

Box 2**Monetary policy operations and liquidity conditions in the fifth maintenance period****Allotments in monetary policy operations**

During the fifth reserve maintenance period, which started on 24 May and ended on 23 June 1999, the Eurosystem conducted five main refinancing operations and one longer-term refinancing operation. All the main refinancing operations were carried out at a fixed rate of 2.5%. The allotted volume varied between €96.0 billion and €39.0 billion. After a moderate drop in the amount of bids submitted by counterparties, from €784.4 billion to €698.4 billion, between the first and second main refinancing operations, bids increased continuously in the following three operations up to €1,165.5 billion, mainly due to the growing difference between the overnight rate and the tender rate. On average, the amount of bids was €895.5 billion, and thus significantly higher than in the fourth reserve maintenance period, when it was €689.5 billion. The number of participating counterparties followed a pattern similar to the bids and was on average 759. The increase in the bid amount is also reflected in the development of the allotment ratios. While in the fourth reserve maintenance period the allotment ratio alternated between 12% and 6%, in accordance with the different sizes of the two outstanding tender operations, it fluctuated between 9.5% and 4.2% in the fifth reserve maintenance period.

Contributions to the banking system's liquidity

(EUR billions)

Daily average during the reserve maintenance period from 24 May to 23 June 1999

	Liquidity providing	Liquidity absorbing	Net contribution
(a) Monetary policy operations of the Eurosystem	177.3	0.6	+ 176.7
Main refinancing operations	132.0	-	+ 132.0
Longer-term refinancing operations	45.0	-	+ 45.0
Standing facilities	0.3	0.6	-0.3
Other operations	0.0	0.0	0.0
(b) Other factors affecting the banking system's liquidity	339.8	414.6	- 74.8
Banknotes in circulation	-	337.0	- 337.0
Government deposits with the Eurosystem	-	40.4	-40.4
Net foreign assets (including gold)	339.8	-	+ 339.8
Other factors (net)	-	37.2	- 37.2
(c) Credit institutions' holdings on current accounts with the Eurosystem (a) - (b)			101.9
(d) Required reserves			101.0

Source: ECB.

Totals may not add up due to rounding.

Use of standing facilities

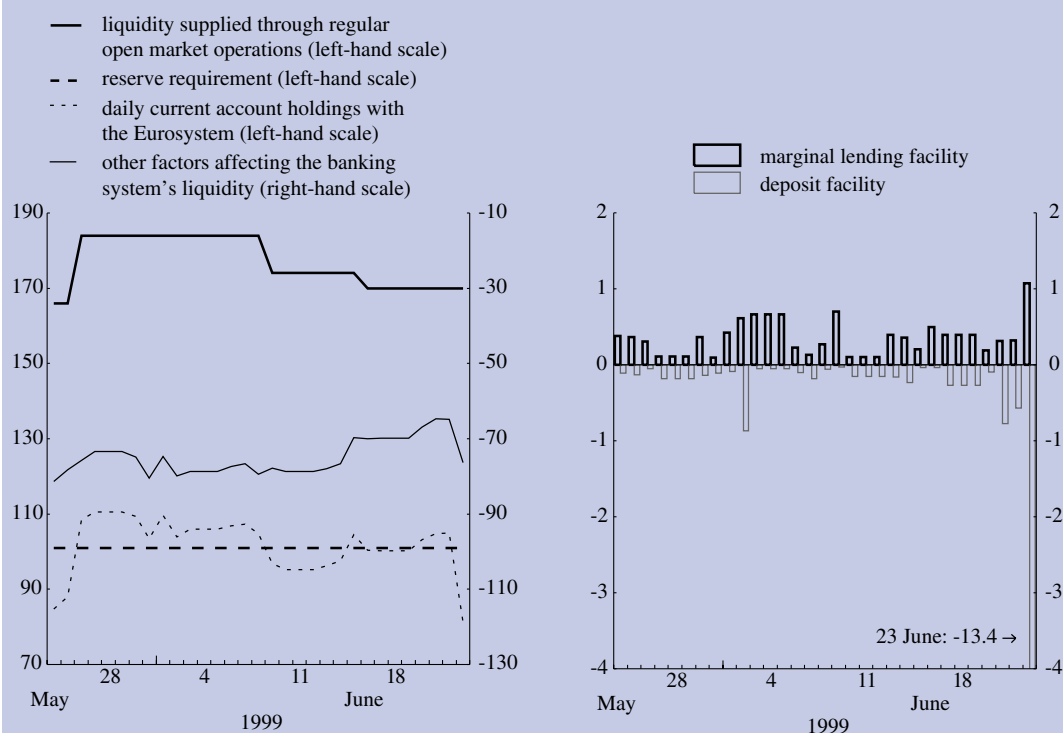
Compared with the previous reserve maintenance period, the average use of the marginal lending facility declined from a daily average of €0.8 billion to one of €0.3 billion. The use of the deposit facility increased somewhat, from a daily average of €0.4 billion to one of €0.6 billion. However, more than two-thirds of the recourse to the deposit facility took place on the last day of the period (€13.5 billion). On that day a main refinancing operation was settled. The allotment decision had to take into account the fact that the major liquidity impact of the operation would not be in the fifth, but in the sixth reserve maintenance period, which was expected to see a withdrawal of funds because of changes in autonomous factors. Furthermore, the ECB responded with the allotment amount to the high level of the overnight interest rates that had prevailed before the end of the fifth reserve maintenance period.

Liquidity factors not related to monetary policy

The net liquidity absorbing impact of the autonomous factors (item (b) in the table above) was, on average, €74.8 billion, i.e. €9.0 billion more than during the previous reserve maintenance period. The main reasons for this considerable increase were a €4.0 billion rise in the government deposits held with the Eurosystem and a €3.2 billion expansion of banknotes in circulation. The sum of the autonomous factors fluctuated between €64.4 billion and €81.3 billion. Government deposits were the most important source of these fluctuations (see Box 3).

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

(EUR billions; daily data)



Source: ECB.

Current account holdings of counterparties

The current account holdings of counterparties with the Eurosystem correspond to 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. During the fifth reserve maintenance period the average current account holdings were €101.9 billion, while the reserve requirements stood at €101.0 billion. Compared with the fourth reserve maintenance period, the difference between these two variables declined slightly from €1.0 billion to €0.9 billion. The decrease was due to a further decline from €0.3 billion to €0.2 billion in current account holdings not contributing to the fulfilment of reserve requirements. By contrast, the excess reserve holdings of counterparties subject to reserve requirements seem to have stabilised. For the third maintenance period in a row they amounted to approximately €0.7 billion.