

**Box 2****Monetary policy operations and liquidity conditions in the reserve maintenance period ending on 23 March 2000****Allotments in monetary policy operations**

During the third reserve maintenance period of this year, which lasted from 24 February to 23 March 2000, the Eurosystem conducted four main refinancing operations and one longer-term refinancing operation. While the first three main refinancing operations (allotted on 29 February, 6 March and 14 March) were carried out at a fixed interest rate of 3.25%, the last (21 March) was conducted at a fixed interest rate of 3.50%, following the decision taken by the Governing Council of the ECB on 16 March 2000 to raise ECB interest rates. The allotted volume ranged between €47 billion and €89 billion. The amounts of the bids submitted for the main refinancing operations varied between €1,628 billion and €4,166 billion, with an average of €2,589 billion, compared with an average bid amount of €1,744 billion in the previous reserve maintenance period. The record volume of bids of €4,166 billion, which was reached in the last operation conducted at a rate of 3.25% (14 March), was the result of strong expectations of an increase in ECB interest rates at the Governing Council meeting on 16 March. The allotment ratios in the main refinancing operations varied between 2.04% and 3.13%, compared with a wider range of 2.06% to 6.37% in the preceding reserve maintenance period.

The Eurosystem conducted a longer-term refinancing operation on 1 March through a variable rate tender with a pre-announced allotment volume of €20 billion. A total number of 336 bidders participated in this operation and the total amount of bids was €73 billion. The marginal rate was calculated at 3.60%, while the average rate was 3.61%.

At the beginning of the reserve maintenance period the EONIA remained well above the main refinancing operation rate, fluctuating in a range from 3.34% to 3.47%. This mainly reflected a combination of expectations of an increase in ECB interest rates within the same reserve maintenance period and the accumulation of a relatively large liquidity deficit. Expectations of an interest rate increase decreased temporarily after the Governing Council meeting on 2 March, leading to an easing of the EONIA on the following day to 3.28% – the lowest level reached in the period under review. In the following week the EONIA increased again steadily

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

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

	<i>Liquidity providing</i>	<i>Liquidity absorbing</i>	<i>Net contribution</i>
<b>(a) Monetary policy operations of the Eurosystem</b>	<b>202.5</b>	<b>0.3</b>	<b>+ 202.2</b>
Main refinancing operations	136.1	-	+ 136.1
Longer-term refinancing operations	66.2	-	+ 66.2
Standing facilities	0.2	0.3	-0.1
Other operations	0.0	0.0	0.0
<b>(b) Other factors affecting the banking system's liquidity</b>	<b>369.2</b>	<b>462.8</b>	<b>- 93.6</b>
Banknotes in circulation	-	347.6	- 347.6
Government deposits with the Eurosystem	-	51.7	-51.7
Net foreign assets (including gold)	369.2	-	+ 369.2
Other factors (net)	-	63.5	- 63.5
<b>(c) Credit institutions' holdings on current accounts with the Eurosystem (a) + (b)</b>			<b>108.6</b>
<b>(d) Required reserves</b>			<b>108.0</b>

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

to reach 3.52% on Friday 10 March, and subsequently remained at around this level. This increase again reflected both heightened expectations on the part of market participants of a rate rise which would come into effect within the reserve maintenance period and, after the decision taken by the Governing Council at its meeting on 16 March, the effective new level of ECB interest rates. The EONIA reached its peak (3.86%) on the last day of the reserve maintenance period, despite a final net liquidity surplus. The discrepancy between rates and the liquidity situation might be explained by an uneven distribution of liquidity between credit institutions, exacerbated by adjustments at the end of the reserve maintenance period.

### Use of standing facilities

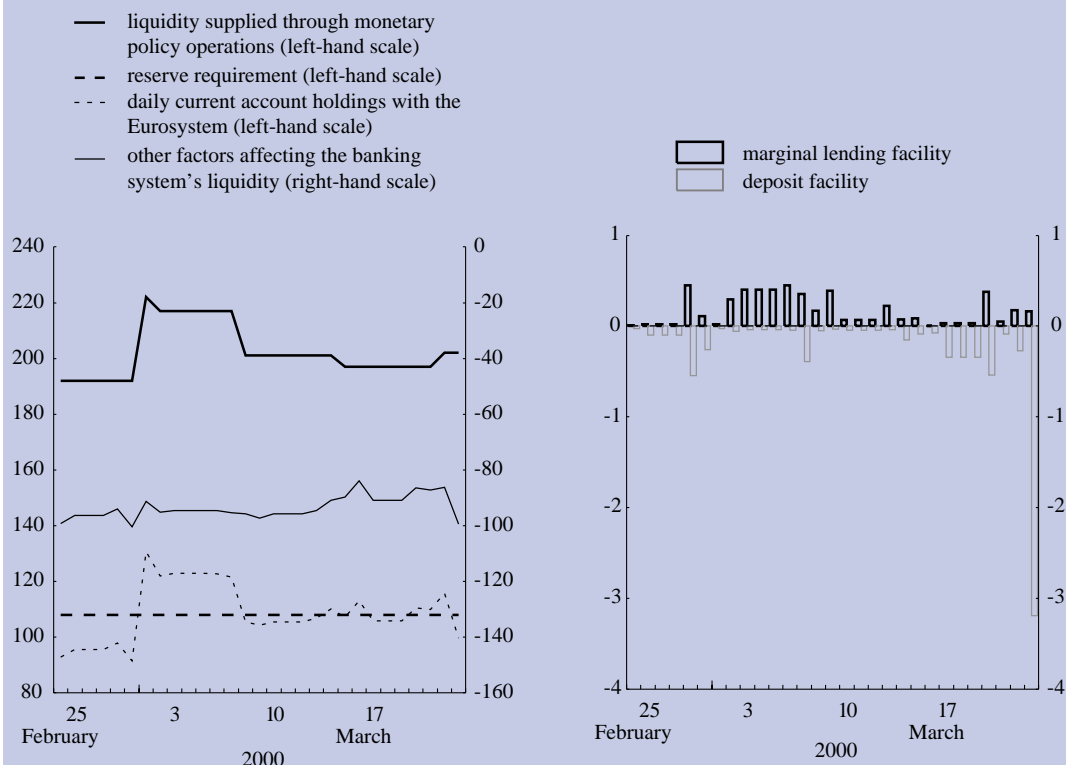
Compared with the previous reserve maintenance period, the average use of the marginal lending facility increased from €0.1 billion to €0.2 billion, while the average use of the deposit facility increased from €0.2 billion to €0.3 billion. On the last day of the reserve maintenance period recourse to the deposit facility amounted to €3.2 billion, while the use of the marginal lending facility was €0.2 billion. Hence there was a net liquidity absorption through the use of the standing facilities of €3.0 billion on that day.

### 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 €93.6 billion on average, i.e. €0.4 billion more than in the previous reserve maintenance period. This was mainly the result of increased government deposits. The sum of autonomous factors fluctuated between €83.9 billion and €100.4 billion, showing slightly lower volatility than in the previous reserve maintenance period.

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

(EUR billions; daily data)



Source: ECB.

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

The average current account holdings amounted to €108.6 billion, and reserve requirements to €108.0 billion. The difference between the average current account holdings and the reserve requirements thus amounted to €0.6 billion. Around €0.2 billion of this amount was related to current account holdings not contributing to the fulfilment of reserve requirements, and €0.4 billion to excess reserves.