

Box 2**Monetary policy operations and liquidity conditions in the reserve maintenance period ending on 23 December 1999****Allotments in monetary policy operations**

During the reserve maintenance period which lasted from 24 November to 23 December 1999, the Eurosystem conducted four main refinancing operations and two longer-term refinancing operations. The main refinancing operations were all conducted at a fixed interest rate of 3.00%. The allotted volume varied between €57.0 billion and €92.0 billion. The amounts of bids submitted to the main refinancing operations ranged between €287 billion and €1,505 billion; the latter amount was related to the operation conducted on 22 December 1999, the first main refinancing operation maturing in 2000. The average amount of bids submitted to a main refinancing operation decreased to €988.1 billion, from €1,171.7 billion in the previous maintenance period. The allotment ratios in the main refinancing operations varied between 6.1% and 19.9% compared with a range of 2.8% to 18.3% in the preceding maintenance period.

With the exception of a few days, the EONIA rate fluctuated smoothly around the main refinancing rate, as it remained in a range of between 2.97% and 3.07%. On the last three business days of the reserve maintenance period the EONIA rate dropped somewhat, also reflecting the liquidity surplus prevailing at that time.

The Eurosystem conducted longer-term refinancing operations on 24 November and on 22 December 1999. The peculiarity of having two longer-term refinancing operations conducted and settled in one maintenance period was the result of the rescheduling of the allotment of the second operation from 30 December to 22 December 1999, which was made in order to alleviate the working procedures for the financial market participants at the turn of the year. Both operations were conducted by means of a variable rate tender with a pre-announced allotment volume of €25 billion. A total number of 321 bidders participated in the operation of 24 November and 301 bidders participated in the operation of 22 December. The total amount of bids was €75.0 billion and €91.1 billion respectively. The marginal rate was set at 3.18% and 3.26% respectively, while the weighted average rate of allotment was 3.27% and 3.29%. The spread between the marginal rate and the weighted rate narrowed further when compared with the operation conducted on 27 October, when it amounted to 23 basis points, even though it was still higher than the level of 1 basis point observed in earlier longer-term refinancing operations which were maturing before the transition to the year 2000. The narrowing of the spread indicated a reduction in uncertainty associated with the century date change.

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

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

	<i>Liquidity providing</i>	<i>Liquidity absorbing</i>	<i>Net contribution</i>
(a) Monetary policy operations of the Eurosystem	215.7	1.0	+ 214.7
Main refinancing operations	150.4	-	+ 150.4
Longer-term refinancing operations	65.0	-	+ 65.0
Standing facilities	0.3	1.0	- 0.7
Other operations	0.0	0.0	0.0
(b) Other factors affecting the banking system's liquidity	351.7	460.8	- 109.1
Banknotes in circulation	-	354.3	- 354.3
Government deposits with the Eurosystem	-	59.0	-59.0
Net foreign assets (including gold)	351.7	-	+ 351.7
Other factors (net)	-	47.5	- 47.5
(c) Credit institutions' holdings on current accounts with the Eurosystem (a) + (b)			105.6
(d) Required reserves			104.9

Source: ECB.

Totals may not add up due to rounding.

Use of standing facilities

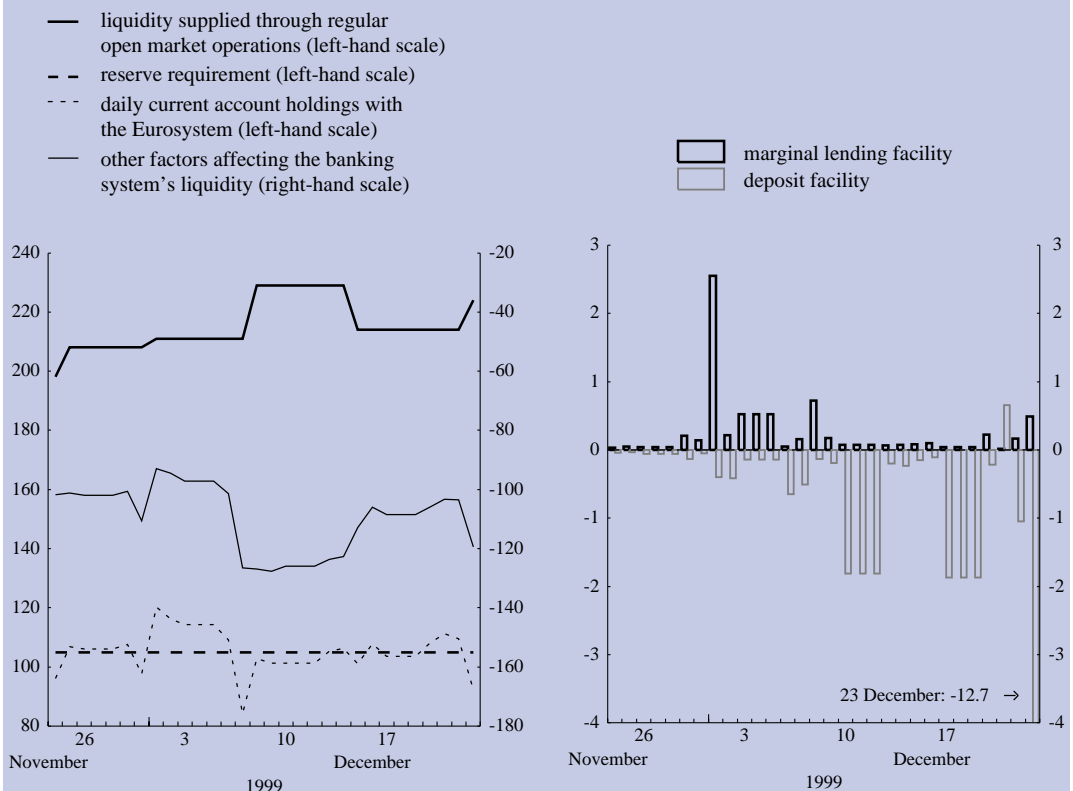
The average recourse to the marginal lending facility amounted to €0.3 billion, i.e. €0.1 billion less than in the previous reserve maintenance period. The average recourse to the deposit facility was €1.0 billion, i.e. €0.6 billion more than in the previous maintenance period. The greatest use of the deposit facility was observed on the last day of the reserve maintenance period, when recourse amounted to €12.7 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 €109.1 billion on average, i.e. €18.9 billion more than in the previous reserve maintenance period. This is mainly explained by the seasonal increase in banknotes in circulation, which was over €11 billion higher on average than in the previous maintenance period. In addition, government deposits were €7.5 billion higher on average. The sum of autonomous factors fluctuated between €92.9 billion and €127.7 billion.

Factors contributing to the banking system's liquidity during the reserve maintenance period ending on 23 December 1999

(EUR billions; daily data)



Source: ECB.

Current account holdings of counterparties

The average current account holdings amounted to €105.6 billion and the reserve requirements to €104.9 billion. The difference between the average current account holdings and the reserve requirements therefore amounted again to €0.7 billion, as in the previous reserve maintenance period. About €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.