

Powers and responsibilities of the European Central Bank

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Powers and responsibilities of the European Central Bank

Objectives of the ESCB

The primary objective of the European System of Central Banks (ESCB) is to maintain price stability. 'Without prejudice' to this objective, the ESCB lends its support to general economic policies within the Community with a view to contributing to the achievement of the objectives laid down in Article 2 of the Treaty establishing the European Community (EC) (which include the promotion of harmonious, balanced and sustainable development of economic activities, a high level of employment and of social protection, and sustainable and non-inflationary growth). Finally, the ESCB acts in accordance with the principle of an open market economy with free competition, favouring an effective allocation of resources and in compliance with the principles set in Article 4 of the EC Treaty (stable prices, sound public finances and monetary conditions, and a sustainable balance of payments).

The objective of price stability prevails over the others in the event of a dispute. Moreover, its pursuit justifies the autonomy of the System vis-à-vis the political power. In this way, independence is viewed as being indispensable for achieving control over inflation, since it allows the ESCB to manage Community monetary policy without interference from the governments of the Member States or the Community institutions.

ESCB tasks

Article 3 of the Statute lays down the basic tasks to be carried out by the ESCB:

- to define and implement Community monetary policy;
- to conduct foreign exchange operations in accordance with Article 111 of the EC Treaty;
- to hold and manage the official reserves of the Member States;
- to promote the smooth operation of payment systems.

Duties of the ECB

With the aim of ensuring the performance of its tasks, the European Central Bank (ECB) carries out the following duties:

1. Monetary duties.

The ECB may:

- establish general principles for open market and credit operations;
- impose the building up of compulsory reserves by credit institutions;
- adopt regulations to ensure efficient and sound clearing and payment systems.

The ECB and the national central banks may:

- open accounts for credit institutions, public entities and other market participants and accept assets as collateral;
- operate in the financial markets;
- conduct credit operations with credit institutions and other market participants;

- agree on facilities relating to clearing and payment systems;
- establish relations with central banks and financial institutions in third countries and with international organisations;
- acquire and sell all types of foreign exchange assets and precious metals, and hold and manage those assets;
- conduct all types of banking transactions with third countries and international institutions;
- enter into operations for their administrative infrastructure or to benefit their staff.

Furthermore, the ECB (the Governing Council) has the exclusive right to authorise the issue of banknotes within the Community. The ECB and the NCBs may issue such notes, which are the only such notes to be legal tender within the Community.

2. Advisory functions.

The ECB is consulted:

- on any proposed Community act in its fields of competence;
- by national authorities regarding any draft legislative provision in its fields of competence, but within the limits and under the conditions set out by the Council.

The ECB may submit opinions to the appropriate Community institutions or bodies or to national authorities on matters in its fields of competence.

Moreover, it may deliver opinions to and be consulted by the Council, the Commission and the competent authorities in the Member States on Community legislation concerning the prudential supervision of credit institutions and the stability of the financial system.

3. Collection of statistical information.

The ECB collects necessary statistical information from the competent national authorities or directly from the economic agents. It is assisted by the NCBs.

4. International cooperation.

The ECB decides on how the ESCB is to be represented in the field of international cooperation. The ECB and, subject to its approval, the national central banks may participate in the international monetary institutions.

The International Monetary Fund (IMF), where each of the NCBs belonging to the ESCB was represented, granted the ECB permanent observer status on 21 December 1998.

Legal acts

In order to carry out the tasks entrusted to the ESCB, the ECB:

- adopts general regulations that are binding in their entirety and are directly applicable in all Member States;
- takes decisions that are binding in all their aspects on those to whom they are addressed;

— makes recommendations and delivers opinions which are not legally binding.

Under certain circumstances, the ECB may also impose fines and periodic penalty payments on undertakings for failure to comply with obligations under its regulations and its decisions.

The Governing Council adopts ECB regulations and guidelines.

ECB decisions and recommendations are adopted by the Governing Council or the Executive Board for areas in their respective fields of competence.

As a general rule, the Governing Council adopts the opinions of the ECB.

The Executive Board adopts the instructions issued by the ECB.

Relations with the other institutions

The President of the Council and a Member of the Commission may participate, without having the right to vote, in meetings of the Governing Council of the ECB.

The President of the Council may submit a motion for deliberation to the Governing Council of the ECB.

The President of the ECB is invited to take part in Council meetings when the Council is discussing matters relating to the objectives and to the tasks of the ESCB.

The ECB addresses an annual report on the activities of the ESCB and on the monetary policy of both the previous and current year to the European Parliament, the Council and the Commission, and also to the European Council. The President of the ECB presents this report to the Council and to the European Parliament, which may hold a general debate on that basis.

The President of the ECB and the other members of the Executive Board may, at the request of the European Parliament or on their own initiative, be heard by the competent committees of the European Parliament (Article 113 of the EC Treaty).