OESTERREICHISCHE NATIONALBANK
EUROSYSTEM

Expanding zero-interest minimum reserve requirements: aims, effects, and side-effects

SUERF BAFFI Bocconi e-lecture , 12 December 2023

Claudia Kwapil, Senior Principal Economist
Monetary Policy Section
www.oenb.at

Three important aspects to consider

- Minimum reserves are a monetary policy instrument yielding corresponding policy effects. Depending on the response of commercial banks, however, the direction of this policy effect cannot be predicted accurately.
- The uncertainty regarding the demand for central bank reserves and the potential impact on money market rates, especially in the event of a substantial decline in reserves, pose an additional complication.
- Moreover, non-interest bearing minimum reserves will introduce heterogeneity into monetary policy transmission: favouring cash-rich banks, while liquidity-poor banks are likely to suffer a disadvantage

The opinion expressed in this presentation do not reflect the official viewpoint of the OeNB, the European Central Bank or the Eurosystem.

Non-interest-bearing minimum reserves are a tax

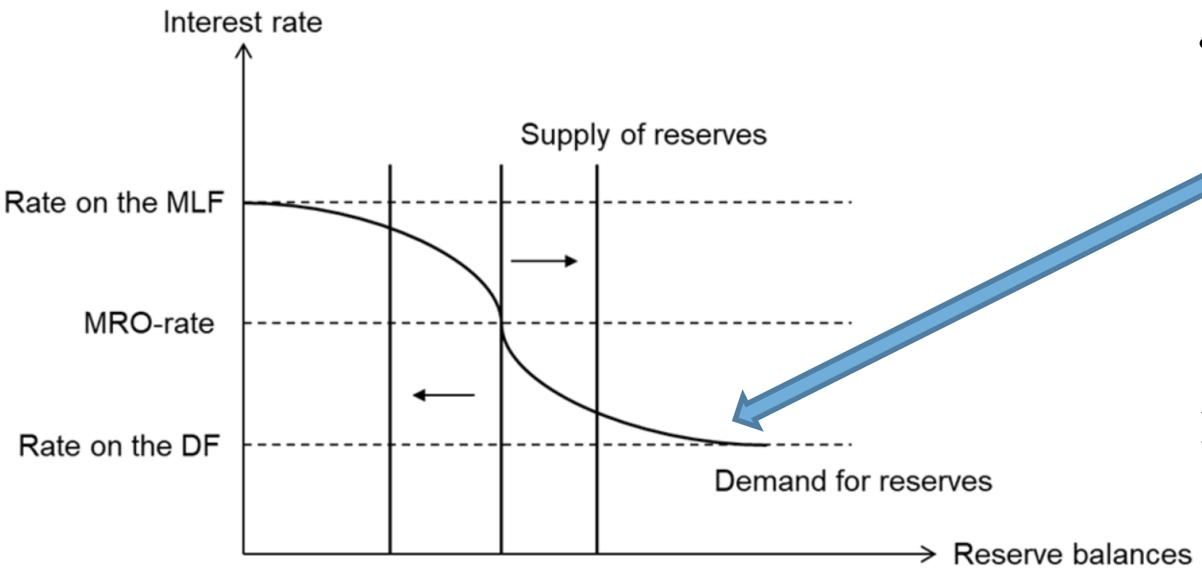
- According to Bindseil (2014), “unremunerated […] reserve requirements are a tax on the deposits of non-banks with banks […]” (Bindseil, 2014, p. 106)
- Banks can pass these additional costs on to:
  - their (bank-dependent) depositors
  - their (bank-dependent) borrowers
- Banks themselves may want to change their refinancing structures: e.g., by replacing retail deposits with wholesale deposits

➢ Unremunerated minimum-reserve requirements will **not be neutral on the monetary policy stance** &

➢ might **affect financial stability**, if customer deposits leave the banking system on a large scale!

Higher minimum-reserve requirements decrease excess reserve balances

Controlling short-term (interbank) money market rates within a framework of three policy rates



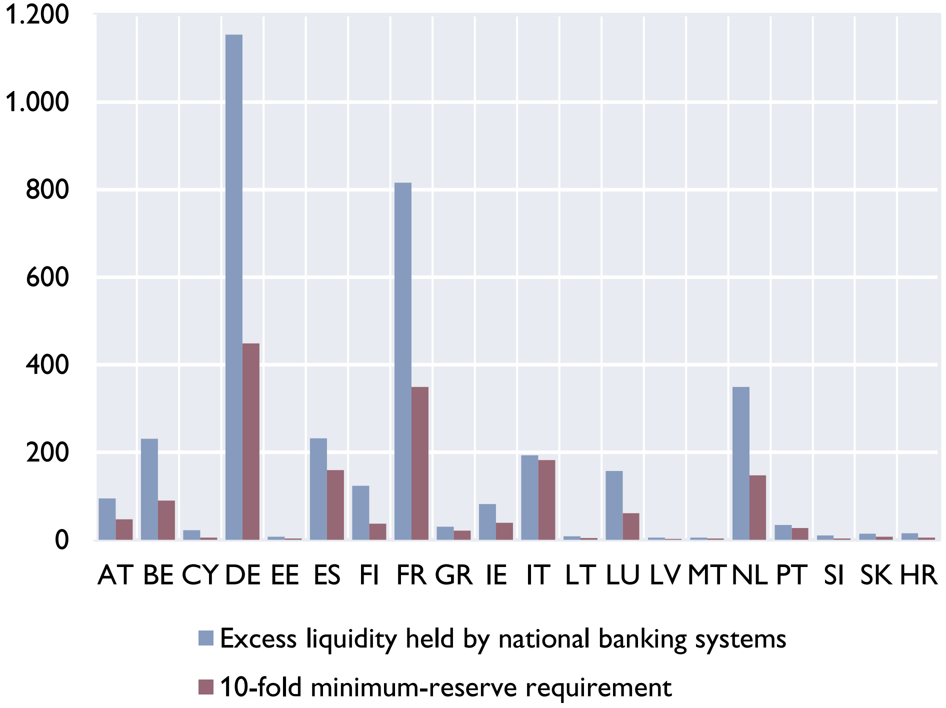
- Currently, the amount of excess reserves is abundant and money market rates fluctuate close to the interest rate on the deposit facility
- Depending on the size of the new minimum-reserve requirement → excess reserves might be reduced considerably (10x MRR = 1.64 tr EUR) → approach the minimum level of excess reserves required to anchor short-term money market rates at the floor of the corridor

➢ Higher minimum-reserve requirements (if high enough) will **not be neutral on the monetary policy stance!**

Non-interest-bearing minimum reserves introduce heterogeneity into monetary policy transmission

Distribution of excess reserves and minimum-reserve requirements across euro area countries

in billion EUR, minimum reserve maintenance period 6/2023 (20.9. - 31.10.2023)



Source: Statistical Data Warehouse, own calculations.

- Excess reserves are not distributed equally
- While in aggregate, for example, Finnish banks hold more than the 40-fold of their aggregate minimum-reserve requirement as excess reserves, Italian banks hold approximately the 10-fold
- Heterogeneity at the bank level is likely to be even more pronounced
- The opportunity cost of the new minimum-reserve requirement for cash-rich banks is equal to the money market rate (~ 4%)
- The opportunity cost for cash-poor banks can climb well above the average money market rate

➢ **Introduces heterogeneity into monetary policy transmission!**

Danke für Ihre Aufmerksamkeit

Thank you for your attention

www.oenb.at

oenb.info@oenb.at

@nationalbank_oesterreich

@nationalbankoesterreich

Oesterreichische Nationalbank

@oenb

OeNB