

Box 3

LIQUIDITY CONDITIONS AND MONETARY POLICY OPERATIONS IN THE PERIOD FROM 11 MAY TO 9 AUGUST 2011

This box describes the ECB's liquidity management during the reserve maintenance periods ending on 14 June, 12 July and 9 August 2011. During this period all euro refinancing operations continued to be conducted by means of fixed rate tender procedures with full allotment.

On 7 July 2011 the ECB decided to increase its key interest rates by 25 basis points with effect from the main refinancing operation settled on 13 July 2011.

On 4 August 2011 the Governing Council of the ECB decided to continue conducting its main refinancing operations and special-term refinancing operations with a maturity of one maintenance period as fixed rate tender procedures with full allotment for as long as is necessary, and at least

until the last maintenance period of 2011 ends on 17 January 2012. The Governing Council also decided to conduct the three-month longer-term refinancing operations to be allotted on 26 October, 30 November and 21 December 2011 as fixed rate tender procedures with full allotment.

Furthermore, given the renewed tensions in some euro area financial markets, the ECB executed a supplementary refinancing operation, which had no impact on liquidity conditions in the period under review. The Governing Council decided to allot a supplementary liquidity-providing six-month longer-term refinancing operation on 10 August 2011 as a fixed rate tender procedure with full allotment.

Moreover, on 7 August 2011 the ECB began to again actively implement the Securities Markets Programme (SMP) – which had first been announced on 10 May 2010 – 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 €482.4 billion. This was €5.4 billion higher than the daily average recorded in the previous three maintenance periods (i.e. the period from 9 February to 10 May 2011).

This mainly reflected a further increase in the average value of autonomous factors, which increased by €7.4 billion to stand at €272.4 billion. The average level of reserve requirements was €207.5 billion, down by €1.9 billion. Daily excess reserves¹ averaged €2.5 billion, up from €1.2 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 €516.2 billion, an increase of €18.9 billion compared with the previous three maintenance periods, with tender operations² providing an average of €381.5 billion.

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

(EUR billions; average level in each maintenance period)



Source: ECB.

1 For information on the factors influencing excess reserves, see the box entitled "Excess reserves and the ECB's implementation of monetary policy", *Monthly Bulletin*, ECB, October 2005.

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

Compared with the previous three maintenance periods, the average liquidity supplied by one-week main refinancing operations increased by €29.5 billion to €141.8 billion, while the average liquidity provided by special-term refinancing operations with a maturity of one maintenance period decreased by €3.8 billion to stand at €72.5 billion. In parallel, the average liquidity supplied by three-month longer-term refinancing operations decreased by €5.5 billion to stand at €244.5 billion. The total liquidity provided through longer-term refinancing operations averaged €317.0 billion, compared with €326.4 billion in the previous review period.

Together, the covered bond purchase programme (CBPP) and the Securities Markets Programme provided an average of €134.6 billion of liquidity. The CBPP, for which purchases ended on 30 June 2010, provided €60.1 billion, down marginally from €60.6 billion in the previous review period. On 5 August 2011 the net value of settled purchases under the SMP stood at €74.0 billion, down slightly from €76.1 billion on 6 May 2011 on account of maturing amounts.

In parallel, weekly operations neutralised all the liquidity provided by the SMP, absorbing an average of €74.6 billion in the period under review. Liquidity absorbed by means of fine-tuning operations with an overnight maturity on the last day of each maintenance period averaged €77.3 billion (see Chart B).

Use of standing facilities

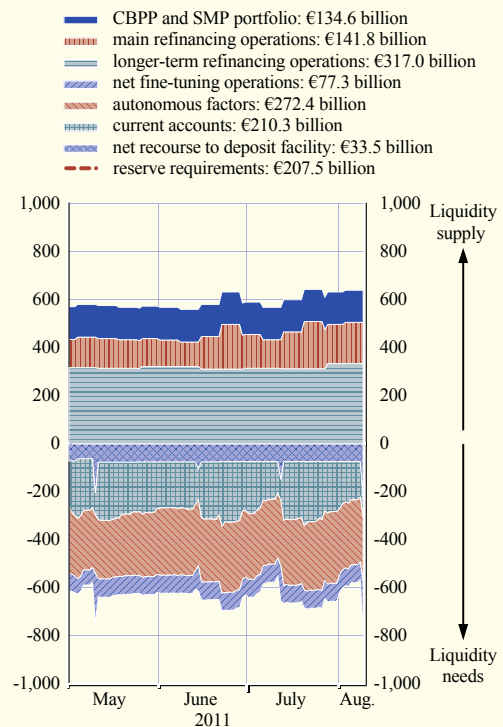
Overall, the increase in the supply of liquidity resulted in average excess liquidity rising to €36.0 billion in the period under review (up from €22.5 billion in the previous review period). This led to higher net recourse to the deposit facility,³ which averaged around €33.5 billion.

Interest rates

The ECB's key interest rates increased by 25 basis points with effect from the main refinancing operation settled on 13 July 2011. The rate on the main refinancing operations increased to

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.

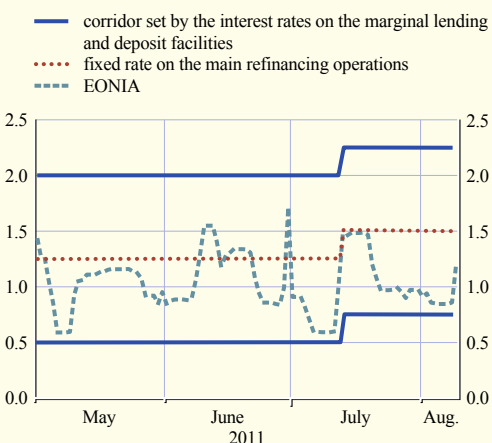
³ Net recourse to the deposit facility is calculated as recourse to the deposit facility minus recourse to the marginal lending facility, including weekends.

1.50%, the marginal lending rate increased to 2.25% and the rate on the deposit facility increased to 0.75%.

With liquidity remaining ample in the period under review, the EONIA generally remained below the main refinancing rate, typically declining towards the end of the maintenance period as the fulfilment of reserve requirements neared completion (see Chart C). The volatility observed in the EONIA since the beginning of this year continued in the review period. The EONIA fluctuated between 0.59% and 1.71% (i.e. 65 basis points below the main refinancing rate and 46 basis points above it). The spike of 1.71% was recorded on 30 June 2011, the last trading day of the first half of the year.

Chart C The EONIA and the ECB interest rates

(daily interest rates in percentages)



Source: ECB.