

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

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

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	Fixed rate
MRO	28/05/2003	09/06/2003	184.86	106.00	1.74	286	2.50	2.59	2.61	-
MRO	04/06/2003	18/06/2003	72.37	72.37	1.00	154	2.50	2.50	2.50	-
MRO	09/06/2003	25/06/2003	145.75	129.00	1.13	238	2.00	2.09	2.11	-
MRO	18/06/2003	02/07/2003	111.21	62.00	1.79	263	2.00	2.12	2.12	-
LTRO	29/05/2003	28/08/2003	30.2	15.0	2.01	120	-	2.25	2.27	-

Source: ECB.

In the MRO settled on 4 June, only 154 counterparties participated and total bids fell short of the amount that would have allowed a smooth fulfilment of the reserve requirements. Therefore, large reserve deficits accumulated in subsequent days. With a view to restoring neutral liquidity conditions, the allotment amount in the subsequent MRO was increased accordingly.

At the beginning of the maintenance period, expectations of underbidding caused the EONIA to move somewhat upwards. It increased from 2.56% on 26 May, to 2.60% on 29 May. On 30 May it rose by a further 5 basis points to 2.65%, as a result of the end-of-month effect, and then remained at that level until 2 June. On 3 June, when the underbid tender was allotted, the EONIA increased by a further 3 basis points to 2.68%. The EONIA fell to 2.37% on the following day, possibly reflecting the fact that the extent of the underbidding was limited. The reduction in the minimum bid rate by the Governing Council from 2.50% to 2.00% on 5 June resulted in a further decline in the EONIA to 2.14% on 9 June, and it remained at around that

Contributions to the banking system's liquidity

(EUR billions)

Daily average during the reserve maintenance period from 24 May to 23 June 2003

	Liquidity providing	Liquidity absorbing	Net contribution
(a) Monetary policy operations of the Eurosystem	239.8	0.3	+ 239.5
Main refinancing operations	194.7	-	+ 194.7
Longer-term refinancing operations	45.0	-	+ 45.0
Standing facilities	0.4	0.3	+0.1
Other operations	-0.2	-	-0.2
(b) Other factors affecting the banking system's liquidity¹⁾	331.3	438.9	- 107.7
Banknotes in circulation	-	373.2	- 373.2
Government deposits with the Eurosystem	-	52.6	- 52.6
Net foreign assets (including gold)	331.3	-	+ 331.3
Other factors (net)	-	13.2	- 13.2
(c) Credit institutions' holdings on current accounts with the Eurosystem (a) + (b)			131.9
(d) Required reserves			131.2

Source: ECB.

Note: Totals may not add up due to rounding.

¹ The published estimates of the average liquidity needs stemming from autonomous factors ranged between €98.0 billion and €110.5 billion. The largest deviation between the published estimate and the actual figure occurred in the first week of the maintenance period and amounted to €3.3 billion.

level for almost two weeks. This relatively high and persistent spread of the EONIA over the new minimum bid rate had to some extent also been experienced on past occasions when the Governing Council decided to decrease the key ECB interest rates. On 23 June, the last day of the maintenance period, the EONIA decreased slightly to 2.11% and the reserve maintenance period ended smoothly with a net recourse of €1.6 billion to the deposit facility.

The average difference between current account holdings of credit institutions with the Eurosystem and minimum reserve requirements was €0.64 billion.