LIQUIDITY CONDITIONS AND MONETARY POLICY OPERATIONS IN THE PERIOD FROM 9 MAY TO 7 AUGUST 2012

This box describes the ECB’s open market operations during the reserve maintenance periods ending on 12 June, 10 July and 7 August 2012.

On 6 June 2012 the Governing Council decided to continue conducting its main refinancing operations (MROs) as fixed rate tender procedures with full allotment for as long as necessary, and at least until the 12th maintenance period of 2012 ends on 15 January 2013. The same procedure will remain in use for the Eurosystem’s special-term refinancing operations with a maturity of one maintenance period, which will also continue to be conducted for as long as needed. The fixed rate in these operations will be the same as the MRO rate prevailing at the time.

In addition, the Governing Council decided that three-month longer-term refinancing operations (LTROs) allotted prior to the end of 2012 would be conducted as fixed rate tender procedures with full allotment. The rates in these operations will be fixed at the average of the rates in the MROs over the life of the respective LTRO. Accordingly, during the period under review, all euro refinancing operations continued to be conducted by means of fixed rate tender procedures with full allotment. In addition, the key ECB interest rates were reduced by 25 basis points following a decision by the Governing Council on 5 July 2012.

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 €623.1 billion. This was €197.1 billion higher than the daily average recorded in the previous three maintenance periods (i.e. the period from 15 February to 8 May 2012).

This rise in liquidity needs was the combined result of increases in autonomous factors and, to a much greater extent, excess reserves. The latter was due to the reduction of the deposit rate to zero, effective as of 11 July 2012, which, in principle, made banks indifferent as to whether they transferred their funds overnight to the deposit facility or left them unremunerated on their current accounts as excess reserves.

As a result, excess reserves, which averaged €4.4 billion during the first two maintenance periods under consideration (compared with an average of €4.7 billion over the previous three maintenance periods), substantially increased over the third maintenance period under consideration (with a daily average of €403 billion – see Chart A). Reserve requirements stood at €106.8 billion on average over the three maintenance periods under review, up from €105.0 billion in the previous three maintenance periods. At the same time, autonomous factors increased by €73.0 billion to €389.3 billion on average.

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.
Liquidity supply

During the period under review, total net liquidity supplied by means of open market operations averaged €1,260.8 billion. This represents an increase of €115.7 billion relative to the previous three maintenance periods. Tender operations provided an average of €979.9 billion, €116.5 billion more than in the previous review period (see Chart B).

The average amount of liquidity supplied through one-week main refinancing operations increased by €52.6 billion relative to the previous period. The average amount of liquidity provided by longer-term refinancing operations increased by €60.9 billion, while the average amount of liquidity absorbed by the weekly fine-tuning operations decreased by €3.0 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 €281.0 billion during the review period. This was slightly lower than the average for the previous three maintenance periods.

The liquidity provided through the CBPP, under which the last purchases were made on 30 June 2010, stood at €55.0 billion on 7 August 2012, down marginally from the previous review period, on account of maturing amounts. On 7 August 2012 settled purchases under CBPP2 – which was launched on 3 November 2011 – reached €14.6 billion, while the net value of settled purchases under the SMP stood at €211.3 billion, compared with €214.2 billion on 8 May 2012, on account of maturing amounts. The weekly fine-tuning operations absorbed all the liquidity provided by the SMP.

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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.
Use of standing facilities

Mainly as a result of the increase in the supply of liquidity, average excess liquidity (defined as total liquidity provided via operations and the marginal lending facility, minus autonomous factors and reserve requirements) rose to €766.2 billion in the period under review (up from €725.9 billion in the previous review period). Recourse to the marginal lending facility decreased from an average of €2.1 billion in the previous three maintenance periods to an average of €1.4 billion in the period under review. Following the reduction of the deposit rate to zero, banks held more excess reserves as of 11 July 2012. Therefore, average recourse to the deposit facility decreased from an average of €770.7 billion during the first two maintenance periods under review to €343.1 billion in the third maintenance period (with the average over all three maintenance periods decreasing to €639.1 billion, compared with €721.2 billion in the previous three maintenance periods). Average net recourse\(^3\) to the deposit facility amounted to €637.7 billion.

Interest rates

Following decisions by the Governing Council, the rates on the main refinancing operations, the marginal lending facility and the deposit facility were reduced by 25 basis points with effect from 11 July 2012. Accordingly, the period under review ended with the following interest rates: 0.75\% on the main refinancing operations, 1.50\% on the marginal lending facility and 0.00\% on the deposit facility.

As liquidity remained ample in the period under review, the EONIA and other very short-term money market rates remained low, averaging 66 basis points below the main refinancing rate (see Chart C). In the period under review, the EONIA averaged 0.26\%.

\(^3\) 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.

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**Chart C** The EONIA and ECB interest rates

(daily interest rates in percentages)

<table>
<thead>
<tr>
<th>Month</th>
<th>EONIA 0.00%</th>
<th>Main refinancing 0.75%</th>
<th>Marginal lending 1.50%</th>
</tr>
</thead>
<tbody>
<tr>
<td>May</td>
<td>0.00%</td>
<td>0.75%</td>
<td>1.50%</td>
</tr>
<tr>
<td>June</td>
<td>0.00%</td>
<td>0.75%</td>
<td>1.50%</td>
</tr>
<tr>
<td>July</td>
<td>0.00%</td>
<td>0.75%</td>
<td>1.50%</td>
</tr>
<tr>
<td>Aug.</td>
<td>0.00%</td>
<td>0.75%</td>
<td>1.50%</td>
</tr>
</tbody>
</table>

Source: ECB.