EUROPEAN CENTRAL BANK

EUROSYSTEM

OPINION OF THE EUROPEAN CENTRAL BANK

of 2 July 2013

on reserve requirements in connection with the introduction of the euro

(CON/2013/47)

Introduction and legal basis

On 21 May 2013, the European Central Bank (ECB) received a request from Latvijas Banka for an opinion on (a) a draft regulation amending the Regulation on calculating and fulfilling the minimum reserve requirements for credit institutions (hereinafter the 'draft amending regulation'), (b) a draft regulation on the preparation of the calculation of the reserve base and reserve requirement for credit unions (hereinafter the 'draft regulation on credit unions'), and (c) a draft regulation on the preparation of the calculation of the reserve base and reserve requirement (hereinafter the 'draft regulation on minimum reserves') (hereinafter collectively referred to as the 'draft regulations').

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 regulations relate to 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 regulations

The draft amending regulation provides for a transitional period for credit institutions by extending the last reserve maintenance period prior to the introduction of the euro in Latvia and by introducing a new calculation of minimum reserves, based on that used for the Eurosystem's minimum reserve system.

The draft regulation on credit unions introduces transitional provisions for calculating the reserve base of credit unions and lays down the reserve requirements for the initial maintenance periods following the date of the introduction of the euro in Latvia.

The draft regulation on minimum reserves will repeal both of the abovementioned regulations, resulting in a single regulation that consolidates Latvian law on reserve requirements. It will enter into force on the date when the Council of the European Union has abrogated the derogation granted to Latvia pursuant to Article 140(2) of the Treaty.

1 OJ L 189, 3.7.1998, p. 42.

2. General observations

2.1 The ECB welcomes the changes to Latvian law that will be brought about under the draft regulations as part of the preparations for the introduction of the euro in Latvia. Within the framework of monetary policy, which remains a competence of Latvijas Banka until the introduction of the euro, the draft regulations will align the current Latvian minimum reserve system with the Eurosystem standards that will apply after the introduction of the euro[2], a necessary step identified in previous ECB opinions on Latvijas Banka's reserve requirements.

2.2 The ECB considers that the provisions preparing for the application of reserve requirements to credit unions are timely and appropriate. This temporary legislation should help Latvian institutions to familiarise themselves with the Eurosystem's requirements and ensure a smooth transition to compliance with the Eurosystem minimum reserve system from the date of abrogation of Latvia's derogation. Once Latvia introduces the euro, the draft regulation on minimum reserves will apply with the result that minimum reserves will be calculated and notified in line with Regulation ECB/2003/9 of the European Central Bank on the application of minimum reserves[3].

2.3 Once the Council decides to abrogate Latvia's derogation[4], the ECB may, in the coming months, decide to introduce specific arrangements for the transitional period as institutions in Latvia become subject to the ECB's minimum reserve system. It is envisaged that these arrangements will, *inter alia*, establish both a transitional maintenance period for institutions located in Latvia and transitional provisions for other euro area institutions subject to reserve requirements in relation to their liabilities towards such Latvian institutions.

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

Done at Frankfurt am Main, 2 July 2013.

[signed]

The President of the ECB

Mario DRAGHI

2 With respect to the ECB's comments on the current Latvian minimum reserve system, see ECB Opinions CON/2006/11, CON/2008/89, CON/2010/18, CON/2010/77 and CON/2012/16. All ECB opinions are published on the ECB's website at www.ecb.europa.eu.

3 OJ L 250, 2.10.2003, p. 10.

4 This is expected with effect from 1 January 2014.