

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

During the reserve maintenance period which ran from 24 May to 23 June 2000, the Eurosystem settled four main refinancing operations, one fine-tuning operation and one longer-term refinancing operation. The first two main refinancing operations were carried out at a fixed interest rate of 3.75%, while the other two were carried out at a fixed interest rate of 4.25%. The allotted volumes ranged between €62.0 billion and €78.3 billion. The amounts of bids submitted for the main refinancing operations varied between €1,868 billion and €8,491 billion, with an average of €5,258 billion, compared with an average bid amount of €5,761 billion in the previous maintenance period. The allotment ratios in the main refinancing operations varied between 0.87% and 3.96%, compared with a range of between 1.00% and 1.62% in the preceding maintenance period. The new record high in terms of total bids submitted and the new record low in the allotment ratio, of 0.87%, can be explained by expectations of a rise in ECB interest rates in the first two weeks of the period under review.

On 21 June 2000 the ECB conducted a liquidity-providing fine-tuning operation, specified as a reverse operation with overnight maturity and conducted as a variable rate tender. The bids amounted to €18.8 billion, while the amount allotted was €7.0 billion. 38 counterparties participated in this operation. The marginal rate was 4.26% and the weighted average rate was 4.28%. Around 83% of the bids were allotted at the marginal rate. The operation aimed at restoring appropriate liquidity conditions after unexpected heavy recourse to the deposit facility of €11.2 billion on 20 June.

The Eurosystem conducted a longer-term refinancing operation on 31 May 2000 through a variable rate tender with a pre-announced allotment volume of €20.0 billion. A total number of 301 bidders participated in this operation and the total amount of bids was €64.3 billion. The marginal rate of the operation was 4.40%, while the weighted average rate was 2 basis points higher, i.e. 4.42%.

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

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

	<i>Liquidity providing</i>	<i>Liquidity absorbing</i>	<i>Net contribution</i>
(a) Monetary policy operations of the Eurosystem	201.3	0.8	+ 200.5
Main refinancing operations	140.9	-	+ 140.9
Longer-term refinancing operations	59.9	-	+ 59.9
Standing facilities	0.3	0.8	- 0.5
Other operations	0.2	0.0	+ 0.2
(b) Other factors affecting the banking system's liquidity	378.1	464.5	- 86.4
Banknotes in circulation	-	354.1	- 354.1
Government deposits with the Eurosystem	-	38.3	- 38.3
Net foreign assets (including gold)	378.1	-	+ 378.1
Other factors (net)	-	72.1	- 72.1
(c) Credit institutions' holdings on current accounts with the Eurosystem (a) + (b)			114.1
(d) Required reserves			113.4

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

The evolution of EONIA in the first two weeks of the period under review was determined by, first, expectations of and, subsequently, the actual increase in ECB rates. Although liquidity conditions were quite comfortable, a substantive spread between the EONIA and the rate on the main refinancing operation prevailed. After the decision of the Governing Council of 8 June to increase ECB rates by 50 basis points, the EONIA rose from 4.06% on Wednesday 7 June to 4.33% on Friday 9 June. From 13 June onwards, the EONIA started to decline steadily to reach a level of 4.21% on Monday 19 June, as a result of increased expectations that the ECB would aim at a smooth ending to the maintenance period. However, the aforementioned liquidity absorption through the large recourse to the deposit facility on 20 June again pushed the EONIA upwards to 4.38% on 21 June. The liquidity injection through the ECB's fine-tuning operation on 21 June allowed rates to come down again in the afternoon, and on the following day (22 June). On Friday 23 June, the last day of the maintenance period, relatively active interbank trading, especially in the afternoon, and the anticipated slight net recourse to the marginal lending facility at the end of the day once again resulted in a higher EONIA of 4.51%.

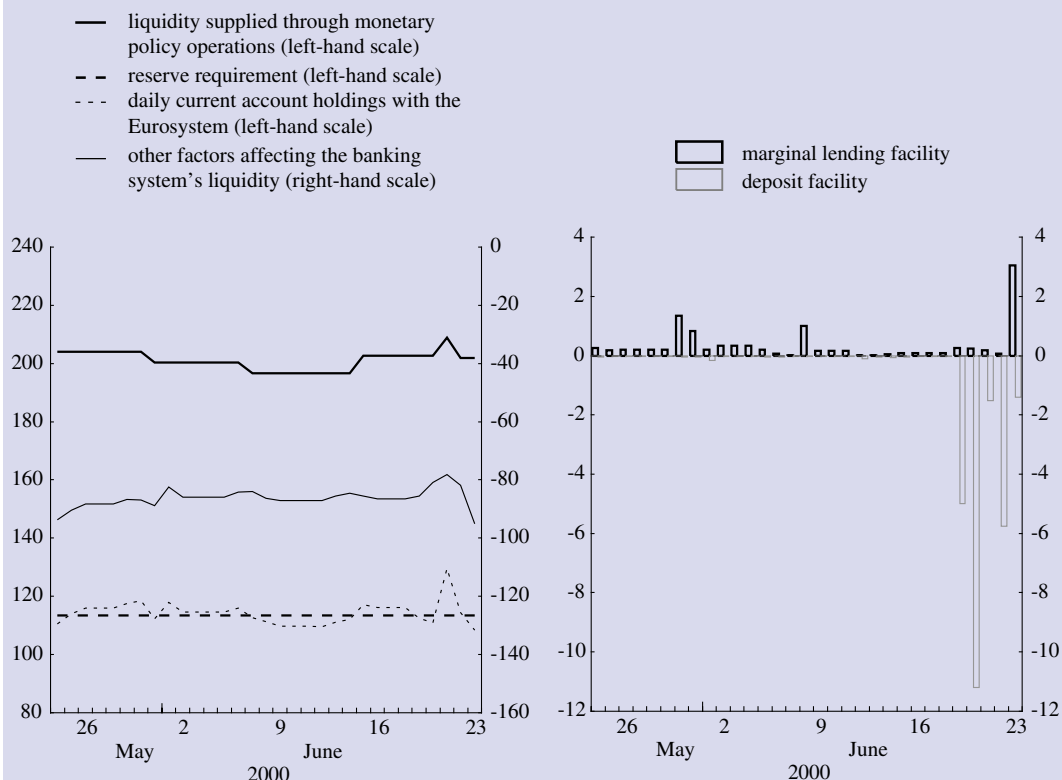
Compared with the previous reserve maintenance period, the average daily use of the marginal lending facility decreased slightly, from €0.4 billion to €0.3 billion, while the average use of the deposit facility decreased from €2.3 billion to €0.8 billion. This latter average was the result of recourse to the deposit facility of close to zero on most days, combined with the exceptionally high recourse on three days.

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 €86.4 billion on average, i.e. €2.3 billion

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

(EUR billions; daily data)



Source: ECB.

less than in the previous maintenance period. This was mainly the result of a decrease in net government deposits. This liquidity-providing effect was partly offset by lower net foreign assets and a slightly higher level of banknotes in circulation. On a day-to-day basis, the sum of autonomous factors fluctuated between €71.1 billion and €95.1 billion.

Current account holdings of counterparties

The average current account holdings amounted to €114.1 billion, and reserve requirements to €113.4 billion. The difference between the two therefore amounted to €0.7 billion. Around €0.2 billion of this amount was related to current account holdings not contributing to the fulfilment of reserve requirements, and €0.5 billion to excess reserves.