

Box 3**Allotments in monetary policy operations and liquidity conditions in the second reserve maintenance period***Allotments in monetary policy operations*

The Eurosystem conducted four main refinancing operations and one longer-term refinancing operation during the second reserve maintenance period, which ran from 24 February to 23 March 1999. All main refinancing operations were carried out as fixed rate tenders at a rate of 3.0%, and the allotted amounts varied between €78.0 billion and €44.0 billion. At the beginning of the second maintenance period the number of counterparties participating in these operations remained around a level of 1,000. However, the amount of bids had increased gradually from €481.6 billion in the first main refinancing operation of Stage Three to peak at €1,100.8 billion on 3 March, while the allotment ratio had decreased from 15.6% to 6.1%. During the latter half of the second maintenance period the Eurosystem succeeded in reversing this trend by providing more ample liquidity. This brought the EONIA rate below the main refinancing rate and, consequently, reduced the incentive to submit large bids. The aggregate bid amounts decreased by two-thirds from their peak value and the allotment ratio increased to 27.3% in the main refinancing operation of 23 March. Under these circumstances, the number of counterparties participating in the tender operations declined to 554. The longer-term refinancing operation was carried out on 24 February in the form of a variable rate tender applying the single rate auction procedure. The allotment volume was pre-announced as €15 billion and resulted in a marginal rate of 3.04%, leaving the amount of outstanding longer-term refinancing operations unchanged at €45 billion. As a result, in the second maintenance period the Eurosystem provided a total of €181.4 billion of liquidity as a daily average through regular refinancing operations (including the operations inherited from the previous maintenance period).

Contributions to the banking system's liquidity*(EUR billions)*

Daily average during the maintenance period from 24 February to 23 March 1999

	<i>Liquidity providing</i>	<i>Liquidity absorbing</i>	<i>Net contribution</i>
(a) Monetary policy operations of the Eurosystem	181.8	1.4	+180.4
Main refinancing operations	136.4	-	+136.4
Longer-term refinancing operations	45.0	-	+ 45.0
Standing facilities	0.4	1.4	- 1.0
Other operations	0.0	0.0	0.0
(b) Other factors affecting the banking system's liquidity	323.6	401.8	- 78.2
Banknotes in circulation	-	326.9	-326.9
Government deposits with the Eurosystem	-	49.9	- 49.9
Net foreign assets (including gold)	323.6	-	+323.6
Other factors (net)	-	25.0	- 25.0
(c) Credit institutions' holdings on current accounts with the Eurosystem (a) - (b)			102.2
(d) Required reserves			100.6

Use of standing facilities

Compared with the first maintenance period the use of the marginal lending facility declined considerably, from a daily average of €3.8 billion to only €0.4 billion. The average use of the deposit facility was €1.4 billion, i.e. very close to the amount during the first maintenance period. However, most of the deposits were accumulated in the last days of the period and reflected the ample liquidity conditions prevailing on those days. On the last day of the period the use of the deposit facility reached its peak value of €12.2 billion (see the chart below).

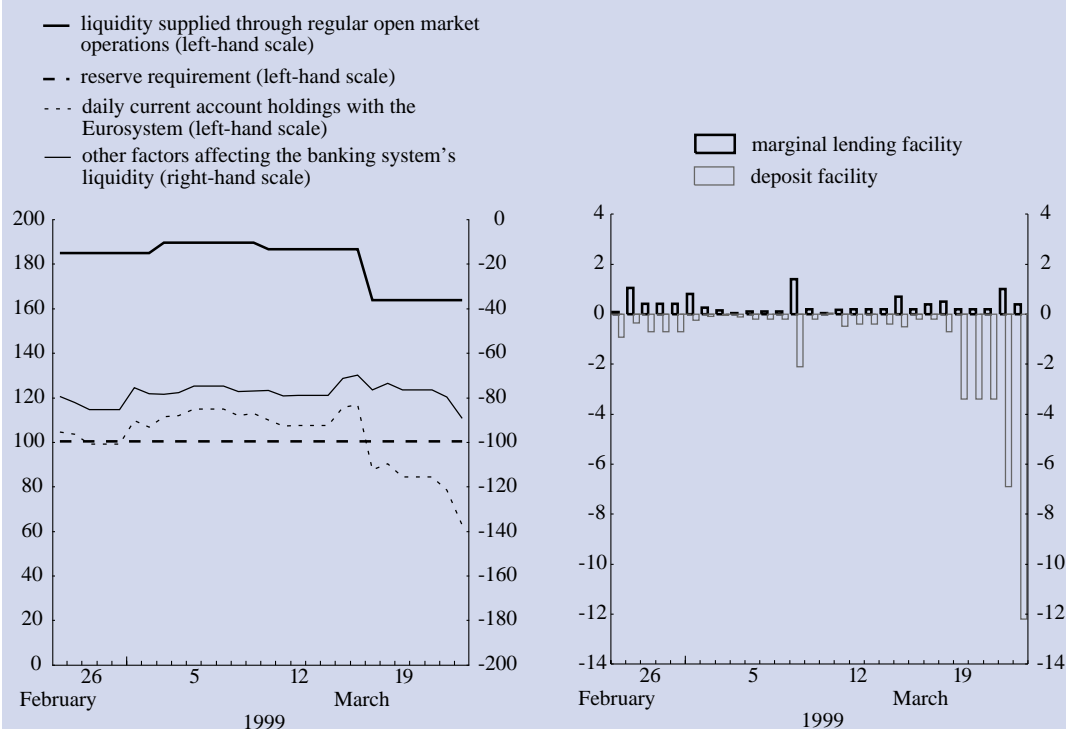
Liquidity factors not related to monetary policy operations

The sum effect of other factors affecting the banking system's liquidity (item (b) in the table above) – the so-called autonomous factors – was - €78.2 billion on average, the negative sign indicating that they absorbed liquidity in net terms. This was, in absolute terms, €6.6 billion higher than during the first maintenance

period, reflecting, inter alia, Treasury transactions and a decrease in net foreign assets. The impact of these autonomous factors fluctuated between -€70.8 billion and -€90.2 billion, the most volatile item being the balances of government accounts with central banks.

Factors contributing to the banking system's liquidity during the second maintenance period

(EUR billions; daily data)



Current account holdings of counterparties

The current account holdings of counterparties with the Eurosystem are a consequence of the difference between the liquidity provided through monetary policy operations (including the net impact of the use of standing facilities) and the net effect of the autonomous factors. In the second maintenance period the average current account holdings were €102.2 billion, compared with reserve requirements of €100.6 billion. In the first maintenance period the average current account holdings had been €100.2 billion, and the reserve requirements had amounted to €98.2 billion. The difference between average current account holdings and reserve requirements therefore declined from €2.0 billion to €1.6 billion.

Difference between current account holdings and reserve requirements

The difference of €1.6 billion between the current account holdings and reserve requirements in the second maintenance period is attributable to various factors. About €0.7 billion is due to the following three types of current account holdings: i) current account holdings of counterparties which do not effectively have to hold minimum reserves because their reserve requirement falls below the lump-sum allowance of €100,000; ii) current account holdings of remote participants in the payment system Euro Access Frankfurt (EAF); and iii) current account holdings of counterparties which hold their reserves indirectly through another institution, but still have a current account with the central bank for payment purposes. The remaining discrepancy of €0.9 billion is due to so-called excess reserves. These are positive balances that counterparties hold on their current accounts after they have fulfilled their reserve requirements. As the remuneration of current account balances which do not count for the fulfilment of reserve requirements is zero, while funds transferred to the deposit facility were remunerated at 2%, one would expect that current account holdings of this type would normally arise only through error or neglect. One tentative explanation for this phenomenon is the low opportunity cost of leaving small amounts of funds on current accounts overnight. This kind of reasoning, if applied to a large number of the more than 8,250 counterparties, might explain the discrepancy between current account holdings and reserve requirements observed during the first two maintenance periods.