



OPINION OF THE EUROPEAN CENTRAL BANK

of 23 February 2010

on the introduction of a seven-day deposit facility

(CON/2010/18)

Introduction and legal basis

On 8 February 2010 the European Central Bank (ECB) received a request from Latvijas Banka for an opinion on draft amendments to the Regulation on the use of Latvijas Banka's monetary policy instruments (hereinafter the 'draft legislation').

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 provisions¹, as the draft legislation relates to instruments of monetary policy in 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 legislation

The main objective of the draft legislation is to amend the Regulation on the use of Latvijas Banka's monetary policy instruments (hereinafter the 'Regulation'), introducing a standing seven-day deposit facility.

2. Observations

2.1 The consulting authority has informed the ECB that the draft legislation is to be adopted by 11 March 2010. In view thereof, the consulting authority would seem to invoke the exemption provided for in Article 3(2) of Council Decision 98/415/EC, which allows for a reduction of the minimum time limit for submission of the ECB's opinion of one month in case of extreme urgency, and asks the ECB to deliver its opinion by 24 February 2010. The ECB, however, wishes to draw the consulting authority's attention to the fact that the second sentence of Article 4 of Decision 98/415/EC states that the ECB must be consulted 'at an appropriate stage' in the legislative process. This implies that the consultation should take place at a point in the legislative

¹ OJ L 189, 3.7.1998, p. 42.

process that affords the ECB sufficient time to examine the draft legislative provisions and to adopt its opinion in the required language versions and which also enables the relevant national authorities to take the ECB's opinion into consideration before the legislative provisions are adopted.

- 2.2 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 gradually achieve consistency with the operational framework for the implementation of the ECB's monetary policy so that credit institutions operating in their territories can become acquainted with the requirements that will apply once these Member States have adopted the euro. Such gradual harmonisation prior to the adoption of the euro will contribute to the smooth integration of the national central bank into the Eurosystem. In this context, the ECB draws Latvijas Banka's attention to the fact that a seven-day deposit facility does not exist in the operational framework for the implementation of the ECB's monetary policy, which comprises an overnight deposit facility. Thus, such a seven-day deposit facility will need to be phased out at the latest when Latvia adopts the euro. The ECB understands that such phasing out could be performed expeditiously.
- 2.3 The ECB previously commented on the Regulation and other regulations in the field of monetary policy instruments². In its opinions, the ECB emphasises the need to further align the Latvian minimum reserves regime with Eurosystem standards and makes the point that Latvian credit unions should also be subject to reserve requirements when Latvia adopts the euro. The ECB notes that all comments previously made on the Latvian minimum reserves regime still remain valid.
- 2.4 The ECB understands from the Explanatory Note to the draft legislation that the introduction of the seven-day deposit facility is aimed at facilitating liquidity management in view of the continuous rise in the liquidity surplus related to the new policy of the Latvian Treasury to exchange their funds for lats exclusively off-market at Latvijas Banka. The ECB underlines the importance of conducting these off-market transactions at prevailing market conditions so that they do not lead to any preferential treatment of the Latvian Treasury and are fully in line with Article 124 of the Treaty.

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

² See ECB Opinions CON/2006/49, CON/2007/12, CON/2008/89 and CON/2006/11. All ECB opinions are published on the ECB's website at www.ecb.europa.eu.

Done at Frankfurt am Main, 23 February 2010.

[signed]

The President of the ECB

Jean-Claude TRICHET