

**Box 3****Monetary policy operations and liquidity conditions in the reserve maintenance period ending on 23 January 2000****Allotments in monetary policy operations**

The reserve maintenance period from 24 December 1999 to 23 January 2000 was characterised by the special circumstances linked to the transition to the year 2000 and the specific changes introduced as a result of the century date change. As announced by the ECB on 23 September 1999, no main refinancing operation was conducted in the first week of 2000 and no such operation matured during that week. As a consequence, the Eurosystem conducted three main refinancing operations and one fine-tuning operation during this maintenance period. The main refinancing operations were all conducted at a fixed interest rate of 3.00%. The allotted volume varied between €35 billion and €77 billion. The total amounts of the bids submitted for the main refinancing operations ranged between €486 billion and €1,146 billion, while the average amount was €849 billion, compared with €988 billion in the previous reserve maintenance period. The allotment ratios varied between 3.8% and 14.4%, i.e. they were somewhat lower than in the preceding reserve maintenance period, when the range was between 6.1% and 19.9%.

As the transition to the year 2000 went smoothly, the ECB decided to adjust the ample liquidity situation which had arisen owing to, on the one hand, the ECB's commitment to preventing liquidity constraints from occurring during the transition, and, on the other, the substantial expansion of liquidity created by banks' heavy recourse to the marginal lending facility on 30 December 1999 and a large decrease in the autonomous factors at the beginning of 2000. On 5 January 2000 the ECB conducted a liquidity-absorbing fine-tuning operation maturing on 12 January 2000 by means of the collection of fixed-term deposits in a variable rate quick tender with a pre-announced maximum bid rate of 3.00%. While the announcement was for an intended allotment amount of €33 billion, the bids amounted to €14.4 billion. Of the 210 eligible counterparties, 43 participated in the fine-tuning operation.

With the exception of the last business day of the year, the EONIA rate fluctuated between 2.85% and 3.15%. On 30 December 1999 the rate peaked at 3.75%, reflecting, inter alia, banks' concerns with regard to the transition to the year 2000. However, the peak rate turned out to be more moderate than money market participants had expected and on 4 January 2000 the rate fell to 3.01%.

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

Daily average during the reserve maintenance period from 24 December 1999 to 23 January 2000

	<i>Liquidity providing</i>	<i>Liquidity absorbing</i>	<i>Net contribution</i>
<b>(a) Monetary policy operations of the Eurosystem</b>	<b>215.5</b>	<b>3.8</b>	<b>+ 211.7</b>
Main refinancing operations	138.5	-	+ 138.5
Longer-term refinancing operations	75.0	-	+ 75.0
Standing facilities	1.9	0.5	+1.4
Other operations	0.0	3.3	-3.3
<b>(b) Other factors affecting the banking system's liquidity</b>	<b>362.3</b>	<b>465.3</b>	<b>- 103.0</b>
Banknotes in circulation	-	363.0	- 363.0
Government deposits with the Eurosystem	-	41.0	-41.0
Net foreign assets (including gold)	362.3	-	+ 362.3
Other factors (net)	-	61.2	- 61.2
<b>(c) Credit institutions' holdings on current accounts with the Eurosystem (a) + (b)</b>			<b>108.7</b>
<b>(d) Required reserves</b>			<b>107.7</b>

*Source: ECB.**Totals may not add up due to rounding.***Use of standing facilities**

The average recourse to the marginal lending facility amounted to €1.9 billion, i.e. €1.6 billion more than in the previous reserve maintenance period. Greatest use was made of the facility over the year-end, to a large

extent reflecting the special circumstances of the transition to the year 2000. In addition to this, liquidity was scarcer than expected at the end of the period because excess reserves turned out to be higher than usual. The average recourse to the deposit facility was €0.5 billion, i.e. €0.5 billion less than in the previous reserve maintenance period.

### Liquidity factors not related to monetary policy

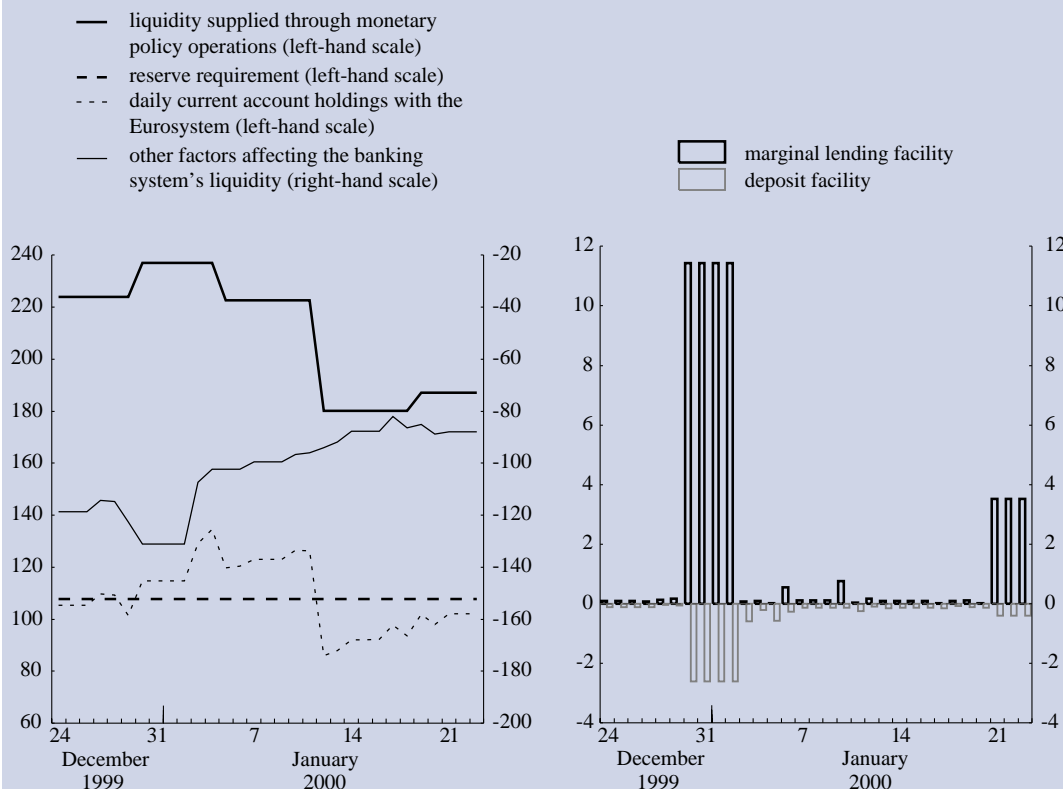
The net liquidity-absorbing impact of the autonomous factors (i.e. the factors not related to monetary policy) on the banking system's liquidity (item (b) in the table above) was €103 billion on average, i.e. €6.1 billion less than in the previous reserve maintenance period. The main factors affecting this outcome were a decrease in net government deposits, which were €18 billion lower, and an increase in the amount of banknotes in circulation, which was €8.7 billion higher, on average, than in the previous reserve maintenance period. The increase of almost €11 billion in net foreign assets was mainly the result of a revaluation at the end of the year, which was also reflected in the "other factors" item. The sum of autonomous factors fluctuated between €82.1 billion and €131.0 billion.

### Current account holdings of counterparties

The average current account holdings amounted to €108.7 billion and the reserve requirements to €107.7 billion. The difference between the average current account holdings and the reserve requirements therefore amounted to €1.0 billion, which was €0.3 billion more than in the previous reserve maintenance period. Around €0.2 billion of this amount was a result of current account holdings not contributing to the fulfilment of reserve requirements, and €0.8 billion was related to excess reserves. The higher than usual amount of excess reserves was related in part to the hoarding of liquidity by banks over the year-end.

### Factors contributing to the banking system's liquidity during the maintenance period ending on 23 January 2000

(EUR billions; daily data)



Source: ECB.