

## **Box 2**

### **Monetary policy operations and liquidity conditions in the reserve maintenance period ending on 23 October 2001**

During the reserve maintenance period from 24 September to 23 October, the Eurosystem settled four main refinancing operations (MROs) and one longer-term refinancing operation (LTRO), the outcomes of which are summarised in the table below.

In the third operation, the ECB satisfied all the bids submitted, totalling €60.5 billion. This was still, however, significantly below the level needed for the smooth fulfilment of reserve requirements. The liquidity deficit

## Regular monetary policy operations

(EUR billions; interest rates in percentages per annum)

Operation	Date of settlement	Date of maturity	Bid amount	Allotment amount	Bid-cover ratio	Number of participants	Minimum bid rate	Marginal rate	Weighted average rate
MRO	26/09/2001	10/10/2001	111.9	81.0	1.38	347	3.75	3.76	3.77
MRO	03/10/2001	17/10/2001	76.4	56.0	1.36	266	3.75	3.75	3.76
MRO	10/10/2001	24/10/2001	60.5	60.5	1.00	248	3.75	3.75	3.75
MRO	17/10/2001	31/10/2001	143.8	82.0	1.76	372	3.75	3.78	3.79
LTRO	27/09/2001	21/12/2001	28.3	20.0	1.42	195	-	3.55	3.58

Source: ECB.

that consequently accumulated in the following week was only partially offset by the relatively high allotment in the fourth MRO, and counterparties eventually had to have recourse to the marginal lending facility. This negatively affected bank revenue from treasury operations, so that underbidding proved once again to be a non-profit-making strategy for the banking community.

During the first days of the reserve maintenance period under review, the EONIA remained stable, slightly above the minimum bid rate, while it increased temporarily to 3.83% on 28 September, on account of the end-of-quarter effect. In the first week of October, the EONIA remained close to the minimum bid rate, deviating by at most 3 basis points, with a slight downward trend. With money market liquidity tightening on account of the underbidding on 9 October, the EONIA started to increase gradually in the following week. As market participants took the view that liquidity conditions would remain tight until the end of the reserve maintenance period, the EONIA increased towards the rate of the marginal lending facility in the last week of the maintenance period. On the last business day of the period, the EONIA stood at 4.74%, i.e. only 1 basis point below the rate of the marginal lending facility, and there was a net recourse to the latter of €19 billion.

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 €72.5 billion on average. The daily sum of autonomous factors fluctuated between €56.9 billion and €84.6 billion. The estimates of average liquidity needs, stemming from autonomous factors, published for the maintenance period under review, ranged between €62.3 billion and €82.3 billion. The published estimates deviated from the actual outcome by an amount ranging from -€0.1 billion to €2.0 billion.

## Contributions to the banking system's liquidity

(EUR billions)

Daily average during the reserve maintenance period from 24 September to 23 October 2001

	Liquidity providing	Liquidity absorbing	Net contribution
<b>(a) Monetary policy operations of the Eurosystem</b>	<b>197.7</b>	<b>0.1</b>	<b>+ 197.6</b>
Main refinancing operations	136.7	-	+ 136.7
Longer-term refinancing operations	60.0	-	+ 60.0
Standing facilities	1.1	0.1	+ 0.9
Other operations	-	-	-
<b>(b) Other factors affecting the banking system's liquidity</b>	<b>389.9</b>	<b>462.4</b>	<b>- 72.5</b>
Banknotes in circulation	-	325.2	- 325.2
Government deposits with the Eurosystem	-	43.6	- 43.6
Net foreign assets (including gold)	389.9	-	+ 389.9
Other factors (net)	-	93.6	- 93.6
<b>(c) Credit institutions' holdings on current accounts with the Eurosystem (a) + (b)</b>			<b>125.1</b>
<b>(d) Required reserves</b>			<b>124.4</b>

Source: ECB.

Totals may not add up due to rounding.

### **Temporary swap line established with the Federal Reserve on 12 September 2001**

In order to facilitate the functioning of financial markets and provide liquidity in US dollars in the aftermath of the tragic events of 11 September 2001, the US Federal Reserve and the ECB agreed on a swap arrangement on 12 September 2001. Under the agreement, the ECB was eligible to draw up to USD 50 billion on a swap line that expired on 13 October, receiving dollar deposits at the Federal Reserve Bank of New York. In exchange, the Federal Reserve Bank of New York would receive euro deposits of an equivalent amount at the ECB.

The ECB drew on the swap facility on three occasions, on 12, 13 and 14 September. The first amount drawn totalled USD 5.4 billion on 12 September and matured on 17 September. The swap line was again drawn upon on the following two days for overnight swaps totalling USD 14.1 billion on 13 September and USD 3.9 billion on 14 September.

The dollar deposits were made available to national central banks of the Eurosystem and were used by the latter to help to meet the dollar liquidity needs of euro area banks, the operations of which were affected by events in the United States.