

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

During the reserve maintenance period from 24 January to 23 February 2000 the Eurosystem conducted five main refinancing operations and one longer-term refinancing operation. The first two main refinancing operations were carried out at a fixed interest rate of 3.00%, while the other three were conducted at an interest rate of 3.25% following the decision taken on 3 February 2000 to raise ECB interest rates. The allotted volume varied between €59 billion and €69 billion. The amounts of the bids submitted for the main refinancing operations ranged between €1,023 billion and €3,013 billion, while the average amount was €1,744 billion, compared with €849 billion in the previous reserve maintenance period. The highest amount of bids was observed on 1 February 2000, reflecting expectations of an increase in the main refinancing rate within the same maintenance period. As a result, the allotment ratio in that operation fell to 2.06%. On 8 February, following the increase in ECB interest rates, the amount of bids returned to a normal level. Throughout the reserve maintenance period the allotment ratios varied between 2.06% and 6.37%, compared with a range of between 3.83% and 14.41% in the previous reserve maintenance period.

The Eurosystem conducted a longer-term refinancing operation on 26 January through a variable rate tender with an allotment volume of €20 billion, i.e. €5 billion less than in the previous such operation, as already announced on 20 January 2000. A total of 354 bidders participated in the operation and bid a total amount of €87 billion, the highest level of participation observed to date in such operations. The high level of participation might have reflected the increased expectations of an interest rate change before 3 February. The marginal rate was calculated at 3.28% and the average rate at 3.30%, thus indicating that the spread between the two had come back to a normal level after having been higher in the three operations bridging the transition to the year 2000.

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

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

	<i>Liquidity providing</i>	<i>Liquidity absorbing</i>	<i>Net contribution</i>
<b>(a) Monetary policy operations of the Eurosystem</b>	<b>201.5</b>	<b>0.2</b>	<b>+ 201.3</b>
Main refinancing operations	130.9	-	+ 130.9
Longer-term refinancing operations	70.5	-	+ 70.5
Standing facilities	0.1	0.2	-0.1
Other operations	0.0	0.0	0.0
<b>(b) Other factors affecting the banking system's liquidity</b>	<b>367.8</b>	<b>461.0</b>	<b>- 93.2</b>
Banknotes in circulation	-	347.6	- 347.6
Government deposits with the Eurosystem	-	49.2	-49.2
Net foreign assets (including gold)	367.8	-	+ 367.8
Other factors (net)	-	64.2	- 64.2
<b>(c) Credit institutions' holdings on current accounts with the Eurosystem (a) + (b)</b>			<b>108.1</b>
<b>(d) Required reserves</b>			<b>107.5</b>

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

The reserve maintenance period started with overnight interest rates, as measured by the EONIA, ranging from 3.06% to 3.11%. From 28 January 2000 the EONIA rate rose to 3.3%, reflecting increased expectations of a rate increase, but stabilised after the announcement of the ECB interest rate decision by the Governing Council on 3 February. From 4 to 16 February EONIA rates remained remarkably stable, not deviating by more than 1 basis point from the new main refinancing rate. Despite a relatively ample liquidity situation, the EONIA rate increased to 3.48% on the last day of the reserve maintenance period.

### Use of standing facilities

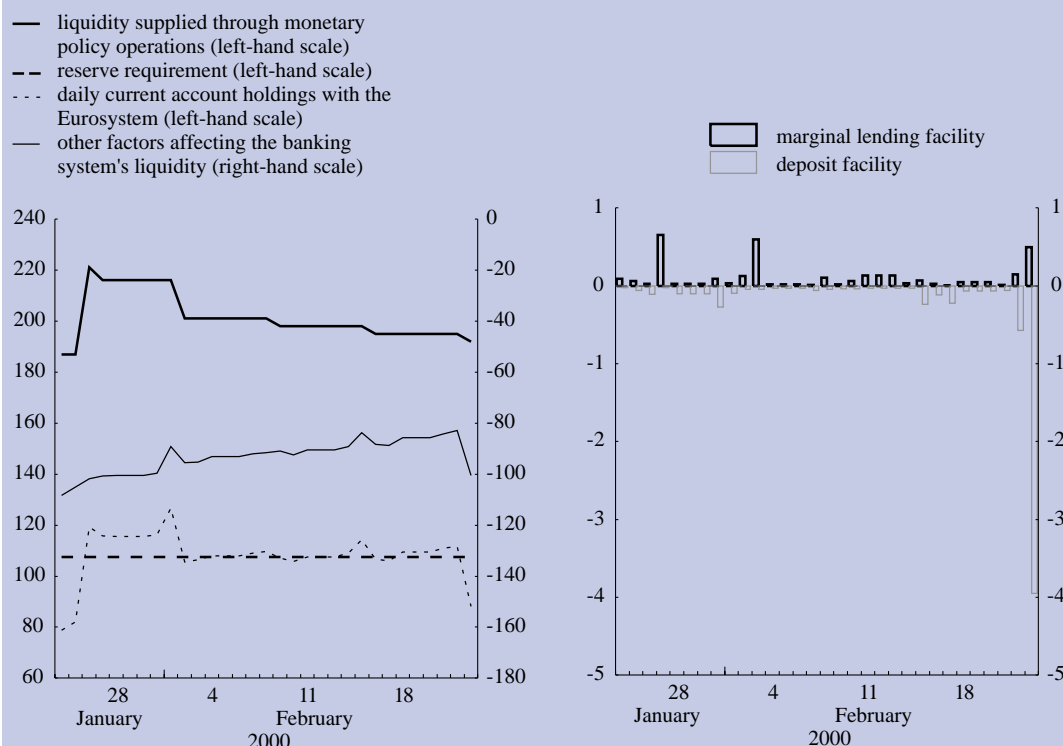
Recourse to the standing facilities was rather low in the period under review, with the exception of the last day. The average recourse to the marginal lending facility amounted to €0.1 billion, i.e. €1.8 billion less than in the previous reserve maintenance period. The average recourse to the deposit facility was €0.2 billion, i.e. €0.3 billion less than in the previous reserve maintenance period. On the last day of the period the use of the deposit facility amounted to €4.0 billion, while the use of the marginal lending facility amounted to €0.5 billion, reflecting the relatively ample liquidity conditions.

### 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 €93.2 billion on average, i.e. €9.8 billion less than in the previous reserve maintenance period. This was mainly the result of increased government deposits (€8.2 billion) and a decrease in banknotes in circulation (€15.4 billion). The total value of the autonomous factors fluctuated between €78.7 billion and €126.7 billion.

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

(EUR billions; daily data)



Source: ECB.

### **Current account holdings of counterparties**

The average current account holdings amounted to €108.1 billion and the reserve requirements to €107.5 billion. The difference between the average current account holdings and the reserve requirements therefore decreased from €1.0 billion in the previous reserve maintenance period to €0.6 billion. Around €0.1 billion of this amount can be explained by current account holdings not contributing to the fulfilment of reserve requirements, while the remaining amount of €0.5 billion was related to excess reserves.