

Box 3**Monetary policy operations and liquidity conditions in the reserve maintenance period ending on 23 August 2001**

During the reserve maintenance period from 24 July 2001 to 23 August 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 4.50%. The allotted volumes ranged between €70 billion and €94 billion. The ratio of the amount bid to the volume allotted varied between 1.34 and 1.71, while the average for the reserve maintenance period was 1.50. With the exception of the first tender operation, where the marginal rate amounted to 4.51%, the marginal rates were equal to the minimum bid rate of 4.50%. In all five operations the weighted average rates were 1 basis point above the marginal rates. The number of counterparties participating in the tenders ranged between 345 and 401, with an average of 364.

On 25 July 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 224 counterparties participated in this operation, submitting a total amount of bids of €39.4 billion. The marginal and the weighted average rates were 4.39% and 4.42% respectively.

The EONIA remained broadly stable during the reserve maintenance period where the market was calm and amid perceived balanced liquidity conditions. From the start of the maintenance period to 21 August, the EONIA was quoted between 4.50% and 4.52%, with only one exception, namely on 31 July, when it climbed to 4.58% owing to the end-of-month effect. On 22 August the EONIA dropped to 4.44%, driven by market expectations of a loose ending of the reserve maintenance period. However, on the last day of the maintenance period, it increased again by 6 basis points to 4.50%, as liquidity conditions were not as loose as expected on the previous day. The maintenance period ended with a small net liquidity recourse of €0.3 billion to the standing facilities, corresponding to a recourse of €1.8 billion to the marginal lending facility and of €1.5 billion to the deposit facility. The difference between average current accounts (€127.8 billion) and reserve requirements (€127.2 billion) amounted to €0.6 billion.

Contributions to the banking system's liquidity

(EUR billions)

Daily average during the reserve maintenance period from 24 July 2001 to 23 August 2001

	Liquidity providing	Liquidity absorbing	Net contribution
(a) Monetary policy operations of the Eurosystem	224.1	0.2	+ 223.9
Main refinancing operations	164.0	-	+ 164.0
Longer-term refinancing operations	60.0	-	+ 60.0
Standing facilities	0.1	0.2	- 0.1
Other operations	0.0	0.0	0.0
(b) Other factors affecting the banking system's liquidity	402.1	498.2	- 96.1
Banknotes in circulation	-	347.6	- 347.6
Government deposits with the Eurosystem	-	48.9	- 48.9
Net foreign assets (including gold)	402.1	-	+ 402.1
Other factors (net)	-	101.7	- 101.7
(c) Credit institutions' holdings on current accounts with the Eurosystem (a) + (b)			127.8
(d) Required reserves			127.2

Source: ECB.

Totals may not add up due to rounding.

The net liquidity-absorbing impact of the autonomous factors (i.e. the factors not related to monetary policy) on the banking system's liquidity (item (b)) was €96.1 billion on average. The daily sum of autonomous factors fluctuated between €84.2 billion and €105.1 billion. The estimates of average liquidity needs, stemming from autonomous factors, published for the maintenance period under review, ranged between €86.9 billion and €104.0 billion. These estimates turned out to be higher than the actual figures by an amount ranging from €0.1 billion to €5.2 billion. The standard deviation of the estimation errors and the bias of the estimates were higher than usual and resulted mainly from an overestimation of government deposits with the Eurosystem.