

Box 2**Monetary policy operations and liquidity conditions in the reserve maintenance period ending on 23 April 2001****Allotments in monetary policy operations**

During the reserve maintenance period which lasted from 24 March to 23 April 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%. In the first MRO the marginal rate was slightly above the minimum bid rate, while it was equal to it in the second and third operations. In these MROs the weighted average rate was either 1 basis point higher than the marginal rate or equal to it. However, in the last operation of the reserve maintenance period, the marginal rate and the weighted average rate increased to 4.86% and 4.91% respectively, reflecting a shortage of liquidity caused by insufficient bids in the MRO conducted on 10 April 2001. The number of counterparties participating in the tenders ranged between 240 and 607, with an average of 405.

The gap between the volumes of the two outstanding MROs widened considerably owing to the underbidding in the operation conducted on 10 April. In that operation, the allotted volume reached a record low of €25 billion, which was significantly below the level which would have ensured the smooth fulfilment of reserve requirements. To address the resulting tight liquidity conditions, a record high volume of €172 billion was allotted in the fourth operation. However, liquidity conditions continued to be tight until the end of the reserve maintenance period. The ratio of the amount bid to the volume allotted ranged between 1.00 in the third operation, where the ECB satisfied all the bids, and 1.50 in the fourth operation, while the average for the reserve maintenance period was 1.12.

On 28 March 2001 the Eurosystem conducted a longer-term refinancing operation through a variable rate tender with a pre-announced allotment volume of €20 billion. However, owing to a technical problem in the submission of bids, the amount allotted had to be reduced to €19.1 billion. A total of 234 bidders participated in this operation, submitting a total amount of bids of €38.2 billion. The marginal and the weighted average rates of the operation were 4.47% and 4.50% respectively.

Contributions to the banking system's liquidity

(EUR billions)

Daily average during the reserve maintenance period from 24 March to 23 April 2001

	Liquidity providing	Liquidity absorbing	Net contribution
(a) Monetary policy operations of the Eurosystem	233.0	0.5	+ 232.5
Main refinancing operations	172.4	-	+ 172.4
Longer-term refinancing operations	58.4	-	+ 58.4
Standing facilities	2.2	0.5	+ 1.7
Other operations	0.0	0.0	0.0
(b) Other factors affecting the banking system's liquidity	382.1	493.2	- 111.1
Banknotes in circulation	-	354.6	- 354.6
Government deposits with the Eurosystem	-	49.5	- 49.5
Net foreign assets (including gold)	382.1	-	+382.1
Other factors (net)	-	89.1	- 89.1
(c) Credit institutions' holdings on current accounts with the Eurosystem (a) + (b)			121.4
(d) Required reserves			120.8

Source: ECB.

Totals may not add up due to rounding.

From the start of the reserve maintenance period until 9 April 2001 the EONIA ranged between 4.74% and 4.78%, with the exception of Friday, 30 March, when it temporarily increased to 4.85% owing to the usual end-of-month effect. Overnight rates rose to higher levels immediately after the shortfall of bids in the MRO conducted on 10 April. Further increases were experienced on the days which followed, as market participants took the view that liquidity conditions would remain tight until the end of the reserve maintenance period. On 17 April 2001, the EONIA reached the rate of the marginal lending facility for the first time since the launch of the euro. After the allotment decision on 18 April 2001, the EONIA fell to 5.56%. During the last three days of the reserve maintenance period, the EONIA continued to fluctuate within a relatively wide range well above the minimum bid rate.

Use of standing facilities

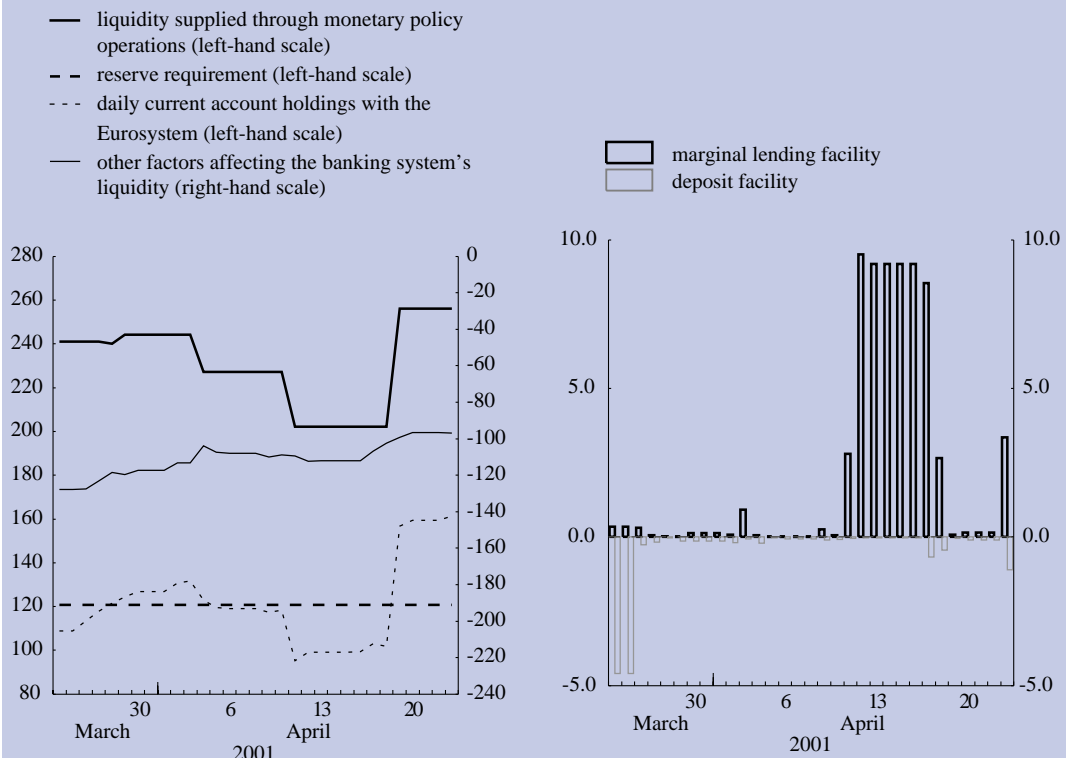
As a consequence of the tight liquidity conditions resulting from the underbidding on 10 April, the average daily use of the marginal lending facility increased from €0.5 billion in the preceding reserve maintenance period to €2.2 billion, which corresponds to €67 billion in accumulated terms. €64 billion of this total amount was used after the settlement of the third operation on 11 April 2001. The average use of the deposit facility remained stable at €0.4 billion.

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 €111.1 billion on average, i.e. €7.1 billion lower than in the previous reserve maintenance period. This decrease mainly reflected lower government

Factors contributing to the banking system’s liquidity during the reserve maintenance period ending on 23 April 2001

(EUR billions; daily data)



Source: ECB.

deposits and the transfer of profits of central banks to governments. The increase in net foreign assets reported in the consolidated balance sheet of the Eurosystem mainly reflects the revaluation which took place on 30 March 2001 and which did not, therefore, have any liquidity effects. The daily sum of autonomous factors fluctuated between €96.7 billion and €127.9 billion.

The published estimates of average liquidity needs stemming from autonomous factors ranged between €101.2 billion and €119.1 billion. They differed from the actual figures by an amount ranging from minus €1.8 billion to plus €2.3 billion.

Current account holdings of counterparties

The average current account holdings amounted to €121.4 billion, and reserve requirements to €120.8 billion. The difference between the average current account holdings and the reserve requirements, constituting excess reserves held by counterparties, amounted to €0.6 billion, which was the same as in the previous reserve maintenance period.