

Box 3

**LIQUIDITY CONDITIONS AND MONETARY POLICY OPERATIONS IN THE PERIOD
FROM 13 FEBRUARY 2013 TO 7 MAY 2013**

This box describes the ECB's monetary policy operations during the reserve maintenance periods ending on 12 March 2013, 9 April 2013 and 7 May 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 two three-year LTROs allotted in December 2011 and February 2012 were offered the option of early repayment after approximately one year, starting on 30 January 2013 and 27 February 2013 respectively.

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

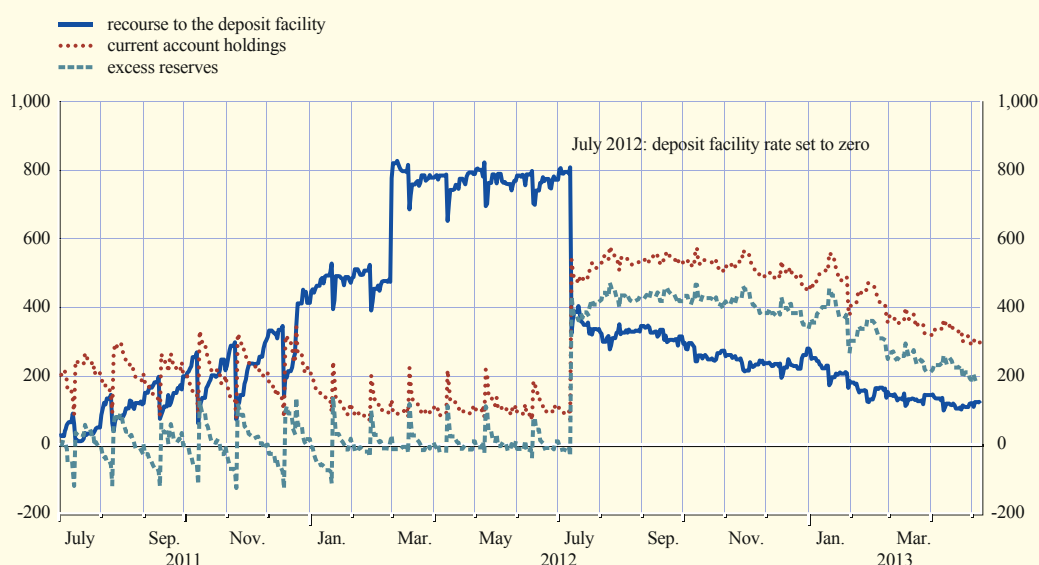
Liquidity needs of the banking system

During the period under review, the banking system's aggregate daily liquidity needs – defined as the sum of autonomous factors and reserve requirements – averaged €595.1 billion. This was €19.4 billion higher than the daily average recorded in the previous three maintenance periods (i.e. the period from 14 November 2012 to 12 February 2013). Reserve requirements stood at €105.1 billion on average over the three maintenance periods under review, continuing the slightly decreasing trend observed in the previous three maintenance periods (when they averaged €105.9 billion). At the same time, autonomous factors increased by €20.3 billion to €490.0 billion on average. This figure comprised a drop in government deposits held with central banks and in banknotes in circulation, and an average increase in domestic assets, but the net increase in average terms of autonomous factors in the euro area was mainly explained by the sharp decrease in claims on euro area credit institutions denominated in euro (recorded under “other autonomous factors”).

Current account holdings averaged €357.1 billion during the period under consideration, marking a decrease of €131.4 billion compared with the previous three reserve maintenance periods. As in

Chart A Banks' current account holdings in excess of reserve requirements

(EUR billions; daily figures in each maintenance period)



Source: ECB.

the previous period, such large current account holdings can be attributed to the reduction of the deposit facility rate to zero in July 2012, which significantly 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 €88.5 billion to €131.2 billion (see also the section of this box entitled “Use of standing facilities”). The drop observed since the end of January 2013 is largely linked to LTRO repayments and a corresponding reduction in outstanding liquidity.

Liquidity supply

During the period under review, total net liquidity supplied by means of open market operations averaged €977.5 billion. This represents a significant decrease of €198.4 billion relative to the previous three maintenance periods. Tender operations¹ provided an average of €709.3 billion, €190.7 billion less than in the previous review period (see Chart B).

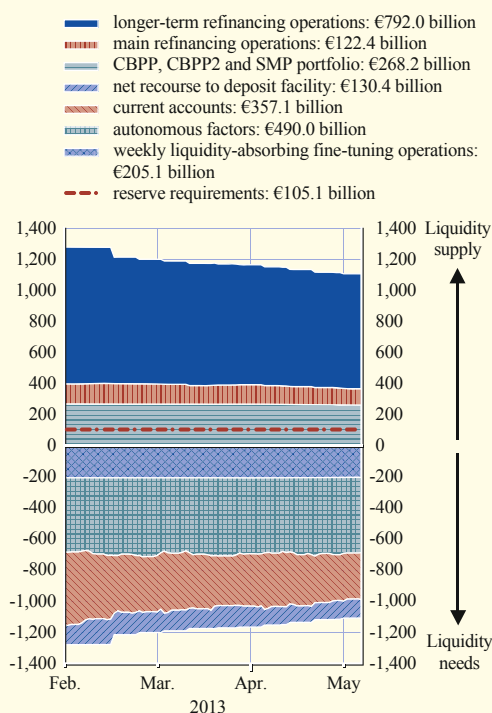
As regards the weekly MROs, the daily liquidity supplied was stable throughout the review period and stood on average at €122.4 billion, up from an average of €92.1 billion in the previous three reserve maintenance periods.

Overall, longer-term liquidity dropped by €223.5 billion in comparison with the previous three maintenance periods. The special-term refinancing operations with a maturity of one maintenance period provided a daily average of €5.7 billion (compared with €14.0 billion in the previous review period), while the three-month LTROs provided €23.8 billion of liquidity on average, compared with €30 billion in the previous review period. Finally, the liquidity provided in the review period through the two three-year LTROs averaged €762.3 billion daily, compared with €971.5 billion in the previous three maintenance periods. This decrease was primarily due to the fact that Eurosystem counterparties opted to repay early outstanding liquidity provided by the two three-year LTROs. By the end of the period under review, euro area banks had voluntarily repaid a total of €278.8 billion in relation to the two operations. These repayments reduced the level of excess liquidity in the market during this period.

The combined outstanding amounts of the first and second covered bond purchase programmes (the CBPP and CBPP2) and

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.

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

the Securities Markets Programme (SMP) averaged at €268.2 billion in the review period, representing a reduction of €7.7 billion compared with the average recorded over the previous three maintenance periods.

In absolute figures, outstanding liquidity provided through the CBPP – which was completed in June 2010 – stood at €46.1 billion on 7 May 2013, following maturing amounts of €2.8 billion during the period under review. During the same period, maturing assets held under CBPP2 – which ended on 31 October 2012 – amounted to €0.2 billion, thus reducing the outstanding CBPP2 liquidity, which stood at €16.1 billion on 7 May 2013, while the net value of settled purchases under the SMP decreased by €4.4 billion to stand at €201.0 billion on 7 May 2013, also on account of maturing amounts. The weekly fine-tuning operations absorbed all the liquidity provided by the SMP, thereby neutralising its liquidity-providing effect in the market.

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 €382.4 billion in the period under review (down from €600.2 billion in the previous review period). Recourse to the marginal lending facility remained very low, at €0.8 billion (down from €2.0 billion in average terms). Average recourse to the deposit facility decreased from €219.7 billion to €131.2 billion. The share of excess liquidity that was held at the deposit facility remained relatively stable at around 34% of aggregate excess liquidity holdings.

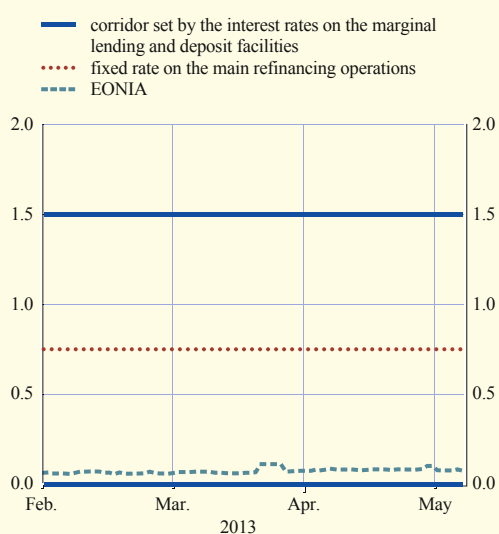
Interest rates

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.

Despite a decline in excess liquidity of €217.8 billion (due mostly to the weekly repayments of outstanding liquidity from the two three-year LTROs), liquidity conditions still remained very loose in the period under review. This was also reflected in the low levels of the EONIA and other short-term money market rates, which remained close to the deposit facility rate. The EONIA averaged 0.074% in the period under review, i.e. 67.6 basis points below the main refinancing rate. It reached a historical low of 0.056% on 27 February 2013 (see Chart C).

Chart C The EONIA and ECB interest rates

(daily interest rates in percentages)



Source: ECB.