

Box 4

LIQUIDITY CONDITIONS AND MONETARY POLICY OPERATIONS IN THE PERIOD FROM 10 AUGUST TO 8 NOVEMBER 2011

This box describes the ECB's open market operations during the reserve maintenance periods ending on 13 September, 11 October and 8 November 2011. During this period all euro refinancing operations continued to be conducted by means of fixed rate tender procedures with full allotment.

On 4 August 2011 the Governing Council decided to conduct a supplementary liquidity-providing longer-term refinancing operation with a maturity of approximately six months on

10 August 2011. This was conducted as a fixed rate tender procedure with full allotment.

Subsequently, on 6 October 2011, the Governing Council decided to conduct two further supplementary longer-term refinancing operations – one with a maturity of approximately 12 months, to be conducted in October 2011, and the other with a maturity of approximately 13 months, to be conducted in December 2011 – also as fixed rate tender procedures with full allotment.

On the same day, the Governing Council announced that a second covered bond purchase programme (CBPP2) would be launched in November 2011 with a view to easing funding conditions for credit institutions and enterprises and encouraging credit institutions to maintain and expand lending to their clients.

Eligible covered bonds with a total nominal value of €40 billion are set to be purchased under CBPP2, with purchases expected to be completed by the end of October 2012.¹

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 €452.4 billion. This was €30.0 billion lower than the daily average recorded in the previous three maintenance periods (i.e. the period from 11 May to 9 August 2011).

This mainly reflected a further decline in the average value of autonomous factors, which decreased by €26.4 billion to stand at €245.9 billion. The average level of reserve requirements was €206.4 billion, €1.1 billion lower than in the previous three maintenance periods.

Liquidity supply

In the period under review total liquidity supplied by means of open market operations averaged €615.3 billion, an increase of €99.1 billion compared with the previous three maintenance periods, with tender operations² providing an average of €408.5 billion (€26.9 billion more than in the previous review period, mainly as a result of the increase in longer-term refinancing operations).

Compared with the previous three maintenance periods, the average liquidity supplied by one-week main refinancing operations increased by €29.7 billion to €171.6 billion, while the

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

(EUR billions; average level in each maintenance period)



Source: ECB.

¹ For more details, see the ECB press release of 3 November 2011: http://www.ecb.europa.eu/press/pr/date/2011/html/pr111103_1.en.html

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.

average liquidity provided by special-term refinancing operations with a maturity of one maintenance period decreased by €8.5 billion to stand at €64.0 billion. In parallel, the average liquidity supplied by three-month longer-term refinancing operations increased by €17.1 billion to stand at €261.6 billion. In addition, €49.7 billion was provided through the above-mentioned supplementary six-month longer-term refinancing operation, which was settled on 11 August 2011, and €56.9 billion was provided through the above-mentioned supplementary 12-month longer-term refinancing operation, which was settled on 27 October 2011. Overall, the total liquidity provided through longer-term refinancing operations averaged €384.0 billion, compared with €317.0 billion in the previous review period.

Together, the first covered bond purchase programme (CBPP) and the Securities Markets Programme (SMP) provided an average of €206.7 billion of liquidity, compared with an average of €134.6 billion in the previous three maintenance periods.

The CBPP, for which purchases ended on 30 June 2010, provided €59.4 billion, down marginally from €60.6 billion in the previous review period on account of maturing amounts. On 4 November 2011 the net value of settled purchases under the SMP stood at €183.0 billion, substantially higher than the €73.9 billion observed on 5 August 2011.

In parallel, weekly operations neutralised all the liquidity provided by the SMP, absorbing an average of €139.2 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 €241.6 billion (see Chart B).

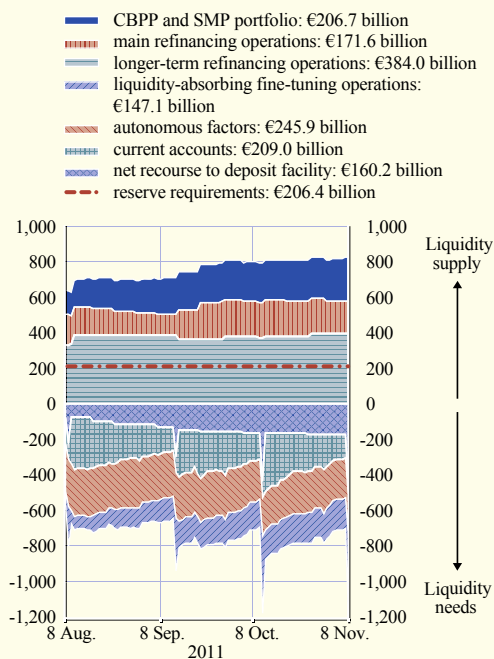
Use of standing facilities

Overall, the increase in the supply of liquidity resulted in average excess liquidity rising to €164.3 billion in the period under review (up from €36.2 billion in the previous review period). Recourse to the marginal lending facility increased from an average of €0.1 billion in the previous three maintenance periods to an average of €1.4 billion during this review period. This was most pronounced during the third of the maintenance periods under review (when it averaged €2.8 billion). At the same time, average recourse to the deposit facility increased to €161.7 billion, up from €33.5 billion in the previous review period. This led to increased net recourse to the deposit facility³, particularly in the second and third maintenance periods under

³ 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.

review. Indeed, net recourse to the deposit facility averaged €160.2 billion, up from €33.5 billion in the previous review period.

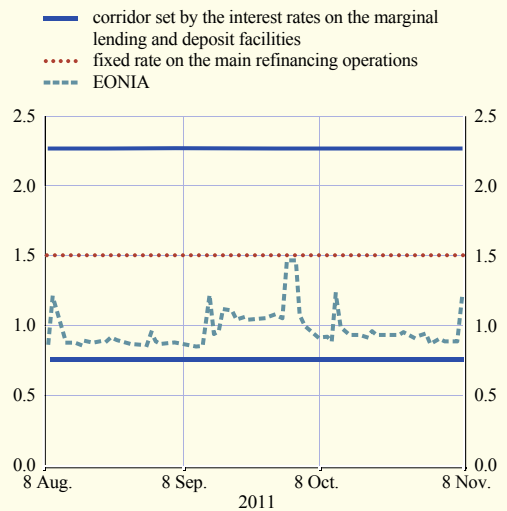
Interest rates

The ECB's key interest rates remained unchanged in the three maintenance periods under review, with the rates on the main refinancing operations, the deposit facility and the marginal lending facility remaining at 1.50%, 0.75% and 2.25% respectively. The decision on 3 November 2011 to reduce policy interest rates by 25 basis points was implemented on 9 November 2011 in the 11th maintenance period of the year.

With liquidity remaining ample in the period under review, the EONIA and other very short-term money market rates 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 EONIA averaged 0.96%, having fluctuated between 0.85% and 1.46%. A spike of 1.46% was recorded on 30 September 2011 at the end of the third quarter.

Chart C The EONIA and the ECB interest rates

(daily interest rates in percentages)



Source: ECB.