

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

During the seventh reserve maintenance period, which lasted from 24 July to 23 August 1999, the Eurosystem conducted four main refinancing operations. All main refinancing operations were carried out at a fixed interest rate of 2.5%. The allotted volume varied between €68.0 billion and €76.0 billion. The average total amount of bids submitted to the main refinancing operations increased to €1,414.8 billion, from €1,307.9 billion in the previous reserve maintenance period. The highest amount of bids observed since the beginning of the year was submitted on 18 August with a volume of €1,538.1 billion. As it was felt that the level of the overnight interest rate did not adequately reflect the comfortable liquidity situation, thereby leading to relatively high bids submitted for main refinancing operations, the ECB allotted ample liquidity on 17 August in the last main refinancing operation of the reserve maintenance period. As a consequence, from 18 August onwards there was abundant liquidity in the market, which eventually resulted in correspondingly low overnight interest rates.

The allotment ratios in the main refinancing operations varied in the seventh reserve maintenance period between 4.8% and 5.4%, compared with allotment ratios between 4.3% and 7.4% in the sixth reserve maintenance period. The average number of bidders in the weekly tender operations decreased from 879 in the previous maintenance period to 846.

The Eurosystem conducted a longer-term refinancing operation on 28 July 1999 through a variable rate tender with a pre-announced allotment volume of €15 billion, as previously. A total number of 281 bidders participated in this operation, with a marginal rate of 2.65%.

Contributions to the banking system's liquidity

(EUR billions)

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

	Liquidity providing	Liquidity absorbing	Net contribution
(a) Monetary policy operations of the Eurosystem	195.6	1.0	+194.6
Main refinancing operations	150.1	-	+150.1
Longer-term refinancing operations	45.0	-	+45.0
Standing facilities	0.5	1.0	-0.5
Other operations	0.0	0.0	0.0
(b) Other factors affecting the banking system's liquidity	343.2	434.2	-91.0
Banknotes in circulation	-	344.8	-344.8
Government deposits with the Eurosystem	-	47.3	-47.3
Net foreign assets (including gold)	343.2	-	+ 343.2
Other factors (net)	-	42.1	-42.1
(c) Credit institutions' holdings on current accounts with the Eurosystem (a) + (b)			103.6
(d) Required reserves			102.8

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 slightly from €0.4 billion to €0.5 billion, while the average use of the deposit facility increased

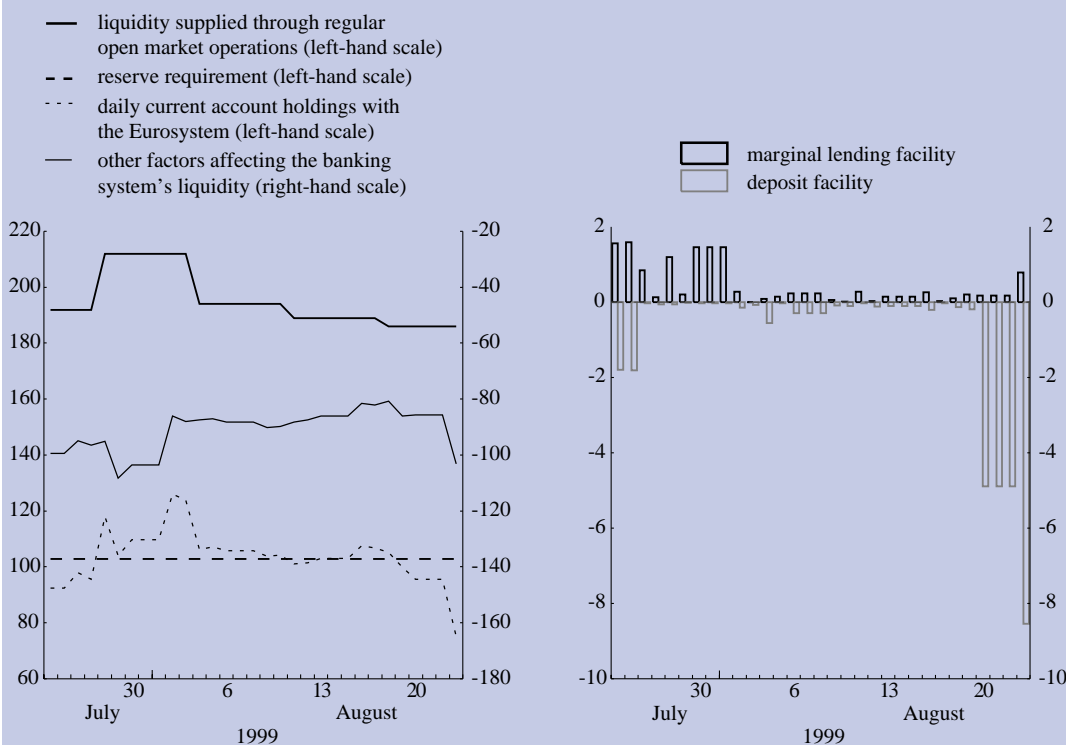
more considerably from €0.6 billion to €1.0 billion. The increased use of the deposit facility is explained mainly by the absorption of excess liquidity through this facility on the last four days of the reserve maintenance period (between Friday, 20 August, and Monday, 23 August) totalling €23.2 billion.

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 €91.0 billion on average, i.e. €6.1 billion higher than in the previous reserve maintenance period. The sum of autonomous factors fluctuated between €80.8 billion and €108.1 billion.

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

(EUR billions; daily data)



Source: ECB.

Current account holdings of counterparties

In the seventh reserve maintenance period the average current account holdings amounted to €103.6 billion, and the reserve requirements to €102.8 billion. Compared with the previous reserve maintenance period, the difference between the average current account holdings and the reserve requirements therefore decreased by €0.2 billion to €0.8 billion. About €0.2 billion of this amount was due to current account holdings not contributing to the fulfilment of reserve requirements. About €0.6 billion was related to excess reserves.