



## **OPINION OF THE EUROPEAN CENTRAL BANK**

**of 15 June 2007**

**at the request of the Central Bank of Malta on draft amendments to Central Bank of Malta  
Directive No 1 on minimum reserve requirements**

**(CON/2007/16)**

### **Introduction and legal basis**

On 28 May 2007 the European Central Bank (ECB) received a request from the Central Bank of Malta (CBM) for an opinion on draft amendments to CBM Directive No 1 on minimum reserve requirements (hereinafter the 'draft amendments'), issued pursuant to the Central Bank of Malta Act<sup>1</sup>.

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 provisions<sup>2</sup>, as the draft amendments relate to an instrument of monetary policy of a Member State with a derogation. 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 amendments**

The draft amendments align the framework governing minimum reserve requirements in Malta with that of the Eurosystem. In particular, the draft amendments: (i) redefine the reserve base in Appendix I of Directive No 1 to align it with that of the Eurosystem definition in Regulation ECB/2003/9 of 12 September 2003 on the application of minimum reserves<sup>3</sup>; and (ii) change the computation method so that each maintenance period is calculated on the basis of the reserve base referring to the calendar month two months before the maintenance period begins. It is intended that the draft amendments will enter into force on 15 July 2007.

### **2. General observations**

The ECB welcomes the draft amendments as part of the preparations for the adoption of the euro in Malta. Within the framework of monetary policy, which remains a CBM competence until adoption of the

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<sup>1</sup> Chapter 204 of the Laws of Malta.

<sup>2</sup> OJ L 189, 3.7.1998, p. 42.

<sup>3</sup> OJ L 250, 2.10.2003, p. 10.

euro, the aim of the draft amendments is to make the Maltese minimum reserves system consistent with the Eurosystem standards that will apply after adoption of the euro. This step should help Maltese credit institutions become familiar with the Eurosystem's requirements and ensure a smooth start to compliance with the Eurosystem's reserve requirements in January 2008. To this end, the draft amendments adequately reflect the Eurosystem legal framework on minimum reserves, especially Regulation ECB/2003/9.

### **3. Reserve ratio**

Directive No 1 gives the CBM's Governor the power to determine the reserve requirement ratio, after taking into consideration the advice of the Monetary Policy Advisory Council. In this respect the ECB notes that during the period before adoption of the euro, the CBM may decide which ratio it prefers, but once the euro is adopted, Article 4 of Regulation ECB/2003/9 will apply. This provides that a reserve ratio of 2,0 % applies to all liabilities included in the reserve base other than those for which a reserve ratio of 0 % is stipulated.

### **4. Procedure for calculating, notifying and acknowledging minimum reserves**

Directive No 1 continues to be silent on the procedure for calculating, notifying and acknowledging minimum reserves. The ECB understands that under the procedure which the CBM currently has in place, the CBM calculates – on the basis of the reserve base data submitted by credit institutions – the amounts of reserves required and notifies these to credit institutions before the start of the maintenance period. While credit institutions normally acknowledge the amounts by remaining silent, they are allowed to revise the reserve base data, even after the start of the maintenance period. In this respect the ECB notes that once Malta adopts the euro, Article 5(3) of Regulation ECB/2003/9 will apply. This provision sets out the principles to be followed by national central banks in establishing their procedures for notification and acknowledgement of institutions' individual minimum reserves. Article 5(3) stipulates in particular that, once acknowledged, an institution's minimum reserves for the relevant maintenance period cannot be revised.

### **5. First maintenance period of 2008**

If the Council of the European Union decides to abrogate the derogation in respect of Malta with effect from 1 January 2008, the ECB will in the coming months issue regulations on the transitional period applicable to institutions in Malta which would be subject to the ECB's minimum reserve regime from 2008. It is envisaged that, for the purposes of the first maintenance period of 2008, these regulations will, inter alia, redefine the reserve base which must be reported by other euro area institutions subject to minimum reserve requirements, as they may be authorised to take into account, for the purpose of reporting the reserve base for the first transitional period, the liabilities owed to the abovementioned

Maltese institutions. These regulations will not affect the Maltese minimum reserve regime prior to 1 January 2008, but the CBM may already wish to take this factor into account as regards the first maintenance period of 2008.

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

Done at Frankfurt am Main, 15 June 2007.

[signed]

*The President of the ECB*

Jean-Claude TRICHET