

Box 4

**LIQUIDITY CONDITIONS AND MONETARY POLICY OPERATIONS IN THE PERIOD FROM
9 NOVEMBER 2011 TO 14 FEBRUARY 2012**

This box describes the ECB's open market operations during the reserve maintenance periods ending on 13 December 2011, 17 January 2012 and 14 February 2012. Throughout the period under review, all euro refinancing operations continued to be conducted by means of fixed rate tender procedures with full allotment.

On 8 December 2011 the Governing Council decided on additional enhanced credit support measures to support bank lending and liquidity in the euro area money market. In particular, it decided:

- to conduct two supplementary liquidity-providing longer-term refinancing operations with a maturity of approximately three years and the option of early repayment after one year – the first such operation was allotted on 21 December 2011 (replacing the 13-month longer-term refinancing operation that was scheduled to be allotted on that date and had been announced on 6 October 2011) and the second operation was allotted on 29 February 2012;

- to reduce the reserve ratio from 2% to 1%, as of the reserve maintenance period starting on 18 January 2012;
- to discontinue the fine-tuning operations carried out on the last day of each maintenance period, as of the maintenance period starting on 14 December 2011; and
- to take measures to increase the availability of collateral.

In addition, in view of the maturity dates of other operations close to the start of the two three-year longer-term refinancing operations, the Governing Council decided to conduct two one-day liquidity-providing fine-tuning operations on 20 December 2011 and on 28 February 2012.

Finally, during the period under review, the ECB's key policy rates were reduced by 25 basis points on two occasions following decisions by the Governing Council.

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 €433.5 billion. This amount was €18.9 billion lower than the daily average recorded in the previous three maintenance periods (i.e. the period from 10 August 2011 to 8 November 2011).

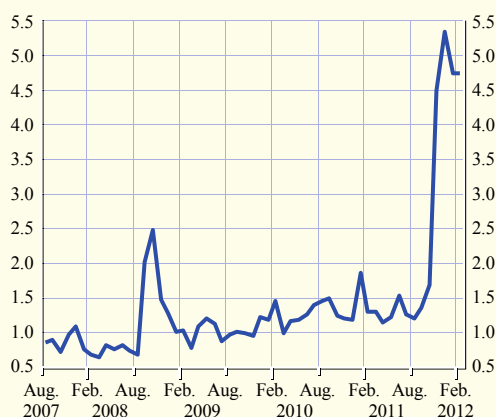
The decline in liquidity needs stemmed mainly from a decrease in reserve requirements. Until 17 January 2012 the daily level of reserve requirements was €207.0 billion. In the last maintenance period under review, the daily level of reserve requirements decreased to €103.3 billion, reflecting the aforementioned decision to reduce the reserve ratio from 2% to 1%. During the period under review, the average value of autonomous factors increased by €5.1 billion to €251.0 billion. Moreover, daily excess reserves averaged €4.8 billion, up from €2.5 billion in the previous three maintenance periods (see Chart A).¹

Liquidity supply

In the period under review, total net liquidity supplied by means of open market operations averaged €802.0 billion. This amount was €186.7 billion higher than in the previous three maintenance periods. Tender operations² provided an average of €530.3 billion,

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

(EUR billions; average level in each maintenance period)



Source: ECB.

¹ For further information on the factors that influence 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.

Liquidity-providing operations from 9 November 2011 to 14 February 2012

| Liquidity-providing operations | Main refinancing operations | Special-term refinancing operations | Three-month longer-term refinancing operations | Six-month longer-term refinancing operations | One-year longer-term refinancing operations | Three-year longer-term refinancing operations |
|--------------------------------|-----------------------------|-------------------------------------|--|--|---|---|
| Daily average (EUR billions) | 179.9 | 45.6 | 157.4 | 49.4 | 11.2 | 489.2 |

Source: ECB.

€121.8 billion more than in the previous review period, mainly as a result of the increase in liquidity provided through longer-term refinancing operations.

The average liquidity provided by special-term refinancing operations with a maturity of one maintenance period and by three-month longer-term refinancing operations decreased by €18.4 billion and €104.2 billion respectively in comparison with the previous review period. By contrast, the average liquidity supplied by one-week main refinancing operations increased by €8.3 billion. There was only one outstanding 12-month longer-term refinancing operation (€11.2 billion) during the review period. Finally, a significant sum of €489.2 billion was provided through the three-year longer-term refinancing operation that settled on 22 December 2011 (see the table).

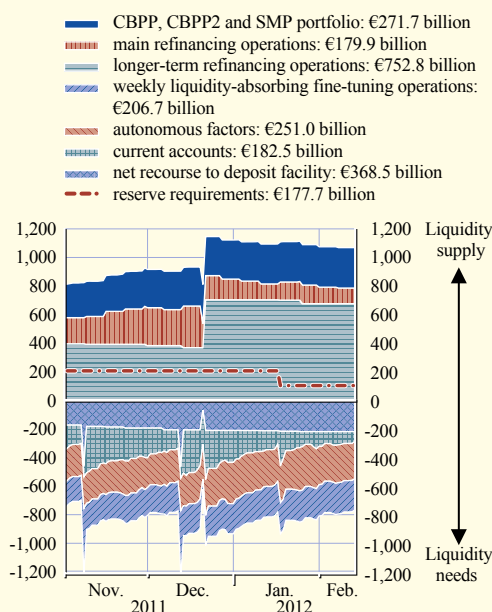
Together, the two covered bond purchase programmes (CBPP and CBPP2) and the Securities Markets Programme (SMP) resulted in liquidity that averaged €271.7 billion in the period under review, compared with an average of €206.7 billion in the previous three maintenance periods.

The liquidity provided through the CBPP, under which the last purchases were on 30 June 2010, stood at €57.6 billion on 14 February 2012, down marginally from the level of €59.4 billion in the previous review period on account of maturing amounts. On 14 February 2012 settled purchases under CBPP2 reached a level of €5.8 billion, while the net value of settled purchases under the SMP stood at €219.3 billion, compared with €185.3 billion on 8 November 2011. In parallel, weekly operations neutralised all the liquidity provided through the SMP, absorbing an average of €206.7 billion in the period under review.

In accordance with the aforementioned decision to discontinue end-of-maintenance-period fine-tuning operations, the last such operation took place on 13 December 2011. This operation absorbed an amount of €258.0 billion (see Chart B). In addition,

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.

as mentioned above, a one-day liquidity-providing fine-tuning operation was conducted on 20 December 2011, providing €141.9 billion.

Use of standing facilities

Overall, the increase in the supply of liquidity, combined with the marginal decrease in liquidity needs, caused the average excess liquidity to rise to €373.4 billion in the period under review (up from €164.3 billion in the previous review period). Recourse to the marginal lending facility increased from, on average, €1.4 billion in the previous three maintenance periods to an average of €4.4 billion in this period. This increase was more pronounced in the second of the three maintenance periods under review here (in which it averaged €6.0 billion). At the same time, in line with prevailing ample liquidity conditions, average recourse to the deposit facility increased to €372.9 billion, up from €161.7 billion in the previous review period. Average net recourse³ to the deposit facility amounted to €368.5 billion. The increase was particularly substantial in the last of the maintenance periods under consideration.

Interest rates

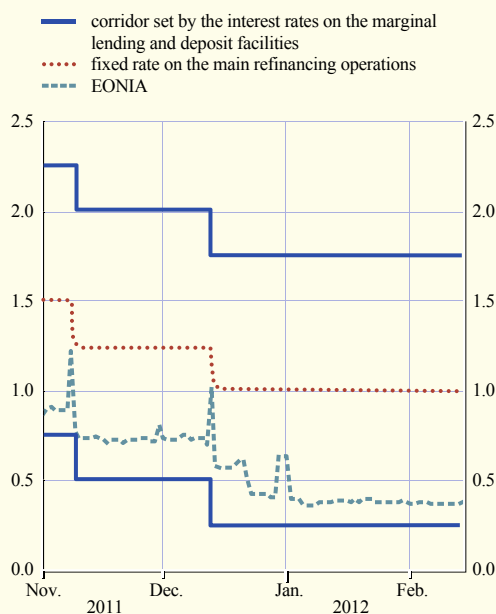
During the period under review, the rates on the main refinancing operations, the deposit facility and the marginal lending facility were reduced by 25 basis points each on 9 November 2011 and by a further 25 basis points on 14 December 2011. The period under review ended with the interest rates on the main refinancing operations, the marginal lending facility and the deposit facility standing at 1%, 1.75% and 0.25% respectively.

With liquidity remaining ample in the period under review, the EONIA and other very short-term money market rates remained broadly stable and well below the main refinancing rate (see Chart C). The EONIA averaged 0.53% in the period under review, fluctuating in the range of 0.35% to 1.01%.

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

Chart C The EONIA and ECB interest rates

(daily interest rates in percentages)



Source: ECB.