3 Liquidity conditions and monetary policy operations in the period from 1 November 2017 to 30 January 2018

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This box describes the ECB's monetary policy operations during the seventh and eighth reserve maintenance periods of 2017, which ran from 1 November to 19 December 2017 and from 20 December 2017 to 30 January 2018 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.

During this review period, the Eurosystem continued to purchase public sector securities, covered bonds, asset-backed securities, and corporate sector securities as part of its asset purchase programme (APP), with a target of €60 billion of purchases on average per month until December 2017. The pace of purchases was reduced to €30 billion on average per month from January 2018, and will continue at this pace until September 2018, or beyond, if necessary, until the Governing Council sees a sustained adjustment in the path of inflation consistent with its inflation aim.

Liquidity needs

In the period under review, the average daily liquidity needs of the banking system, defined as the sum of net autonomous factors and reserve requirements, stood at €1,272.7 billion, representing an increase of €60.3 billion compared with the previous review period (i.e. the fifth and sixth maintenance periods of 2017). This increase in liquidity needs was attributable to an increase in average net autonomous factors, which rose by €59.3 billion to €1,149.5 billion during the review period, while minimum reserve requirements increased by €1 billion to €123.3 billion.

The growth in net autonomous factors, which implies an absorption of liquidity, mainly resulted from a decrease in liquidity-providing factors. The main contribution came from a decline in net assets denominated in euro, which fell by €54.4 billion to €251.8 billion on average in the review period. Average net foreign assets also decreased, by €2 billion compared with the previous review period, to €635.0 billion.

Liquidity-absorbing autonomous factors increased slightly over the review period, adding to the growth in net autonomous factors. The main contribution came from banknotes in circulation, which increased by €9.3 billion to €1,151.9 billion, and other autonomous factors, which increased by €5.3 billion to €695.6 billion. A decrease in government deposits of €11.8 billion had a counterbalancing effect on the level of liquidity-absorbing autonomous factors.

Table A

Eurosystem liquidity conditions

	1 November 2017 to 30 January 2018		26 July 2017 to 31 October 2017	Eighth maintenance period		Seventh maintenance period	
Liabilities – liquidity needs (averages; EUR billions)							
Autonomous liquidity factors	**2,035.9**	**(+2.8)**	**2,033.1**	**2,040.8**	**(+9.1)**	**2,031.7**	**(-15.0)**
Banknotes in circulation	1,151.9	(+9.3)	1,142.7	1,158.2	(+11.6)	1,146.6	(+3.8)
Government deposits	188.3	(-11.8)	200.1	188.1	(-0.4)	188.5	(-29.8)
Other autonomous factors	695.6	(+5.3)	690.3	694.5	(-2.1)	696.6	(+11.0)
Current accounts	**1,293.7**	**(+45.7)**	**1,248.0**	**1,275.2**	**(-34.5)**	**1,309.7**	**(+56.4)**
Monetary policy instruments	**808.8**	**(+56.9)**	**752.0**	**812.9**	**(+7.5)**	**805.4**	**(+35.0)**
Minimum reserve requirements	123.3	(+1.0)	122.2	123.8	(+0.9)	122.9	(+0.6)
Deposit facility	685.6	(+55.8)	629.8	689.2	(+6.6)	682.5	(+34.4)
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	**886.8**	**(-56.4)**	**943.2**	**843.6**	**(-80.2)**	**923.8**	**(-13.2)**
Net foreign assets	635.0	(-2.0)	637.0	635.7	(+1.2)	634.5	(-0.5)
Net assets denominated in euro	251.8	(-54.4)	306.1	207.9	(-81.4)	289.3	(-12.7)
Monetary policy instruments	**3,128.8**	**(+160.9)**	**2,968.0**	**3,161.9**	**(+61.4)**	**3,100.4**	**(+89.0)**
Open market operations	3,128.6	(+160.9)	2,967.7	3,161.7	(+61.5)	3,100.2	(+89.0)
Tender operations	765.2	(-7.8)	773.0	763.5	(-3.1)	766.7	(-5.3)
MROs	2.9	(-3.2)	6.1	2.9	(-0.1)	3.0	(-3.8)
Three-month LTROs	7.8	(-0.6)	8.4	7.8	(-0.2)	7.9	(-0.4)
TLTRO-I operations	14.9	(-3.7)	18.6	13.4	(-2.7)	16.1	(-1.1)
TLTRO-II operations	739.6	(-0.4)	740.0	739.5	(-0.1)	739.7	(-0.1)
Outright portfolios	2,363.4	(+168.7)	2,194.7	2,398.2	(+64.6)	2,333.5	(+94.4)
First covered bond purchase programme	6.1	(-1.1)	7.2	6.1	(-0.0)	6.1	(-0.9)
Second covered bond purchase programme	4.8	(-0.1)	4.9	4.7	(-0.0)	4.8	(-0.1)
Third covered bond purchase programme	240.5	(+10.7)	229.8	242.5	(+3.6)	238.8	(+6.1)
Securities Markets Programme	89.0	(-2.1)	91.1	89.1	(+0.2)	88.9	(-1.6)
Asset-backed securities purchase programme	25.1	(+0.5)	24.6	25.1	(+0.0)	25.1	(+0.5)
Public sector purchase programme	1,867.8	(+141.6)	1,726.2	1,897.3	(+54.7)	1,842.6	(+79.3)
Corporate sector purchase programme	130.1	(+19.3)	110.9	133.4	(+6.1)	127.3	(+11.0)
Marginal lending facility	0.2	(-0.0)	0.3	0.2	(-0.1)	0.2	(+0.0)
Other liquidity-based information (averages; EUR billions)							
Aggregate liquidity needs	1,272.7	(+60.3)	1,212.5	1,321.3	(+90.2)	1,231.1	(-1.2)
Autonomous factors[1]	1,149.5	(+59.3)	1,090.2	1,197.6	(+89.3)	1,108.3	(-1.8)
Excess liquidity	1,855.8	(+100.6)	1,755.3	1,840.4	(-28.7)	1,869.1	(+90.2)
Interest rate developments (averages; percentages)							
MROs	0.00	(+0.00)	0.00	0.00	(+0.00)	0.00	(+0.00)
Marginal lending facility	0.25	(+0.00)	0.25	0.25	(+0.00)	0.25	(+0.00)
Deposit facility	-0.40	(+0.00)	-0.40	-0.40	(+0.00)	-0.40	(+0.00)
EONIA	-0.351	(+0.006)	-0.357	-0.359	(-0.014)	-0.345	(+0.014)

Source: ECB.
Notes: Since all figures in the table are rounded, in some cases the figure indicated as the change relative to the previous period does not equal the difference between the rounded figures provided for these periods (and may differ by €0.1 billion).
1) This overall value of autonomous factors also includes “items in course of settlement”.

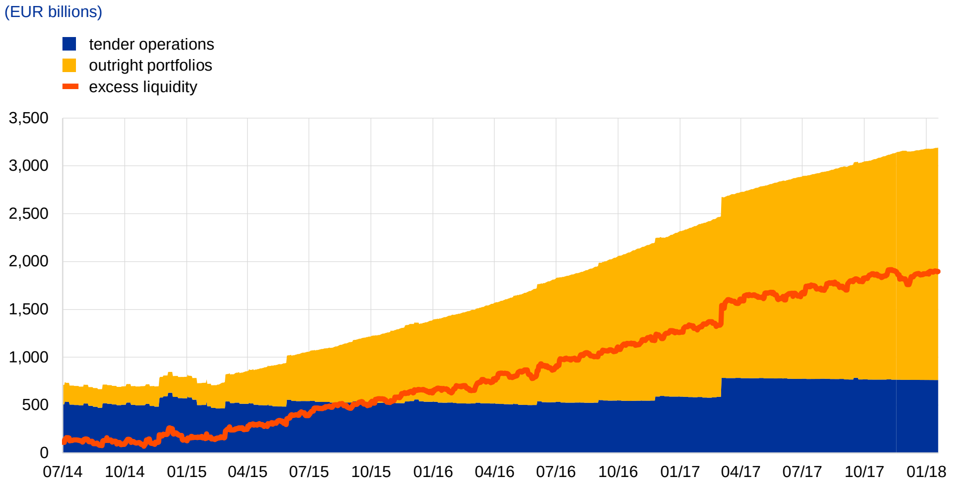
The day-to-day volatility of autonomous factors remained elevated in the review period and was broadly unchanged from the previous review period. The volatility primarily reflected fluctuations in government deposits and net assets denominated in euro.

Liquidity provided through monetary policy instruments

During the review period, the average amount of liquidity provided through open market operations – both tender operations and APP purchases – increased by €160.9 billion to €3,128.6 billion (see Chart A). This increase was fully attributable to the APP, while demand in tender operations decreased marginally further.

Chart A

Evolution of open market operations and excess liquidity



Source: ECB.

The average amount of liquidity provided through tender operations declined slightly over the review period, by €7.8 billion to €765.2 billion. This decrease was primarily due to a lower average outstanding amount of targeted longer-term refinancing operations (TLTROs), which decreased by €4.1 billion, largely as a consequence of voluntary early repayments of funds borrowed via those operations. The average liquidity provided through MROs decreased by €3.2 billion and the average amount of liquidity provided through three-month longer-term refinancing operations (LTROs) fell by €0.6 billion.

Liquidity provided through the Eurosystem's monetary policy portfolios increased by €168.7 billion to €2,363.4 billion on average, on the back of the APP purchases. Average liquidity provided by the public sector purchase programme (PSPP), the third covered bond purchase programme, the asset-backed securities purchase programme, and the corporate sector purchase programme rose on average by €141.6 billion, €10.7 billion, €0.5 billion and €19.3 billion respectively. The reduction in liquidity owing to redemptions of bonds held under the Securities

Markets Programme and the previous two covered bond purchase programmes totalled €3.3 billion.

Excess liquidity

As a consequence of the developments detailed above, average excess liquidity in the period under review rose by €100.6 billion compared with the previous period, reaching €1,855.8 billion (see Chart A). As mentioned above, the increase largely reflects the liquidity provided through the APP, with a monthly target of €60 billion until December 2017 and €30 billion as of January 2018. This was partially offset by an increase in liquidity needs coming mainly from autonomous factors. A more detailed analysis of the period under review shows that the dampening impact of autonomous factors on the rise in excess liquidity occurred mainly in the eighth maintenance period. In particular, the eighth maintenance period saw a decrease in excess liquidity of €28.7 billion, as the liquidity injected via the APP was offset by lower liquidity-providing autonomous factors arising from lower net assets denominated in euro, coupled with higher aggregate liquidity needs of the banking sector, mainly driven by a greater demand for banknotes. By contrast, in the seventh maintenance period, excess liquidity grew by €90.2 billion on account of the APP purchases and a modest decrease in liquidity-absorbing autonomous factors, mainly as a result of lower government deposits.

The increase in excess liquidity over the review period corresponded to higher average current account holdings, which rose by €45.7 billion to stand at €1,293.7 billion, while the average recourse to the deposit facility increased by a further €55.8 billion to stand at €685.6 billion.

Interest rate developments

Overnight money market rates remained close to the deposit facility rate, even falling below it for specific collateral baskets in the secured segments. In the unsecured market, the euro overnight index average (EONIA) averaged −0.351%, compared with an average of −0.357% in the previous review period. The EONIA fluctuated between a high of −0.241% on the last day of November 2017 and a low of −0.370% at the beginning of January 2018.

In the secured market, average overnight repo rates in the GC Pooling market declined for both the standard collateral basket and the extended collateral basket relative to the previous review period. The average overnight repo rate stood at −0.447% for the standard collateral basket, reaching a low of −0.756% at the year-end, while the average overnight repo rate for the extended collateral basket stood at −0.415%.

The 2017 year-end decline in core repo rates was less pronounced than the 2016 year-end decline. This suggests that market participants have adopted more efficient collateral management practices. Moreover, this development also suggests positive effects from the PSPP securities lending facility.