 2010.

3 Net recourse to the deposit facility refers to recourse to the deposit facility minus recourse to the marginal lending facility.

4 Average net recourse to the deposit facility includes weekends.

Chart C The EONIA and the ECB's interest rates

(daily interest rates as percentages)



Source: ECB.