EUROPEAN CENTRAL BANK

EUROSYSTEM

OPINION OF THE EUROPEAN CENTRAL BANK

of 2 August 2010

on the minimum reserves framework

(CON/2010/60)

Introduction and legal basis

On 23 July 2010 the European Central Bank (ECB) received a request from Eesti Pank for an opinion on the draft Governor decrees amending the procedure for calculating and complying with the reserve requirement and on the complementary report on the reserve requirement calculation (hereinafter the 'draft decrees').

The ECB's competence to deliver an opinion is based on Articles 127(4) and 282(5) of the Treaty on the Functioning of the European Union 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 provisions[1], as the draft decrees relates to the instruments of monetary policy. 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 decrees

The purpose of the draft decrees is to smooth the transition from the minimum reserve framework in Estonia to the Eurosystem minimum reserve system in relation to the introduction of the euro in Estonia on 1 January 2011[2]. First, the draft decrees provide for a gradual decrease in the minimum reserve requirement at 11% on 1 September 2010 and 7% on 1 November 2010. Second, reporting on the reserve requirement calculation is extended to meet the reporting requirements based on the Eurosystem minimum reserve framework.

2. General observations

2.1 The ECB has addressed Estonia's minimum reserve system on two occasions[3]. In both cases, it noted that differences between the Estonian and the Eurosystem's minimum reserve systems would

1 OJ L 189, 3.7.1998, p. 42.

2 As decided at a meeting of the Economic and Financial Affairs Council on 13 July 2010.

3 See Opinions CON/2006/3 and CON/2006/59. All ECB opinions are published on the ECB's website at www.ecb.europa.eu.

need to be eliminated on adoption of the euro. Member States that have not adopted the euro retain their powers in the field of monetary policy, for which they remain responsible. At the same time, it is beneficial for them to achieve consistency with the Eurosystem operational framework for monetary policy in due time so that credit institutions in those Member States can become acquainted with the requirements that will apply to them when the euro is introduced: in the current context the single reserve ratio of 2%.

2.2 Estonia will be subject from 1 January 2011 to the following minimum reserves framework: 1) Article 19 of the Statute of the European System of Central Banks and of the European Central Bank; 2) Council Regulation (EC) No 2531/98 of 23 November 1998 concerning the application of minimum reserves by the European Central Bank[4]; 3) Regulation ECB/2003/9; and 4) in relation to the definition and calculation of the reserve base, Regulation ECB/2008/32 of 19 December 2008 concerning the balance sheet of the monetary financial institutions sector (recast)[5]. Article 11 and Annex III to Regulation ECB/2008/32 require the use of the statistical information by credit institutions reported under this Regulation for the purpose of minimum reserves. Special rules set out in this Regulation prevail over Regulation ECB/2003/9 and concern small credit institutions, group reporting and reserve requirements in the case of mergers.

2.3 The aim of the transitional regime foreseen by the draft decrees is to contribute to the efficient functioning of the financial markets and a smooth adjustment of liquidity management. In this respect, it is helpful to ensure an adequate notice period before the application of the measures to allow credit institutions to adjust to the changes introduced by the draft decrees. It must also be stressed that these transitional measures will only apply until 31 December 2010 following which Estonia will adopt the euro. In this regard, it is noted that in the interests of legal clarity, the draft decrees should specify their expiry dates.

2.4 It is also noted that the Decree on the complementary report could be clearer in setting requirements only for transitional reporting. It should also avoid any risk of confusion that could arise from Article 3 which concerns the minimum reserve ratio based on Regulation ECB/2003/9 of 12 September 2003 on the application of minimum reserves[6]. The current wording of this Article may be read as implying that the Eurosystem minimum reserve ratio applies on entry into force of these draft decrees.

4 OJ L 318, 27.11.1998, p. 1.

5 OJ L 15, 20.1.2009, p. 14.

6 OJ L 250, 2.10.2003, p. 10.

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

Done at Frankfurt am Main, 2 August 2010.

[signed]

The President of the ECB

Jean-Claude TRICHET