

THE EUROPEAN CENTRAL BANK



The European Central Bank (ECB) was set up in 1998, under the Treaty on European Union, and it is based in Frankfurt (Germany). Its job is to manage the euro – the EU’s single currency. The ECB is also responsible for framing and implementing the EU’s economic and monetary policy.

To carry out its role, the ECB works with the ‘European System of Central Banks’ (ESCB), which covers all 27 EU countries. However, only 12 of these countries have so far adopted the euro. The 12 collectively make up the ‘euro area’ and their central banks, together with the European Central Bank, make up what is called the ‘Eurosystem’.

The ECB works in complete independence. Neither the ECB, the national central banks of the Eurosystem, nor any member of their decision-making bodies can ask for or accept instructions from any other body. The EU institutions and member state governments must respect this principle and must not seek to influence the ECB or the national central banks.

The ECB, working closely with the national central banks, prepares and implements the decisions taken by the Eurosystem’s decision-making bodies - the Governing Council, the Executive Board and the General Council.

Jean-Claude Trichet, from France, became President of the ECB in November 2003.

What does the Bank do?

One of the ECB’s main tasks is to maintain price stability in the euro area, so that the euro’s purchasing power is not eroded by inflation. The ECB aims to ensure that the year-on-year increase in consumer prices is less than 2%.

It does this in two ways:

» First, by controlling the money supply. If the money supply is excessive compared to the supply of goods and services, inflation will result.

» Second, by monitoring price trends and assessing the risk they pose to price stability in the euro area

Controlling the money supply involves, amongst other things, setting interest rates throughout the euro area. This is perhaps the Bank’s best-known activity.

How is the Bank’s work organised?

The European Central Bank’s work is organised via the following decision-making bodies.

The Executive Board

This comprises the President of the ECB, the Vice-President and four other members, all appointed by common agreement of the presidents or prime ministers of the euro area countries. The Executive Board

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members are appointed for a non-renewable term of eight years.

The Executive Board is responsible for implementing monetary policy, as defined by the Governing Council, and for giving instructions to the national central banks. It also prepares the Governing Council meetings and is responsible for the day-to-day management of the ECB.

The Governing Council

The Governing Council is the European Central Bank's highest decision-making body. It comprises the six members of the Executive Board and the governors of the 12 central banks of the euro zone. It is chaired by the President of the ECB. Its primary mission is to define the monetary policy of the euro zone, and, in particular, to fix the interest rates at which the commercial banks can obtain money from the Central Bank.

The General Council

The General Council is the ECB's third decision-making body. It comprises the ECB's President and the Vice-President and the governors of the national central banks of all 27 EU member states. The General Council contributes to the ECB's advisory and coordination work and helps prepare for the future enlargement of the euro zone.