Box 3

LIQUIDITY CONDITIONS AND MONETARY POLICY OPERATIONS IN THE PERIOD FROM 28 JANUARY 2015 TO 21 APRIL 2015

This box describes the ECB's monetary policy operations during the first and second reserve maintenance periods of 2015, which ran from 28 January to 10 March 2015 and from 11 March to 21 April 2015 respectively.[1] During the period under review, the interest rates on the main refinancing operations (MROs), the marginal lending facility (MLF) and the deposit facility (DF) remained unchanged at 0.05%, 0.30% and -0.20% respectively.[2] On 25 March 2015, the third targeted longer-term refinancing operation (TLTRO) was settled, with €97.8 billion allocated, compared with €82.6 billion for the first operation and €129.8 billion for the second.[3] In addition, on 9 March 2015 the Eurosystem started to buy public sector securities as part of its expanded asset purchase programme (APP). The expanded APP consists of the public sector purchase programme (PSPP), the third covered bond purchase programme (CBPP3) and the asset-backed securities purchase programme (ABSPP).[4]

Liquidity needs

In the period under review, the aggregate daily liquidity needs of the banking system, defined as the sum of autonomous factors and reserve requirements, decreased by €23.5 billion compared with the previous review period, from 12 November 2014 to 27 January 2015, to stand at an average of €582.2 billion. This decline reflects lower autonomous factors, which stood at an average level of €473.1 billion.

The decrease in autonomous factors resulted mainly from the increase in liquidity-providing factors. Among these, net foreign assets increased, on average, by €35.6 billion to €607.6 billion, mostly reflecting the quarterly revaluations of portfolios, which were sizable owing to the depreciation of the euro. The changes in net foreign assets were partially offset by the changes in other autonomous factors.

As far as liquidity-absorbing factors are concerned, the decline in government deposits slowed, reaching an average of €66.1 billion, compared with €68.3 billion in the previous review period. Since the cut in the deposit facility rate to -0.20% in September 2014, government deposits have been on a continuous downward trend, as the introduction of the negative deposit facility rate and the adoption of the new Guideline on the remuneration of government deposits[5] provided incentives to treasuries to reduce their cash holdings. This trend, however, reversed in the second maintenance period of 2015 when government deposits increased, as the continuing

1 As of January 2015 the length of the maintenance periods is extended to six weeks to match the changes in the schedule of the Governing Council meetings. For more information, see: http://www.ecb.europa.eu/press/pr/date/2014/html/pr140703_1.en.html

2 MROs continued to be conducted as fixed-rate tender procedures with full allotment. The same procedure remained in use for the three-month longer-term refinancing operations (LTROs). The interest rate in each LTRO operation was fixed at the average of the rates on the MROs over the LTRO's lifetime.

3 For information on the first two TLTROs, see the box "Liquidity conditions and monetary policy operations in the period from 13 August to 11 November", *Monthly Bulletin*, ECB, December 2014, p.33 (available at: https://www.ecb.europa.eu/pub/pdf/mobu/mb201412en.pdf) and the box "Liquidity conditions and monetary policy operations in the period from 12 November 2014 to 27 January 2015, *Economic Bulletin*, ECB, Issue 2, 2015, p.38 (available at: http://www.ecb.europa.eu/pub/pdf/ecbu/eb201502.en.pdf).

4 Detailed information on the expanded APP is available on the ECB's website (http://www.ecb.europa.eu/mopo/implement/omt/html/index.en.html).

5 Available at: https://www.ecb.europa.eu/ecb/legal/pdf/oj_jol_2014_168_r_0015_en_txt.pdf

decline in market rates reduced the available alternatives for treasuries to place their cash. Banknotes in circulation increased on average by €14.5 billion following the usual higher demand for banknotes over the Easter period, but also as a result of some country-specific factors.

The volatility of autonomous factors increased further during the period under review. The higher volatility primarily resulted from the shift in net foreign assets in view of the quarterly revaluations of foreign currency assets, but also from changes in net assets denominated in euro as a result of more volatile foreign deposits at the Eurosystem. At the same time, the volatility in the demand for banknotes declined compared with the previous period under review, when the Christmas demand for banknotes triggered temporary volatility.

The average absolute error in weekly forecasts of autonomous factors decreased in the period under review from €8.7 billion to €5.4 billion, mostly as a result of the decline in forecasting errors on government deposits. However, it remained difficult to anticipate the investment activities of treasuries while short-term money market rates were turning increasingly negative along with the increase in excess liquidity.

Liquidity provision

The average amount of liquidity provided through open market operations – tender operations and outright purchases – increased by €13.3 billion in the period under review, to reach €771.9 billion. This increase was owing to the average increase in the outright portfolios (of € 48.6 billion) outweighing the average decline in the take-up in tender operations (amounting to € 35.3 billion).

Liquidity provided through the tender operations decreased to an average of €511.2 billion, compared with €546.5 billion in the previous review period. This decline was mainly as a result of the early repayment and eventual maturity of the two three-year LTROs during the first maintenance period, which resulted in a €182.0 billion liquidity drain. Nevertheless, a fraction of this amount was offset by the regular liquidity-providing operations, the MRO and the three-month LTROs. More notably, the March TLTRO injected €97.8 billion into the banking system.

In addition, the liquidity provided through outright portfolios increased on average by €48.6 billion on the back of the implementation of the expanded APP. The increase in the average liquidity provision from the underlying PSPP, CBPP3 and ABSPP (€22.0 billion, €30.4 billion and €2.7 billion respectively) more than offset the decline owing to the maturity of some bonds in the Securities Markets Programme portfolio and in the previous two covered bond purchase programmes.

Excess liquidity

Excess liquidity rose by €28.7 billion to an average of €181.6 billion over the period under review, with significant differences between the two maintenance periods. In the first maintenance period, excess liquidity decreased to a level of, on average, €159.8 billion, mainly owing to the maturity of the two three-year LTROs. In this maintenance period, excess liquidity fluctuated in the range of €139.2 billion to €198.4 billion. By contrast, in the second maintenance period, excess liquidity increased considerably to an average of €209.4 billion, mainly reflecting the settlement of the third TLTRO and the bond purchases within the expanded APP. During the second maintenance period, excess liquidity moved from the minimum of €150.6 billion to as high as €273.2 billion.

EUROSYSTEM – liquidity situation

	28. Jan. to 21. Apr.		12. Nov. to 27. Jan.	Second maintenance period		First maintenance period	
Liabilities – liquidity needs (averages, EUR billions)							
Autonomous liquidity factors	1,601.6	(+4.5)	1,597.1	1,627.1	(+51.1)	1,576.0	(-27.6)
Banknotes in circulation	1,010.7	(+14.5)	996.2	1,015.9	(+10.6)	1,005.4	(-0.2)
Government deposits	66.1	(-2.1)	68.3	70.2	(+8.0)	62.1	(-4.2)
Other autonomous factors	524.8	(-7.9)	532.6	541.0	(+32.5)	508.5	(-23.2)
Monetary policy instruments							
Current accounts	243.6	(+25.8)	217.8	261.8	(+36.5)	225.3	(-10.9)
Minimum reserve requirements	109.1	(+0.9)	106.3	110.6	(+3.0)	107.5	(+1.3)
Deposit facility	55.5	(+13.6)	41.9	68.6	(+26.2)	42.4	(-7.9)
Liquidity-absorbing fine-tuning operations	0.0	(+0.0)	0.0	0.0	(+0.0)	0.0	(+0.0)
Assets – liquidity supply (averages, EUR billions)							
Autonomous liquidity factors	1,128.7	(+30.7)	1,098.0	1,162.2	(+66.9)	1,095.3	(-3.4)
Net foreign assets	607.6	(+35.6)	572.0	625.9	(+36.7)	589.2	(+12.8)
Net assets denominated in euro	521.1	(-4.8)	526.0	536.3	(+30.2)	506.0	(-16.1)
Monetary policy instruments							
Open market operations	771.9	(+13.3)	758.6	795.6	(+47.3)	748.3	(-43.0)
Tender operations provided	511.2	(-35.3)	546.5	505.0	(-12.6)	517.5	(-55.9)
MROs	130.7	(+17.4)	113.3	118.9	(-23.7)	142.6	(+23.6)
Special-term refinancing operations	0.0	(+0.0)	0.0	0.0	(+0.0)	0.0	(+0.0)
Three-month LTROs	96.9	(+53.5)	43.4	108.4	(+23.1)	85.3	(+36.3)
Three-year LTROs	38.6	(-197.8)	236.4	0.0	(-77.2)	77.2	(-134.3)
Targeted LTROs	245.1	(+91.6)	153.4	277.7	(+65.2)	212.4	(+18.5)
Outright portfolios	260.7	(+48.6)	212.1	290.6	(+59.8)	230.8	(+12.9)
First covered bond purchase programme	26.5	(-2.6)	29.0	26.0	(-1.0)	27.0	(-1.8)
Second covered bond purchase programme	11.9	(-0.9)	12.8	11.5	(-0.8)	12.3	(-0.5)
Third covered bond purchase programme	55.4	(+30.4)	25.0	63.6	(+16.3)	47.2	(+16.7)
Securities Markets Programme	141.1	(-3.0)	144.1	140.8	(-0.5)	141.3	(-2.8)
Asset-backed securities purchase programme	3.8	(+2.7)	1.2	4.7	(+1.7)	3.0	(+1.3)
Public sector purchase programme	22.0	(+22.0)	0.0	44.0	(+44.0)	0.0	(+0.0)
Marginal lending facility	0.3	(-0.1)	0.4	0.2	(-0.2)	0.4	(-0.1)
Other liquidity-based information (averages, EUR billions)							
Aggregate liquidity needs	582.2	(-23.5)	605.7	575.8	(-12.8)	588.6	(-23.0)
Autonomous factors	473.1	(-26.3)	499.4	465.2	(-15.7)	481.0	(-24.3)
Excess liquidity	181.6	(+28.7)	153.0	209.4	(+49.7)	159.8	(-20.0)
Interest rate developments (percentages)							
MROs	0.05	(+0.00)	0.05	0.05	(+0.00)	0.05	(+0.00)
Marginal lending facility	0.30	(+0.00)	0.30	0.30	(+0.00)	0.30	(+0.00)
Deposit facility	-0.20	(+0.00)	-0.20	-0.20	(+0.00)	-0.20	(+0.00)
EONIA average	-0.045	(-0.014)	-0.031	-0.061	(-0.033)	-0.029	(+0.019)

Source: ECB
Note: Since all figures in the table are rounded, in some cases the figure indicated as the change relative to the previous period does not represent the difference between the rounded figures provided for these periods (differing by €0.1 billion).

Given the higher level of excess liquidity, daily current account holdings increased considerably, by €25.8 billion, on average, to €243.6 billion, compared with the previous period. The use of the deposit facility also increased further, from an average of €41.9 billion to €55.5 billion. In the period under review, relative recourse to the deposit facility increased marginally to 29% of the excess reserves,[6] compared with an average of 27% during the previous review period.

Interest rate developments

The EONIA rate averaged -2.9 basis points and -6.1 basis points in the first and second maintenance periods respectively. The decrease in the EONIA rate reflected the continuing pass-through of the September 2014 interest rate cut in short-term rates, the gradual increase in excess liquidity and growing acceptance of the negative deposit facility rate being passed onto the deposit base.

6 Average current account holdings in excess of minimum reserve requirements.