



EUROPEAN CENTRAL BANK

EUROSYSTEM

ECB-PUBLIC

Christine LAGARDE

President

Mr Bas Eickhout
Member of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt am Main, 25 April 2025

CL/L/25/124

Re: Your letter (QZ-004)

Honourable Member of the European Parliament, dear Mr Eickhout,

Thank you for your letter on central bank reserves held by the euro area banking system, which was passed on to me by Ms Aurore Lalucq, Chair of the Committee on Economic and Monetary Affairs, accompanied by a cover letter dated 13 March 2025.

In March 2024 the Governing Council of the European Central Bank (ECB) decided to make changes to the ECB's operational framework for implementing monetary policy. These changes were announced against the backdrop of a decline in the amount of central bank reserves in the euro area banking system, due to the end of our targeted longer-term refinancing operations and the gradual reduction of our monetary policy portfolios.

Central bank reserves continue to decline as the Eurosystem reduces its balance sheet. At one stage in the future, the level of reserves may start to approach the level that the euro area banking system seeks to hold on a more structural basis. At this point in time, additional central bank reserves will be needed again. In order to offer an effective, flexible and stable source of liquidity to the banking system, the Eurosystem intends to provide these reserves through a broad mix of instruments. At this point, an important characteristic of our

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operational framework will come into play: the elastic provision of central bank liquidity against broad collateral, according to each bank's demand.

We expect that banks' participation in our standard refinancing operations – the one-week main refinancing operations and the three-month longer-term refinancing operations – will pick up as the Eurosystem's balance sheet normalises and aggregate central bank reserves become less ample. Over time, once the Eurosystem balance sheet begins to grow durably again, we will gradually complement them with new structural long-term refinancing operations and a new structural portfolio of securities. This will provide a more stable source of liquidity to meet the banking sector's structural liquidity needs arising from autonomous factors, such as banknotes in circulation and government deposits, as well as minimum reserve requirements.

Owing to the elastic provision of central bank liquidity, our operational framework does not require the ECB to estimate in advance the precise level of reserves needed to satisfy the banking system's demand for liquidity, and to steer short-term money market rates closely in line with monetary policy decisions. In any case, the ECB, together with the national central banks in the Eurosystem, closely monitors the demand for central bank reserves and liquidity conditions in the banking system to ensure that money market rates are steered closely in line with monetary policy decisions, so as to fulfil our mandate of delivering price stability.

Yours sincerely,

[signed]

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