



EUROPEAN CENTRAL BANK

OPINION OF THE EUROPEAN CENTRAL BANK

at the request of Banco de Portugal under Articles 109f (6) and 109l (2) of the Treaty establishing the European Community (hereinafter referred to as the “Treaty”), Article 5.3 of the Statute of the European Monetary Institute and Council Decision of 22 November 1993 (93/717/EC), concerning two drafts of regulatory provisions on (i) monetary policy instruments and procedures and on (ii) minimum reserve requirements

(CON/98/47)

1. On 18 September 1998 the European Central Bank (hereinafter referred to as the “ECB”) received a request from Banco de Portugal for an opinion on two drafts of regulatory provisions (hereinafter referred to as “instruções”) (i) replacing the current “instrução” on “Mercado de Operações de Intervenção” (Central Bank’s Intervention Transaction Market — “instrução n.º 34/96”) and (ii) amending the current “instrução” on “disponibilidades mínimas de caixa” (minimum reserve requirements — “instrução n.º 28/96”), for the period starting on 1 October 1998 and ending on 31 December 1998. An explanatory note was also submitted to the ECB.
2. In accordance with Article 109l (2) of the Treaty, the ECB has taken over the advisory functions of the European Monetary Institute (hereinafter referred to as the “EMI”), that went into liquidation upon the establishment of the ECB on 1 June 1998. The ECB’s competence to deliver this opinion is based on Article 1.1, second indent, of the Council Decision of 22 November 1993 (93/717/EC), on the consultation of the EMI by the authorities of the Member States on draft legislative provisions, since the “instruções” contain rules on monetary policy instruments. In accordance with Articles 12.4 and 47.1, second indent, of the Statute of the European System of Central Banks and of the European Central Bank (hereinafter referred to as the “Statute”), the Governing Council with the contribution of the General Council has adopted this Opinion.
3. The general aim of both “instruções” is to prepare the Portuguese financial system to the changes that will take place from 1 January 1999 onwards, when Banco de Portugal starts to carry out monetary policy operations in compliance with the decisions taken within the European System of Central Banks (ESCB). In fact, despite the broad similarity between the

monetary policy instruments currently used by Banco de Portugal and the ones that will be used in the execution of the single monetary policy, the current “instruções” on monetary policy instruments and procedures (“instrução n.º 34/96”) and on minimum reserve requirements (“instrução n.º 28/96”) will have to be changed in a large number of items to comply with the requirements established for the implementation of the single monetary policy of the ESCB. Notwithstanding, Banco de Portugal intends to introduce some changes in the above mentioned “instruções” in advance, in order to “avoid possible difficulties in the transition to Stage Three, namely, in terms of the changes in the “established practices”, among which, the most important is the frequency of the intervention operations conducted by Banco de Portugal”.

4. The ECB welcomes the initiative of Banco de Portugal and assesses positively the provisions contained in both “instruções” which would prepare the counterparties of Banco de Portugal in monetary policy operations to the procedures that will be implemented in Stage Three of the EMU.
5. The “instrução” on “Mercado de Operações de Intervenção” that replaces “instrução n.º 34/96” with effects as from the 1st October 1998, contains provisions concerning open market operations, standing facilities, eligibility criteria for counterparties, tender and settlement procedures and eligible instruments for intervention in money market operations. In particular, it changes the regular liquidity provision operations from a daily basis to a weekly basis and the standing facility, which will be “overnight”. These changes, associated with the changes in the types of operations, maturities, collateral, tender and settlement procedures, will require banks to reformulate their liquidity management systems and thus will have a highly positive impact in the preparation of the Portuguese financial institutions to the new environment that will prevail from January onwards. However, the ECB notes that risk control measures and valuation principles, as well as events of default, were not included in the aforementioned “instrução” intended to replace “instrução n.º 34/96”, but will be contained in the “instrução” which will be in place as from the beginning of Stage Three of the EMU.
6. The ECB also welcomes and assesses positively the amendments to the “instrução” on “disponibilidades mínimas de caixa” (minimum reserve requirements — “instrução n.º 28/96”), which are in line with the changes implemented the “instrução” on “Mercado de Operações de Intervenção”, since the present reserve maintenance periods would be excessively short having regard to the changes thereby introduced in the open market operations and standing facilities. Therefore, the minimum reserve system introduced through amendments to the “instrução n.º 28/96” as the merit of anticipating, for the institutions subject to reserve requirements, the minimum reserve system that will prevail as from 1 January 1999. In particular, it is provided that the calculation of the reserve base is made on the basis of the data referring to the last day of each month. Furthermore, the maintenance period of minimum reserves is checked on the

basis of the average of the balances on the deposit accounts with the Banco de Portugal, starting on the 24th calendar day of the month following the one to which the reserve base refers and ending on the 23rd calendar day of the following month.

7. The ECB confirms that it has no objection to this Opinion being made public by the competent Portuguese authorities at their discretion.

Done at Frankfurt am Main on 1 October 1998.

The Vice-President of the ECB

[signed]

Christian Noyer