

Box 2

**LIQUIDITY CONDITIONS AND MONETARY POLICY OPERATIONS IN THE PERIOD
FROM 14 NOVEMBER 2012 TO 12 FEBRUARY 2013**

This box describes the ECB's open market operations during the reserve maintenance periods ending on 11 December 2012, 15 January 2013 and 12 February 2013.

During the period under review, 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 Eurosystem's special-term refinancing operations with a maturity of one maintenance period. The fixed rate in these operations was the same as the MRO rate prevailing at the time.

In addition, the three-month longer-term refinancing operations (LTROs) allotted in the period under review were also conducted as fixed rate tender procedures with full allotment. The rates in these operations were fixed at the average of the rates in the MROs over the life of the respective LTRO.

In line with the decision of the Governing Council on 8 December 2011 to implement measures to support bank lending and liquidity in the euro area money market, banks participating in the three-year LTRO allotted on 21 December 2011 were offered the option of early repayment after one year, starting on 30 January 2013.

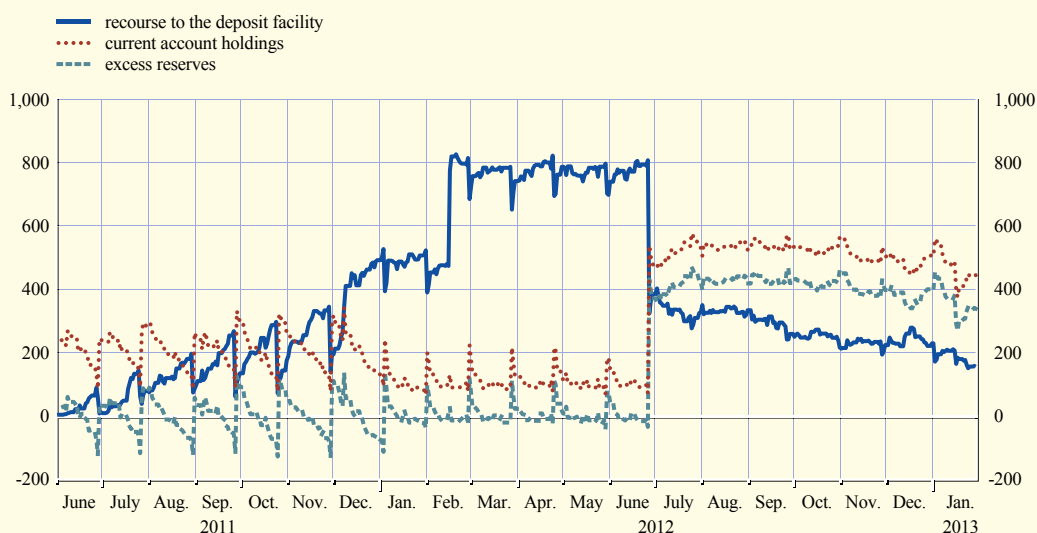
Finally, the Governing Council decided to keep the key ECB interest rates unchanged during the period under review.

Liquidity needs of the banking system

During the period under review, the banking system's aggregate daily liquidity needs – defined as the sum of autonomous factors and reserve requirements – averaged €575.7 billion. This was €54.8 billion higher than the daily average recorded in the previous three maintenance periods (i.e. the period from 8 August to 13 November 2012). Reserve requirements stood at €105.9 billion on average over the three maintenance periods under review, slightly lower than in the previous three maintenance periods (€106.8 billion). At the same time, autonomous factors increased by €55.7 billion to €469.7 billion on average. This was mainly due to higher government deposits

Chart A Banks' current account holdings, excess reserves and recourse to the deposit facility

(EUR billions; daily figures in each maintenance period)



Source: ECB.

held with central banks, combined with occasional declines in other autonomous factors, such as claims on euro area credit institutions denominated in euro.

Current account holdings in excess of reserve requirements averaged €382.5 billion during the period under consideration, a decrease of €45.8 billion compared with the previous review period. As in the previous period (from 8 August to 13 November 2012), such large current account holdings can be attributed to the reduction of the deposit facility rate to zero in July 2012, which reduced the incentive for banks to transfer their excess liquidity overnight to the deposit facility. During the three reserve maintenance periods under review, recourse to the deposit facility decreased considerably, by €76.4 billion to €219.7 billion (see also the section of this box entitled “Use of standing facilities”).

Liquidity supply

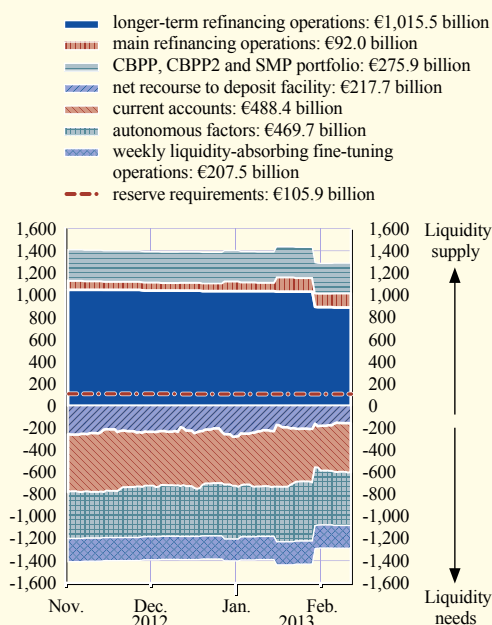
During the period under review, total net liquidity supplied by means of open market operations averaged €1,175.9 billion. This represents a significant decrease of €68.7 billion relative to the previous three maintenance periods. Tender operations¹ provided an average of €900 billion, €65.3 billion less than in the previous review period (see Chart B).

As regards the weekly MROs, during the reserve maintenance periods ending on 11 December 2012 and 15 January 2013, the daily average liquidity supplied was €76.3 billion. It increased substantially to €127.5 billion in the reserve maintenance period ending on 12 February 2013. The overall daily average liquidity supplied during the three maintenance periods under review was, therefore, €92.0 billion, compared with €110.4 billion in the previous three reserve maintenance periods. The special-term refinancing

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

Chart B 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.

operations with a maturity of one maintenance period provided a daily average of €14.0 billion in the reserve maintenance periods under review, compared with €17.5 billion in the previous review period. The three-month LTROs provided €30.0 billion of liquidity on average, compared with €40.1 billion in the previous three maintenance periods.

Finally, the liquidity provided through the two three-year LTROs in the review period averaged €971.5 billion daily, compared with €1,000.3 billion in the previous three maintenance periods. This was mainly due to the fact that Eurosystem counterparties exercised the early repayment option of the first three-year LTRO, allotted on 21 December 2011. Banks voluntarily repaid €149.4 billion before the maturity date of this operation. This repayment significantly reduced the level of excess liquidity in the market during this period.

Together, the first and second covered bond purchase programmes (the CBPP and CBPP2) and the Securities Markets Programme (SMP) resulted in liquidity provision averaging €275.9 billion in the review period. The maturing amounts in these portfolios reached €3.4 billion.

Outstanding liquidity provided through the CBPP – which was completed in June 2010 – stood at €48.9 billion on 12 February 2013, marginally lower than at the end of the previous review period, on account of maturing amounts. On 12 February 2013, settled purchases under CBPP2 – which ended on 31 October 2012 – were €16.3 billion, while the net value of settled purchases under the SMP decreased by €2.0 billion to €205.4 billion, also on account of maturing amounts. Weekly fine-tuning operations were conducted in order to neutralise the liquidity-providing effect of the SMP in the market. In nearly all of those operations, the ECB fully absorbed the liquidity provided by the SMP, the sole exception being the last operation of 2012, carried out on 28 December, in which the Eurosystem withdrew only €197.6 billion.

Use of standing facilities

Excess liquidity (defined as total liquidity provided via operations and the marginal lending facility, minus autonomous factors and reserve requirements) averaged €602.2 billion in the period under review (down from €724.8 billion in the previous review period). Recourse to the marginal lending facility remained very low, at €2.0 billion (up from €1.0 billion). Average recourse to the deposit facility decreased from €296.1 billion to €219.7 billion. Average net recourse² to the deposit facility amounted to €217.7 billion, a significant reduction of

² Net recourse to the deposit facility is calculated as recourse to the deposit facility minus recourse to the marginal lending facility over the review period, including weekends.

€77.3 billion compared with the previous review period, mainly due to the decline in recourse to the deposit facility.

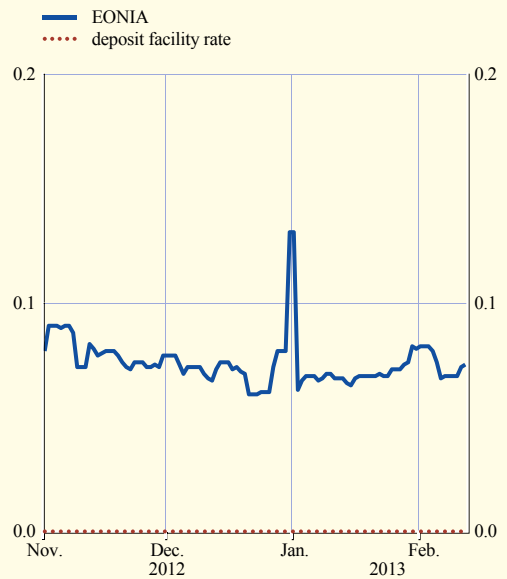
Interest rates

During the period under review, the key ECB interest rates on the MROs, the marginal lending facility and the deposit facility remained unchanged at 0.75%, 1.50% and 0.00% respectively.

Notwithstanding the repayment of funds obtained in the first of the two three-year LTROs, excess liquidity remained ample in the period under review. As a consequence, the EONIA and other very short-term money market rates remained low. The EONIA averaged 0.072% in the period under review, i.e. 67.8 basis points below the main refinancing rate. The EONIA reached a historical low of 0.06% on 21 December 2012 (see Chart C).

Chart C The EONIA and the deposit facility rate

(daily interest rates in percentages)



Source: ECB.