Box 4

LIQUIDITY CONDITIONS AND MONETARY POLICY OPERATIONS IN THE PERIOD FROM 8 AUGUST TO 13 NOVEMBER 2012

This box describes the ECB’s open market operations during the reserve maintenance periods ending on 11 September, 9 October and 13 November 2012.

During the period under review, the main refinancing operations (MROs) were conducted as fixed rate tender procedures with full allotment. The same procedure remained in use for conducting the Eurosystem’s special-term refinancing operations with a maturity of one maintenance period. The fixed rate in these operations was the same as the MRO rate prevailing at the time.

In addition, the three-month longer-term refinancing operations (LTROs) allotted in the period under review were conducted as fixed rate tender procedures with full allotment. The rates in these operations were fixed at the average of the rates in the MROs over the life of the respective LTRO.

Finally, the key ECB interest rates remained 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 and reserve requirements – averaged €520.9 billion. This was €24.7 billion higher than the daily average recorded in the previous three maintenance periods (i.e. the period from 9 May to 7 August 2012). Reserve requirements stood at €106.8 billion on average over the three maintenance periods under review, unchanged compared with the previous three maintenance periods. At the same time, autonomous factors increased by €24.8 billion to €414.1 billion on average.

Current account holdings in excess of reserve requirements averaged €428.3 billion during the period under consideration (see Chart A). Such large current account holdings were attributable to the reduction of the deposit facility rate to zero in July 2012, which, in principle, made banks indifferent as to whether they transferred their excess liquidity overnight to the deposit facility or left it unremunerated on their current accounts as excess reserves. In the previous period under review, current account holdings in excess of reserve requirements averaged €4.4 billion during the first two maintenance periods and €403 billion in the third maintenance period.

Liquidity supply

During the period under review, total net liquidity supplied by means of open market operations averaged €1,244.7 billion. This represents a decrease of €16.1 billion relative to the previous three maintenance periods. Tender operations1 provided an average of €965.4 billion, €14.5 billion less than in the previous review period (see Chart B).

The average amount of liquidity supplied through one-week main refinancing operations was €1,064.6 billion, €110.4 billion less than in the previous review period.

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1 Tender operations include main refinancing operations, longer-term refinancing operations and fine-tuning operations, the latter of which can be either liquidity-providing or liquidity-absorbing.
decreased by €6.4 billion relative to the previous period. The average amount of liquidity provided by longer-term refinancing operations decreased by €10.4 billion, while the average amount of liquidity absorbed by the weekly fine-tuning operations decreased by €2.2 billion mainly owing to maturing amounts in the Securities Markets Programme (SMP) portfolio.

Together, the first and second covered bond purchase programmes (the CBPP and CBPP2) and the SMP resulted in liquidity that averaged €279.4 billion during the review period. This was again slightly lower than the average for the previous three maintenance periods.

Outstanding liquidity provided through the CBPP – which was completed in June 2010 – stood at €53.2 billion on 13 November 2012, marginally lower compared with the previous review period, on account of maturing amounts. On 13 November 2012, settled purchases under CBPP2 – which ended on 31 October 2012 – reached €16.4 billion, while the net value of settled purchases under the SMP stood at €208.5 billion, compared with €211.3 billion on 8 August 2012, on account of maturing amounts. The weekly fine-tuning operations absorbed all the liquidity provided by the SMP.

Use of standing facilities

The volume of excess liquidity (defined as total liquidity provided via operations and the marginal lending facility, minus autonomous factors and reserve requirements) averaged €724.8 billion in the period under review (down from €766.2 billion in the previous review period). Recourse to the marginal lending facility decreased from an average of €1.4 billion in the previous three maintenance periods to an average of €1.0 billion. The average recourse to the deposit facility decreased from an average of €639.1 billion to €296.1 billion, owing to the reduction of the deposit facility rate to zero. In net terms, the average recourse to the deposit facility amounted to €295.1 billion.

Interest rates

The key ECB interest rates on the main refinancing operations, the marginal lending facility and the deposit facility remained unchanged at 0.75%, 1.50% and 0.00% respectively during the period under review.

As liquidity remained ample in the period under review, the EONIA and other very short-term money market rates remained low. In the period under review, the EONIA averaged 0.10%, i.e. 65 basis points below the main refinancing rate (see Chart C).

![Chart C The EONIA and ECB interest rates](https://example.com/chartc.png)

Source: ECB.

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2 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.