

Box I**Monetary policy operations and liquidity conditions in the reserve maintenance period ending on 23 February 2001****Allotments in monetary policy operations**

During the reserve maintenance period which lasted from 24 January 2001 to 23 February 2001 the Eurosystem settled five main refinancing operations (MROs) and one longer-term refinancing operation. The MROs were carried out as variable rate tenders with a minimum bid rate of 4.75%. The allotted volumes ranged between €65.3 billion and €155 billion. The ratio of the amount bid to the volume allotted varied between 1.00 and 1.64, with an average of 1.22. The ratio of 1.00 in the fourth operation, which was conducted on 13 February, indicates that the ECB satisfied all bids. However, on this occasion, only €65.3 billion of bids were submitted, which was significantly below the level that would have ensured a smooth fulfilment of reserve requirements in the week following the settlement of the operation. The consequences of this low demand for liquidity in the fourth MRO were felt during the remainder of the reserve maintenance period. In the first, third and fourth operations of the reserve maintenance period, the marginal rate of allotment was equal to the minimum bid rate; it was only 1 basis point higher in the second operation. The weighted average rate of allotment was either equal to or 1 basis point higher than the marginal rate in these four operations. In the last operation of the reserve maintenance period the marginal and weighted average rates increased to 4.78% and 4.83% respectively, reflecting the tight liquidity conditions caused by insufficient bids in the fourth MRO. Through a record allotment volume of €155 billion in the fifth MRO of the maintenance period, the ECB partially offset the large liquidity deficit that had accumulated during the course of the preceding week. At the same time, the ECB took the impact on liquidity conditions during the subsequent reserve maintenance period into account in making its allotment decision.

On 24 January 2001 the Eurosystem conducted a longer-term refinancing operation through a variable rate tender with a pre-announced allotment volume of €20 billion. A total of 199 bidders participated in the operation, submitting total bids of €31.9 billion. The marginal and weighted average rates of the operation were 4.66% and 4.69% respectively.

In the first few days of the reserve maintenance period, the EONIA was stable at a level of around 4.78%, with the usual end-of-month effect causing a slight increase to 4.82% on the last day of January. However, from the beginning of February, the EONIA crept downwards to reach a level of 4.75% on 12 February. The apparent

Contributions to the banking system's liquidity

(EUR billions)

Daily average during the reserve maintenance period from 24 January 2001 to 23 February 2001

	Liquidity providing	Liquidity absorbing	Net contribution
(a) Monetary policy operations of the Eurosystem	241.3	0.4	+ 240.9
Main refinancing operations	188.9	-	+ 188.9
Longer-term refinancing operations	49.8	-	+ 49.8
Standing facilities	2.6	0.4	+ 2.2
Other operations	0.0	0.0	0.0
(b) Other factors affecting the banking system's liquidity	377.9	498.1	- 120.2
Banknotes in circulation	-	354.8	- 354.8
Government deposits with the Eurosystem	-	57.0	- 57.0
Net foreign assets (including gold)	377.9	-	+ 377.9
Other factors (net)	-	86.3	- 86.3
(c) Credit institutions' holdings on current accounts with the Eurosystem (a) + (b)			120.7
(d) Required reserves			120.1

Source: ECB.

Totals may not add up due to rounding.

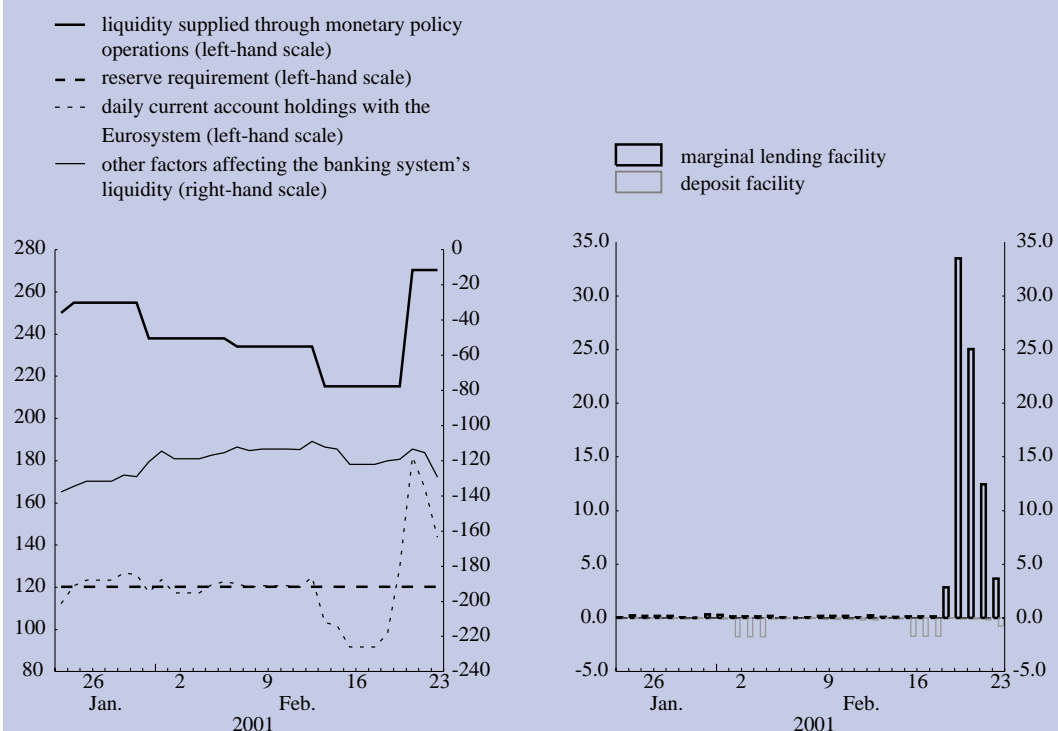
expectation on the part of counterparties that the overnight rate would remain at relatively low levels for the rest of the reserve maintenance period seems to have contributed to the insufficient bidding in the MRO on 13 February, as described above. The EONIA increased steadily after 13 February as a result of the tight liquidity conditions caused by the insufficient level of bidding, and amid a growing market perception that the MRO on 20 February could not fully restore neutral liquidity conditions before the end of the reserve maintenance period. The ECB announced on 19 February that it would not counter the implications of the low amount of bids submitted for the MRO on 13 February through an additional open market operation. This had only a moderate impact on the overnight rate. However, there was a marked increase in the overnight rate after the publication of the allotment amount of €155 billion on 20 February, when the market realised that a significant amount of liquidity would have to be borrowed via the marginal lending facility. Consequently, on 21 February, the EONIA rose sharply to 5.72%, reaching a level only 3 basis points below that of the marginal lending facility. Overnight rates remained at exceptionally high levels on the days which followed, when counterparties used the marginal lending facility to satisfy their liquidity needs. The reserve maintenance period ended with the EONIA standing at 5.08%.

Use of standing facilities

Owing to the tight liquidity conditions resulting from the submission of insufficient bids for the MRO on 13 February, the average daily use of the marginal lending facility increased considerably, from €0.5 billion in the preceding reserve maintenance period to €2.6 billion. Of the accumulated recourse of €81.2 billion to this facility in the reserve maintenance period under review, €74.6 billion took place during the last four days, i.e. after the announcement of the tender decision on 20 February 2001. The highest daily recourse to a standing facility was recorded on that day, at €33.5 billion. The average use of the deposit facility decreased from €0.6 billion to €0.4 billion.

Factors contributing to the banking system's liquidity during the maintenance period ending on 23 February 2001

(EUR billions; daily data)



Source: ECB.

Liquidity factors not related to monetary policy

The net liquidity-absorbing impact of the autonomous factors (the factors not related to monetary policy) on the banking system's liquidity (item (b) in the table above) was €120.2 billion on average, i.e. €10.8 billion lower than in the previous reserve maintenance period. This decrease was mainly due to lower government deposits, of €5.2 billion on average, over the reserve maintenance period. The daily sum of autonomous factors fluctuated between €105.4 billion and €133.9 billion.

The published estimates of average liquidity needs stemming from autonomous factors ranged between €115.0 billion and €121.2 billion. They differed from the ex post figures by an amount ranging from minus €0.7 billion to plus €1.5 billion.

Current account holdings of counterparties

The average current account holdings amounted to €120.7 billion, and reserve requirements to €120.1 billion. The difference between the average current account holdings and the reserve requirements amounted to €0.6 billion, the same as in the previous reserve maintenance period. As in the previous maintenance period, an amount of €0.2 billion of the current account holdings did not contribute to the fulfilment of reserve requirements.