



EUROPEAN CENTRAL BANK

EUROSYSTEM

ECB-PUBLIC

Christine LAGARDE  
President

Mr Pedro Marques  
Mr René Repasi  
Mr Paul Tang  
Mr Rasmus Andresen  
Ms Henrike Hahn  
Mr Ville Niinistö  
Mr Ernest Urtasun  
Members of the European Parliament  
European Parliament  
60, rue Wiertz  
B-1047 Brussels

Frankfurt am Main, 22 September 2023

L/CL/23/176

**Re: Your letter (QZ-019)**

Honourable Members of the European Parliament, dear Mr Marques, Mr Repasi, Mr Tang, Mr Andresen, Ms Hahn, Mr Niinistö and Mr Urtasun,

Thank you for your letter, which was passed on to me by Ms Irene Tinagli, Chair of the Committee on Economic and Monetary Affairs, accompanied by a cover letter dated 26 July 2023.

The mandate of the European Central Bank (ECB), as laid down in the Treaty on the Functioning of the European Union, is to maintain price stability in the euro area. All our monetary policy instruments, including the interest paid on banks' reserve holdings, are aimed at pursuing this mandate.<sup>1</sup> In the current conditions of ample liquidity and full allotment in our main refinancing operations, the interest paid on the reserves that commercial banks hold in the ECB's deposit facility – i.e. reserves beyond the minimum required level – is the Governing Council's main instrument for setting the monetary policy stance. Limiting the remuneration on reserves held in the deposit facility could thus affect the effective transmission of the monetary policy stance.

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<sup>1</sup> See *Letter from the ECB President to Mr Bas Eickhout, Ms Henrike Hahn, Mr Rasmus Andersen and Mr Ernest Urtasun, Members of the European Parliament, on monetary policy*, ECB, 23 June 2023, available at: [https://www.ecb.europa.eu/pub/pdf/other/ecb.mepletter230623\\_Eickhout\\_Hahn\\_Andresen\\_Urtasun~97f7d0cf28.en.pdf](https://www.ecb.europa.eu/pub/pdf/other/ecb.mepletter230623_Eickhout_Hahn_Andresen_Urtasun~97f7d0cf28.en.pdf); and *Letter from the ECB President to Ms Manon Aubry, MEP, on monetary policy*, ECB, 5 May 2023, available at: [https://www.ecb.europa.eu/pub/pdf/other/ecb.mepletter230505\\_aubry\\_1~702967ad65.en.pdf](https://www.ecb.europa.eu/pub/pdf/other/ecb.mepletter230505_aubry_1~702967ad65.en.pdf).

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Since July 2022 the Governing Council has raised the deposit facility rate from -0.50% to 4.00% in its fight against inflation. The resulting increase in banks' interest income on reserve holdings and associated deterioration in the financial results of the ECB and the national central banks are therefore a direct side effect of the Governing Council's determination to ensure that inflation returns to our 2% medium-term target in a timely manner.

Regarding your first question, the ECB strives to implement its monetary policy in an efficient manner. At its meeting on 27 July 2023 the Governing Council discussed the remuneration of reserves and decided to set the interest rate on minimum reserves at 0%. Minimum reserves are the reserve balances that credit institutions are required to hold with their Eurosystem national central bank on average over a reserve maintenance period.

Given the prevailing ample liquidity conditions and that the minimum amount of reserves required is equivalent to 1% of specific liabilities, mainly customers' deposits, the Governing Council decided that setting the remuneration of minimum reserves at 0% would preserve the effectiveness of monetary policy by maintaining the current degree of control over the monetary policy stance and ensuring the full pass-through of the Governing Council's interest rate decisions to money markets. At the same time, the decision will improve the efficiency of monetary policy by reducing the amount of interest that needs to be paid on reserves in order to implement the appropriate stance. The change became effective as of the beginning of the reserve maintenance period starting on 20 September 2023.

The decision does not prejudice either the outcome of the ongoing review of the ECB's operational framework or the choice of appropriate design and instruments for the implementation of the monetary policy of the Eurosystem.<sup>2</sup>

Regarding your second question, the Governing Council's monetary policy strategy recognises that financial stability is a precondition for price stability. Accordingly, it also took financial stability considerations into account in its discussion about reserve remuneration. The decision to set the remuneration of minimum reserves at 0% does not raise financial stability concerns.

Yours sincerely,

[signed]

Christine Lagarde

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<sup>2</sup> In December 2022 the Governing Council announced that it would review the operational framework for steering short-term interest rates. See *Monetary Policy Statement*, ECB, 15 December 2022, available at <https://www.ecb.europa.eu/press/pressconf/2022/html/ecb.is221215~197ac630ae.en.html>.