

Box 3

LIQUIDITY CONDITIONS AND MONETARY POLICY OPERATIONS IN THE PERIOD FROM 13 NOVEMBER 2013 TO 11 FEBRUARY 2014

This box describes the ECB's monetary policy operations during the reserve maintenance periods ending on 10 December 2013, 14 January 2014 and 11 February 2014, i.e. the eleventh and twelfth maintenance periods of 2013 and the first maintenance period of 2014.

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 operations was fixed at the average of the MRO rates over the respective LTRO's lifetime. The reduction in the MRO and marginal lending facility rates, by 25 basis points to 0.25% and 0.75% respectively, decided upon by the Governing Council of the ECB on 7 November 2013, became effective on 13 November 2013, i.e. at the beginning of the eleventh maintenance period of the year. The interest rate applicable to the deposit facility was left unchanged throughout the review period at 0%.

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 €605.2 billion, €0.5 billion higher than the daily average in the previous review period (from 7 August to

12 November 2013). Reserve requirements decreased from an average of €104.2 billion in the previous review period to an average of €103.4 billion in the period currently under review (see Chart A). Autonomous factors increased slightly from an average of €500.5 billion to an average of €501.8 billion in the period currently under review.

Looking at individual contributions to the change in average autonomous factors, banknotes in circulation increased, on average, by €16.4 billion from an average of €919.8 billion in the previous review period to an average of €936.2 billion in the period currently under review. Such an increase largely reflects a seasonal pattern in the demand for banknotes peaking during the Christmas period.

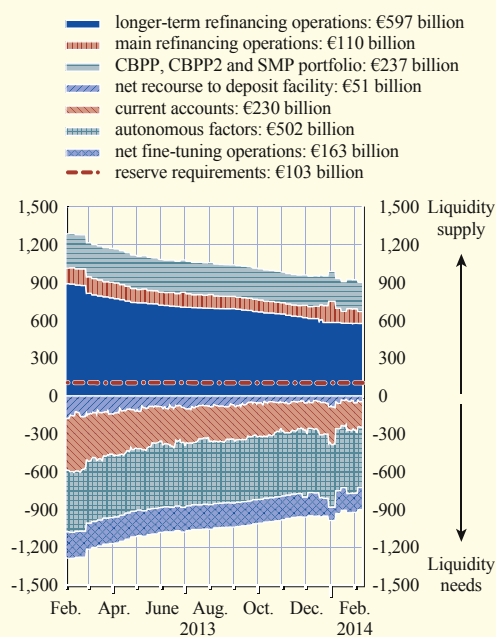
Banknotes in circulation peaked in the twelfth maintenance period at an average of €947.9 billion, before dropping to an average of €931.8 billion in the first maintenance period of 2014. The liquidity-absorbing effect resulting from higher banknotes in circulation was partially offset by an increase of €13.5 billion in net assets denominated in euro. Net assets denominated in euro increased to an average of €447 billion in the period currently under review, from €433.5 billion in the previous review period. Such an increase in net assets denominated in euro reflects, among other things, lower deposits denominated in euro held with the Eurosystem by foreign central banks and has a liquidity-providing effect. Government deposits remained, on average, unchanged during the review period, dropping by €0.2 billion from an average of €74.1 billion to €73.9 billion. This component also continued to exhibit significant volatility, as it fluctuated by as much as €56.2 billion in the period under review. Changes in this component have a significant impact on the volatility of autonomous factors exhibiting a regular fluctuation pattern within a maintenance period linked to tax collection activities and payment of salaries, pensions and social benefits. Normally, however, they have a lesser effect on the average trend level of autonomous factors.

Daily current account holdings in excess of reserve requirements averaged €126.3 billion during the period under review, a reduction of €31.7 billion compared with the previous review period. This decline is in line with the downward trend in excess reserves recorded since early 2013. Daily current account holdings in excess of reserve requirements continued to decline, from €141.1 billion in the tenth maintenance period of 2013 to €112.4 billion in the first maintenance period of 2014.

However, a temporary increase of current account holdings was observed in the twelfth maintenance period, during which daily current account holdings in excess of reserve

Chart A 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.

requirements increased from €117 billion in the eleventh maintenance period to €144.8 billion, as banks increased demand for liquidity buffers for precautionary purposes to absorb temporary end-of-year-related money market tensions.

Liquidity supply

The average amount of liquidity provided through open market operations continued to decline, from €826.2 billion during the previous review period to €782.1 billion. Tender operations¹ provided an average of €545.2 billion of liquidity, marking a decline of €33 billion compared with the previous review period. The liquidity provided through the weekly MROs stood, on average, at €110.4 billion, €15.7 billion higher than in the previous review period. The amounts allotted weekly fluctuated in a range between a low of €86.9 billion on 19 November 2013 and €168.7 billion on 30 December 2013, as banks adjusted their demand according to the developments in liquidity and money market conditions.

During the review period, LTROs with a duration of three months and of one maintenance period contributed, on average, €31.5 billion to the liquidity supply, €9.7 billion higher than in the previous period. However, the average recourse to these operations remains significantly lower than at the beginning of 2013, when these LTROs together contributed, on average, €43.8 billion. The three-year LTROs provided on average €565.9 billion, as counterparties repaid €82.7 billion during the review period. The size of weekly repayments increased in the eleventh and twelfth maintenance periods, totalling €24.5 billion and €50.4 billion respectively, as some banks accelerated repayments ahead of year-end for various regulatory and communication reasons, including the balance sheet snapshot taken for the ECB's comprehensive assessment at the end of 2013. Weekly repayments dropped, however, in the first maintenance period of 2014 to a total of €7.7 billion.

The combined outstanding amount of securities held for monetary policy purposes – comprising the first and second covered bond purchase programmes (CBPP and CBPP2) and the Securities Markets Programme (SMP) – stood on average at €236.9 billion, a decrease of €11.1 billion.

The outstanding amount of securities purchased under the CBPP, which was completed in June 2010, stood at €39.7 billion at the end of the review period, €2.2 billion lower than in the previous review period, on account of maturing securities. Outstanding amounts under the CBPP2, which ended on 31 October 2012, stood at €15 billion at the end of the review period, €0.5 billion lower than in the previous review period, also on account of maturing securities. The outstanding value of the SMP decreased by €8.4 billion during the review period, reflecting redemptions in the portfolio. The outstanding amount at the end of the review period was €175.7 billion. The weekly liquidity-absorbing fine-tuning operations sterilised the liquidity injected through the SMP; although, on six occasions during the review period, the bids received were lower than the intended amount of absorption. These episodes reflected temporary developments in the money market when, particularly towards the end of the month, money market rates temporarily spiked above the maximum bid rates on these fine-tuning operations. Chart A summarises the developments of the liquidity needs of the banking system and the liquidity supply.

¹ Tender operations include main refinancing operations, longer-term refinancing operations and fine-tuning operations (both liquidity-providing and liquidity-absorbing).

Excess liquidity

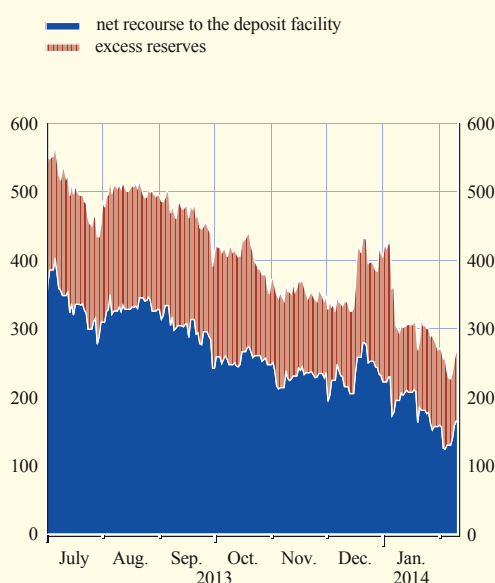
Excess liquidity continued to decline, averaging at €176.9 billion in the period under review, compared with €221.5 billion in the previous review period. At the same time, it remained volatile, fluctuating within the review period between €283.5 billion (3 January 2014) and €125.3 billion (21 January 2014). As described above, the main drivers were fluctuations in government deposits, the increase in banknotes in circulation, the decrease in the outstanding liquidity provided through the three-year LTROs and fluctuations in the amounts allotted through tender operations. Since the rate on the deposit facility is 0%, and thereby equal to the remuneration of excess reserve holdings, counterparties are expected to be largely indifferent regarding the disposition of their excess liquidity. For the three maintenance periods under review, the pattern has been fairly stable, with about 29% of excess liquidity held in the deposit facility and 71% held in the form of excess reserves in the first two maintenance periods under review (see Chart B). The corresponding figures for the third maintenance period are 27% and 73% respectively.

Interest rate developments

During the review period, the ECB rates on the marginal lending facility, the MROs and the deposit facility remained unchanged at 0.75%, 0.25% and 0%, respectively. In light of declining excess liquidity, both the level and the volatility of the EONIA increased compared with the previous period under review. The EONIA averaged 16.9 basis points, compared with 8.5 basis points in the previous three maintenance periods. Within the period under review, the EONIA fluctuated in a range between 7 and 44.6 basis points. The average EONIA in the eleventh

Chart B Evolution of excess liquidity and the distribution between excess reserves and standing facilities since 11 July 2013

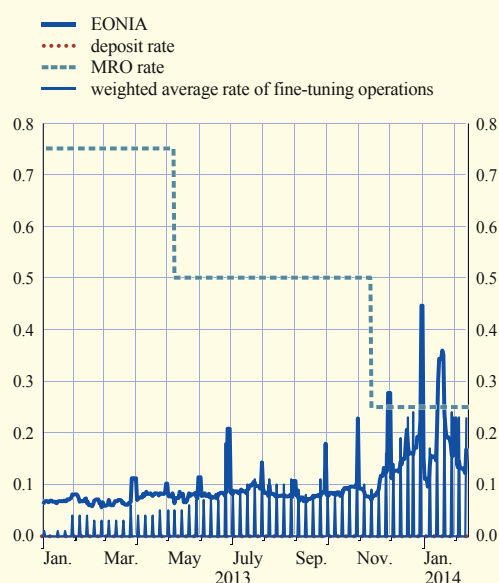
(EUR billions; daily data)



Source: ECB.

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

(percentages; daily data)



Source: ECB.

maintenance period was 12.7 basis points. It increased to 17.2 basis points in the twelfth maintenance period of 2013 and to 20.8 basis points in the first maintenance period of 2014. The rates in the weekly liquidity-absorbing fine-tuning operations also reached higher levels, with the weighted average allotment rate ranging between 9 and 24 basis points at different points within the review period (see Chart C).