

Box 4

LIQUIDITY CONDITIONS AND MONETARY POLICY OPERATIONS IN THE PERIOD FROM 8 MAY TO 6 AUGUST 2013

This box describes the ECB's monetary policy operations during the reserve maintenance periods ending on 11 June, 9 July and 6 August 2013 – the fifth, sixth and seventh maintenance periods of the year.

Following the Governing Council's decisions of 6 December 2012 and 2 May 2013, main refinancing operations (MROs) in the review period continued to be conducted as fixed rate tender procedures with full allotment. The same procedure was also used for the special-term refinancing operations with a maturity of one maintenance period. The fixed rate was the same as the MRO rate prevailing at the time.

Furthermore, the three-month longer-term refinancing operations (LTROs) allotted in the review period were likewise conducted as fixed rate tender procedures with full allotment. The interest rates in these operations were fixed at the average of the rates used in the MROs over the lifetime of the respective LTRO. Finally, the MRO rate was reduced by 25 basis points and the rate on the marginal lending facility was reduced by 50 basis points, following a decision by the Governing Council on 2 May 2013.

Liquidity needs

During the review period, the average aggregate daily liquidity needs of the banking system, defined as the sum of autonomous factors and reserve requirements, averaged €609.8 billion. This was €14.7 billion higher than the daily average in the previous three maintenance periods. Reserve requirements remained broadly stable at €105.0 billion, while autonomous factors increased by €14.9 billion, rising from €490.0 billion to €504.9 billion, thus accounting for the bulk of the increase in liquidity needs.

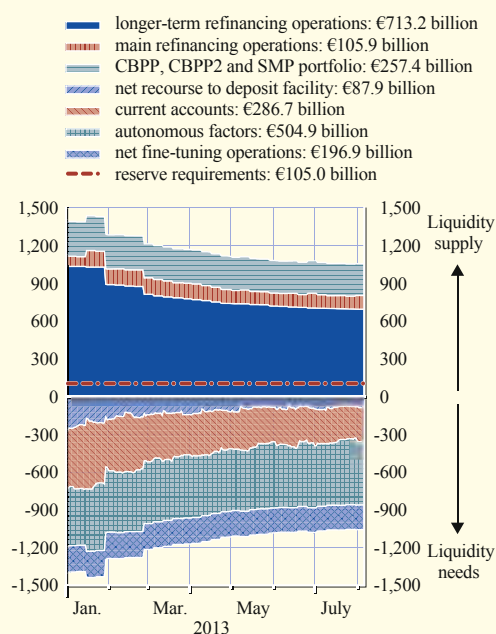
Looking at individual contributions to the increase in average autonomous factors, two components account for the bulk of this change. Banknotes in circulation increased at a faster pace during this review period than during the previous review period, owing to normal seasonal developments in the summer months. The greater public demand for banknotes during the maintenance periods ending in July and August led to an increase of €16 billion in this component. In addition, changes in the component “other autonomous factors” increased the liquidity needs of the banking system. This component includes balance sheet item A6 (“other claims on euro area credit institutions denominated in euro”) and encompasses, among other things, emergency liquidity assistance (ELA). A decrease in ELA increases autonomous factors. To the extent that the decline in ELA is compensated for by increased recourse to Eurosystem operations, the effect on excess liquidity is neutral, as rising outstanding amounts in monetary policy operations and increasing autonomous factors offset one another.

Changes in aggregate government deposits with the Eurosystem also contributed to the developments in autonomous factors during the maintenance periods under review. Changes in this component have a significant impact on the volatility of autonomous factors, but only a lesser effect on their average level. In the review period, this component fluctuated by as much as €60.2 billion. Some NCBs showed a regular monthly pattern, with the Banca d’Italia reporting the most significant variations. These variations reflected the monthly collection of taxes (between the 19th and 23rd day of each month) and the payment of salaries, pensions and social benefits (around the 1st day of each month).¹

Daily current account holdings in excess of reserve requirements averaged €181.6 billion in the period under review. A clear declining trend can be observed: average excess reserves declined from €195.0 billion in the fifth maintenance period of the year to €181.4 billion and €165.1 billion in the sixth

Chart A Liquidity needs of the banking system and the liquidity supply

(EUR billions; daily data)



Source: ECB.

¹ For further details, see the article entitled “The Eurosystem’s experience with forecasting autonomous factors and excess reserves”, *Monthly Bulletin*, ECB, January 2008.

and seventh maintenance periods respectively. This reduction, as well as the decline in average net recourse to the standing facilities, was largely linked to the ongoing repayment of liquidity obtained in the three-year LTROs and an overall reduction in outstanding liquidity, as described in the next subsection.

Liquidity supply

As in the previous three maintenance periods, the average amount of liquidity provided through open market operations continued to decline, falling from €977.5 billion to €879.4 billion, a fall of €98.1 billion. Liquidity provided through tender operations² provided an average of €622 billion over the review period, a decline of €87 billion. The amounts provided in the weekly MROs remained fairly stable during the review period, averaging €105.9 billion, although they were slightly lower than during the three previous maintenance periods.

During the review period, LTROs with maturities of three months and one maintenance period contributed an average of €22.8 billion to the liquidity supply – a decline of €4 billion relative to the previous review period and a continuation of the trend seen since the beginning of the year, when these LTROs contributed €43.8 billion. The three-year LTROs provided an average of €689.9 billion, as counterparties repaid €41.4 billion in the course of the review period. The average size of the weekly repayments has declined in recent maintenance periods, averaging €4.3 billion in the fifth maintenance period of the year, €3.1 billion in the sixth and €1.8 billion in the seventh.

The total outstanding amount of securities held for monetary policy purposes – i.e. those acquired through the first and second covered bond purchase programmes (the CBPP and CBPP2) and through the Securities Markets Programme (SMP) – averaged €257.4 billion, a decrease of €10.9 billion.

The outstanding amount of securities purchased under the CBPP, which was completed in June 2010, stood at €44.1 billion at the end of the review period, €2.1 billion lower than in the previous review period, on account of maturing securities. Outstanding amounts under CBPP2, which ended on 31 October 2012, totalled €15.8 billion, while €0.2 billion of securities matured. The value of settled purchases under the SMP decreased by €8.4 billion, likewise on account of maturing securities, so the total outstanding amount at the end of the review period was €192.6 billion. The weekly liquidity-absorbing fine-tuning operations successfully neutralised the liquidity injected through the SMP.

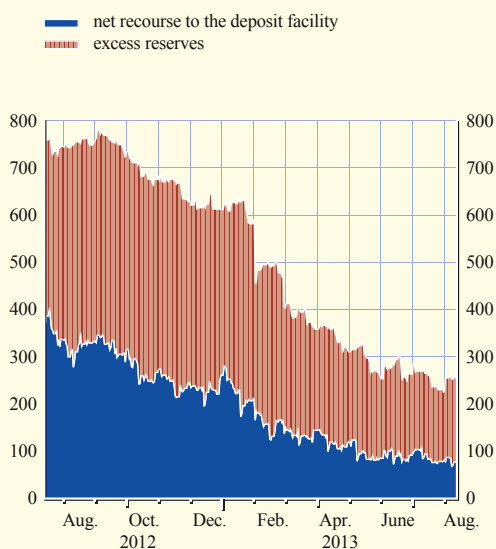
Excess liquidity

Excess liquidity fluctuated between a minimum of €225.7 billion (on 30 July) and a maximum of €328.0 billion (on 13 May). As described above, the main drivers were fluctuations in government deposits, increases in banknotes in circulation and a decline in the outstanding liquidity provided through open market operations. Since the interest rate on the deposit facility stands at 0% and is thus the same as the remuneration of excess reserve holdings, counterparties remain fairly neutral with respect to the distribution of their excess liquidity. Over the three maintenance periods under review, the pattern was fairly stable, with about 33% of the excess liquidity being held in the deposit facility and 67% being held as excess reserves (see Chart B).

² Tender operations include main refinancing operations, longer-term refinancing operations and fine-tuning operations (both liquidity-providing and liquidity-absorbing).

Chart B Evolution of excess liquidity and its distribution between excess reserves and the standing facilities since 11 July 2012

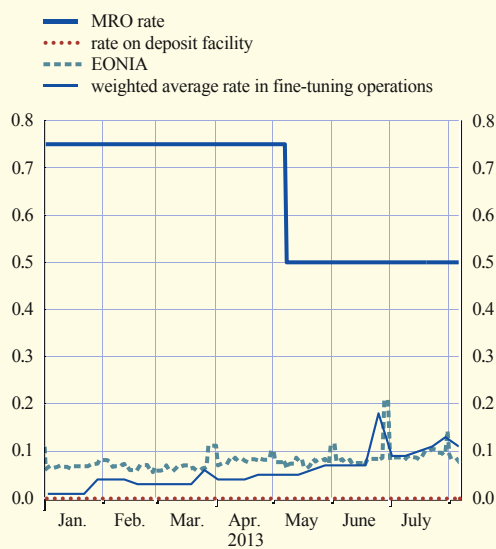
(EUR billions; daily data)



Source: ECB.

Chart C Selected ECB interest rates, the EONIA and the weighted average rate in fine-tuning operations

(percentages per annum; daily data)



Source: ECB.

Interest rate developments

During the review period, the rate on the marginal lending facility was lowered from 1.50% to 1.00% and the MRO rate was lowered to 0.50%. The rate on the deposit facility remained unchanged at 0%. These changes took place with effect from 8 May 2013.

In light of the ample liquidity conditions during the review period, the EONIA remained close to the rate on the deposit facility, averaging 8.6 basis points, a slight increase from the 7.4 basis points averaged in the three preceding maintenance periods. In the maintenance period ending on 6 August 2013, the EONIA averaged 9.4 basis points, reflecting variations in the liquidity conditions. The average level of excess liquidity over that maintenance period was the lowest since the settlement of the first three-year LTRO. The rates in the weekly liquidity-absorbing fine-tuning operations increased, with the weighted average allotment rate rising to 13 basis points at the end of the review period, up from around 1 basis point at the beginning of the year (see Chart C).