

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

During the tenth reserve maintenance period, which lasted from 24 October to 23 November 1999, the Eurosystem conducted five main refinancing operations and one longer-term refinancing operation. While the first two of the main refinancing operations (allotted on 27 October and 2 November) were carried out at a fixed interest rate of 2.50%, the following three (allotted on 9, 16 and 23 November) were conducted at a rate of 3.00%, the change in rates having been announced on 4 November. The allotted volume varied between €66.0 billion and €74.0 billion. The amount of bids submitted to the main refinancing operations increased to a new record of €2,344 billion in the last operation conducted at 2.50% and then fell significantly to €405 billion in the first operation conducted at 3.00%. The record volume of bids in the operation of 3 November reflected attempts by credit institutions to frontload their fulfilment of reserve requirements in an environment of expectations of an increase in ECB interest rates. The average amount of bids submitted to the main refinancing operation decreased to €1,171.7 billion, from €1,244.9 billion in the previous maintenance period.

The allotment ratios in the main refinancing operations varied between 2.8% and 18.3%, compared with a narrower range of between 3.9% and 6.8% in the preceding maintenance period. The considerable volatility of bids and allotment ratios was due to the above-mentioned expectations of a rate increase in the first half of the maintenance period, and the disappearance of such expectations once the increase in rates had taken place. The surge in expectations of a rate increase also contributed to explaining the fluctuations in the EONIA rate within the maintenance period. On the last day of the maintenance period a moderate liquidity shortage had to be filled by recourse to the marginal lending facility, and the EONIA rate climbed to 3.11%. The Eurosystem conducted a longer-term refinancing operation on 27 October through a variable rate tender with a pre-announced allotment volume of €25 billion, which was €10 billion higher than for previous operations of this type. The increased amount, which is also to be applied to the longer-term refinancing operations on 24 November and 22 December, takes into account the intention of the ECB to contribute to a smooth transition to the year 2000. A total number of 313 bidders participated in this operation and the total amount of bids was €74.4 billion. The marginal rate was set at 3.19%, while the weighted rate was 3.42%. The spread between the two rates was much higher than in all previous longer-term refinancing operations conducted through the multiple rate procedures, in which it had amounted to 1 basis point. The exceptional dispersion of successful bids was due to the fact that the maturity of the operation included the transition to the year 2000 for

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

Daily average during the reserve maintenance period from 24 October to 23 November 1999

	<i>Liquidity providing</i>	<i>Liquidity absorbing</i>	<i>Net contribution</i>
(a) Monetary policy operations of the Eurosystem	194.7	0.4	+ 194.3
Main refinancing operations	140.6	-	+ 140.6
Longer-term refinancing operations	53.7	-	+ 53.7
Standing facilities	0.4	0.4	0.0
Other operations	0.0	0.0	0.0
(b) Other factors affecting the banking system's liquidity	351.8	442.0	- 90.2
Banknotes in circulation	-	343.1	- 343.1
Government deposits with the Eurosystem	-	51.5	-51.5
Net foreign assets (including gold)	351.8	-	+ 351.8
Other factors (net)	-	47.4	- 47.4
(c) Credit institutions' holdings on current accounts with the Eurosystem (a) + (b)			104.1
(d) Required reserves			103.4

*Source: ECB.**Totals may not add up due to rounding.*

the first time, which implied a considerable heterogeneity with regard to the willingness to bid, as well as with regard to expectations concerning the marginal rate.

Use of standing facilities

The average recourse to the two standing facilities amounted to €0.4 billion each. The biggest use was observed on the first and last days of the maintenance period. The first day of the maintenance period was a Sunday, such that the recourse at the end of the previous maintenance period was still relevant. On 23 November 1999 a net amount of €2.8 billion was absorbed through use of the marginal lending facility amounting to €3.5 billion and use of the deposit facility amounting to €0.7 billion. Compared with previous ends of reserve maintenance periods, the total use of standing facilities was rather low, reflecting a relatively balanced liquidity situation.

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 €90.2 billion on average, i.e. €6.0 billion more than in the previous maintenance period, explained mainly by increased deposits by governments. The sum of autonomous factors fluctuated between €72.6 billion and €105.4 billion, again reflecting the volatility of government deposits.

Current account holdings of counterparties

In the tenth reserve maintenance period, the average current account holdings amounted to €104.1 billion, and the reserve requirements to €103.4 billion. The difference between the average current account holdings and the reserve requirements remained at €0.7 billion, the same level as in the previous reserve maintenance period. Again, around €0.2 billion of this amount was due to current account holdings not contributing to the fulfilment of reserve requirements and €0.5 billion was related to excess reserves.

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

(EUR billions; daily data)

