



OPINION OF THE EUROPEAN CENTRAL BANK
of 13 November 2008
at the request of Lietuvos bankas
on a draft resolution amending the rules on reserve requirements for credit institutions
(CON/2008/66)

Introduction and legal basis

On 5 November 2008 the European Central Bank (ECB) received a request from Lietuvos bankas for an opinion on a draft resolution amending the rules on reserve requirements for credit institutions as approved by Resolution No 38 of 14 March 2002 of the Board of Lietuvos bankas (hereinafter the 'draft resolution'). Some of the amendments contained in the draft resolution, in particular the reduction in the reserve ratio from 6 % to 4 %, were adopted by the Board of Lietuvos bankas on 6 November 2008 and entered into force immediately.

The ECB's competence to deliver an opinion is based on Article 105(4) of the Treaty establishing the European Community and Article 2(2) of Council Decision 98/415/EC of 29 June 1998 on the consultation of the European Central Bank by national authorities regarding draft legislative provisions¹, as the draft resolution relates to instruments of monetary policy of a Member State that has not adopted the euro. In accordance with the first sentence of Article 17.5 of the Rules of Procedure of the European Central Bank, the Governing Council has adopted this opinion.

1. Purpose of the draft resolution

- 1.1 The purpose of the draft resolution is: (a) to release part of the resources of credit institutions by allowing them to use eligible collateral which they hold to fulfil their reserve requirements; and (b) to create more flexible liquidity management conditions for credit institutions.
- 1.2 Specifically, the draft resolution provides for an amendment of the composition of minimum reserves, i.e. it allows credit institutions temporarily, until 23 April 2009, to maintain up to 50 % of their minimum reserves in eligible securities, the eligibility criteria of which are defined in the proposed new Annex 3 to the rules on reserve requirements for credit institutions.

2. General observations

- 2.1 Concerning the reduction of the reserve ratio from 6 % to 4 %, which has already entered into force, the ECB understands the need for an accelerated procedure. However, this does not prejudice

¹ OJ L 189, 3.7.1998, p. 42.

the duty of national authorities under Article 105(4) of the Treaty to consult the ECB on draft legislative provisions falling within its fields of competence. The ECB would therefore appreciate receiving future consultations earlier, even on initial drafts of legislation, to allow more time for it to prepare an opinion.

- 2.2 The ECB notes that although Member States that have not adopted the euro retain their powers in the field of monetary policy, it is nevertheless beneficial for them to achieve consistency with Eurosystem standards so that credit institutions in those Member States can become acquainted with the reserve requirements that will apply to them when the euro is introduced. In its past opinion on the Lithuanian minimum reserves regime², the ECB emphasised in particular the need for further alignment of the Lithuanian minimum reserves regime with Eurosystem standards. In particular, the ECB made the point that Lithuanian credit unions should also be subject to reserve requirements³. Consequently, it should be noted that all comments that the ECB made previously concerning the Lithuanian minimum reserves regime still remain valid.

3. Specific comments

- 3.1 The aim of the draft resolution is to temporarily amend the composition of minimum reserves in Lithuania, namely to allow up to 50 % of minimum reserves to be held on securities accounts of a credit institution on which eligible securities are held as an alternative to being held on reserve (settlement) accounts.
- 3.2 Although the ECB understands that this temporary measure aims to address ongoing tensions in the money market, the ECB has the following observations. First, it is questionable whether this measure is in line with the purpose of a minimum reserves system, i.e. an instrument for the performance of money market management and monetary control functions. Second, this measure may have potential implications for the risk management of the balance sheet of Lietuvos bankas. Third, using securities in variable proportions to fulfil part of a credit institution's reserve requirements may also create difficulties in the minimum reserves system about the nature of such reserves held with Lietuvos bankas. Moreover, the proposed measure would require both Lietuvos bankas and credit institutions to apply strict control measures, which are currently lacking in the draft resolution. Fourth, the ECB notes that the securities used to fulfil reserve requirements would be accounted for on the basis of their nominal value. Although such calculation is relatively easy to implement, the ECB notes that the nominal value of the securities may substantially differ from their mark-to-market value at the end of maintenance period, especially in periods of financial distress. Such a mechanism may therefore imply providing significant subsidies to credit institutions and therefore cause distortions in the securities markets.

² See ECB Opinion CON/2005/8 of 1 April 2005 at the request of Lietuvos bankas on draft rules on minimum reserve requirements for credit institutions. This opinion is available on the ECB's website at www.ecb.europa.eu.

³ See in particular paragraph 14 of ECB Opinion CON/2005/8 in which the ECB stressed that Lithuanian credit unions fall under the definition of a credit institution within the meaning of the Consolidated Banking Directive, and will therefore be subject to the Eurosystem reserve requirements when Lithuania adopts the euro.

3.3 Finally, the ECB notes that the proposal contained in the draft resolution differs substantially from the Eurosystem's reserve requirements framework. Such significant differences would have to be eliminated on adoption of the euro by Lithuania.

This opinion will be published on the ECB's website.

Done at Frankfurt am Main, 13 November 2008.

[signed]

The President of the ECB

Jean-Claude TRICHET