

[Chart of the week: Euro banks still holding lots of reserves at ECB](#)

[1]

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Summary: Euro area banks' reserves at ECB have come down, but remain elevated by pre-crisis standards

What the chart shows: The chart shows euro area monetary financial institutions' (MFIs, ie, mainly banks) deposits with the ECB and national central banks, specifically deposits related to ECB monetary policy operations.

Why the chart is important: Although MFI deposits with the Eurosystem have come down substantially since a peak of more than €1.1tn in the immediate aftermath of the ECB's two three-year longer term refinancing operations (LTROs) in late 2011 and early 2012, they remain high compared with the situation before the Great Recession. What this shows is that EA MFIs are, on average, flush with liquidity, but see no outlet for this so they leave their funds on deposit with the ECB. The ECB may now be moving towards a further LTRO. But the Bank may also try to boost broad money and credit growth by other means. One possibility which has been mentioned is to introduce negative interest rates in these deposits, ie, to charge banks for holding their money with the ECB. Ideally, this would cause banks to shift their funds to other uses, primarily by lending them to the nonbank private sector. There may finally be scope for this. The ECB's Q4 bank lending survey shows demand for loans expected to rise in the current quarter for the first time in two or three years (two years for companies, three for households). Banks are also expecting to ease lending standards. This could potentially be very powerful. If, for example, EA MFI reserves were to shift back to their pre-crisis levels of around €200bn, with the rest deployed elsewhere, it could boost EA M3 by €270bn, equivalent to a 2.7% jump in the stock of broad money in a very short period of time. The effect is likely to be less than that; but it would help to boost credit and broad money growth and also to avert threatening deflation.

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Links:

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[4] <http://disqus.com>