

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

During the reserve maintenance period under review, the Eurosystem settled five main refinancing operations (MROs) and one longer-term refinancing operation (LTRO), the outcomes of which are summarised in the table below.

Regular monetary policy operations

(EUR billions; interest rates in percentages per annum)

Operation	Date of settlement	Date of maturity	Bids (amount)	Allotment (amount)	Bid-cover ratio	Number of participants	Minimum bid rate	Marginal rate	Weighted average rate
MRO	24/10/2001	07/11/2001	73.9	61.0	1.21	333	3.75	3.75	3.76
MRO	31/10/2001	14/11/2001	99.6	66.0	1.51	254	3.75	3.75	3.76
MRO	07/11/2001	21/11/2001	38.4	38.4	1.00	201	3.75	3.75	3.75
MRO	14/11/2001	28/11/2001	174.7	116.0	1.51	401	3.25	3.37	3.40
MRO	21/11/2001	05/12/2001	63.2	17.0	3.72	286	3.25	3.26	3.27
LTRO	25/10/2001	31/01/2002	42.3	20.0	2.12	200	-	3.50	3.52

Source: ECB.

In the operation settled on 7 November, bids submitted by counterparties totalled €38.4 billion, which was significantly below the amount that would have resulted in a smooth fulfilment of the reserve requirement. Despite this underbidding, allotment amounts and other liquidity factors led to a situation in the remainder of the reserve maintenance period in which banks did not have to have recourse to the marginal lending facility in order to fulfil their reserve requirements. However, the maintenance period ended with two outstanding tenders of very different sizes (€116 and €17 billion), which required the conduct of an operation in the subsequent maintenance period to equalise the volume of the two tenders.

The EONIA was mostly stable at a level slightly above the minimum bid rate of 3.75% in the first two weeks of the maintenance period. However, it increased temporarily to 3.84% on 31 October owing to the end-of-month effect. Following the underbidding in the MRO settled on 7 November, the EONIA increased to levels

Contributions to the banking system's liquidity

(EUR billions)

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

	Liquidity providing	Liquidity absorbing	Net contribution
(a) Monetary policy operations of the Eurosystem	192.5	0.3	+ 192.2
Main refinancing operations	132.3	-	+ 132.3
Longer-term refinancing operations	60.0	-	+ 60.0
Standing facilities	0.2	0.3	- 0.1
Other operations	-	-	-
(b) Other factors affecting the banking system's liquidity	385.0	450.5	- 65.5
Banknotes in circulation	-	311.3	- 311.3
Government deposits with the Eurosystem	-	46.1	- 46.1
Net foreign assets (including gold)	385.0	-	+ 385.0
Other factors (net)	-	93.1	- 93.1
(c) Credit institutions' holdings on current accounts with the Eurosystem (a) + (b)			126.7
(d) Required reserves			126.1

Source: ECB.

Totals may not add up due to rounding.

close to 3.85%, reflecting the expectation of market participants of possible tight liquidity conditions at the end of the maintenance period. On 8 November, the day the Governing Council decided to lower the key ECB interest rates by 50 basis points, the EONIA decreased temporarily to 3.73%. Following the MRO conducted on 13 November, the EONIA decreased to a level close to the new minimum bid rate of 3.25%, reflecting market perceptions that the likelihood of recourse to the marginal lending facility at the end of the maintenance period had declined significantly. The EONIA remained broadly at this level for the remainder of the maintenance period. The maintenance period ended with a very small net recourse to the deposit facility of around €0.4 billion. The difference between average current accounts (€126.7 billion) and minimum reserve requirements (€126.1 billion) amounted to €0.60 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 €65.5 billion, on average. The daily sum of autonomous factors fluctuated between €55.9 billion and €77.8 billion. The estimates of average liquidity needs stemming from autonomous factors, published for the maintenance period under review, ranged between €63.1 billion and €76.8 billion. The actual figures turned out to be lower than the estimates in four out of five cases, with a difference between the two of up to €3.2 billion.