

3 Liquidity conditions and monetary policy operations in the period from 27 April to 26 July 2016

This box describes the ECB's monetary policy operations during the third and fourth reserve maintenance periods of 2016, which ran from 27 April to 7 June and from 8 June to 26 July respectively. During this period the interest rates on the main refinancing operations (MROs), the marginal lending facility and the deposit facility remained unchanged at 0.00%, 0.25% and -0.40% respectively. On 28 June the first targeted longer-term refinancing operation (TLTRO) in the second series of TLTROs (TLTRO-II) was settled for an amount of €399.3 billion. However, that amount was largely offset by simultaneous voluntary repayments from the first series of TLTROs (TLTRO-I) totalling €367.9 billion. That voluntary repayment option allowed banks to switch from TLTRO-I to TLTRO-II, thereby benefiting from more favourable conditions. For example, the interest rate applied to TLTRO-II operations is linked to participating banks' lending patterns – i.e. the more loans banks issue to non-financial corporations and households, the lower the interest rate on their TLTRO-II borrowing will be.¹⁹ On 28 June the eighth and final TLTRO-I operation was settled for €6.7 billion, compared with €7.3 billion in the seventh TLTRO-I operation in March. Those voluntary repayments and new operations resulted in the total outstanding amount for both TLTRO programmes standing at €463.0 billion at the end of the review period. In addition, the Eurosystem continued buying public sector securities, covered bonds and asset-backed securities, and started to purchase corporate sector securities as part of its expanded asset purchase programme (APP),²⁰ with a target of €80 billion of purchases per month.

Liquidity needs

In the period under review, the average daily liquidity needs of the banking system, defined as the sum of autonomous factors and reserve requirements, stood at €843.1 billion, an increase of €64.5 billion compared with the previous review period (i.e. the first and second maintenance periods of 2016). That increase in liquidity needs was attributable almost exclusively to an increase in average net autonomous factors, which rose by €63.1 billion to stand at €727.6 billion (see table).

¹⁹ For further information on TLTRO-II operations, see the box entitled "The second series of targeted longer-term refinancing operations (TLTRO-II)", *Economic Bulletin*, Issue 3, ECB, 2016.

²⁰ Detailed information on the APP is available on the ECB's website.

Table
Eurosystem liquidity situation

	27 April 2016 to 26 July 2016		27 January 2016 to 26 April 2016		Fourth maintenance period		Third maintenance period	
Liabilities – liquidity needs (averages; EUR billions)								
Autonomous liquidity factors	1,851.7	(+81.6)	1,770.1	1,897.7	(+99.8)	1,797.9	(-1.9)	
Banknotes in circulation	1,082.3	(+16.2)	1,066.1	1,087.1	(+10.5)	1,076.6	(+7.3)	
Government deposits	151.6	(+21.4)	130.3	175.5	(+51.6)	123.9	(-23.5)	
Other autonomous factors	617.7	(+44.0)	573.7	635.1	(+37.6)	597.5	(+14.3)	
Monetary policy instruments								
Current accounts	641.9	(+79.2)	562.7	657.5	(+33.7)	623.8	(+53.8)	
Minimum reserve requirements	115.5	(+1.4)	114.1	115.9	(+0.8)	115.0	(+0.7)	
Deposit facility	316.6	(+71.6)	245.0	323.1	(+14.1)	309.0	(+47.0)	
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	1,124.5	(+18.6)	1,105.9	1,132.3	(+17.0)	1,115.3	(+2.3)	
Net foreign assets	654.2	(+37.3)	616.8	666.1	(+25.8)	640.3	(+13.0)	
Net assets denominated in euro	470.3	(-18.8)	489.0	466.2	(-8.8)	475.0	(-10.7)	
Monetary policy instruments								
Open market operations	1,685.9	(+213.7)	1,472.2	1,746.3	(+130.8)	1,615.5	(+96.6)	
Tender operations	515.0	(-6.8)	521.9	519.2	(+8.9)	510.2	(-8.6)	
MROs	50.5	(-10.2)	60.6	47.6	(-6.3)	53.9	(-4.2)	
Three-month LTROs	27.6	(-13.5)	41.1	24.5	(-6.6)	31.1	(-6.8)	
TLTRO-I operations	314.1	(-106.0)	420.2	218.9	(-206.4)	425.3	(+2.4)	
TLTRO-II operations	122.9	(+122.9)	0.0	228.2	(+228.2)	0.0	(+0.0)	
Outright portfolios	1,170.9	(+220.6)	950.3	1,227.1	(+121.9)	1,105.3	(+105.2)	
First covered bond purchase programme	18.3	(-1.2)	19.5	17.8	(-1.1)	18.9	(-0.3)	
Second covered bond purchase programme	8.0	(-0.8)	8.8	7.7	(-0.7)	8.4	(-0.3)	
Third covered bond purchase programme	179.7	(+18.4)	161.3	183.3	(+7.7)	175.6	(+8.5)	
Markets Programme	111.1	(-9.6)	120.8	110.9	(-0.5)	111.4	(-8.3)	
Asset-backed securities purchase programme	19.5	(+0.8)	18.7	19.9	(+0.8)	19.0	(-0.1)	
Public sector purchase programme	830.7	(+209.6)	621.2	881.1	(+109.1)	772.0	(+105.7)	
Corporate sector purchase programme	3.5	(+3.5)	0.0	6.4	(+6.4)	0.0	(+0.0)	
Marginal lending facility	0.2	(+0.1)	0.1	0.1	(-0.1)	0.2	(+0.1)	
Other liquidity-based information (averages; EUR billions)								
Aggregate liquidity needs	843.1	(+64.5)	778.6	881.7	(+83.8)	798.0	(-3.4)	
Net autonomous factors ¹	727.6	(+63.1)	664.5	765.9	(+82.9)	682.9	(-4.1)	
Excess liquidity	842.8	(+149.2)	693.6	864.5	(+47.0)	817.5	(+100.0)	
Interest rate developments (averages; percentages)								
MROs	0.00	(-0.03)	0.03	0.00	(+0.00)	0.00	(+0.00)	
Marginal lending facility	0.25	(-0.03)	0.28	0.25	(+0.00)	0.25	(+0.00)	
Deposit facility	-0.40	(-0.05)	-0.35	-0.40	(+0.00)	-0.40	(+0.00)	
EONIA	-0.333	(-0.048)	-0.286	-0.330	(+0.007)	-0.337	(+0.003)	

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).

1) The overall value of autonomous factors also includes "items in course of settlement".

The increase in autonomous factors was mainly a result of an increase in liquidity-absorbing factors. The main contributor to this increase was government deposits, which increased on average by €21.4 billion to stand at €151.6 billion in the period under review. This increase stemmed from the fourth maintenance period, when the pronounced tax receipts seen in a number of euro area countries in June resulted in inflows to governments' accounts with national central banks. This, coupled with the reluctance of some treasuries to place their excess liquidity in the market at negative rates, contributed to higher levels of government deposits being held with national central banks. Average demand for banknotes also increased, rising by €16.2 billion to stand at €1,082.3 billion. Other autonomous factors rose by €44.0 billion, more than government deposits and banknotes combined, but that increase was largely attributable to quarterly revaluations of portfolio positions and was therefore offset by changes to net foreign assets.

Liquidity-providing factors increased over the review period as the continuing decline in net assets denominated in euro was compensated for by an increase in net foreign assets. Average net assets denominated in euro fell to €470.3 billion, down €18.8 billion from the previous review period, on account of a decline in financial assets held by the Eurosystem for purposes other than monetary policy, together with an increase in liabilities held by foreign official institutions with the national central banks. Those institutions increased their holdings, despite the further reduction in the deposit facility rate, possibly because there were few attractive alternatives in the market. Net foreign assets increased by €37.3 billion to stand at €654.2 billion, mainly as a result of quarterly portfolio revaluations.

The volatility of autonomous factors remained elevated, broadly unchanged from the previous review period. That volatility primarily reflected strong fluctuations in government deposits and, to some extent, the quarterly revaluation of net foreign assets and net assets denominated in euro. Meanwhile, autonomous factors continued to rise. At the same time, the average absolute error in weekly forecasts of autonomous factors declined by €0.8 billion to stand at €5.2 billion in the period under review.

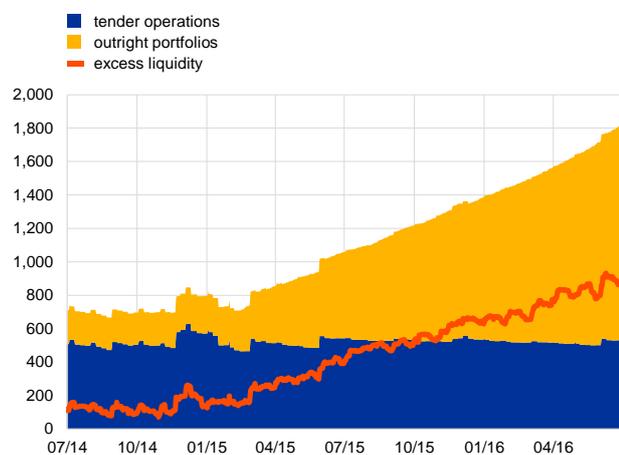
Liquidity provided through monetary policy instruments

The average amount of liquidity provided through open market operations – both tender operations and the asset purchase programme – increased by €13.7 billion to stand at €1,685.9 billion (see chart). This increase was entirely due to the ECB's expanded asset purchase programme.

Chart

Evolution of monetary policy instruments and excess liquidity

(EUR billions)



Source: ECB.

The average amount of liquidity provided through tender operations declined slightly in the period under review, falling by €6.8 billion to stand at €15.0 billion. The increase in the liquidity provided by the TLTROs was more than offset by a decrease in the liquidity supplied via regular operations. More specifically, liquidity provided via MROs and three-month LTROs decreased by €10.2 billion and €13.5 billion respectively, while the outstanding amount of TLTROs increased by €16.9 billion as a net effect of the settlement of the first TLTRO-II operation and voluntary repayments from the first seven TLTRO-I operations.

Average liquidity provided through the expanded asset purchase programme increased by €220.6 billion to stand at €1,170.9 billion, mainly on account of the public sector purchase programme.

Average liquidity provided by the public sector purchase programme, the third covered bond purchase programme, the asset-backed securities purchase programme and the corporate sector purchase programme rose by €209.6 billion, €18.4 billion, €0.8 billion and €3.5 billion respectively. The redemption of bonds held under the Securities Markets Programme and the previous two covered bond purchase programmes totalled €11.6 billion.

Excess liquidity

As a consequence of the developments detailed above, excess liquidity rose on average by €149.2 billion to stand at €342.8 billion in the period under review (see chart). The majority of that increase came in the third maintenance period, when excess liquidity rose by €100.0 billion on account of increased purchases and a liquidity-providing effect resulting from changes in autonomous factors. The relatively small increase in excess liquidity in the fourth maintenance period was mainly a consequence of the larger rise in autonomous factors, which partially absorbed the increased liquidity provided by the expanded asset purchase programme.

That increase in excess liquidity was reflected mainly in higher average current account holdings, which rose by €79.2 billion to stand at €641.9 billion in the period under review. Average recourse to the deposit facility increased by €71.6 billion to stand at €316.6 billion.

Interest rate developments

Overnight money market rates remained close to the deposit facility rate in the review period. In the unsecured market, the EONIA (euro overnight index average)

averaged -0.333%, down from an average of -0.286% in the previous review period. The EONIA hovered within a narrow range, reaching a historical low of -0.356% on 26 May, but it also exhibited the usual spike at the end of the quarter, when it stood at -0.293%. Furthermore, average overnight repo rates in the GC Pooling market²¹ declined to -0.396% and -0.387% for the standard and extended collateral baskets respectively, down 0.064 percentage point and 0.066 percentage point respectively relative to the previous review period.

²¹ The GC Pooling market allows repurchase agreements to be traded on the Eurex platform against standardised baskets of collateral.