Box 5

Monetary policy operations and liquidity conditions in the reserve maintenance period ending on 23 May 2001

Allotments in monetary policy operations

During the reserve maintenance period which lasted from 24 April to 23 May 2001 the Eurosystem settled five main refinancing operations (MROs), one longer-term refinancing operation and one additional one-week reverse operation.

All five MROs were carried out as variable rate tenders with a minimum bid rate. In the first three operations the minimum bid rate was 4.75%; in the last two it was 4.50%. In the first MRO, only €5 billion was allotted, which has been the smallest volume in any Eurosystem open market operation so far. The need for such a low allotment volume was related to the outcome of the previous MRO, where a record high volume was allotted, to a large extent in order to offset the liquidity deficit which had accumulated as a result of underbidding in the MRO on 10 April. The marginal rate in this operation was at 4.78%.

The second MRO of the reserve maintenance period, allotted on 27 April, was conducted in parallel with the additional one-week reverse operation. The additional operation was also a standard tender, though with a maturity of only one week, and implemented as a variable rate tender with a minimum bid rate of 4.75%. The ECB allotted €80 billion in the MRO and €73 billion in the one-week operation, both at a marginal rate of 4.77%. The allocation of liquidity between the two operations restored the similarity between the volumes of the two outstanding MROs.

In the remaining three MROs, the allotted volumes ranged between €72 billion and €90 billion. The marginal rates in these operations were 4.78%, 4.54% and 4.53% respectively, with the weighted average rates being 1 or 2 basis points higher. The number of bidders participating in the tenders varied between 329 and 520. The ratio of the amount bid to the volume allotted ranged between 1.4 in the additional reverse operation and 16.7 in the first operation, with an average of 4.3.

Contributions to the banking system's liquidity

(EUR billions)

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

	Liquidity providing	Liquidity absorbing	Net contribution
(a) Monetary policy operations of the Eurosystem	**220.5**	**0.6**	**+ 219.9**
Main refinancing operations	144.0	-	+ 144.0
Longer-term refinancing operations	59.1	-	+ 59.1
Standing facilities	0.4	0.6	-0.2
Other operations	17.0	0.0	+17.0
(b) Other factors affecting the banking system's liquidity	**384.4**	**479.5**	**- 95.1**
Banknotes in circulation	-	352.7	- 352.7
Government deposits with the Eurosystem	-	39.4	- 39.4
Net foreign assets (including gold)	384.4	-	+384.4
Other factors (net)	-	87.4	- 87.4
(c) Credit institutions' holdings on current accounts with the Eurosystem (a) + (b)			**124.8**
(d) Required reserves			**124.2**

Source: ECB.
Totals may not add up due to rounding.

On 25 April 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 228 counterparties participated in this operation, submitting total bids of €43.4 billion. The marginal and the weighted average rates of this operation were 4.67% and 4.70 respectively.

From the start of the reserve maintenance period to 9 May, the EONIA ranged between 4.79% and 4.83%, with the exception of 30 April, when it temporarily increased by 12 basis points to 4.93% owing to the usual end-of-month effect. The decision to lower the key ECB interest rates on 10 May caused the EONIA to fall 5 basis points to 4.75% the same day and a further 17 basis points to 4.58% the following day. It then gradually declined, reaching 4.49% on 22 May 2001. As liquidity conditions were relatively tight on the last day of the reserve maintenance period, the EONIA rose from 4.49% to 4.86% on 23 May 2001.

Use of standing facilities

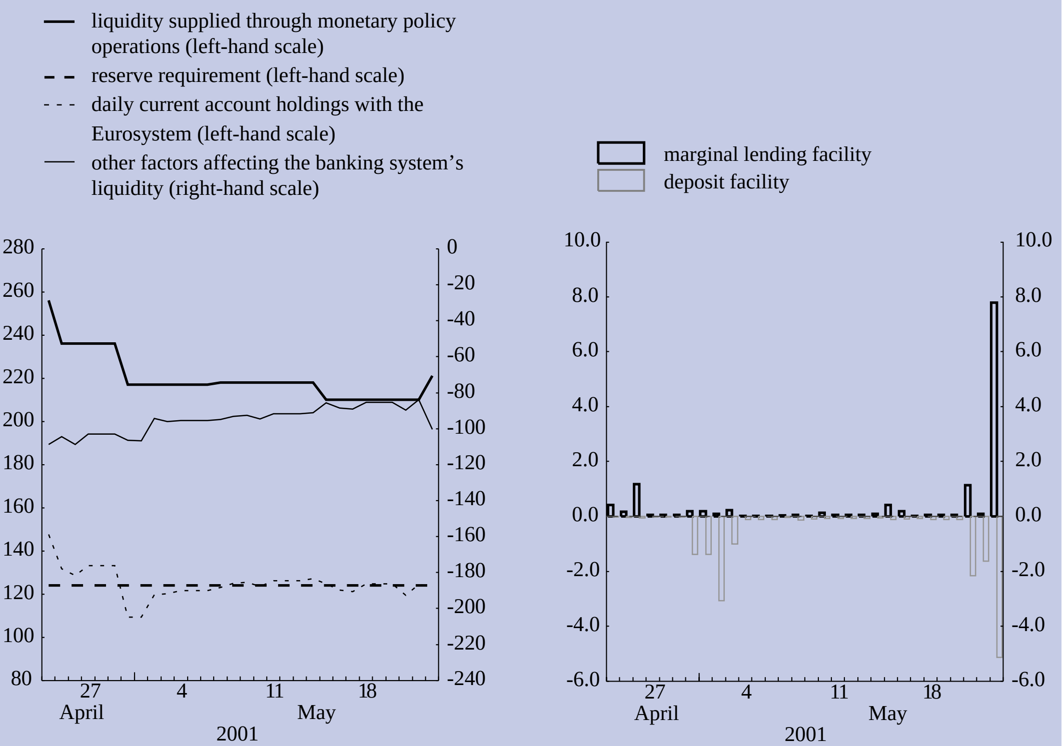
Compared with the previous reserve maintenance period, the average daily use of the marginal lending facility decreased from €2.2 billion to €0.4 billion and the average use of the deposit facility increased from €0.5 billion to €0.6 billion. On the last day of the reserve maintenance period, substantial recourse to both standing facilities was observed: €7.8 billion was borrowed through the marginal lending facility and €5.1 billion was placed through the deposit facility.

Liquidity factors not related to monetary policy

The net liquidity-absorbing impact of the autonomous factors (factors not related to monetary policy operations) on the banking system's liquidity (item (b) in the table above) was €95.1 billion on average, i.e. €15.3 billion

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

(EUR billions; daily data)



Source: ECB.

lower than in the previous reserve maintenance period. This decrease mainly reflected lower government deposits. The daily sum of autonomous factors fluctuated between €83.9 billion and €108.7 billion.

The published estimates of average liquidity needs stemming from autonomous factors ranged between €89.4 billion and €109.3 billion. They differed from the actual figures by an amount ranging from minus €4.2 billion to plus €0.8 billion.

Current account holdings of counterparties

The average current account holdings amounted to €124.8 billion, and reserve requirements to €124.2 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.