

Box I**Monetary policy operations and liquidity conditions in the reserve maintenance period ending on 23 December 2002**

During the reserve maintenance period under review, the Eurosystem settled four main refinancing operations (MROs), two longer-term refinancing operations (LTROs) and one liquidity-providing fine-tuning operation.

Open market 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	27/11/2002	11/12/2002	108.9	62.0	1.76	255	3.25	3.29	3.31
MRO	04/12/2002	18/12/2002	111.8	111.8	1.00	175	3.25	3.25	3.25
MRO	11/12/2002	24/12/2002	100.5	65.0	1.55	247	2.75	2.82	2.83
MRO	18/12/2002	31/12/2002	103.5	103.5	1.00	224	2.75	2.75	2.87
LTRO	28/11/2002	27/02/2003	38.6	15.0	2.58	162	-	3.02	3.04
LTRO	23/12/2002	27/03/2003	42.3	15.0	2.82	172	-	2.93	2.95
Other	18/12/2002	24/12/2002	28.5	10.0	2.85	50	2.75	2.80	2.82

Source: ECB.

The marginal rate fell from 3.29% in the first MRO of the maintenance period to 3.25% in the operation settled on 4 December. In the latter operation, the ECB satisfied all bids submitted, which were slightly below the level needed for a smooth fulfilment of reserve requirements during the week following the settlement of this operation. After the decision of the Governing Council of the ECB on 5 December to lower the minimum bid rate applicable to MROs from 3.25% to 2.75%, the marginal rate declined to 2.82% in the MRO settled on 11 December. In the MRO settled on 18 December, the last one of the reserve maintenance period, the amount of bids submitted again fell short of the level needed for the fulfilment of reserve requirements. The ECB satisfied all bids, which resulted in a marginal rate of 2.75% and a weighted average rate of 2.87%. To reduce the implied liquidity shortage, the ECB launched a liquidity-providing fine-tuning operation with a one week maturity on 18 December, and allotted €10 billion in this operation at a marginal rate of 2.80% and a weighted

Contributions to the banking system's liquidity

(EUR billions)

Daily average during the reserve maintenance period from 24 November to 23 December 2002

	Liquidity providing	Liquidity absorbing	Net contribution
(a) Monetary policy operations of the Eurosystem	216.2	0.2	+ 215.9
Main refinancing operations	168.1	-	+ 168.1
Longer-term refinancing operations	45.0	-	+ 45.0
Standing facilities	1.1	0.2	0.9
Other operations	2.0	-	2.0
(b) Other factors affecting the banking system's liquidity	371.5	458.2	- 86.7
Banknotes in circulation	-	350.7	- 350.7
Government deposits with the Eurosystem	-	51.7	- 51.7
Net foreign assets (including gold)	371.5	-	+ 371.5
Other factors (net)	-	55.8	- 55.8
(c) Credit institutions' holdings on current accounts with the Eurosystem (a) + (b)			129.3
(d) Required reserves			128.8

Source: ECB.

Note: Totals may not add up due to rounding.

average rate of 2.82%. The allotment amount reflected a balance between the ECB's aim to both restore normal liquidity conditions and preserve incentives for counterparties to bid sufficiently in MROs.

The EONIA remained stable at around 3.30% at the beginning of the period. On 29 November it increased to 3.38% due to the end-of-month effect. The EONIA remained relatively high in the days that followed owing to concerns about underbidding motivated by market expectations that the Governing Council would reduce the level of the minimum bid rate in the MROs in its meeting on 5 December 2002. Following this decision, the EONIA gradually dropped to a level of slightly below 2.90%, where it remained from 9 to 16 December. Renewed upward pressure on short-term rates was triggered by the underbidding in the MRO allotted on 17 December and the subsequent tight liquidity conditions. The EONIA increased steadily during the rest of the reserve maintenance period, to reach 3.70% – a level only 5 basis points below the rate of the marginal lending facility – on 23 December, the last day of the reserve maintenance period.

Indeed, the maintenance period ended with a relatively large aggregate net recourse to the marginal lending facility of €18 billion, owing in part to higher than expected autonomous factors. The average difference between current account holdings and minimum reserve requirements was €0.75 billion.

The net liquidity-absorbing impact of the autonomous factors, i.e. factors not related to monetary policy operations (item (b) of the table above), was, on average, €86.7 billion. The published estimates of the average liquidity needs stemming from autonomous factors ranged between €72.6 billion and €93.8 billion. The largest deviation between the published estimate and the actual figure occurred for the period from 25 November to 3 December and amounted to €3.6 billion.