

Box 3

LIQUIDITY CONDITIONS AND MONETARY POLICY OPERATIONS IN THE PERIOD FROM 11 AUGUST TO 9 NOVEMBER 2010

This box describes the ECB's liquidity management during the period covering the reserve maintenance periods ending on 7 September, 12 October and 9 November 2010. During this period all euro refinancing operations continued to be conducted by means of fixed rate tender procedures with full allotment. The gradual normalisation of monetary policy operations continued, with the first of the two remaining one-year longer-term refinancing operations (LTROs) maturing on 30 September. On 2 September the Governing Council of the ECB decided that all main refinancing operations (MROs), special-term refinancing operations with a maturity of one maintenance period and three-month LTROs would be carried out as fixed rate tender procedures with full allotment until at least the end of the maintenance period running from 8 December 2010 to 18 January 2011.

The Securities Markets Programme (SMP) announced on 10 May 2010 remained in operation, in conjunction with weekly liquidity-absorbing operations with a one-week maturity aimed at sterilising the additional liquidity provision stemming from the Securities Markets Programme.

Liquidity needs of the banking system

In the period under review, the banking system's aggregate 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) – averaged €550.2 billion. This was €33.8 billion lower than the daily average recorded in the previous three maintenance periods.

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

(EUR billions; average level in each maintenance period)



Source: ECB.

This was due mainly to a decline of €34.2 billion in the average value of autonomous factors, which stood at €335.7 billion. The decline in autonomous factors was marginally offset by an increase of €0.5 billion in the average level of reserve requirements, which stood at €213.2 billion. Daily excess reserves averaged €1.3 billion, unchanged from the previous three maintenance periods (see Chart A).

Liquidity supply

In the period under review, total liquidity supplied by means of open market operations averaged €620.6 billion. Refinancing operations supplied an average of €558.1 billion, while the covered bond purchase programme (CBPP), for which purchases ended on 30 June 2010, supplied €61.0 billion and, together with the Securities Markets Programme, provided an average of €123.2 billion. An average of €66.7 billion was absorbed by means of fine-tuning operations during that period.

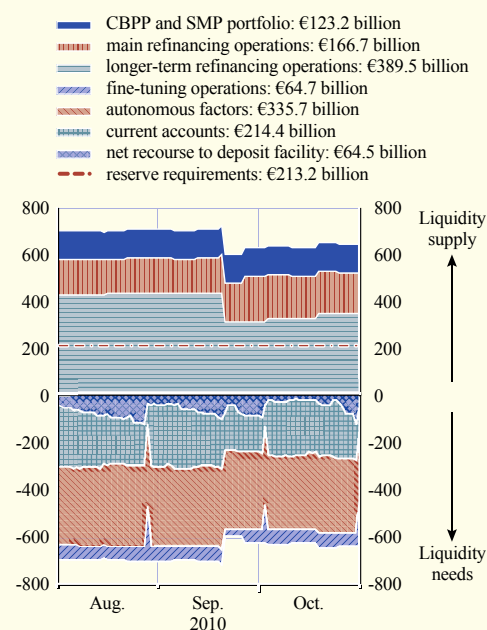
One-week main refinancing operations averaged €166.7 billion, while special-term refinancing operations with a maturity of one maintenance period averaged €42.7 billion. The total volume of outstanding three-month, six-month and one-year LTROs declined to stand at €298.1 billion on 9 November, down from €392.6 billion on 11 August. This decline was driven by LTROs maturing on 30 September and 28 October (see Chart B).

On 30 September a three-month LTRO, a six-month LTRO and a one-year LTRO all matured, with a total value of €224.7 billion. Of that, only €133.4 billion was rolled over in two new refinancing operations – with maturities of six days and three months – which were settled on that day. On 28 October a maturing three-month LTRO with a value of €23.2 billion was replaced by a three-month LTRO with a value of €42.5 billion.

On 1 October the value of settled purchases under the Securities Markets Programme stood at €63.3 billion, up from €60.3 billion on 6 August. No purchases were settled in the first three weeks of October, and the value of settled purchases then rose to stand at €64.0 billion on 5 November. In parallel, the weekly operations absorbing the liquidity provided by the Securities Markets Programme also increased, absorbing an average of €63.8 billion.

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.

The liquidity absorbed by means of fine-tuning operations with an overnight maturity on the last day of each maintenance period averaged €148.4 billion, compared with an average of €255.4 billion in the previous three maintenance periods.

Use of standing facilities

The further decline in the liquidity supply following the maturing of the three LTROs on 30 September resulted in lower net recourse to the deposit facility.¹ While daily average² net recourse to the deposit facility stood at €83.1 billion in the maintenance period ending on 7 September, this fell to €41.1 billion in the maintenance period ending on 9 November.

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 standing at 1.75% and the deposit rate standing at 0.25%.

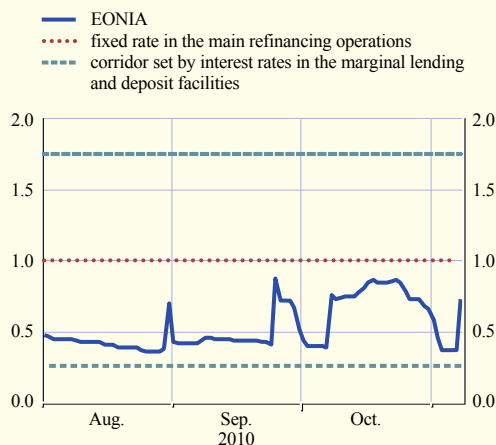
With outstanding liquidity remaining ample at the beginning of the period under review, the EONIA remained significantly below the main refinancing rate, averaging 0.43% in the maintenance period ending on 7 September and 0.48% in the following maintenance period. With the three LTROs maturing on 30 September and the liquidity supply declining accordingly, the EONIA began to increase strongly, moving towards the MRO rate. The EONIA averaged 0.71% in the maintenance period ending on 9 November.

1 Net recourse to the deposit facility is calculated as recourse to the deposit facility minus recourse to the marginal lending facility.

2 Average net recourse to the deposit facility includes weekends.

Chart C The EONIA and the ECB interest rates

(daily interest rates in percentages)



Source: ECB.