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The Monetary Policy of the European System of Central Banks

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EUROPEAN CENTRAL BANK

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1. THE MONETARY POLICY FRAMEWORK

From 1 January 1999, the ECB has executed all its monetary policy and foreign exchange operations in euro: there is a single monetary policy in the same way as there is a single currency. The ESCB, which is a system comprising the national central banks of the countries already participating in EMU and the European Central Bank, behaves like a single central bank. This implies, in particular, that all the instruments of monetary policy are uniform and are used in a uniform way on the basis of decisions taken at the centre.

In order to clarify our thoughts, when speaking about monetary policy, let's refer to the three usual objectives: the ultimate objective, the intermediate objective and the instruments designed to implement the monetary policy in concrete terms.

a) Ultimate objective

As for the ultimate objective, for once things are quite simple: the ultimate objective of the ESCB's monetary policy is enshrined in the Treaty. According to Article 105, the ESCB should have the primary objective of maintaining price stability in monetary union. The logic of the Treaty is clear: it is acknowledged that the best contribution monetary policy can make to high employment and economic growth, let's say to economic welfare, is to maintain price stability. It also has to support the general economic policies of the Community but without prejudice to this primary objective of price stability.

This means that when and once the ECB considers that inflation is not a danger, it may pay more attention to the support of this second objective.

In order to steer the expectations of future price developments, the ECB Council decided in October 1998 to announce a quantitative definition of price stability: "price stability shall be defined as a year-on-year increase of the Harmonised Index of Consumer Prices (HICP) for the euro area of below 2%". This objective is to be maintained over the medium term. Four features of that definition should be highlighted:

- First, it is important to underline that the word "increase" indicates that deflation – persistent fall in price level – is not consistent with price stability.
- Second, the HICP is the most appropriate price measure for the ESCB's definition of price stability. It is the only price index that is sufficiently harmonised across the euro area at the outset of monetary union. It is also rather familiar to the public usually focussing on consumer price indices.
- Third, by defining price stability using the HICP "for the euro area", it is clear that the monetary policy decision is based on monetary, economic and financial developments in the euro area as a whole. It should be emphasised that the single monetary policy adopts a euro area-wide perspective; it does not react to specific regional or national developments.
- Fourth, this definition is very much in line with the definitions that national central banks used in the euro area.

However, even though this final objective has been defined, this is not to say that everything has been done: in particular, the statement that "price stability is to be maintained over the medium term" reflects the need for monetary policy to have forward-looking, medium-term orientation. It also acknowledges the existence of short-term volatility in prices which cannot be controlled by monetary policy.

There are different strategies to reach the price stability target and the ECB had to define its own. The key problem is that the response of inflation to actions taken by central banks follows a complex transmission process which includes a significant time-lag. This means that the current level of inflation is usually an insufficient guide to the stance of monetary policy. Other indicators are needed to provide information on the future evolution of inflation.

b) Strategy and Intermediate target

A first well-known strategy consists in targeting the objective of price stability directly without setting any intermediate target. Such a strategy is followed in the United Kingdom and Sweden, but was also adopted in other countries such as Spain and Finland. In short, the central bank has to draw up a forecast of future price developments on the basis of a model of the economy. If the forecast diverges from the desired objective, then it activates the instruments of monetary policy in order to bring inflation back on target.

One advantage of a direct targeting approach is that monetary policy is very clearly focused on controlling inflation, strengthening the central bank's commitment to price stability. The signal is clear and can affect the public inflation expectations in a favourable way.

On the other hand, as the central bank has to work with leading indicators and rather complex models, it cannot be assumed that the financial markets and the general public always understand what the central bank is doing.

Furthermore, the effectiveness of such a strategy depends first on the reliability of the inflation forecast, which could be inaccurate, or even wrong. This effectiveness will also depend on the predictable, if not stable, nature of the relationship between the instruments of monetary policy available to the central bank and the price level. Actually, the European Central Bank faces a complex transmission process characterised by several channels, each having long and variable legs.

Another monetary policy strategy could consist in setting an intermediate target. In this respect, there are basically two possibilities: exchange rate targeting and monetary aggregate targeting. Exchange rate targeting is the strategy followed for many years by several EU countries as a means of obtaining and maintaining price stability. This approach found particular favour in smaller economies where external influences on inflation were a very important factor. However, for EMU as a whole, which is a relatively large economy with a relatively closed single market compared with those smaller economies, such an approach is less appropriate, since exchange rate targeting may even compromise the autonomy of the ECB in setting interest rates appropriate to domestic conditions. Furthermore, it is not clear which currency could serve as an anchor for the euro. The experience of the 1960s, when lax monetary policies were pursued in the United States, provides a strong warning in this respect.

Thus the ECB does not follow any explicit exchange rate strategy; the USA and Japan do not either. However, the absence of such a target does not imply that the ECB ignores or is indifferent to the exchange rate of the euro vis-à-vis the US $ or the Japanese yen. These exchange rates are monitored carefully and the approach is not to pursue a "benign neglect" policy.

But there is another strategy based on an intermediate objective: the monetary targeting. The fundamental idea underlying the monetary targeting approach is that the principal source of inflation is excessive monetary growth and that by controlling the growth of the money supply, price stability can be achieved.

Monetary targeting has the advantage of indicating the responsibility of the ESCB for developments that are more directly under its control, and could protect the central bank from external pressures. Furthermore, it has been applied with success in several countries, in particular in Germany.

In addition, according to recent research, it seems that money demand is fairly stable at the EU level, which is one condition for making that strategy feasible.

However, the current stability of money demand does not necessarily imply stability of money demand after the beginning of EMU, owing to the continuous process of financial innovation and - more importantly - the very likely financial changes at the start of EMU.

At this stage, there is no robust evidence that the economic relations we observed in the past will continue to be true in the future.

However, the differences between monetary targeting and direct inflation targeting should not be overestimated: no central bank, even one implementing a direct targeting approach, can give up methodically monitoring the growth of the money supply and, on the other hand, the designation of a given monetary aggregate as an intermediate target does not imply the automatic pursuit of this target in the short term, and in no way excludes taking other considerations and indicators into account.

In fact, the choice of monetary policy strategy may in some cases represent not so much a choice between economic theories, but rather the choice of the best way to present the rather complex policy followed by the central bank to the public in a clear and consistent way.

After long discussions and on the basis of many studies carried out by the ECB and the NCBs, the Governing Council adopted, in October 1998, its strategy. Actually the ECB pursues a stability-oriented strategy founded on two pillars:

- First, money will be assigned a prominent role: the ECB announced a quantitative "reference value" for the growth of a broad monetary aggregate: an annual rate of growth of M3 of 4½ is a first reference value. There is a lot of empirical evidence that, in the euro area, a broad monetary aggregate has a stable long-term relationship with prices, and that it has good leading indicator properties for future price developments.

  Deviations of current monetary growth from the reference value would, under normal circumstances, signal risks to price stability. However, the concept of a reference value does not imply a commitment on the part of the ESCB to mechanistically correct deviations of monetary growth from the reference value over the short term. Indeed, there is a wide consensus that inflation is a monetary phenomenon in the medium and long-term, not in the short-term.

- However, although inflation is largely a monetary phenomenon in the medium and long-term, many other variables contain information about future price developments.

  The ECB thus uses a broad range of indicators in order to assess the outlook for price developments and the risks to price stability. For example, the set of indicators includes, among others, the output gap, the wages, asset prices, import prices, etc.

  Among these international indicators, the exchange rate of the euro also plays an important role.

In view of that strategy, the ECB regularly informs the public about its assessment of the prevailing economic, monetary and financial conditions as well as specific monetary policy decisions. This takes place through a wide range of publications, press conferences and speeches intended for both the general public and a professional audience.

Furthermore, the European Parliament received annual and monthly reports, and discusses with the ECB President in the relevant committee four times a year.

In addition, the President is invited to attend the meetings of the Council of European Ministers of Finance (ECOFIN) whenever issues of relevance to the ECB tasks come up for discussion. He also attends the so-called informal euro-11 Council. On the other hand, the President of the Council of Ministers and a member of the European Commission may participate, without having the right to vote, in the meetings of the ECB Governing Council.

2. THE INSTRUMENTS FRAMEWORK

The ultimate target is maintaining price stability, while the strategy relies on the prominent role played by the reference aggregate, complemented by a broadly-based assessment of the outlook for area-wide price developments.

Now let's turn to the proximate target or the concrete instruments of monetary policy.

The central banks agreed a long time ago that the "proximate" target of the single monetary policy should rely on one or more money market interest rates, and that the ECB should use open market operations as the main instrument of this policy. There is clearly a consensus on these points which reflects the desire of the central banks to gear the day-to-day conduct of monetary policy to the market and to use the market as the principal means of allocating the funds provided by the central bank.

The ECB's monetary policy framework is extremely rich: a wide range of instruments is potentially available. This simply reflects the experience of the 15 NCBs that have, together with the EMI (European Monetary Institute), contributed to the elaboration of the ECB monetary policy framework.

Let's first describe the instruments available, then the actual implementation.

a) Open Market Instruments

As already hinted, open market operations play a major role in the conduct of monetary policy. They are flexible, market-oriented, can perform signalling functions, and can also be used for managing the liquidity situation, i.e. influencing banks' structural liquidity positions. The ESCB has a wide range of instruments available for the conduct of open market operations: *reverse transactions* (on the basis of repurchase agreements or collateralised loans), *outright transactions, the issuance of debt certificates, foreign exchange swaps* and *the collection of fixed-term deposits.*

With regard to their aim, regularity and procedures, the ESCB's open market operations can be divided into four categories:

- First, the *main refinancing operations* [MRO] are regular liquidity-providing reverse transactions, with a weekly frequency and a maturity of two weeks. These operations are executed by the ESCB on the basis of standard tenders. (As for the procedures, they will be addressed later in this paper.)

  The main refinancing operations provide the bulk of refinancing to the financial sector, and these operations are used to steer the money market interest rates and signal the stance of monetary policy.

- In addition to this main instrument, the ESCB conducts *longer term refinancing operations* [LTRO], which are liquidity-providing reverse transactions, with a monthly frequency and a maturity of three months. These operations aim to provide counterparties with additional longer-term refinancing and are also executed by the ESCB on the basis of standard tenders. Let's mention that they only provide a limited part of the global refinancing, and are, as a rule, not conducted with the intention of sending signals to the market or guiding market interest rates. This facility is designed to replicate one feature of the traditional rediscount window, which in itself is not part of the framework, namely the possibility of obtaining central bank funds at a fixed rate for a 3-month maturity.

- The ESCB is, of course, able to carry out *fine-tuning operations* that could be executed on an ad hoc basis with the aim of managing the liquidity situation in the market and steering interest rates. These operations could be used, in particular, to smooth interest rate effects due to unexpected liquidity fluctuations. Fine-tuning operations are primarily executed as reverse transactions but may also take the form of outright transactions, foreign exchange swaps and the collection of fixed-term deposits. The instruments and procedures applied for the conduct of fine-tuning operations can be adapted to the types of transactions and the specific objectives pursued. Fine-tuning operations are normally conducted through quick tenders or bilateral procedures.

- Finally, the ESCB also has the possibility of conducting so-called *structural operations*. These operations aim at affecting the longer-term liquidity position of the banking sector vis-à-vis the ESCB. A main instrument for these operations is the issuance of debt certificates by the ECB but reverse and outright transactions are also available for this purpose. The ECB currently operates the framework on the basis of a structural liquidity shortage of the banking system, and these operations are designed to allow the ECB to engineer such a shortage if it no longer exists in the market.

As for the procedures that will be used by the ESCB, the open market operations are executed in the form of tenders. Two types of tenders are available: standard tenders and quick tenders. Standard tenders are executed in a time frame of around twenty-four hours from the announcement of the operation to the announcement of the result. However, the time between the submission deadline and the announcement of the allotment is less than two hours. All the eligible counterparties are entitled to participate in the standard tender procedure.

Quick tenders can be executed within an hour from the announcement of the tender to the announcement of the result, and the range of counterparties is reduced, for operational reasons. The set of counterparties is selected from among the wide list of potential counterparties, taking into account, among others, the activity in the money market.

For both standard and quick tenders, the ESCB has the option of conducting either fixed-rate (volume) tenders or variable rate (interest) tenders. In this case, both Dutch and American-type auctions are possible.

To conclude on the procedures, the ESCB is, in principle, able to execute some fine-tuning operations on the basis of bilateral procedures, where the ESCB will enter into a deal with one or more counterparties. This procedure will be used for outright transactions, for example.

b) Standing Facilities

Besides the open market instruments, two standing facilities are available. In contrast to open market operations, standing facilities are used at the initiative of the counterparties. The first standing facility is a marginal lending facility, which enables the counterparties of the ESCB to cover their end-of-day liquidity needs at a rate of interest above the market rate. There are no credit limits or other restrictions on counterparties' access to the facility (except the requirement of sufficient availability of collateral). The second facility is a deposit facility, which enables the same counterparties to place their surplus end-of-day liquidity with the ESCB at a rate below the market rate. The interest rates on the two facilities form the ceiling and the floor of a corridor within which the rate for repos lies and within which money market rates move.

c) Reserve Requirements

Finally, there is a third major monetary policy instrument, namely reserve requirements.

Reserve requirements can potentially fulfil three functions:

- First, they can contribute to the stabilisation of money market interest rates, as they include an averaging mechanism, since shocks to liquidity can be absorbed without the need for central bank intervention in the money market.

- Second, they can contribute to enlarging the demand for central bank money in the sense that they can be raised to create or increase a structural deficit in the money market, thereby increasing the banks' dependence on central bank credit. This is considered helpful in order to improve the ability of the ESCB to operate efficiently as a supplier of liquidity and, in the longer term, to react to new payment technologies such as the development of electronic money.

- And, third, to the extent that reserve requirements are not fully remunerated, they may under certain conditions increase the interest elasticity of money demand, thereby enhancing the controllability of the money stock by the central bank. They fulfil a monetary control function. On the other hand, less than fully remunerated reserves may diminish the information content of monetary aggregates, and the potential relationship with final variables.

The ECB attaches particularly high importance to the performance of the first two of these functions, which relate to the management of money markets. Without the use of a minimum reserve system, the ESCB could face a relatively high volatility of money market interest rates, requiring the frequent use of open market operations for fine-tuning purposes. In practical terms, this could undermine the operational efficiency of monetary policy as central bank signals may become blurred if markets have difficulty in distinguishing policy signals from technical adjustments. Furthermore, the ECB regards it as necessary to use minimum reserves to influence the structural money market situation in the euro area, thereby safeguarding the role of national central banks as providers of liquidity to the banking system.

However, introducing a minimum reserve system may impose a potential burden on the private sector and thus affect the financial activity of credit institutions in the euro area. Consequently, the system has been designed primarily to fulfil the two money market management purposes mentioned before, while at the same time allowing an adequate remuneration of minimum reserves.

3. THE USE OF THE INSTRUMENTS

In practice, among all these instruments and procedures, only some of them are currently used.

First, in accordance with Article 19.1 of the Statute of the ESCB, the ECB requires credit institutions (as defined in Article 1 of the First Banking Co-ordination Directive) established in the euro area to hold minimum reserves on accounts with the national central banks.

The ECB has decided to include in the reserve base the liability categories "deposits", "debt securities issues" and "money market paper" as defined in its framework for the collection of money and banking statistics. Interbank liabilities and liabilities vis-à-vis the ESCB are not subject to reserve requirements. Furthermore, a zero reserve ratio is applied on "repos", "deposits with an agreed maturity over two years", "deposits redeemable at notice over two years" and "debt securities with an agreed maturity of more than two years".

The ESCB applies a reserve ratio of 2% of the relevant items of the liability base. A ratio in this range is deemed necessary in order to ensure that the desirable money market management functions can be performed. At the same time, such a ratio would be sufficiently low so as not to impose any undesirable rigidity on the assets structure of credit institutions.

The ECB permits a lump sum allowance of the order of EUR 100,000 to be deducted from an institution's reserve requirement, so that credit institutions with a small reserve base do not have to hold minimum reserves.

The most important feature, perhaps, for the banking industry is that the ECB remunerates minimum reserve holdings at a level corresponding to the rate of its main refinancing operations (MRO). In practice, the remuneration is calculated as the average, over the maintenance period, of the ECB's rate (weighted according to the number of calendar days) on its main refinancing operations. (The remuneration is paid on the first business day following the end of the maintenance period over which the remuneration was earned.)

For the moment, the total reserve requirement amounts to approximately 100 billion euro.

In order to fulfil their reserve requirements, the credit institutions have to borrow from the ESCB. In this respect, among the numerous monetary policy instruments available to the ECB, only one is used so far: the main refinancing operation (MRO). The ECB also conducts long-term refinancing operations, but as explained, they are not considered as a true monetary policy instrument.

Each week, an MRO is organised. On the basis of its estimation of the liquidity needs, the ECB decides to allot a certain amount of credit. This amount is influenced by several factors: evolution of banknotes in circulation, level of foreign exchange reserves, government deposits with the central banks.

So far, the approach is to use a fixed rate tender procedure, meaning that banks are bidding for a "quantity" they would like to get as a credit.

In its day-to-day implementation, the ECB aims at providing the level of liquidity meeting the demand by the banking industry in order for the latter not to be obliged to make significant recourse to the standing facilities, which should be considered as "secondary" instruments.

This approach ensures that the MRO rate, perhaps best known as the "weekly repo rate", is really the relevant rate used by the ECB to steer interest rates in the market.

4. DECENTRALISATION

A very important characteristic of the system lies in the decentralisation of operations.

It is clear and unanimously agreed by the central banks that whatever the instruments and strategies, the singleness of the monetary policy is ensured only if the decisions are centralised.

In concrete terms, decisions on interest rates and other aspects of monetary policy implementation are taken at the level of the ECB, in Frankfurt.

At the same time, the Treaty allows for the involvement of national central banks in the operation of the single monetary policy. Indeed, it is desirable to rely on the expertise and experience of the NCBs.

The operations are conducted by the NCBs, whatever procedure is followed. In exceptional circumstances, the possibility has not been ruled out that fine-tuning operations can be conducted in a centralised manner by the ECB, in the form of bilateral procedures.

In practice, this means that while the rate and the terms of the weekly repo, for example, are determined by the ECB, the counterparties, when participating in regular tenders, transmit their bids to their NCB, even though all the bids are collected at the ECB level in order for the final and single decision to be taken.

And after allotment, the credit is provided to any successful counterparty by "its" NCB.

5. COUNTERPARTIES AND COLLATERAL

Actually the counterparties of the ESCB are the credit institutions as defined in the First Banking Co-ordination Directive. Only institutions subject to the minimum reserve system are eligible to be counterparties for the open market operations and the two standing facilities. For fine-tuning operations, the ESCB may deal with a more limited range of counterparties, for obvious efficiency arguments.

The ESCB's counterparties need to satisfy certain prudential and operational requirements. In particular, counterparties must be financially sound institutions, under prudential supervision, and they must be able to participate in the relevant ESCB operations under the technical conditions set by the ESCB.

Finally, the question of collateral.

All liquidity-providing operations of the ESCB are based on underlying assets provided by the counterparties either in the form of the transfer of ownership of assets (in the case of outright transaction or repurchase agreements) or in the form of a pledge granted over relevant assets (in the case of collateralised loans). It has been recognised that the harmonisation of eligibility criteria throughout the euro area would contribute to ensuring equal treatment and operational efficiency. At the same time, due attention had to be paid to existing differences in financial structure across Member States. Consequently, a distinction is therefore made between two categories of assets eligible for ESCB monetary policy operations. These two categories are referred to as "tier one" and "tier two" respectively:

- Tier one consists of marketable debt instruments fulfilling uniform euro area-wide eligibility criteria specified by the ECB;
- Tier two consists of additional assets, marketable and non-marketable, which are of particular importance for national financial markets and banking systems and for which eligibility criteria are established by the national central banks, subject to the minimum eligibility criteria established by the ECB. The specific eligibility criteria for tier two applied by the respective national central banks are subject to approval by the ECB.

The proposed distinction between the two tiers is made essentially for reasons internal to the ESCB. It is based on the fact that the knowledge of some peculiarities of national financial markets is higher at the level of the national central banks than it would be at the level of the ECB. For this reason, it is considered more efficient that the national central banks select the Tier two eligible assets and determine the risk control measures to be applied to them. It should be understood that the distinction does not relate to the quality of the assets included in the two tiers. For this reason, assets of both tiers can be used for all the monetary policy operations (with the exception of outright transactions, for which tier two assets are not used) and they can be used by all counterparties in the euro area.

In this respect, counterparties of the ESCB are able to use eligible assets on a cross-border basis, borrowing from the central bank of the Member State in which they are established, but making use of assets located in another country, through the so-called Corresponding Central Banking Model. Under this model, central banks act as custodians for each other in respect of the securities accepted in their local depository or settlements system.

All eligible assets are subject to specific risk control measures. For tier one instruments, risk control measures consist of initial margins and margin calls and individual tier one debt instruments are subject to specific haircuts differentiated according to the residual maturity of the debt instruments. Two initial margins are considered, one for intra-day and overnight credit (1% of the liquidity provided) and one higher margin for credit operations of more than one day (2%). All national central banks perform a regular revaluation of assets. This revaluation takes place <u>at least</u> on a weekly basis. The Central Banks allowing for the "pooling" of assets proceed to a daily revaluation. If, as a consequence of the revaluation, the value of the underlying assets no longer matches the value required for the credit taken, margin calls are executed. This system of revaluation will imply that the ESCB will have a credit exposure of, at most, one week. The system should, therefore, help keep the initial margins at relatively low levels.

The appropriate risk control measures for tier two are proposed by the national central banks which have included the assets in their lists. The ESCB aims at ensuring non-discriminatory conditions for tier two assets across the euro area. Special valuation haircuts applying to tier two assets may reflect the specific risks associated with some of these assets. Furthermore, national central banks are able to apply limits to their acceptance of tier two assets or require additional guarantees.

ANNEX: INTEGRATION OF PAYMENT SYSTEMS

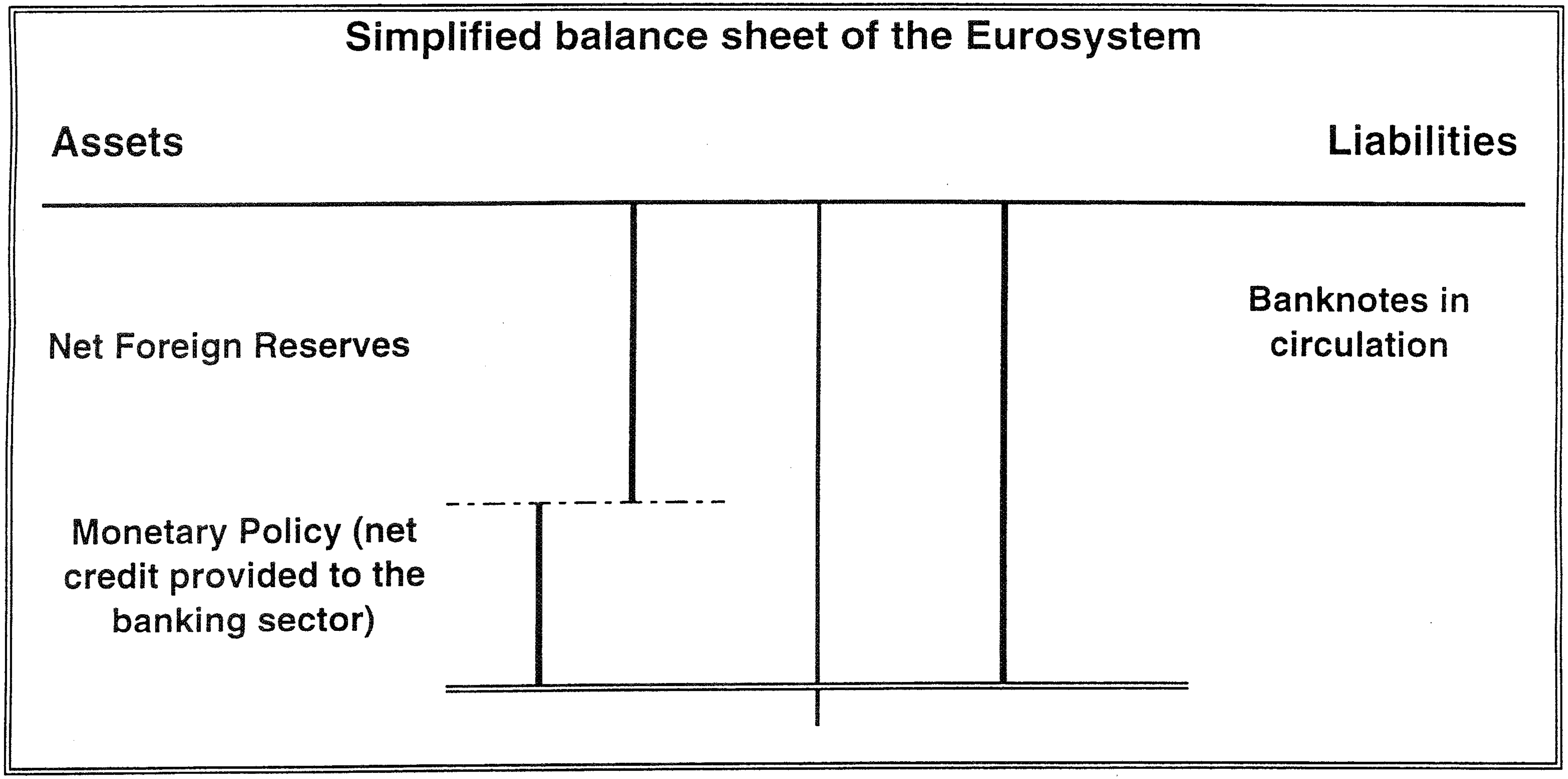
In relation to the implementation of monetary policy, the importance of the integration of payment systems has to be stressed. Their integration is an essential element of the technical preparations for Stage Three, and a sine qua non for a single monetary policy. In the monetary union, the banks have to be able to exchange their assets in central bank money in perfect freedom and they can only do so if the payment systems in the monetary union are integrated. It is only under these conditions that it is possible for interest rate arbitrage to occur within the monetary union and for the interest rate impulses from the European Central Bank to be transmitted rapidly and uniformly across the single currency area.

In the past, the payment systems of the European Union have been highly segmented. In each country, payment systems handled only exchanges involving money of the country's central bank between banks which were established on the national territory. The complete segmentation of national payment systems can only be avoided by using correspondent accounts.

Following lengthy preparatory work, the EMI Council decided in May 1995 already to implement a unified payment system for the entire European Union, named the TARGET system (for the Trans-European Automated Real-time Gross settlement Express Transfer system). TARGET has been operational since the first day. It consists of the real-time gross settlement systems which exist in each country of monetary union, and a linkage between these national RTGS systems, i.e. a component which routes payments from one domestic settlement system to another. This component enables banks to transfer money directly to counterparties located in other countries.

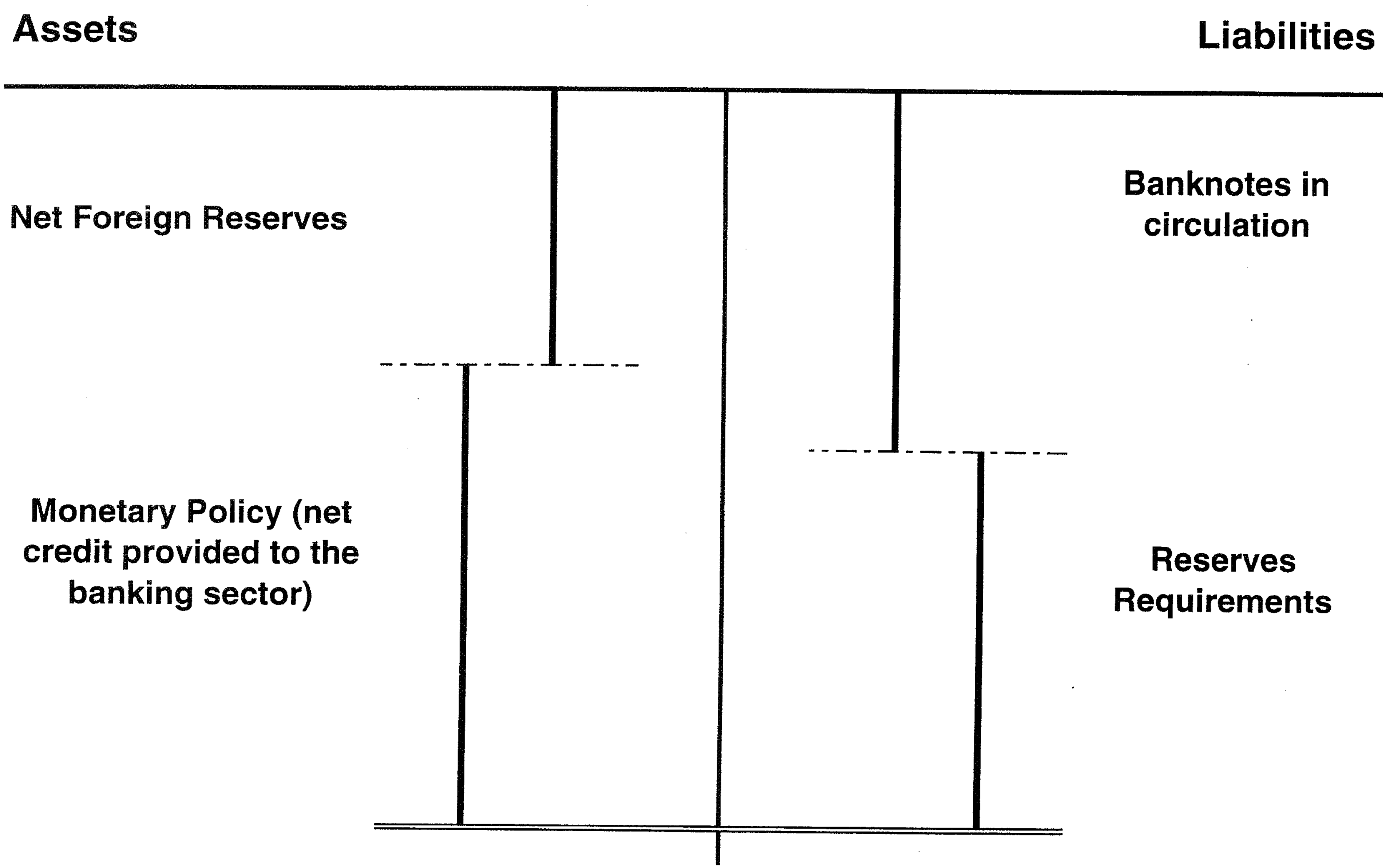
The domestic settlement systems operate in real time. This complies with a major objective of the central banks, which is to minimise the risks for participants and for the payment system as a whole.

The TARGET system is an essential element in the organisation of payments in the monetary union. However, it does not have a monopoly. Around it, other settlement systems continue to exist or might even be set up. Its sole aim is to handle large-value payments, and only those operations directly linked to the conduct of the single monetary policy in which the European System of Central Banks is involved - as the issuer of a payment instruction or the beneficiary of a payment - necessarily have to be routed via TARGET. For the remainder, the market may decide on the allocation of payments between the existing systems. There is nothing to prevent certain banks from continuing to use their correspondents' accounts. Furthermore, numerous net and end-of-day settlement systems will continue to operate in EU countries.



Simplified balance sheet of the Eurosystem
Assets
Liabilities
Net Foreign Reserves
Monetary Policy (net credit provided to the banking sector)
Banknotes in circulation

Simplified balance sheet of the Eurosystem



EUROPEAN CENTRAL BANK

Consolidated weekly financial statement of the Eurosystem as at 14 May 1999

(EUR millions)

Assets	Balance as at 14 May 1999	Difference compared to last week due to transactions
1 Gold and gold receivables	**105,323**	*0*
2 Claims on non-euro area residents denominated in foreign currency		
2.1 Receivables from the IMF	29,659	*108*
2.2 Balances with banks and security investments, external loans and other external assets	208,824	*-975*
	238,483	***-867***
3 Claims on euro area residents denominated in foreign currency	**12,091**	*-275*
4 Claims on non-euro area residents denominated in euro		
4.1 Balances with banks, security investments and loans	4,088	*70*
4.2 Claims arising from the credit facility under the ERM II	0	*0*
	4,088	*70*
5 Lending to financial sector counterparties of euro area		
5.1 Main refinancing operations	119,948	*4*
5.2 Longer-term refinancing operations	44,981	*-3*
5.3 Fine-tuning reverse operations	0	*0*
5.4 Structural reverse operations	0	*0*
5.5 Marginal lending facility	366	*-115*
5.6 Credits related to margin calls	60	*8*
5.7 Other lending	705	*-18*
	166,060	***-124***
6 Securities of euro area residents denominated in euro	**26,030**	*-17*
7 General government debt denominated in euro	**60,186**	***0***
8 Other assets	**75,266**	***-3,384***
Total assets	**687,527**	***-4,597***

Liabilities	Balance as at 14 May 1999	Difference compared to last week due to transactions
1 Banknotes in circulation	**337,375**	***1,667***
2 Liabilities to euro area financial sector counterparties denominated in euro		
2.1 Current accounts (covering the minimum reserve system)	99,229	*-2,230*
2.2 Deposit facility	118	*-79*
2.3 Fixed-term deposits	0	*0*
2.4 Fine-tuning reverse operations	0	*0*
2.5 Deposits related to margin calls	14	*7*
	99,361	***-2,302***
3 Debt certificates issued	**10,158**	***0***
4 Liabilities to other euro area residents denominated in euro		
4.1 General government	32,183	*-1,353*
4.2 Other liabilities	3,498	*212*
	35,681	***-1,141***
5 Liabilities to non-euro area residents denominated in euro	**7,557**	***564***
6 Liabilities to euro area residents denominated in foreign currency	**896**	***-102***
7 Liabilities to non-euro area residents denominated in foreign currency		
7.1 Deposits, balances and other liabilities	7,199	*-726*
7.2 Liabilities arising from the credit facility under the ERM II	0	*0*
	7,199	***-726***
8 Counterpart of special drawing rights allocated by the IMF	**6,043**	***0***
9 Other liabilities	**50,084**	***-2,585***
10 Revaluation accounts	**78,479**	***0***
11 Capital and reserves	**54,694**	***28***
Total liabilities	**687,527**	***-4,597***

Totals/sub-totals may not add up, due to rounding.

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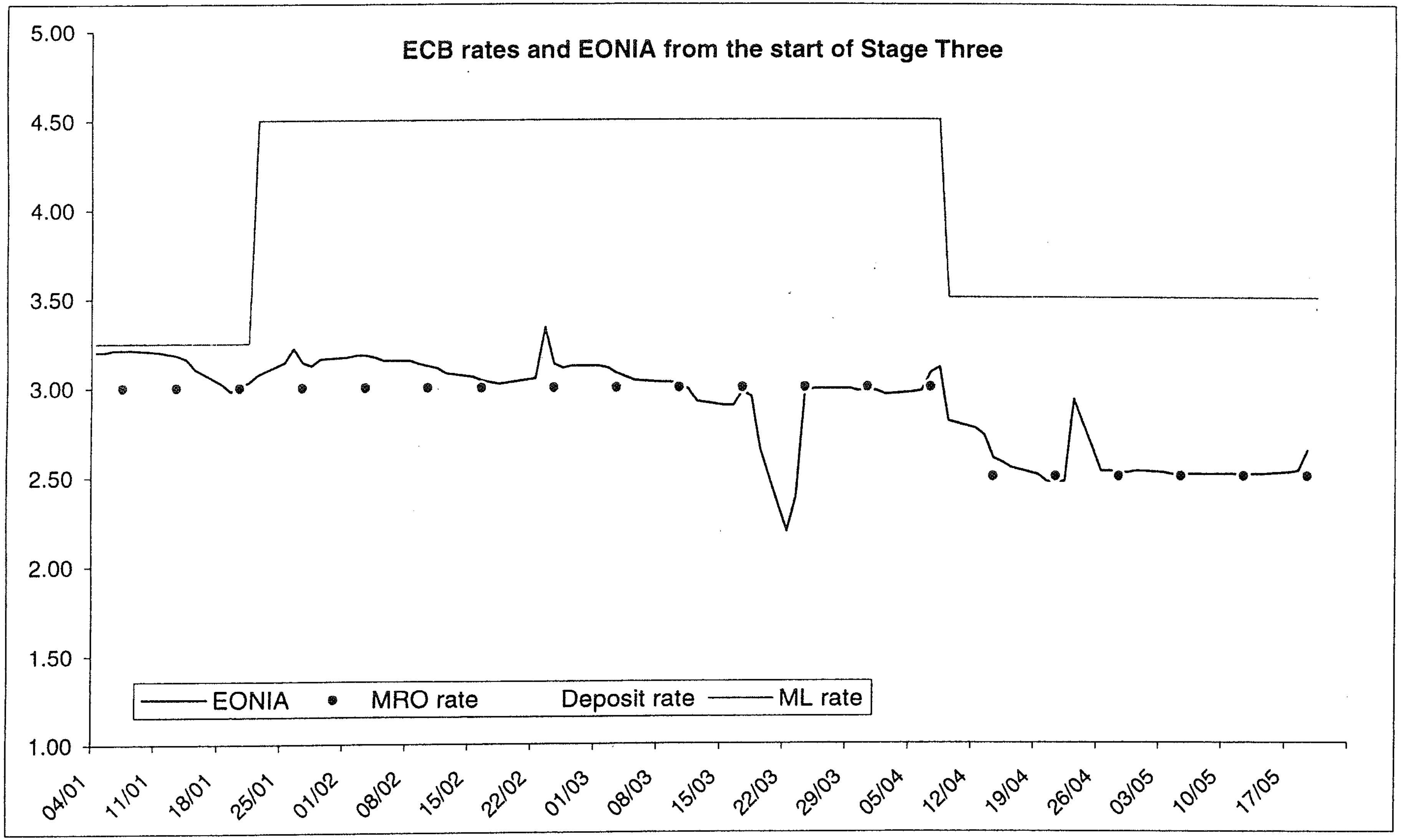
Consolidated balance sheet of the Eurosystem, 14 May 1999

Assets		Liabilities	
<u>Autonomous liquidity factors</u>		<u>Autonomous liquidity factors</u>	
Net foreign assets (A.1+A.2+A.3 -L.6-L.7-L.8)	341.8	Banknotes in circulation (L.1)	337.4
		Government deposits (L.4.1)	32.2
		Other autonomous factors (net)	28.0
<u>Monetary Policy Instruments</u>		<u>Monetary Policy Instruments</u>	
Main refinancing operation (A.5.1)	119.9	Debt certificates issued (L.3)	10.2
Longer term ref. Operation (A.5.2)	45.0		
<u>Marginal lending facility (A.5.5)</u>	0.4	<u>Deposit facility (L.2.2)</u>	0.1
		<u>Current accounts (L.2.1)</u>	99.2
Sum	507.1	Sum	507.1


ECB rates and EONIA from the start of Stage Three
5.00
4.50
4.00
3.50
3.00
2.50
2.00
1.50
1.00
EONIA
MRO rate
Deposit rate
ML rate
04/01
11/01
18/01
25/01
01/02
08/02
15/02
22/02
01/03
08/03
15/03
22/03
29/03
05/04
12/04
19/04
26/04
03/05
10/05
17/05