

Box I**Monetary policy operations and liquidity conditions in the reserve maintenance period ending on 23 March 2003**

During the reserve maintenance period under review, the Eurosystem settled five main refinancing operations (MROs) and one longer-term refinancing operation (LTRO).

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	26/02/2003	12/03/2003	110.7	83.0	1.33	261	2.75	2.75	2.76
MRO	04/03/2003	19/03/2003	54.1	54.1	1.00	159	2.75	2.75	2.75
MRO	12/03/2003	25/03/2003	126.3	106.0	1.19	293	2.50	2.57	2.63
MRO	12/03/2003	19/03/2003	75.9	65.0	1.17	151	2.50	2.55	2.64
MRO	19/03/2003	02/04/2003	129.9	83.0	1.56	269	2.50	2.58	2.59
LTRO	27/02/2003	29/05/2003	24.9	15.0	1.66	118	-	2.48	2.51

Source: ECB.

In the MRO settled on 4 March, only 159 counterparties participated and total bids fell significantly short of the amount that would have enabled reserve requirements to be easily fulfilled. As a result, large reserve deficits accumulated over the following days. In order to restore neutral liquidity conditions without generating a considerable difference between the sizes of the two outstanding MROs, an additional MRO with a maturity of one week was carried out with settlement on 12 March, in parallel to the regular MRO with a two-week maturity.¹ In the LTRO settled on 27 February, a record low of 118 participants was registered.

In the first four days of the maintenance period, the EONIA was at, or was slightly above, the minimum bid rate of 2.75%, while it increased to 2.82% on Friday, 28 February, due to the usual end-of-month effect. In the week following the underbid MRO settled on 4 March, the EONIA rose to levels above 3% with a peak of 3.36%. On 6 March the Governing Council decided to lower the key ECB interest rates by 25 basis points. After the ECB's allotment of the split operation on Tuesday, 11 March, the EONIA decreased significantly, reaching 2.60% on 17 March as the accumulated reserve deficit disappeared. After the allotment of the last MRO of the reserve maintenance period, which apparently was perceived by the market as being rather ample, the EONIA fell further and reached a low of 2.37% on the penultimate day of the reserve maintenance period. This perception, however, was reversed on Friday, 21 March, the last day of the maintenance period, when the EONIA increased to 2.72%. The reserve maintenance period ended marginally on the tight side, with an aggregate net recourse to the marginal lending facility of only €0.8 billion (reflecting a net recourse of €0.3 billion on Friday, 21 March, which also automatically accumulated on both Saturday 22 and Sunday, 23 March).

The average difference between current account holdings of credit institutions with the Eurosystem and minimum reserve requirements was €0.70 billion. This level, recorded in two consecutive reserve maintenance periods ending on a Sunday, is somewhat lower than the levels previously observed in maintenance periods ending on this day of the week.

The net liquidity-absorbing impact of the autonomous factors, i.e. factors not related to monetary policy operations (item (b) of the table below), was, on average, €94.9 billion. The published estimates of the

¹ Similar "split operations" have been conducted in the past (on 28 November 2001 and 18 December 2002). However, on these occasions, the one-week operation conducted in parallel to the regular MRO was technically classified as a "structural operation" (i.e. an operation aiming to influence the structural liquidity position of the banking sector) and not as an MRO. The latter classification could only be applied after April 2002, when the ECB document "The single monetary policy in the euro area: General documentation on Eurosystem monetary policy instruments and procedures" was amended.

average liquidity needs stemming from autonomous factors ranged between €89.9 billion and €102.0 billion. The largest deviation between the published estimate and the actual figure occurred in the first week of the maintenance period and amounted to € 2.6 billion.

Contributions to the banking system's liquidity

(EUR billions)

Daily average during the reserve maintenance period from 24 February to 23 March 2003

	Liquidity providing	Liquidity absorbing	Net contribution
(a) Monetary policy operations of the Eurosystem	224.7	0.1	+ 224.6
Main refinancing operations	179.5	-	+ 179.5
Longer-term refinancing operations	45.0	-	+ 45.0
Standing facilities	0.2	0.1	+0.1
Other operations	0.0	-	0.0
(b) Other factors affecting the banking system's liquidity	352.5	447.4	- 94.9
Banknotes in circulation	-	347.8	- 347.8
Government deposits with the Eurosystem	-	59.1	- 59.1
Net foreign assets (including gold)	352.5	-	+ 352.5
Other factors (net)	-	40.6	- 40.6
(c) Credit institutions' holdings on current accounts with the Eurosystem (a) + (b)			129.6
(d) Required reserves			128.9

Source: ECB.

Note: Totals may not add up due to rounding.