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The European Central Bank

Introduction

The European Central Bank is one of the institutions of the European Union and is at the core of the Euro system and the Single Supervisory Mechanism.

It performs its tasks in close cooperation with the national central banks of the Euro system and, in the case of banking supervision, with the national supervisors of the Single Supervisory Mechanism.

This institution was not present at the beginning of the European construction but was set up after the decision to build a monetary union.

Today, it is based in Frankfurt (Germany).

History of its formation

As mentioned above, the European Central Bank has not existed since the origins of the Union but was created following the decision to achieve economic and monetary union, which was decided at the European Council meeting in June 1988.

Following that European Council, a Study Committee was set up to investigate the matter. It was composed of the governors of the national

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central banks of the European Community (EC) countries; the Director General of the Bank for International Settlements; Niels Thygesen, a Danish professor of economics; and Miguel Boyer, President of the Banco Exterior de España.

The report issued by this Committee, known as the Delors Report, advocated three phases of measured and progressive evolution for economic and monetary union. The first phase would begin on 1/6/1990; the second phase on 1/1/1994 and the third on 1/1/1999.

Once the process was under way, in 1991 it became clear that it was necessary to create the institutional infrastructure needed for monetary union to be established. Thus, an Intergovernmental Conference on EMU was convened in parallel with the Intergovernmental Conference on political union, which resulted in the Treaty on European Union, signed on 7/2/1992 in Maastricht.

Protocols to the Treaty included a Protocol on the Statute of the European System of Central Banks and of the European Central Bank and a Protocol on the Statute of the European Monetary Institute.

The main task of the European Monetary Institute was to carry out all preparatory work for the future monetary and exchange rate relations between the euro area countries and the other EU countries.

On 2/5/1998 the Council of the European Union, meeting in the composition of Heads of State or

Government, unanimously decided on the 11-euro countries (Belgium, Germany, Spain, France, Ireland, Italy, Luxembourg, the Netherlands, Austria, Portugal and Finland). These would lead the Euro States.
At the same time, a political agreement was adopted regarding the persons to be recommended as members of the Executive Board of the European Central Bank (ECB).
On 25/5/1998 the President, Vice-President and the four other members of the Executive Board of the ECB were appointed for the first time. With the inauguration of these positions on 1/6/1998 the ECB was established.

Organisation

The European Central Bank has four decision-making bodies:
The Governing Council
the Executive Board
The General Council
And the Supervisory Board
Let us explain their main roles or responsibilities one by one.
The Governing Council is the main decision-making body of the ECB. It is made up of the six members of the Executive Board, plus the governors of the national central banks of the 19-euro area countries.

Its tasks are to adopt the guidelines and take the decisions necessary to ensure the performance of the tasks assigned to the ECB and the Euro system; to formulate the monetary policy of the euro area; to take decisions relating to the general framework within which supervisory decisions are taken; and to approve comprehensive draft decisions proposed by the Supervisory Board.
It meets at least twice a month at the ECB's premises.
The Executive Board, on the other hand, is composed of the President, the Vice-President and four other members, appointed by the European Council by qualified majority (8 years, non-renewable).
And what are its tasks? The Executive Board prepares the meetings of the Governing Council; implements monetary policy in accordance with the guidelines and decisions adopted by the Governing Council; gives the necessary instructions to the euro area NCBs; carries out the day-to-day business of the ECB; and exercises all the powers delegated to it by the Governing Council.
The General Council is composed of the President and Vice-President of the ECB and the governors of the national central banks (NCBs) of the Member States of the European Union (both euro area and non-euro area).
Finally, the Supervisory Board consists of a Chair (elected for a non-renewable five-year term), a

Vice-Chair (elected from among the members of the ECB's Executive Board), four representatives of the ECB and representatives of the national supervisors. It discusses, plans, and implements the ECB's supervisory tasks.

Tasks

Finally, let us turn to the main functions of the European Central Bank.

Its main responsibility or objective within the Euro system is to maintain price stability and safeguard the value of the euro. To this end, it ensures that inflation - the rate of change in the general prices of goods and services over time - remains low, stable, and predictable. The medium-term objective is 2%.

Along with such control, it exercises all the single monetary policy functions of the euro area, in full independence, but interacting with other institutions.

But these are not the only functions exercised by the Central Bank.

It performs, for example, a statistical function through which it aims to provide the data necessary to carry out the functions assigned to the European System of Central Banks.

It compiles monetary and financial statistics, the international reserves of the Euro system, and the nominal and real effective exchange rates of the euro.

Second, it is responsible for maintaining financial stability and designing macro-prudential policy. This is done by monitoring the banking sector in the euro area and the EU, as well as other financial sectors, to detect vulnerabilities and test the resilience of the financial system.

Third, it oversees the activities of national central banks.

It promotes the smooth functioning of payment and settlement systems; and finally, it manages the foreign reserves (US dollars, Japanese yen, Chinese renminbi, gold, and special drawing rights) that ensure liquidity in foreign exchange operations.

All this is aimed at maintaining the stability of the single monetary system.

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