

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

During the fifth reserve maintenance period of this year, which ran from 24 April to 23 May 2000, the Eurosystem settled four main refinancing operations and one longer-term refinancing operation. The first main refinancing operation was carried out at a fixed interest rate of 3.50%, while the other three were carried out at a fixed interest rate of 3.75%, following the decision of the Governing Council on 27 April 2000 to raise ECB interest rates. The allotted volumes ranged between €64 billion and €89 billion. The amounts of bids submitted for the main refinancing operations varied between €4,625 billion and €6,574 billion, with an average of €5,761 billion, compared with an average bid amount of €3,615 billion in the previous reserve maintenance period. The further increase in the bid amounts submitted can be explained by strong interest rate expectations, as reflected, for example, in the spread between the two-week interbank deposit rate and the main refinancing rate. The allotment ratios in the main refinancing operations varied between 1.00% and 1.62%, compared with a range of between 1.36% and 2.94% in the preceding reserve maintenance period.

The Eurosystem settled a longer-term refinancing operation on 27 April through a variable rate tender with a pre-announced allotment volume of €20 billion. A total number of 326 bidders participated in this operation and the total amount of bids was €64 billion. The marginal rate was determined at 4.00%, while the average rate was 4.01%.

The EONIA remained above the main refinancing rate throughout the entire reserve maintenance period, with the exception of the last two days. For most of the reserve maintenance period the liquidity situation was relatively ample; however, on Friday 28 April one bank had to have recourse to the deposit facility for €10 billion over the long weekend including 1 May, resulting in an unexpected liquidity withdrawal of more than €40 billion in total. Although this incident tightened liquidity conditions around the end of the month, it is difficult to assess whether it had any impact on the EONIA. The main reason for the persistently high positive spread between the EONIA and the main refinancing rate, which was 18 basis points on average, was rate hike expectations. On both the penultimate and the last day of the reserve maintenance period the EONIA dropped, to 3.49% and 2.90% respectively, reflecting abundant liquidity.

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

Daily average during the reserve maintenance period from 24 April to 23 May 2000

	<i>Liquidity providing</i>	<i>Liquidity absorbing</i>	<i>Net contribution</i>
<b>(a) Monetary policy operations of the Eurosystem</b>	<b>203.0</b>	<b>2.3</b>	<b>+ 200.7</b>
Main refinancing operations	142.6	-	+ 142.6
Longer-term refinancing operations	60.0	-	+ 60.0
Standing facilities	0.4	2.3	- 1.9
Other operations	0.0	0.0	0.0
<b>(b) Other factors affecting the banking system's liquidity</b>	<b>378.8</b>	<b>467.5</b>	<b>- 88.7</b>
Banknotes in circulation	-	353.8	- 353.8
Government deposits with the Eurosystem	-	41.9	- 41.9
Net foreign assets (including gold)	378.8	-	+ 378.8
Other factors (net)	-	71.8	- 71.8
<b>(c) Credit institutions' holdings on current accounts with the Eurosystem (a) + (b)</b>			<b>112.0</b>
<b>(d) Required reserves</b>			<b>111.3</b>

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

### Use of standing facilities

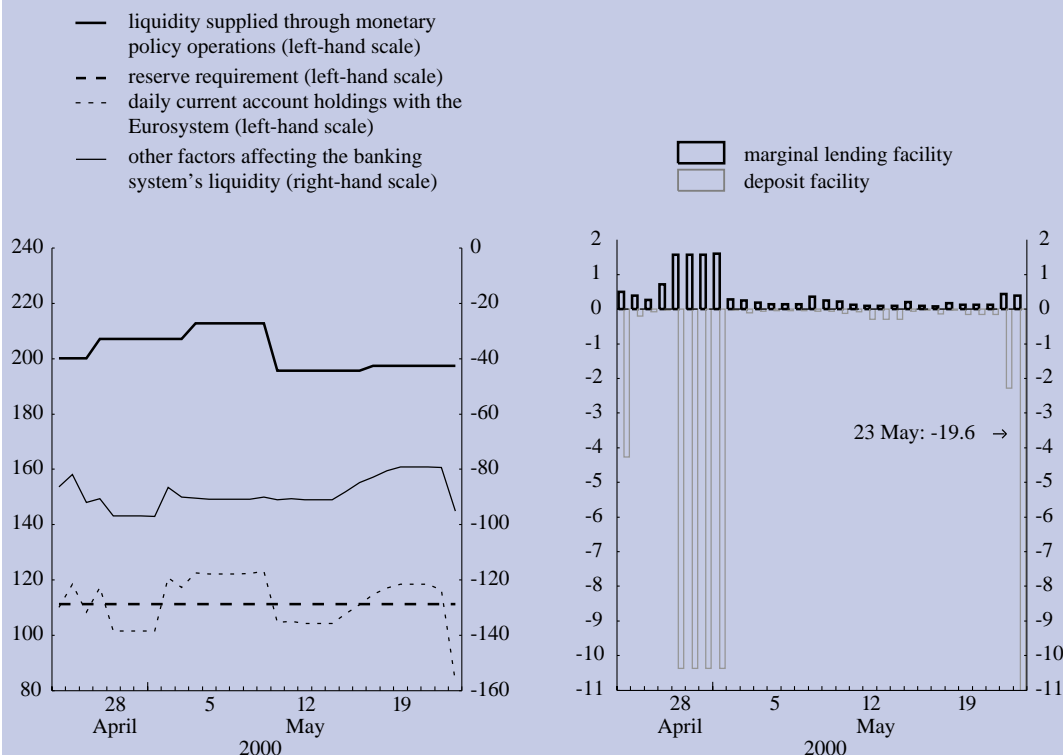
Compared with the previous reserve maintenance period, the average use of the marginal lending facility increased by €0.2 billion to €0.4 billion, while the average use of the deposit facility increased from €0.9 billion to €2.3 billion. The large increase in the use of the deposit facility was due to two factors: first, as mentioned above, there was exceptional recourse to the deposit facility by one bank because of technical problems and, second, recourse to the deposit facility was €19.6 billion on 23 May, the last day of the 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 €88.7 billion on average, i.e. €1.4 billion more than in the previous reserve maintenance period. This was mainly due to an increase in the amount of banknotes in circulation, the liquidity-absorbing impact of which was compensated in part by a decrease in net government deposits. On a daily basis, the sum of autonomous factors fluctuated between €79.1 billion and €96.9 billion.

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

(EUR billions; daily data)



Source: ECB.

### Current account holdings of counterparties

The average current account holdings amounted to €112.0 billion, and reserve requirements to €111.3 billion. The difference between the two therefore amounted to €0.7 billion. Around €0.2 billion of this amount was linked to current account holdings not contributing to the fulfilment of reserve requirements, and €0.5 billion was related to excess reserves. The latter were €0.3 billion lower than in the previous period, thus returning to their earlier level.