

**Box I****Monetary policy operations and liquidity conditions in the sixth maintenance period****Allotments in monetary policy operations**

During the sixth reserve maintenance period, which lasted from 24 June to 23 July 1999, the Eurosystem conducted four main refinancing operations and one longer-term refinancing operation. All main refinancing operations were carried out at a fixed interest rate of 2.5%. The allotted volume varied between €53.0 billion and €95.0 billion. The aggregate amount of bids reached a new high of €1,479.4 billion in the operation conducted on 20 July. With an average of €1,307.9 billion, the amount of bids in the main refinancing operations increased considerably relative to the preceding reserve maintenance period, in which the average amount of bids was €895.5 billion. In addition, the number of bidders in the weekly tender operations increased to within a range of 856 to 915 institutions, compared with a range of 666 to 894 participants in the previous reserve maintenance period. Partially owing to the difference in the size of the two outstanding tender operations, the allotment ratios alternated between 4.25% and 7.41%.

**Contributions to the banking system's liquidity**

(EUR billions)

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

	<i>Liquidity providing</i>	<i>Liquidity absorbing</i>	<i>Net contribution</i>
<b>(a) Monetary policy operations of the Eurosystem</b>	<b>188.5</b>	<b>0.6</b>	<b>+ 187.9</b>
Main refinancing operations	143.1	-	+ 143.1
Longer-term refinancing operations	45.0	-	+ 45.0
Standing facilities	0.4	0.6	- 0.2
Other operations	0.0	0.0	0.0
<b>(b) Other factors affecting the banking system's liquidity</b>	<b>342.4</b>	<b>427.3</b>	<b>- 84.9</b>
Banknotes in circulation	-	342.1	- 342.1
Government deposits with the Eurosystem	-	45.7	-45.7
Net foreign assets (including gold)	342.4	-	+ 342.4
Other factors (net)	-	39.5	- 39.5
<b>(c) Credit institutions' holdings on current accounts with the Eurosystem (a) – (b)</b>			<b>103.0</b>
<b>(d) Required reserves</b>			<b>102.0</b>

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 increased from a daily average of €0.3 billion to one of €0.4 billion, while the average use of the deposit facility was almost unchanged, amounting to a daily average of €0.6 billion. Apart from considerable recourse to both standing facilities on 14 July, which was mainly caused by problems in a payment system component in one country, most of the recourse to the deposit facility took place on the penultimate day of the maintenance period (€8.7 billion). Counterparties put excess liquidity in the deposit facility one day before the end of the maintenance period, since this ended on a Friday and it was more profitable to earn the deposit facility rate on the preceding Thursday, while being remunerated over the weekend at the higher, average rate of the main refinancing operation, which is paid on the current account balances counting towards fulfilment of the reserve requirement. In addition, recourse to both standing facilities was relatively large on the last day of the maintenance period (€1.6 billion for the marginal lending facility and €1.8 billion for the deposit facility), as a consequence of the usual imperfections in the distribution of interbank liquidity at the end of the reserve maintenance period. The ECB had allotted ample liquidity in the last main refinancing operation of the reserve maintenance period. This was felt to be appropriate in view of the development of autonomous factors

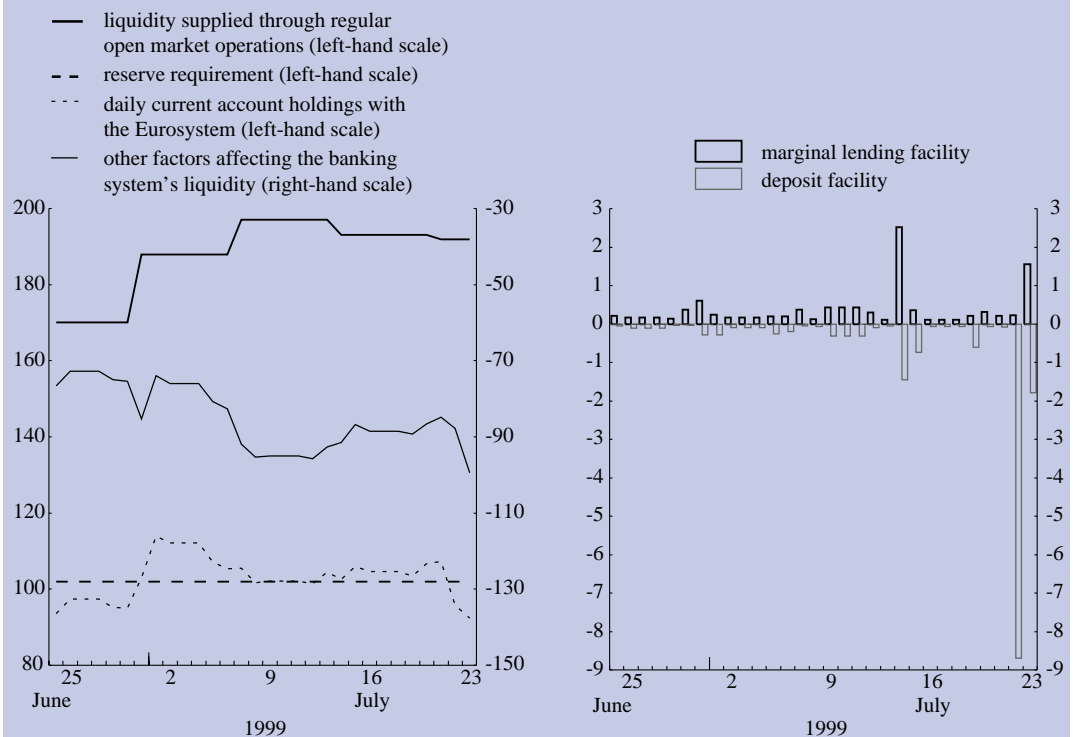
at the beginning of the subsequent reserve maintenance period and also taking into account the relatively high level of overnight interest rates.

### Liquidity factors not related to monetary policy

The net liquidity-absorbing impact of the autonomous factors (i.e. the factors not related to monetary policy) on the banking system's liquidity (item (b) in the table above) was, on average, €84.9 billion, i.e. €10.1 billion more than during the previous reserve maintenance period. The sum of the autonomous factors fluctuated between €72.7 billion and €99.3 billion. The main reasons for the higher level of autonomous factors were the seasonal increase in banknotes in circulation, which amounted to €5.1 billion on average, and an increase of €5.3 billion in the government deposits held with the Eurosystem.

### Factors contributing to the banking system's liquidity during the sixth 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 sixth reserve maintenance period the average current account holdings amounted to €103.0 billion, while the average reserve requirements stood at €102.0 billion. Thus, compared with the fifth reserve maintenance period, the difference between the average current account holdings and the reserve requirements increased slightly by €0.1 billion to €1.0 billion. Around €0.2 billion of this amount was due to current account holdings not contributing to the fulfilment of reserve requirements, which remained as in the fifth reserve maintenance period. Around €0.8 billion related to excess reserves. The same reason as that illustrated above can be given for the slightly higher excess reserves compared with the previous three reserve maintenance periods (in which they amounted, on average, to €0.7 billion), i.e. resulting from the fact that the reserve maintenance period ended on a Friday.