

Box 4

LIQUIDITY CONDITIONS AND MONETARY POLICY OPERATIONS IN THE PERIOD FROM 15 FEBRUARY TO 8 MAY 2012

This box describes the ECB's open market operations during the reserve maintenance periods ending on 13 March, 10 April and 8 May. Over these periods, all euro refinancing operations continued to be conducted by means of fixed rate tender procedures with full allotment.

Following a decision by the Governing Council on 8 December 2011, two liquidity-providing longer-term refinancing operations were conducted, each having a maturity of approximately three years and the option of early repayment after one year. While the first operation was allotted on 21 December 2011, the allotment of the second operation was on 29 February 2012, i.e. during the period under review.

In addition, in view of the fact that the maturity dates of other operations were close to the launch 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 28 February 2012. The latter operation took place during the period covered by this box.

During the period under review, the Governing Council decided to keep the key ECB interest rates unchanged.

Liquidity needs of the banking system

During 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 €426.0 billion. This amount was €7.5 billion lower than the daily average recorded in the previous three maintenance periods (i.e. the period from 9 November 2011 to 14 February 2012).

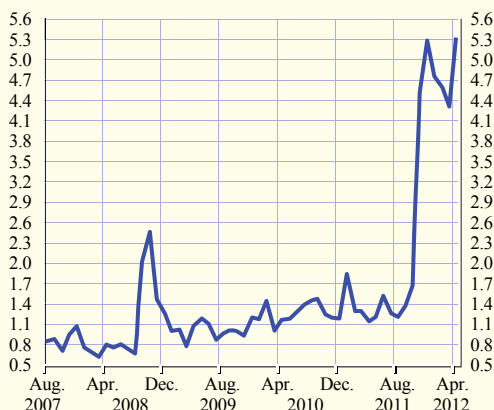
This decline in liquidity needs was the combined result of a decrease in reserve requirements (reflecting a decision by the Governing Council to reduce the reserve ratio from 2% to 1% as of 18 January 2012) and an increase in liquidity needs stemming from autonomous factors. Reserve requirements stood at €105.0 billion on average over the last three maintenance periods, down from €177.7 billion in the previous three maintenance periods. At the same time, autonomous factors increased by €65.3 billion to €316.3 billion on average. Excess reserves averaged €4.7 billion over the last three maintenance periods, broadly in line with the level observed in the previous three maintenance periods¹ (see Chart A). Excess reserves thus continued to be elevated by comparison with the first half of 2011 and earlier periods.

Liquidity supply

During the period under review, total net liquidity supplied by means of open market operations averaged €1,145.1 billion. This amount represents an increase of €343.1 billion relative to the previous three maintenance periods. Tender operations² provided an average of €863.4 billion, €333.1 billion more than in the previous review period, mainly as a result of the increase in liquidity provided through the second three-year longer-term refinancing operation (see Chart B).

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

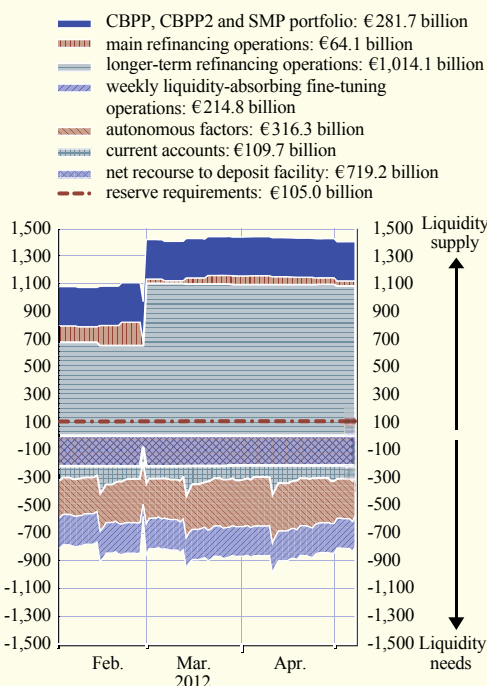
(EUR billions; average level in each maintenance period)



Source: ECB.

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.

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.

The average amount of liquidity provided by longer-term refinancing operations increased by €455.8 billion with respect to the previous period. The average amount of liquidity supplied by one-week main refinancing operations decreased by €115.8 billion, while the average amount of liquidity absorbed by the weekly fine-tuning operations increased by €6.9 billion.

Together, the first and second covered bond purchase programmes (the CBPP and CBPP2) and the Securities Markets Programme (SMP) resulted in liquidity that averaged €281.7 billion during the review period. This figure was slightly higher than the average of the previous three maintenance periods.

The liquidity provided through the CBPP, under which the last purchases were made on 30 June 2010, stood at €56.6 billion on 8 May 2012, down marginally from the previous review period, on account of maturing amounts. On 8 May 2012 settled purchases under CBPP2 – which was launched on 3 November 2011 – reached a level of €11.1 billion, while the net value of settled purchases under the SMP stood at €214.2 billion, compared with €219.3 billion on 14 February 2012, on account of maturing amounts. The weekly fine-tuning operations absorbed all the liquidity provided by the SMP.

Use of standing facilities

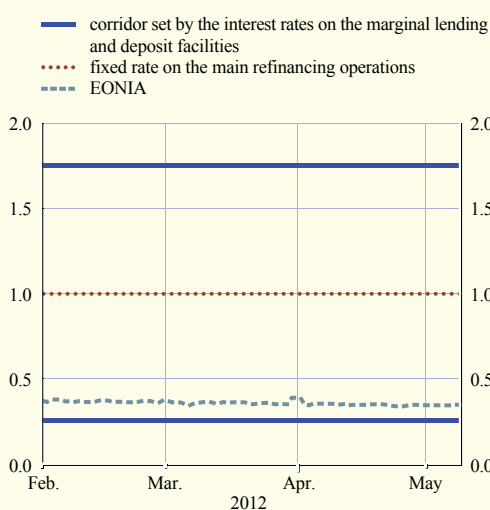
Overall, the increase in the supply of liquidity combined with the marginal decrease in liquidity needs resulted in a rise in average excess liquidity to €725.9 billion in the period under review (up from €373.4 billion in the previous review period). Recourse to the marginal lending facility decreased from an average of €4.4 billion in the previous three maintenance periods to an average of €2.1 billion in the period under review. At the same time, in line with the ample liquidity conditions, average recourse to the deposit facility increased to €721.2 billion, up from €372.9 billion. Average net recourse³ to the deposit facility amounted to €719.2 billion. The increase in both gross and net recourse to the deposit facility, which was recorded from 1 March onwards, reflected, as expected, the additional liquidity provided by the second three-year longer-term refinancing operation.

Interest rates

During the period under review, following decisions by the Governing Council, the rates on the main refinancing operations, the deposit

Chart C The EONIA and ECB interest rates

(daily interest rates in percentages)



Source: ECB.

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.

facility and the marginal lending facility were left unchanged at 1.00%, 0.25% and 1.75% respectively.

As liquidity remained 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). In the period under review, the EONIA averaged 0.35%.