

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

During the reserve maintenance period which lasted from 24 February to 23 March 2001 the Eurosystem settled four 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 €27 billion and €143 billion and were allotted in the first and second operation respectively. The second operation resulted in relatively tight liquidity conditions for a few days because the allotment decision had also taken into account the need to reduce the difference in size between the two MROs, which had emerged as a result of the underbidding experienced in the previous reserve maintenance period. The ratio of the amount bid to the volume allotted varied more than usual in this reserve maintenance period owing to the large discrepancy between the sizes of the two MROs. The maximum value of this ratio, 4.03, was realised in the first MRO, and the minimum value, 1.33, in the second MRO, while the average for the entire reserve maintenance period amounted to 2.32, which was twice as high as in the previous reserve maintenance period.

In the four MROs conducted during this period, the marginal rate was between 1 and 3 basis points above the minimum bid rate. The weighted average rate of allotment was, in all four operations, 1 basis point above the marginal rate. The number of counterparties participating in the tenders ranged between 496 and 582, with an average of 548.

On 28 February 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 254 bidders participated in this operation, submitting a total amount of bids of €45.8 billion. The marginal and the weighted average rates of the operation were 4.69% and 4.72% respectively.

**Contributions to the banking system's liquidity**

(EUR billions)

Daily average during the reserve maintenance period which lasted from 24 February to 23 March 2001

	Liquidity providing	Liquidity absorbing	Net contribution
<b>(a) Monetary policy operations of the Eurosystem</b>	<b>239.7</b>	<b>0.5</b>	<b>+ 239.2</b>
Main refinancing operations	185.2	-	+ 185.2
Longer-term refinancing operations	54.1	-	+ 54.1
Standing facilities	0.4	0.5	- 0.1
Other operations	0.0	0.0	0.0
<b>(b) Other factors affecting the banking system's liquidity</b>	<b>375.6</b>	<b>493.8</b>	<b>- 118.2</b>
Banknotes in circulation	-	353.0	- 353.0
Government deposits with the Eurosystem	-	53.0	- 53.0
Net foreign assets (including gold)	375.6	-	+375.6
Other factors (net)	-	87.8	- 87.8
<b>(c) Credit institutions' holdings on current accounts with the Eurosystem (a) + (b)</b>			<b>121.0</b>
<b>(d) Required reserves</b>			<b>120.4</b>

Source: ECB.

Totals may not add up due to rounding.

In the first three days of the reserve maintenance period, the EONIA was relatively high, reflecting the usual end-of-month effect and a spillover of the exceptionally tight market conditions prevailing at the end of the previous reserve maintenance period. Having increased to 4.99% on the last day of February, the EONIA fell and remained rather stable within a range of 4.81% and 4.82%. Following the allotment of the MRO conducted on 7 March the EONIA increased to 4.85% as liquidity conditions tightened. The EONIA declined to 4.78% following the settlement of the tender conducted on 13 March, which resulted in more ample liquidity conditions. During the last four days of the reserve maintenance period, changing market perceptions regarding the liquidity conditions at the end of the reserve maintenance period led to the increased volatility of the EONIA. Following a temporary increase on 20 and 21 March, the EONIA started to decrease on 22 March. The reserve maintenance period ended on 23 March, when the EONIA stood at 4.44% and net recourse to the deposit facility was €4.6 billion as a result of a smaller than expected liquidity-absorbing effect of autonomous liquidity factors.

### Use of standing facilities

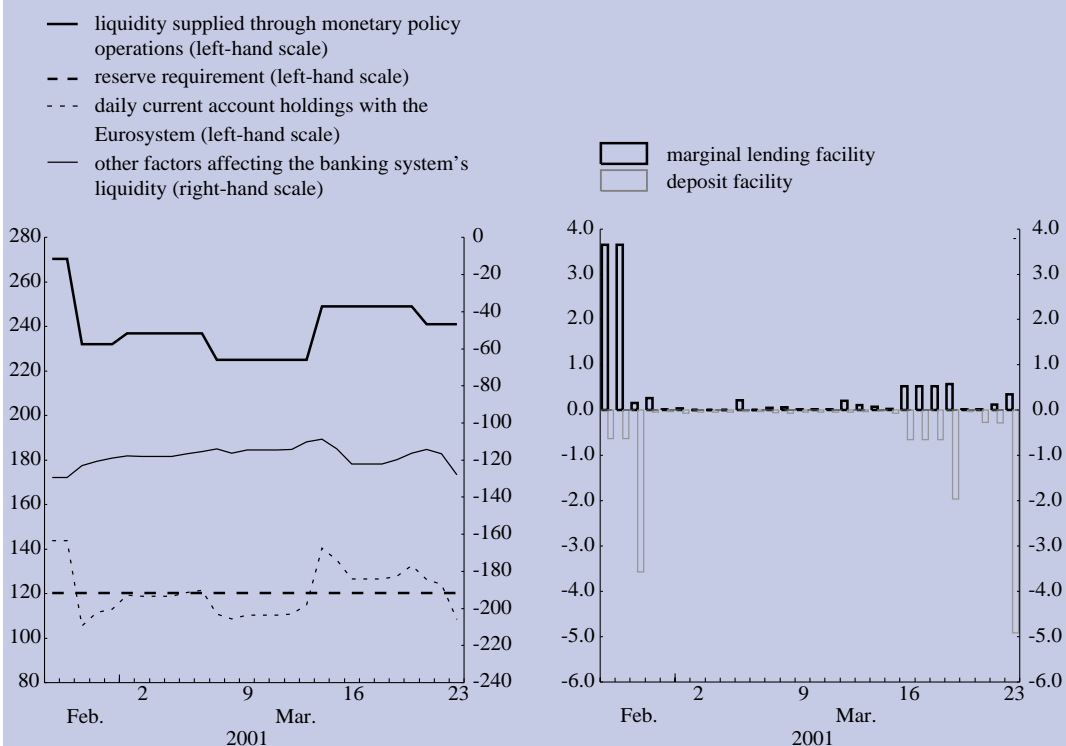
Compared with the previous reserve maintenance period, the average daily use of the marginal lending facility decreased from €2.6 billion to €0.5 billion. The average use of the deposit facility increased from €0.4 billion to €0.5 billion as a result of exceptionally high recourse to the deposit facility on two occasions earlier in the reserve maintenance period and rather loose liquidity conditions at the end of the period.

### 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 €118.2 billion on average, i.e. €2.0 billion

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

(EUR billions; daily data)



Source: ECB.

lower than in the previous maintenance period. This decrease was mainly due to government deposits which were €4 billion lower, on average, compared with the previous reserve maintenance period. The daily sum of autonomous factors fluctuated between €108.7 billion and €129.5 billion.

The published estimates of average liquidity needs stemming from autonomous factors ranged between €114.8 billion and €120.0 billion. They differed from the ex post figures by an amount ranging from minus €0.7 billion to plus €1.2 billion.

#### **Current account holdings of counterparties**

The average current account holdings amounted to €121.0 billion, and reserve requirements to €120.4 billion. The difference between the average current account holdings and the reserve requirements therefore amounted to €0.6 billion, which was the same as in the previous reserve maintenance period. An amount of €0.1 billion of the current account holdings did not contribute to the fulfilment of reserve requirements.