

Box 4

LIQUIDITY CONDITIONS AND MONETARY POLICY OPERATIONS IN THE PERIOD FROM 9 FEBRUARY TO 10 MAY 2011

This box describes the ECB's liquidity management during the reserve maintenance periods ending on 8 March, 12 April and 10 May 2011. During this period all euro refinancing operations continued to be conducted by means of fixed rate tender procedures with full allotment.

The Securities Markets Programme (SMP) announced on 10 May 2010 also remained in place, in conjunction with weekly liquidity-absorbing operations with a one-week maturity aimed at sterilising the additional liquidity injected through the 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 €474.7 billion. This was €45.6 billion lower than the daily average recorded in the previous three maintenance periods (i.e. the period from 10 November 2010 to 8 February 2011).

This mainly reflected a further decline in the average value of autonomous factors, which decreased by €44.0 billion to stand at €265.0 billion. The average level of reserve requirements was €209.7 billion, down by €1.6 billion. Daily excess reserves averaged €1.21 billion, down from €1.52 billion in the previous three maintenance periods (see Chart A).

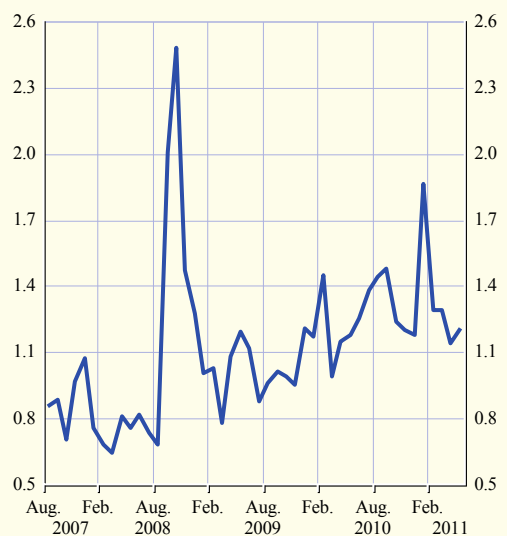
Liquidity supply

In the period under review total liquidity supplied by means of open market operations averaged €497.3 billion, down by €77.1 billion compared with the previous three maintenance periods, with tender operations¹ providing an average of €359.9 billion.

Compared with the previous three maintenance periods, the average liquidity supplied by one-week main refinancing operations (MROs) decreased by €76.6 billion to stand at €112.4 billion. The average liquidity provided by special-term refinancing operations with a maturity of one maintenance period rose by €9.2 billion to stand at €76.4 billion.

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

(EUR billions; average level in each maintenance period)



Source: ECB.

¹ Tender operations comprise main refinancing operations, longer-term refinancing operations and fine-tuning operations, the last of which can be either liquidity-providing or liquidity-absorbing.

In parallel, the average liquidity supplied by three-month longer-term refinancing operations (LTROs) increased by €40.6 billion to stand at €250.0 billion. By contrast with the previous review period, however, there were no one-year LTROs outstanding, since the final operation, which had provided €96.9 billion, matured on 23 December 2010. As a result, the total amount of liquidity provided at a maturity of one maintenance period and beyond increased by only €3.4 billion compared with the previous review period and stood at €326.4 billion. In total, MROs and LTROs provided €438.8 billion, which contrasts with the peak of almost €900 billion in June 2010.

Together, the covered bond purchase programme (CBPP) and the SMP provided an average of €137.4 billion of liquidity. The CBPP, for which purchases ended on 30 June 2010, provided €60.6 billion, down marginally from €60.8 billion in the previous review period. On 6 May 2011 the net value of settled purchases under the SMP stood at €76.1 billion, down slightly from €76.5 billion on 4 February 2011, as maturing amounts exceeded new purchases.

In parallel, the weekly one-week operations sterilising the liquidity provided by the SMP absorbed an average of €75.4 billion in the period under review, €1.4 billion below the average intended amount of €76.8 billion owing to underbidding in the operations on 26 April and 3 May 2011. The liquidity absorbed by means of fine-tuning operations with an overnight maturity on the last day of each maintenance period averaged €105.9 billion (see Chart B).

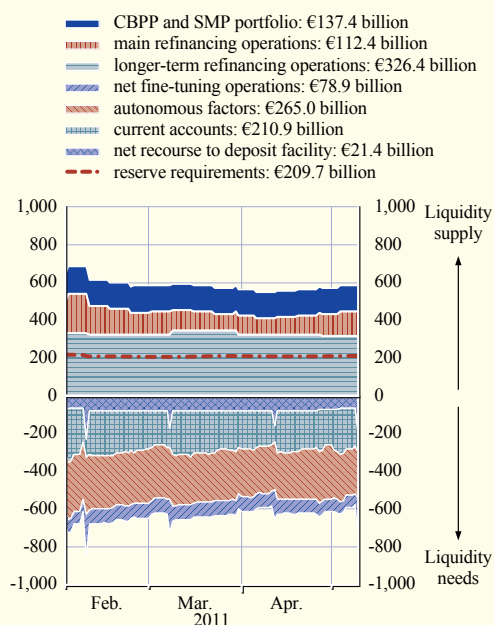
Use of standing facilities

Overall, the fact that the supply of liquidity declined more strongly than liquidity needs meant that average excess liquidity fell to €22.6 billion in the period under review (down from €54.0 billion in the previous review period). This resulted in lower net recourse to the deposit facility,² which averaged around €21.4 billion. Daily net recourse to the deposit facility thereby decreased to levels last seen in June 2009.

² Net recourse to the deposit facility is calculated as recourse to the deposit facility minus recourse to the marginal lending facility, including weekends.

Chart B Liquidity needs of the banking system and liquidity supply

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



Source: ECB.

Interest rates

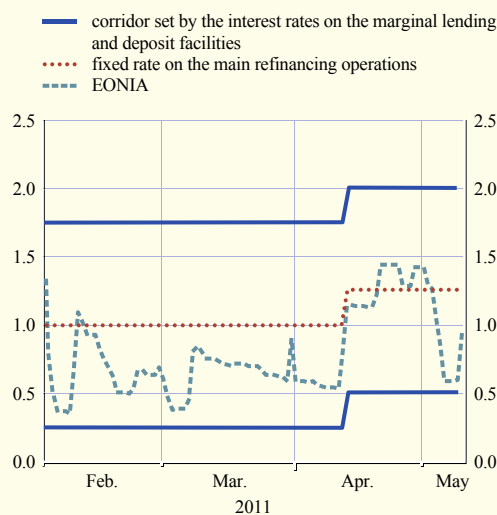
The ECB's key interest rates increased by 25 basis points with effect from the main refinancing operation settled on 13 April 2011. The rate on the main refinancing operations increased to 1.25%, the marginal lending rate increased to 2.00% and the deposit rate increased to 0.50%.

With liquidity remaining ample in the period under review, the EONIA generally remained below the main refinancing rate. However, the reduction in excess liquidity was reflected in a decline in the average spread between the main refinancing rate and the EONIA, which fell to 27 basis points, down from 41 basis points in the previous review period. The volatility observed in the EONIA since the beginning of this year continued in the review period. The EONIA fluctuated between 66 basis points below the main refinancing rate and 18 basis points above it, with this volatility reflecting liquidity conditions and calendar effects.

In the first two maintenance periods under review, the EONIA displayed a pattern which followed the reserve maintenance cycle, starting at a relatively high level, before gradually decreasing towards the end of the maintenance period as the fulfilment of reserve requirements neared completion (see Chart C). While the maintenance period from 13 April to 10 May began in a similar fashion, the liquidity situation became tighter in the second week of the maintenance period as a result of counterparties' stable demand for liquidity in the context of temporary increases in autonomous factors. This caused the EONIA to increase to 1.43% on 21 April. The EONIA then remained above the rate on the main refinancing operations in the days that followed, reflecting increased liquidity demand over the Easter holiday. It did not fall back to 0.60% until late in the maintenance period, as counterparties' demand for liquidity increased in subsequent MROs.

Chart C The EONIA and the ECB interest rates

(daily interest rates in percentages)



Source: ECB.