

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

During the eighth reserve maintenance period, which lasted from 24 August to 23 September 1999, the Eurosystem conducted five 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 €61.0 billion and €92.0 billion. The average total amount of bids submitted to the main refinancing operations decreased to €1,193.7 billion, from €1414.8 billion in the previous maintenance period. In particular, on 21 September, in the last main refinancing operation of the period, the amount of bids fell substantially to €660.5 billion, reflecting the ample liquidity conditions prevailing at the end of the maintenance period. This was also reflected in the overnight rates, which fell below the Eurosystem's main refinancing rate during the last week of the period.

The allotment ratios in the main refinancing operations varied between 4.3% and 13.9%, compared with a range of between 4.8% and 5.4% in the seventh maintenance period. The marked increase in the allotment ratio in the last operation mostly reflected the smaller amount of bids referred to above.

The Eurosystem settled a longer-term refinancing operation on 26 August through a variable rate tender with a pre-announced allotment volume of €15 billion, as on previous occasions. A total number of 256 bidders participated in this operation and the total amount of bids was €52.4 billion. The marginal rate was determined at 2.65%.

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

(EUR billions)

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

	<i>Liquidity providing</i>	<i>Liquidity absorbing</i>	<i>Net contribution</i>
<b>(a) Monetary policy operations of the Eurosystem</b>	<b>195.6</b>	<b>0.7</b>	<b>+194.9</b>
Main refinancing operations	150.4	-	+150.4
Longer-term refinancing operations	45.0	-	+45.0
Standing facilities	0.2	0.7	-0.5
Other operations	0.0	0.0	0.0
<b>(b) Other factors affecting the banking system's liquidity</b>	<b>343.5</b>	<b>435.1</b>	<b>-91.6</b>
Banknotes in circulation	-	342.1	-342.1
Government deposits with the Eurosystem	-	51.4	-51.4
Net foreign assets (including gold)	343.5	-	+ 343.5
Other factors (net)	-	41.6	-41.6
<b>(c) Credit institutions' holdings on current accounts with the Eurosystem (a) + (b)</b>			<b>103.3</b>
<b>(d) Required reserves</b>			<b>102.6</b>

Source: ECB.

Totals may not add up due to rounding.

**Use of standing facilities**

Compared with the previous reserve maintenance period, the use of both standing facilities declined by €0.3 billion on average. The average use of the marginal lending facility decreased from €0.5 billion to only €0.2 billion, while the average use of the deposit facility decreased from €1.0 billion to €0.7 billion. Most of the

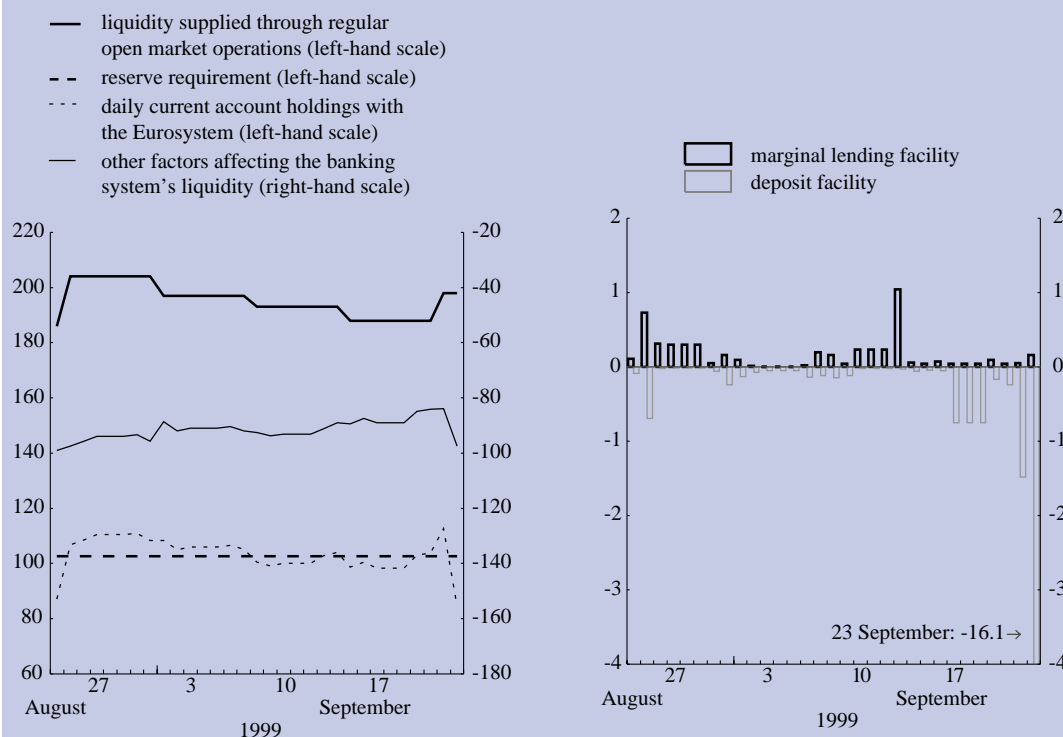
use of the deposit facility is explained by the absorption of excess liquidity through this facility on the last day of the reserve maintenance period, amounting to €16.1 billion.

### 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 €91.6 billion on average, i.e. €0.6 billion more than in the previous maintenance period. The sum of autonomous factors fluctuated between €83.9 billion and €98.9 billion, showing somewhat lower volatility than in the previous period.

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

(EUR billions; daily data)



Source: ECB.

### Current account holdings of counterparties

In the eighth reserve maintenance period the average current account holdings amounted to €103.3 billion, and the reserve requirements to €102.6 billion. Compared with the previous reserve maintenance period, the difference between the average current account holdings and the reserve requirements therefore decreased by almost €0.2 billion to less than €0.7 billion. About €0.2 billion of this amount was due to current account holdings not contributing to the fulfilment of reserve requirements as was the case in the previous maintenance period. Approximately €0.5 billion was instead related to excess reserves. This is the lowest amount of excess reserves observed so far. In fact, before the eighth maintenance period, the average amount of excess reserves since the start of Stage Three has been close to €0.7 billion. However, it is too early to state whether the observed reduction in the amount of excess reserves is of a permanent or temporary nature.