European Central Bank, ECB: minimum reserves

1998/0808(CNS) - 23/09/1998

Subject to a number of amendments, the Committee adopted the ECB proposal for a regulation governing its minimum reserves. In terms of Monetary Policy, minimum reserves entails a requirement for credit institutions to hold liquidity reserves with the central bank. The reserves can then be used by the bank to cope with, inter alia unexpected and extreme demand for liquidity. It is also a crucial tool for controlling the aggregate Money Supply in the Economy. Member States apply minimum Reserve requirements between 10 and 15%. However, as the importance of this instrument is waning the ECB has decided to set the upper level at 10%. The lower level "may be 0%", which gives the ECB great flexibility in handling its minimum reserve policy. Amendments adopted by the Committee aim at including the increasingly important "electronic money" in the basis for minimum reserves. The Committee is furthermore concerned that the minimum reserve requirement will put banks within the eurozone at a competitive disadvantage compared to other financial centres where such requirements are smaller; in principle, reserve requirements act like a tax on the deposits and raise the prices at which the bank are able to lend money. To overcome this problem, the Committee adopted amendments calling for deposits made with the ECB to be interest-bearing.