

Box 3

LIQUIDITY CONDITIONS AND MONETARY POLICY OPERATIONS IN THE PERIOD FROM 7 AUGUST 2013 TO 12 NOVEMBER 2013

This box describes the ECB's monetary policy operations during the reserve maintenance periods ending on 10 September 2013, 8 October 2013 and 12 November 2013 – i.e. the eighth, ninth and tenth maintenance periods of the year.

During the review period the main refinancing operations (MROs) continued to be conducted as fixed rate tender procedures with full allotment. The same procedure remained in use 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 also conducted as fixed rate tender procedures with full allotment. The interest rate in each of these LTROs was fixed at the average of the MRO rates over the respective LTRO's lifetime. The key ECB interest rates remained unchanged throughout the review period, with the reduction in the MRO rate decided upon by the Governing Council of the ECB on 7 November only becoming effective at the beginning of the eleventh maintenance period of the year.

Liquidity needs

During the review period, the aggregate daily liquidity needs of the banking system, defined as the sum of autonomous factors and reserve requirements, averaged €604.7 billion. This was €5.1 billion lower than the daily average in the previous review period (from 8 May to 6 August 2013). Reserve requirements decreased from an average of €105.0 billion in the previous review period to an average of €104.2 billion in the period currently under review. Autonomous factors contributed more to the lowering of liquidity needs, dropping on average from €504.9 billion to €500.5 billion.

Looking into individual contributions to the decrease in average autonomous factors, two components account for the bulk of this change. Government deposits were the main driver of the reduction in the banking system's liquidity needs, as they dropped by €16.1 billion compared with the previous review period to stand on average at €74.1 billion. Changes in this component have a significant impact on the volatility of autonomous factors, but normally have a lesser effect on their average level. In the review period, this component fluctuated by as much as €53.2 billion. Some NCBs continued to exhibit regular fluctuation patterns, with the most

significant variations coming from the Banca d'Italia. Such fluctuations usually reflect monthly tax collection activities (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

The effect of these changes was partially offset by an increase in banknotes in circulation, from €909.8 billion on average in the previous review period to €919.8 billion on average in this review period, although the pace of this increase (+€10 billion) was slower than that observed between the preceding two review periods (+€16 billion). This decrease in pace can be partially explained by the seasonal demand for banknotes over the summer period due to tourism activities.

Daily current account holdings in excess of reserve requirements averaged €158.0 billion during the period under review, down from €181.6 billion in the previous review period. In more detail, the decline is in line with the steady downward trend in excess reserves recorded since early 2013: average excess reserves declined from €169.6 billion in the eighth maintenance period to €164.7 billion and €141.1 billion in the ninth and tenth maintenance periods respectively. This drop, as well as the drop in the average net usage of the deposit facility (see Chart B), is largely linked to the ongoing repayments of the three-year LTROs and to an overall reduction in outstanding liquidity, as described in the following subsection.

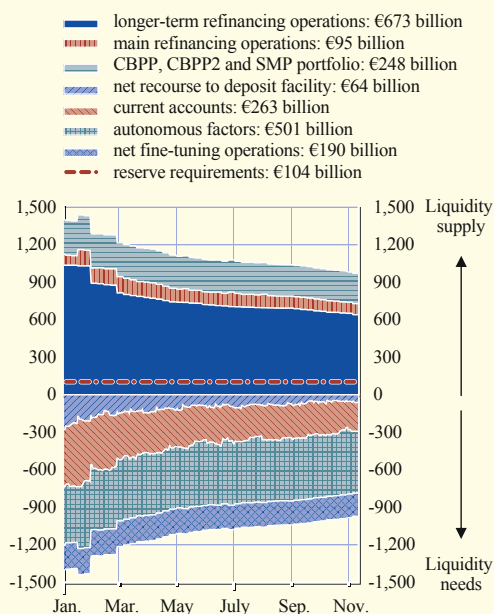
Liquidity supply

The average amount of liquidity provided through open market operations continued to decline, from €879.4 billion during the previous review period to €826.2 billion. Tender operations² provided an average of €578.2 billion, marking a decline of €43.8 billion. The liquidity provided through the weekly MROs stood on average at €94.7 billion, constituting a fall of €10.3 billion compared with the previous review period, which resulted from a steady decline in the amounts allotted each week.

During the review period, LTROs with a duration of three months and special-term refinancing operations with a duration of one maintenance period contributed a daily average of €21.8 billion to the liquidity supply. This constituted a decline, in continuation of the trend seen since the beginning of the year, when these refinancing operations together contributed on average

Chart A Liquidity needs of the banking system and liquidity supply in 2013

(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.

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

€43.8 billion daily. The three-year LTROs provided on average €651.5 billion daily during the review period. Counterparties repaid €54.7 billion in the course of the period, with the total of the weekly repayments standing at €8.5 billion in the eighth maintenance period and notably increasing in the ninth and tenth maintenance periods, standing at €20.1 billion and €26.1 billion respectively.

The combined 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) – stood on average at €248 billion, marking a decrease of €9.3 billion.

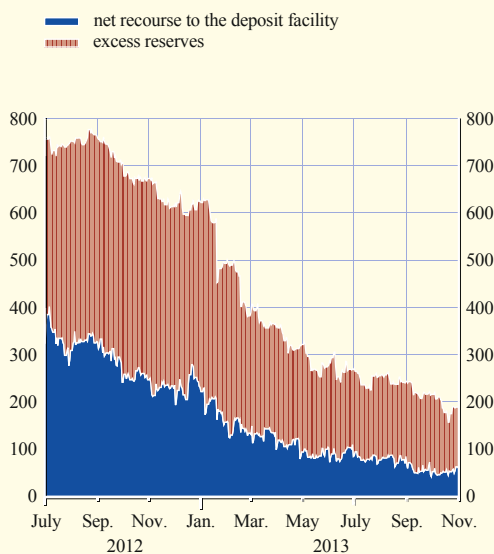
The outstanding amount of securities purchased under the CBPP, which was completed in June 2010, stood at €42.0 billion at the end of the review period, €2.1 billion lower than in the previous review period, on account of maturing securities. Outstanding amounts under CBPP2, which ended on 31 October 2012, totalled €15.5 billion, while €0.3 billion of securities matured. The outstanding value of the SMP decreased by €8.5 billion during the review period, reflecting maturing securities in the portfolio, and resulting in an outstanding amount of €184.1 billion at the end of the review period. The weekly liquidity-absorbing fine-tuning operations successfully neutralised the liquidity injected through the SMP.

Excess liquidity

Excess liquidity continued to decline, standing on average at €221.5 billion in the period under review, compared with €269.5 billion in the previous review period. At the same time, it remained volatile within the review period, ranging between €263.4 billion (20 August) and €157.2 billion (30 and 31 October). As described above, the main drivers were fluctuations in

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

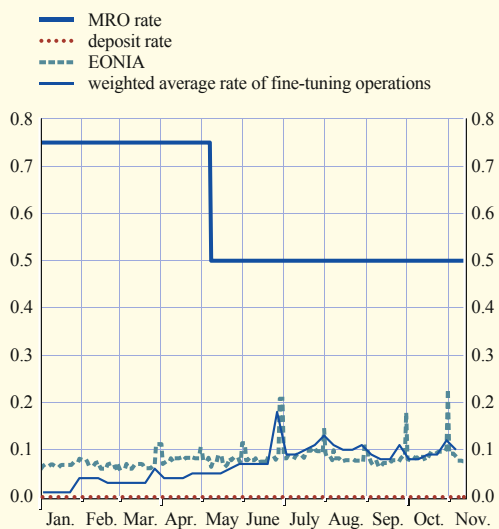
(EUR billions; daily data)



Source: ECB.

Chart C Selected ECB interest rates, EONIA and the weighted average rate of fine-tuning operations in 2013

(percentages; daily data)



Source: ECB.

government deposits, the observed increase in banknotes in circulation and a decrease in the outstanding liquidity provided through open market operations. Since the rate on the deposit facility was 0% and thus equal to the remuneration of excess reserve holdings, counterparties could be expected to be indifferent regarding the disposition of their excess liquidity. In the three maintenance periods under review, the pattern was fairly stable, with about 29% of excess liquidity held in the deposit facility and 71% held in the form of excess reserves (see Chart B).

Interest rate developments

During the review period, the ECB interest rates on the marginal lending facility, the MROs and the deposit facility remained unchanged, at 1.00%, 0.50% and 0% respectively. In light of declining but still ample liquidity conditions during the review period, the EONIA remained close to the deposit rate, averaging 0.085%, marginally down from 0.086% in the three preceding maintenance periods. In the maintenance period ending on 12 November 2013, the EONIA averaged 0.092%, as 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 also reached higher levels, with the weighted average allotment rate ranging between 0.08% and 0.12% during the review period (see Chart C).