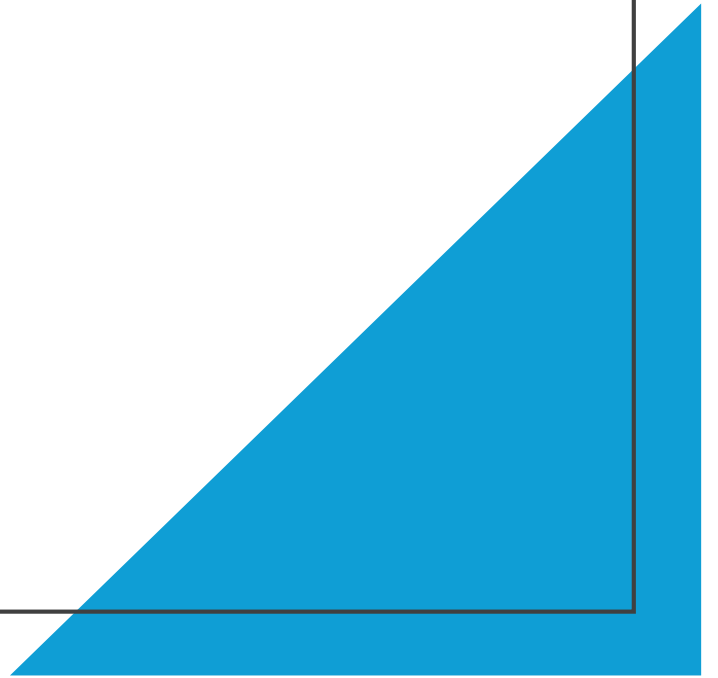


# Excess Reserves and The Bank- Based Transmission Mechanisms of Monetary Policy

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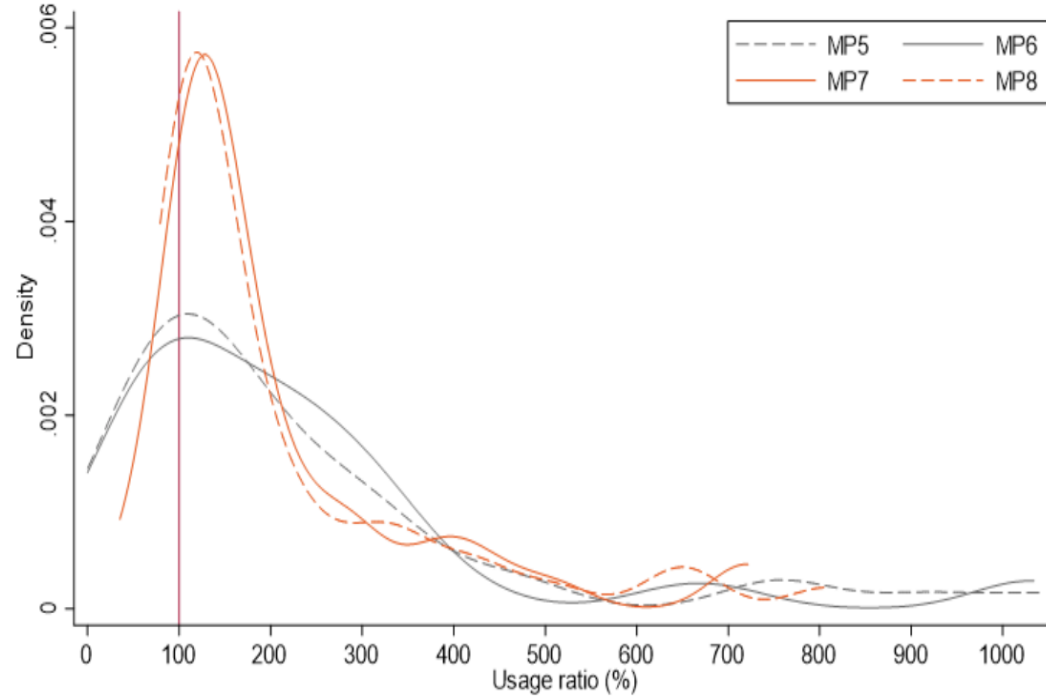
# Background

- The effects of central bank reserves on bank lending are debated
- Important to study as central banks engage in quantitative tightening
  - Ample reserves could crowd out lending
  - Reserves are the ultimate safe asset for banks and by providing insurance they could favor lending
- Hard to answer this question because reserve holdings are an optimal choice of banks → Banks with more lending opportunities could optimally choose to hold more reserves

# My presentation

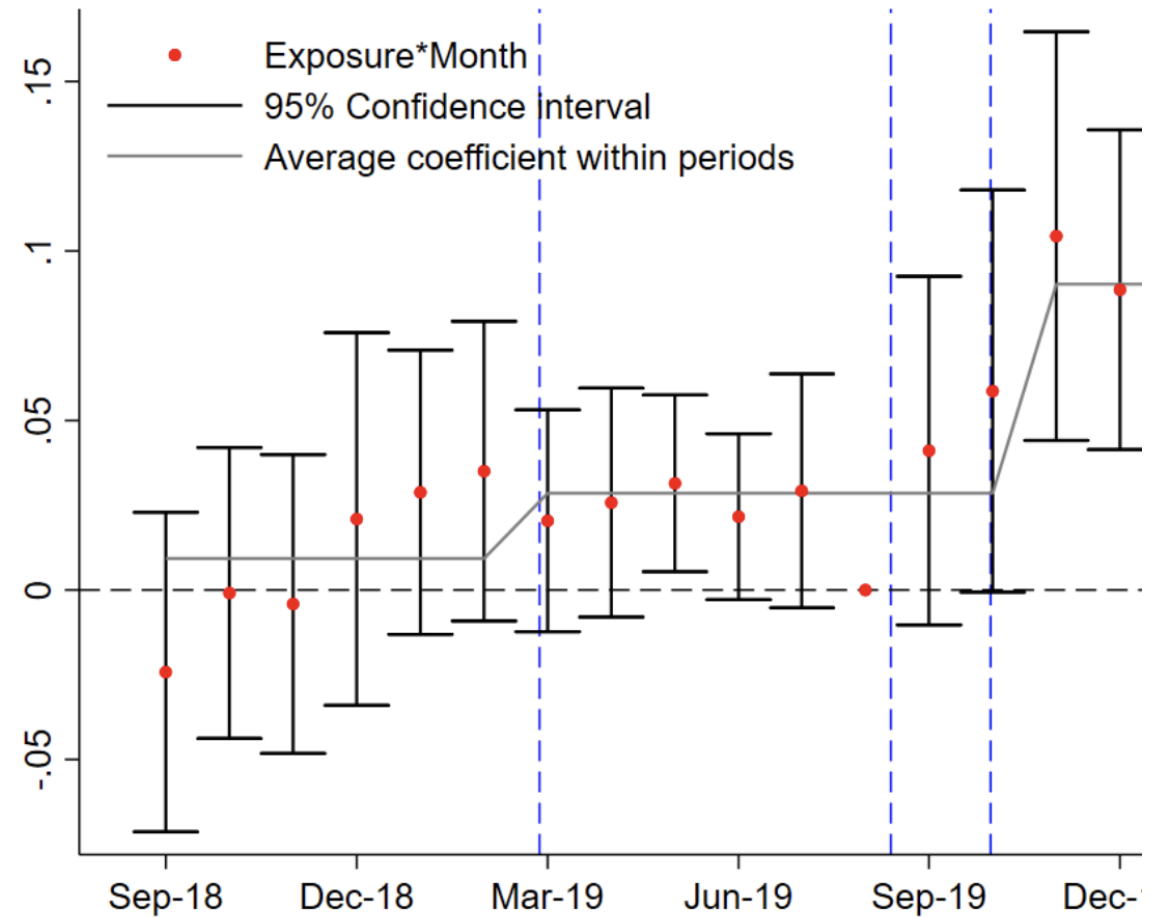
- Some evidence based on joint work with Altavilla, Boucinha, Burlon and Schumacher (2024)
  - The opinions in the paper are those of the authors and do not necessarily reflect the views of the European Central Bank or the Eurosystem.
- **Exogenous variation in the distribution of excess reserves:** Upon the implementation of the tiering in November 2019 the marginal returns on excess reserves increased for banks with unused exemptions
  - Banks with small reserve holdings relative to their minimum reserve requirements increased the demand

Effects  
of the  
tiering  
on the  
distribution  
of  
reserves  
in the  
banking  
system



# Are reserves complement for bank lending?

- Banks portfolio optimization, optimal reserve holdings and bank lending
- Change in lending of banks with ex ante unused reserves
  - Especially banks with ex ante high cost of capital
- No changes on banks with excess liquidity well above their exemptions



# Implications

- Are banks operating with more excess liquidity?  
Why?
- Implications for quantitative tightening
  - A reduction of reserves that mostly affects banks that have high liquidity holdings and have reached their satiation point is not expected to have negative effects on bank lending,
  - But a similar decrease in reserves affecting less liquid banks can have large contractionary effects,
  - Consequences of shrinking central banks' balance sheets hard to predict