

The ECB's relations with institutions and bodies of the European Community

With the introduction of the euro and the concurrent transfer of competencies to the newly established European System of Central Banks (ESCB), which has the European Central Bank (ECB) at its centre, the institutional framework of the European Community has undergone a significant change. The new euro area monetary authority, the tasks and prerogatives of which are clearly defined in the Treaty establishing the European Community, has emerged as a new actor on the European stage. This article aims to shed light on this new institutional context and presents an overview of the ECB's relations with the institutions and bodies of the Community. The ECB's involvement is based, on the one hand, on its statutory obligations, since the Treaty itself provides for a number of forms of interaction between the ECB and other policy-makers of the European Union (EU), ranging from consultation to policy dialogue and regulatory competences. On the other hand, the ECB's relations with the institutions and bodies of the Community are motivated on functional grounds, in that contacts with other policy-makers contribute towards the proper fulfilment of the ECB's functions and tasks. At the same time, the specific institutional status of the ESCB and the ECB, notably their independent status and primary objective of maintaining price stability, set clear parameters for the degree of any such involvement. Against this background, the present article surveys the ECB's relations with the European Parliament, the EU Council, the Eurogroup, the European Commission, the Economic and Financial Committee, the Economic Policy Committee and the Macroeconomic Dialogue, as well as its more specialised contacts relating to the fulfilment of its broader tasks.

I Introduction

Upon entry into Stage Three of Economic and Monetary Union (EMU), the ESCB and the ECB were established in accordance with the relevant provisions of the Treaty. In exercising their powers and fulfilling their statutory objectives and tasks (see Box 1), the ECB and the ESCB have emerged as new policy actors in the overall institutional context of the European Community. At present, however, the basic tasks of the ESCB are carried out by the Eurosystem, which comprises the ECB and the national central banks of those Member States which have adopted the euro.

Founded by the Treaty and endowed with the competences and prerogatives to fulfil their tasks, the ECB and the ESCB/Eurosystem are embedded in the institutional framework of the European Community and, consequently, maintain relations with the various Community institutions and bodies. The Treaty itself lays down a number of provisions establishing and governing these relations, which almost exclusively designate the ECB as the interlocutor within the context of the European Community. Therefore, this article focuses exclusively on the ECB's relations with the Community

institutions and bodies, to the extent either that these are rooted in the Treaty provisions or that such contacts are maintained with a view to ensuring the proper fulfilment of the ESCB's statutory tasks.

The degree of the ECB's involvement with the Community institutions and bodies is related to the particular attribution of policy competences within the framework of EMU as laid down in the Treaty. The Eurosystem has sole competence for defining and implementing the single monetary policy as well as for holding and managing the official reserves of the euro area Member States. In addition, the ECB enjoys the exclusive right to authorise the issuance of euro banknotes, while responsibility for the issuance of the euro coins lies with the Member States, subject to the ECB's approval. Furthermore, it is a statutory task of the Eurosystem to "promote the smooth operation of payment systems" and to contribute to the policies conducted by the competent authorities "relating to the prudential supervision of credit institutions and the stability of the financial system". With regard to exchange rate policy, the Eurosystem has sole competence for deciding on and

Box I

Selected articles from the Treaty and the Statute of the ESCB pertaining to the establishment, tasks and competencies of the ECB/ESCB

Article 8 of the Treaty (on the establishment of the ESCB and the ECB)

A European System of Central Banks (hereinafter referred to as “ESCB”) and a European Central Bank (hereinafter referred to as “ECB”) shall be established in accordance with the procedures laid down in this Treaty; they shall act within the limits of the powers conferred upon them by this Treaty and by the Statute of the ESCB and of the ECB (hereinafter referred to as “Statute of the ESCB”) annexed thereto.

Article 105 of the Treaty (on the objectives and tasks of the ESCB)

1. The primary objective of the ESCB shall be to maintain price stability. Without prejudice to the objective of price stability, the ESCB shall support the general economic policies in the Community with a view to contributing to the achievement of the objectives of the Community as laid down in Article 2. The ESCB shall act in accordance with the principle of an open market economy with free competition, favouring an efficient allocation of resources, and in compliance with the principles set out in Article 4.

2. The basic tasks to be carried out through the ESCB shall be:

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

3. The third indent of paragraph 2 shall be without prejudice to the holding and management by the governments of Member States of foreign exchange working balances.

4. The ECB shall be 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 in accordance with the procedure laid down in Article 107(6).

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

5. The ESCB shall contribute to the smooth conduct of policies pursued by the competent authorities relating to the prudential supervision of credit institutions and the stability of the financial system.

(...)

Article 106 of the Treaty (on banknotes and coins)

1. The ECB shall have the exclusive right to authorise the issue of banknotes within the Community. The ECB and the national central banks may issue such notes. The banknotes issued by the ECB and the national central banks shall be the only such notes to have the status of legal tender within the Community.

2. Member States may issue coins subject to approval by the ECB of the volume of the issue. (...)

Article 108 of the Treaty (on independence)

When exercising the powers and carrying out the tasks and duties conferred upon them by this Treaty and the Statute of the ESCB, neither the ECB, nor a national central bank, nor any member of their decision-making bodies shall seek or take instructions from Community institutions or bodies, from any government of a Member State or from any other body. The Community institutions and bodies and the governments of the Member States undertake to respect this principle and not to seek to influence the members of the decision-making bodies of the ECB or of the national central banks in the performance of their tasks.

Article 110 of the Treaty (on regulatory competence)

1. In order to carry out the tasks entrusted to the ESCB, the ECB shall, in accordance with the provisions of this Treaty and under the conditions laid down in the Statute of the ESCB:

- make regulations to the extent necessary to implement the tasks defined in Article 3.1, first indent, Articles 19.1, 22 and 25.2 of the Statute of the ESCB and in cases which shall be laid down in the acts of the Council referred to in Article 107(6);
- take decisions necessary for carrying out the tasks entrusted to the ESCB under this Treaty and the Statute of the ESCB;
- make recommendations and deliver opinions.

(...)

Article 111 of the Treaty (on exchange rate policy)

1. By way of derogation from Article 300, the Council may, acting unanimously on a recommendation from the ECB or from the Commission, and after consulting the ECB in an endeavour to reach a consensus consistent with the objective of price stability, after consulting the European Parliament, in accordance with the procedure in paragraph 3 for determining the arrangements, conclude formal agreements on an exchange-rate system for the ECU in relation to non-Community currencies. The Council may, acting by a qualified majority on a recommendation from the ECB or from the Commission, and after consulting the ECB in an endeavour to reach a consensus consistent with the objective of price stability, adopt, adjust or abandon the central rates of the ECU within the exchange-rate system. The President of the Council shall inform the European Parliament of the adoption, adjustment or abandonment of the ECU central rates.

2. In the absence of an exchange-rate system in relation to one or more non-Community currencies as referred to in paragraph 1, the Council, acting by a qualified majority either on a recommendation from the Commission and after consulting the ECB or on a recommendation from the ECB, may formulate general orientations for exchange-rate policy in relation to these currencies. These general orientations shall be without prejudice to the primary objective of the ESCB to maintain price stability.

(...)

Article 5 of the Statute of the ESCB (on the collection of statistical information)

5.1. In order to undertake the tasks of the ESCB, the ECB, assisted by the national central banks, shall collect the necessary statistical information either from the competent national authorities or directly from economic agents. For these purposes it shall co-operate with the Community institutions or bodies and with the competent authorities of the Member States or third countries and with international organisations.

(...)

5.3. The ECB shall contribute to the harmonisation, where necessary, of the rules and practices governing the collection, compilation and distribution of statistics in the areas within its fields of competence.

(...)

conducting operations in the foreign exchange market. However, with regard to the overall framework within which exchange rate policy is conducted, the Treaty provides for close

interaction between the ECB and the EU Council, as laid down in Article 111 (1) and (2).

2 The status of the ECB within the institutional framework of the European Community

Article 7 of the Treaty establishes the institutions of the Community (specifically, the European Parliament, the Council, the Commission, the Court of Justice and the Court of Auditors) which are entrusted with the broad mandate of carrying out the tasks of the Community within the limits of the powers conferred upon them by the Treaty. By contrast, the legal foundation of the ESCB and the ECB is provided for in a separate article (Article 8), which underpins their specific status within the overall context of the European Community, sets them apart from the other institutions and limits their activities to very clearly defined tasks.

The principal institutional feature which distinguishes the ECB from the institutions defined in Article 7 is its specific independence, as enshrined in Article 108. The Treaty lays down the obligation that “neither the ECB, nor a national central bank, nor any member of their decision-making bodies shall seek or take instructions from Community institutions or bodies, from any government of a Member State or from any other body” when exercising the powers and carrying out the tasks and duties conferred upon them by the Treaty and the Statute of the ESCB. The Community institutions and bodies and the governments of the Member States, for their part, “undertake to respect this principle and not to seek to influence the members of the decision-making bodies of the ECB or of the national central banks in the performance of their tasks”. The special nature of the ECB’s independent status implies clear limits to the degree of engagement between Community institutions and bodies on the one hand and the ECB on the other.

In practice, a respect for the ECB’s independence and the recognition of its responsibilities imply that, with regard to interaction in the field of economic policies, the ECB’s relations with other policy-making bodies cannot go beyond a non-binding

dialogue. At the Helsinki European Council in December 1999, the Heads of State or Government endorsed the view that the ECB would participate in economic policy co-operation at the euro area level in the form of a dialogue only, without engaging in any *ex ante* co-ordination of its monetary policy with other policies.

The institutional independence of the ECB is further underpinned by the fact that the ECB has been endowed with a legal personality of its own. Moreover, the ECB is financially independent, meaning that its operating budget does not form part of the general budget of the Community, while nevertheless being subject to the scrutiny of an independent auditor. However, this article does not deal with issues relating to the ECB’s financial status, nor does it cover the details of the ECB’s relations with the Court of Justice of the European Communities in the context of the existing instruments of judicial control (see the description in the article entitled “The institutional framework of the European System of Central Banks”, published in the July 1999 edition of the ECB Monthly Bulletin).

A further aspect of the ECB’s particular institutional status is its clearly defined mandate to maintain price stability in the euro area and, in this way, to contribute to the achievement of the objectives of the Community. Indeed, the best contribution which the ECB can make to promoting, *inter alia*, “sustainable, non-inflationary growth” and a “high level of employment” (see Article 2 of the Treaty) lies in the pursuit of a monetary policy aimed at price stability (see the article entitled “The stability-oriented monetary policy strategy of the Eurosystem” in the January 1999 issue of the ECB Monthly Bulletin). It is only in this way that monetary policy can contribute to the proper operation of the price mechanism, which is an essential feature of a well-functioning market economy. In addition, in an environment of price stability, risk

premia and long-term real interest rates tend to be lower, thereby generating higher levels of investment, which in turn fuel economic growth.

The specific constitutional status of the ECB and its clearly defined primary objective of maintaining price stability reflect modern economic thinking, supported by historical evidence. Indeed, those central banks endowed with independence and given a clear mandate to ensure price stability have proven to be the most successful in delivering low inflation and providing a trusted and stable currency. In this respect, the European Community has not only given itself a highly advanced and tried and tested monetary order, but has also enshrined it in a Treaty with constitutional status, rather than in ordinary legislation.

The Treaty also draws on the successful experience gained within various national monetary orders by providing for a number of channels of communication and fora for dialogue with other policy-makers and the public at large. This is motivated by the following basic considerations.

The ECB's relations with institutions and bodies of the Community are based on a respect for the fundamental principles of democratic societies. With the introduction of the euro and the concurrent transfer of monetary policy and related competences, the Eurosystem has been entrusted with a core aspect of sovereignty. Since this task is performed with full independence, the ECB must be held accountable to democratically elected representatives, i.e. to the European Parliament. Consequently, the Treaty, as well as other relevant legal texts, contain a number of provisions to this end, especially with regard to the ECB's relations with the European Parliament and its general reporting obligations.

Beyond these institutionalised relations, the Treaty lays down a number of other formalised contacts between the ECB and Community institutions and bodies (see

Box 2). These refer, in particular, to the participation of the President of the ECB in meetings of the EU Council and the attendance of the President of the EU Council and a member of the European Commission at meetings of the Governing Council of the ECB.

These types of relations between the ECB and the institutions and bodies, which are aimed at an exchange of views and policy dialogue, are also justified on functional grounds. Indeed, working relations between the ECB and other policy-making bodies within the EU are necessary for the proper fulfilment of the Eurosystem's tasks. This is self-evident for all those tasks in respect of which the Eurosystem shares its competences with Community bodies. In these cases, the Treaty calls for co-operation between the ECB and the institutions or bodies concerned (e.g. in the field of statistics). However, the ECB also has an interest in fruitful dialogue with other policy-makers with regard to the single monetary policy, which is defined and implemented under its exclusive competence. This interest derives from the co-existence of a single and indivisible monetary policy and decentralised economic policy-making. The ECB has the monetary policy instruments required for the maintenance of price stability in the medium term. However, important variables which have an impact on price developments within the euro area economy in the short term are influenced by other economic policy-makers which operate predominantly at the national level, such as governments or social partners. Regular dialogue between the ECB and other policy-making bodies provides an opportunity to explain the course of monetary policy and to improve external understanding of the ECB's activities. Such exchanges of views are, in fact, of mutual interest, since knowledge of the reasoning behind the ECB's policy decisions can be an essential input into the decisions of other policy-makers. In this respect, the ECB can provide a reliable anchor and reference parameter for the decisions of individual actors, with the aim of stabilising inflation expectations.

The description in Sections 3, 4, 5 and 6 below of the ECB's relations with the various Community institutions and bodies is understood as pertaining to the entirety of the ECB's tasks (see also Table I for a

comprehensive overview). More specialised contacts with public policy-makers at the Community level, devoted to particular areas of activity of the ECB, are explained in Section 7.

3 Relations with the European Parliament

Within the network of the ECB's relations with Community institutions and bodies, the close links with the European Parliament occupy a particular – indeed essential – position. The European Parliament is the only institution which is composed of directly elected representatives of European citizens and, therefore, plays a crucial role in holding the ECB accountable for the conduct of monetary policy. The policy decisions of the ECB, aimed at achieving its objective, affect the lives and welfare of millions of EU citizens. In a democratic society, such decisions must be subject to the scrutiny of the citizens or of their elected representatives. In this vein, the ECB's relations with the European Parliament should be seen as more than just a statutory requirement. Rather, the appearances of the President and of other members of the Executive Board of the ECB at the European Parliament also help to safeguard the public acceptance of the ECB's independent status. Therefore, it is certainly in the ECB's enlightened self-interest to nurture such relations.

Ensuring accountability is, by definition, an ex post exercise. Indeed, the European Parliament's role vis-à-vis the ECB is clearly focused on a retrospective consideration of the ECB's policy actions. The ECB, for its part, undertakes to explain its decisions in detail. Although the ECB may inform the Members of the European Parliament of

forthcoming initiatives (such as the Euro 2002 Information Campaign), respect for the ECB's independence implies that it would be unlawful to exert political pressure of any kind.

As a rule, the President of the ECB reports four times a year to the Committee on Economic and Monetary Affairs of the European Parliament on the ECB's monetary policy and related issues. These presentations are followed by an open discussion with the members of the Committee on a variety of issues. Other members of the Executive Board of the ECB may also report to the Committee on Economic and Monetary Affairs and have already done so on specific topics ranging from aspects of the Euro 2002 Information Campaign to the external representation of the Community within the context of EMU. In addition, the ECB presents its Annual Report – which covers the activities of the ESCB and the Eurosystem and the monetary policy of both the previous and the current year – to the European Parliament in line with Article 113 (3) of the Treaty. Finally, the European Parliament must be consulted on the nominations for the positions of President, Vice-President and the other members of the Executive Board of the ECB and conducts hearings to this end. The ways in which the ECB interacts with the European Parliament are described in detail in the ECB Annual Report 1999.

4 Relations with the EU Council

ECOFIN Council

The Council of Ministers is – in many instances together with the European Parliament – the supreme Community legislator and plays a central role in EU policy-making. In strictly legal terms, there is only one EU Council. However, in practice the Council meets in various compositions, depending on the subject under consideration. Economic, monetary and financial issues fall within the sphere of the Council of Economics and Finance Ministers (ECOFIN). In this context, the Luxembourg European Council in December 1997 explicitly stated that the ECOFIN Council operates as “the centre for the co-ordination of the Member States’ economic policies”, and that it is “empowered to act in the relevant areas”. Against this background, it is the ECOFIN Council which is the ECB’s main interlocutor. Article 113 (1) of the Treaty provides for the possibility of the President of the ECOFIN Council (and a member of the European Commission) to participate in meetings of the Governing Council of the ECB. Thus far, Presidents of the ECOFIN Council have generally attended at least one Governing Council meeting during their six-month period at the helm of the ECOFIN Council. This dialogue at the highest level improves the flow of information between the actors involved, enhances the mutual understanding of each other’s policy views and, in a broader sense, allows for a dialogue on issues of common interest. Article 113 (1) of the Treaty explicitly provides for the possibility of the President of the ECOFIN Council to submit a motion for deliberation to the Governing Council of the ECB. At the same time, the Treaty expressly excludes any voting rights on the part of the President of the ECOFIN Council (or the member of the European Commission) when participating in meetings of the Governing Council of the ECB.

However, this dialogue is explicitly not intended to be one-way only: the ECB, for

its part, enjoys the statutory right (under Article 113 (2) of the Treaty) to be invited to participate in meetings of the ECOFIN Council whenever matters relating to the objectives and tasks of the ESCB are discussed. Such topics include, inter alia, the Broad Economic Policy Guidelines, changeover issues, reforms in the European financial sector and the external representation of the Community within the context of EMU, as well as issues related to foreign exchange policy. With regard to the latter, it is the responsibility of the ECOFIN Council to exercise formal decision-making powers in terms of concluding exchange rate agreements between the euro and third currencies or adopting “general orientations” for exchange rate policy. However, decisions in this area must be without prejudice to the ECB’s primary objective and the ECB has to be consulted in an endeavour to reach a consensus consistent with the maintenance of price stability (Article 111 (1) of the Treaty, see Box 1).

The ECB also participates in ECOFIN Council meetings whenever it exercises its right, pursuant to Articles 42 and 41 of the Statute of the ESCB, to initiate “complementary legislation” (e.g. with regard to minimum reserves) or amendments to certain provisions of the Statute of the ESCB respectively. As regards the preparation of ECOFIN Council decisions on legislative acts initiated by the ECB, the ECB is also represented in the competent sub-structures of the ECOFIN Council. Moreover, the ECB is, as a rule, invited to participate – with observer status – in the preparation of other Community legislation relating to areas of particular relevance to the ECB. Finally, the ECB is also involved in, or contributes towards, the activities of specific ad hoc bodies dealing with issues of interest or direct relevance to the ECB, such as the Financial Services Policy Group or the recent “Wise Men” initiative on the regulation of European securities markets.

Box 2

Relevant legal texts concerning relations with the Community institutions and fora

Article 113 of the Treaty

1. 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.

2. The President of the ECB shall be invited to participate in Council meetings when the Council is discussing matters relating to the objectives and tasks of the ESCB.

3. The ECB shall address 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 shall present 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 114 of the Treaty

(...)

2. At the start of the third stage, an Economic and Financial Committee shall be set up. (...)

The Member States, the Commission and the ECB shall each appoint no more than two members of the Committee.

(...)

Resolution of the Luxembourg European Council on economic policy coordination in Stage Three of EMU and on Treaty Articles 111 and 113 (ex Articles 109 and 109b) (December 1997)

(...)

The Ministers of the States participating in the euro area may meet informally among themselves to discuss issues connected with their shared specific responsibilities for the single currency. The Commission, and the European Central Bank when appropriate, will be invited to take part in the meetings.

(...)

The Economic and Financial Committee, which will bring together senior officials from the national central banks and the ECB as well as from finance ministries, will provide the framework within which the dialogue can be prepared and continued at the level of senior officials.

Presidency conclusions of the Cologne European Council (June 1999)

(...)

The European Council deems it necessary, in addition to the Luxembourg and the Cardiff processes, to set up a regular Macroeconomic Dialogue (the Cologne process) within the framework of the ECOFIN Council in co-operation with the Labour and Social Affairs Council and with the participation of representatives of both formations of the Council, the Commission, the European Central Bank and the social partners.

Given that the scope of the activities of the ECOFIN Council is rather broad and that the agenda items are not always of immediate interest to the ECB, the participation of an ECB representative in meetings of the ECOFIN Council is not always warranted. The ECB regularly attends the six-monthly informal meetings of the ECOFIN Council, which provide an opportunity for frank and open discussion – free from the usual procedural constraints of the Council – on topical issues. The governors of the national central banks are also invited to these meetings, at which they accompany the ministers of their respective Member States.

Finally, the ECB has important reporting obligations vis-à-vis the ECOFIN Council. For example, the President of the ECB presents the ECB's Annual Report to the EU Council, and reports to the EU Council in the context of the biennial convergence exercise pursuant to Article 122 of the Treaty. The ECB's Annual Report is also addressed to the European Council. It should also be added that it is the responsibility of the Heads of State or Government to agree, by common accord and after consulting the European Parliament and the Governing Council of the ECB, on the appointments of the President, Vice-President and other members of the Executive Board of the ECB.

Eurogroup

At the current juncture, not all of the 15 EU Member States have introduced the euro, and the prospect of a large-scale enlargement of the EU is set to prolong a situation whereby the euro area represents only a subset of the EU as a whole. While the ECOFIN Council naturally covers the entire EU, there is no provision in the Treaty for a body which brings together the finance ministers of euro area Member States. In order to remedy this situation, the Luxembourg European Council, meeting in December 1997, established the Eurogroup as an informal body to allow ministers of euro area Member States (as well as a member of the European

Commission) to discuss issues of common concern with regard to the euro area and the single currency. The ECB is to be invited "when appropriate" – and has, indeed, been invited regularly thus far – to participate in the meetings of the Eurogroup. The informal character of the Eurogroup allows for an open discussion of all issues relevant to the euro area. The climate of openness and trust is reinforced by the fact that the Eurogroup meetings are restricted to the ministers, the European Commissioner and the President of the ECB only (each with one accompanying person) – in stark contrast with the usual large number of participants at formal Council sessions. As a rule, the Eurogroup meets once a month before the ECOFIN Council meetings. In some ways, the Eurogroup could be regarded as an attempt to establish, at the euro area level, a communication channel comparable with the informal contacts between governments and central banks which traditionally exist within nation states.

Discussions within the Eurogroup are aimed at improving the overall functioning of the euro area economy. To this end, the Eurogroup regularly assesses the overall economic outlook for the euro area, discusses budgetary developments in individual euro area Member States and provides political impulses for further efforts to bring about structural reform. In addition, the Eurogroup also discusses developments in the euro exchange rate and the external perception of the euro area as an entity in its own right. The recent decision by the Eurogroup to make its work more visible to the general public by regularly holding press conferences after its meetings should be seen in this context. The ECB supports these efforts and appreciates the dialogue within the Eurogroup as an effective tool for communication between the monetary and economic policy authorities of the euro area, which allows them to exercise, with full respect for the individual responsibilities assigned to them, "their shared specific responsibilities for the single currency" (Luxembourg European Council Resolution, see Box 2).

5 Relations with the European Commission

The European Commission plays a pivotal role in the management of Community affairs. Given its core statutory functions, inter alia as the initiator of Community policy and as the guardian of the EU Treaties, the European Commission is naturally also involved in the dialogue between the ECB and the ECOFIN Council. The Commissioner responsible for Economic and Monetary Affairs attends ECOFIN Council meetings. Furthermore, a member of the European Commission is entitled, in accordance with Article 113 (1) of the Treaty, to participate in meetings of the Governing Council of the ECB, and this has regularly been the case.

In addition to this policy dialogue at the highest level, the European Commission and the ECB also maintain close working relations, which are reinforced by frequent contacts, both in multilateral settings, such as the Economic and Financial Committee or the Economic Policy Committee, and in bilateral meetings. This contact is particularly important given the central role that the European Commission plays in the process of economic policy-making in the European Community. In particular, it should be noted that the European Commission is entrusted with a number of specific tasks relating to EMU. These include the formulation, each year, of a recommendation for the Broad Economic Policy Guidelines, monitoring and reporting to the ECOFIN Council on the budgetary situation in the Member States, and the preparation, at least once every two

years, of a convergence report examining the fulfilment of the Maastricht criteria by those Member States which have yet to adopt the euro.

In addition to this, the European Commission has initiated, or is involved in, a wide variety of specific activities which are either related to the introduction of the euro or have implications for the conduct of the ECB's monetary policy. In many cases, such activities can often benefit substantially from or even necessitate the direct involvement of the ECB. In the area of statistics, for example, the European Commission (Eurostat) and the ECB co-operate closely on all matters of common interest, such as the development of common statistical standards and reporting. In other areas, too, the ECB is involved in a number of specialised working groups established under the aegis of the European Commission. Such groups deal with topics as varied as financial market integration (e.g. the "Giovannini Group"), prudential supervision and financial stability (e.g. the Banking Advisory Committee) and issues related to the changeover to the euro banknotes and coins (e.g. the Consultative Group on the practical aspects of the introduction of the euro). Finally, with regard to the process of EU enlargement, the European Commission and the ECB are in close co-operation, with the ECB being consulted on those issues which relate to its competences and expertise.

6 Relations with other Community bodies

Economic and Financial Committee

The Economic and Financial Committee (EFC), established as a result of Article 114 (2) of the Treaty, provides the ECOFIN Council with preparatory analyses of and advice on a wide range of economic and financial questions. The Treaty itself lays down the ECB's participation in the EFC,

stipulating that not only the Member States and the European Commission, but also the ECB shall appoint members of the Committee (each no more than two). The delegations of the Member States are composed of senior officials from administrations and national central banks. The 1997 European Council in Luxembourg also assigned to the EFC the task of providing "the framework within

which the dialogue between the Council and the European Central Bank (ECB) can be prepared and continued at the level of senior officials from ministries, national central banks, the Commission and the ECB". As a result of its participation in the EFC, the ECB becomes involved in the discussions on the annual Broad Economic Policy Guidelines, the surveillance of fiscal policies on the basis of Member States' annual Stability and Convergence Programmes and the preparation of European positions on international issues. The ECB also participates in other activities of the EFC, which range from technical subjects – such as the minting of euro coins – to institutional reform and the external representation of the Community within the context of EMU.

Discussions within the EFC also serve to prepare the dialogue between the euro area finance ministers and the ECB which takes place within the Eurogroup. Thus, a core feature of the ECB's participation in the work of the EFC comprises the preparation of assessments of the overall economic outlook for the euro area and of exchange rate developments. Moreover, it includes an ongoing review of the sustainability of public finances and the appropriateness of the general orientations of fiscal policy.

Naturally, the ECB's involvement in the EFC is based on a full respect for its independence. This is reflected in the fact that the ECB may fully participate in discussions and express its views on all issues. However, it may not participate in any voting procedures. Moreover, the EFC consciously refrains from discussing the conduct of monetary policy. The same applies to statements on the single monetary policy to be made at the meetings of international organisations and fora (e.g. the International Monetary Fund or the G7). In line with the division of competences, the preparation and presentation of such statements are the exclusive competence of the ECB.

Economic Policy Committee

The Economic Policy Committee (EPC), which was established in 1974 by way of a Decision of the EU Council (74/122/EEC), is composed of four representatives from each of the Member States and from the European Commission. Since April 1999 the ECB has also been participating in meetings of the EPC as a result of an open invitation. Recently, however, the ECB's membership has been placed on an equal legal footing with that of existing Committee members by virtue of a revised statute of the Committee. Like the EFC, the EPC is involved in the preparation of meetings of the Eurogroup and the ECOFIN Council. However, its work focuses particularly on structural reform. The Committee conducts an annual in-depth peer review of economic reforms in Member States and analyses longer-term issues of economic policy, such as the budgetary implications of population ageing. Moreover, the EPC is closely involved in both the "Cardiff process", which is designed to improve the functioning of product, capital and services markets in the Community, and the "Luxembourg process", which provides a platform for co-ordination among Member States in the area of employment policies. Since the ECB attaches the utmost importance to structural reforms in the Member States as the principal means of combating unemployment and fully exploiting the growth potential of the euro area, the ECB's participation in the EPC offers a useful opportunity to contribute to the Committee's work on structural reform, which is likely to figure even more prominently on the European agenda in the future than is currently the case. As with the Economic and Financial Committee, the ECB's involvement in the work of the EPC is based on a full respect for its independent status.

Macroeconomic Dialogue

The objective of the Macroeconomic Dialogue is to foster a greater understanding of the policy requirements implied by EMU

among economic policy-makers, in order to improve the conditions for non-inflationary and employment-generating growth. The twice-yearly dialogue, established in 1999 by the Cologne European Council, brings together representatives of the governments of the Member States, the European Commission, representatives of the social partners at the EU level and the ECB, as well as one national central bank of a non-euro area country. The Macroeconomic Dialogue (or “Cologne process”) forms part of the European Employment Pact, and thus complements both the “Luxembourg process” (relating to the co-ordination of

employment policies) and the “Cardiff process” (aimed at improving the functioning of capital and product markets). The Dialogue is based on a full respect for the independence of all actors involved, in particular the independence of the social partners in the process of wage formation and that of the ECB in relation to the single monetary policy. The recognition of the assignment of separate policy responsibilities and related obligations helps to focus awareness on the fact that it is the task of each policy actor to ensure the successful implementation of policies within its own field of competence.

7 Relations in connection with specific statutory tasks

The ECB’s involvement with Community institutions and bodies also relates to its broader functions and activities. All of these sometimes more technical tasks form an integral part of the ECB’s efforts to fulfil its mandate in accordance with the Treaty and to safeguard the euro as a currency in which European citizens and businesses can have confidence. As noted above, not all of these tasks are the exclusive responsibility of the Eurosystem, and consequently the ECB maintains working relations with the relevant Community institutions and bodies in order to achieve the desired objectives.

Involvement in the Community legislative process

Article 110 of the Treaty confers upon the ECB the right to adopt legal acts on various specified aspects within its fields of activity. Within this direct regulatory competence, the ECB has already established, *inter alia*, Regulations on the application of minimum reserves, on the imposition of sanctions and on consolidated balance sheets of the Monetary Financial Institutions sector.

Furthermore, the ECB is entitled to initiate Community legislation within its field of competence. When exercising its right to

initiate legislation – which is shared with the European Commission – the ECB presents its Recommendations to the ECOFIN Council, and thereafter “accompanies” this draft legislation through the Community law-making processes. In exercising its right to initiate legislation, the ECB has, in the past, issued Recommendations for Council Regulations and Decisions on a variety of issues relating to the fulfilment of its tasks, such as the collection of statistical information, the limits and conditions for capital increases of the ECB, or further calls of foreign reserve assets by the ECB. The ECB may also recommend to the ECOFIN Council that amendments be made to the Statute of the ESCB under the simplified amendment procedures pursuant to Article 107 (5) of the Treaty. The European Parliament must give its consent to any such legislation, while it has to be consulted with regard to “complementary” secondary legislation initiated under Article 107 (6).

Finally, the ECB’s right to be heard on proposed Community legislation, as enshrined in Article 105 (4) of the Treaty, covers a considerable range of issues and also extends to draft legislative provisions of the Member States insofar as they fall within the ECB’s field of competence. In this context, the ECB

has issued Opinions on, for instance, the draft Community Directive on electronic money institutions and on draft national laws dealing with the independent status of central banks. Furthermore, the ECB may submit Opinions on its own initiative to Community institutions or national authorities on matters within its field of competence. (A more detailed overview is provided in the article entitled “Legal instruments of the European Central Bank” in the November 1999 issue of the ECB Monthly Bulletin.)

Collection of statistics

The ECB uses a wide range of economic and financial data to support the conduct of its monetary policy and the fulfilment of other tasks of the Eurosystem. By agreement with the European Commission (Eurostat), money and banking statistics are the responsibility of the ECB at the EU level; responsibility for balance of payments statistics and related statistics, and for financial accounts statistics, is shared between the ECB and the European Commission; however, price and cost and other economic statistics are the responsibility of the European Commission. In fact, Article 5 of the Statute of the ESCB requires the ECB, in collecting the statistical information needed for the performance of the tasks of the Eurosystem, to co-operate with Community institutions, national authorities and international organisations. The ECB and the European Commission also co-operate closely on all matters of common statistical interest, including any initiation of, or consultation on, relevant Community legislation, through bilateral contacts as well as their respective committee structures, which also involve the Member States.

Euro banknotes and coins

Pursuant to Article 106 of the Treaty, the ECB has the exclusive right to authorise the issuance of euro banknotes, while the Member States may issue euro coins, subject to approval by the ECB of the volume of

issuance. In addition, the ECB acts as an independent assessor of the quality of the euro coins. Consequently, the ECB is involved in ongoing consultations with the Mint Directors Working Group and other specialised multilateral fora. Naturally, the ECB is particularly concerned about public confidence in the new currency and hence about protecting the euro banknotes and coins against counterfeiting. In order to guarantee effective protection across national boundaries too, the ECB maintains close working relations with Europol, Interpol and the European Commission. Finally, preparing the European citizens for the introduction of the euro banknotes and coins requires a combined communication effort, bringing together the initiatives of the ECB and of the euro area national central banks – the Euro 2002 Information Campaign – with those of the European Commission and individual euro area Member States.

Prudential supervision and financial stability

Article 105 (5) of the Treaty confers upon the ESCB the task of contributing “to the smooth conduct of policies pursued by the competent authorities relating to the prudential supervision of credit institutions and the stability of the financial system”. In practice, this contribution currently consists in promoting co-operation between central banks and supervisory authorities on policy issues of common interest in the field of prudential supervision and financial stability. This objective is pursued by way of the Banking Supervision Committee, established by the Governing Council of the ECB and comprising representatives of the national central banks and supervisory authorities of the Member States and of the ECB. The ECB also has advisory tasks in this field, which are laid down in Article 105 (4) of the Treaty and Article 25.1 of the Statute of the ESCB. The involvement of the Eurosystem and the ECB in the field of prudential supervision and financial stability requires co-operation with other relevant fora operating in Europe,

Table I**ECB participation in Community fora and bodies**

Body/ forum	Main tasks	Membership
European Parliament (established 1958)	<ul style="list-style-type: none"> • Co-legislator with the EU Council on a wide range of EU laws. • Conducts confirmation hearings of persons nominated to manage Community institutions and bodies, including the ECB. 	<ul style="list-style-type: none"> • Currently 626 Members of the European Parliament. • Organised in eight political groups, along the lines of ideological orientations.
EU Council (ECOFIN) (established 1958)	<ul style="list-style-type: none"> • To take decisions on issues related to Title III, Chapter 4 of the Treaty (Capital and payments), and Title VII (Economic and monetary policy). • To co-ordinate the general economic policies of the Member States. 	<ul style="list-style-type: none"> • Economics or Finance Minister from each Member State (or a representative authorised to bind the government of that Member State). • The European Commission shall be invited. • The ECB shall be invited in cases where it exercises its right of initiative, or when the EU Council is discussing matters relating to the objectives and tasks of the ESCB.
Eurogroup (established 1998)	<ul style="list-style-type: none"> • To provide a forum for discussion among Ministers on issues connected with “their shared specific responsibilities for the single currency”. 	<ul style="list-style-type: none"> • Economics or Finance Ministers of the Member States participating in the euro area. • The European Commission, and the ECB when appropriate, are invited to take part in the meetings.
Economic and Financial Committee (established 1999)	<ul style="list-style-type: none"> • To keep under review the economic and financial situation of the Member States and of the European Community and to report regularly thereon to the EU Council and to the European Commission, in particular on financial relations with third countries and international institutions. • To deliver opinions at the request of the EU Council or of the European Commission, or on its own initiative for submission to those institutions. • To contribute to the work of the ECOFIN Council and to carry out other advisory tasks assigned to it by the EU Council. • To examine, at least once every year, the situation regarding the movement of capital and the freedom of payments. 	<ul style="list-style-type: none"> • The Member States, the European Commission and the ECB are each represented by two members. • The two members appointed by the Member States shall be selected respectively from among senior officials from the administration and the national central bank.
Economic Policy Committee (established 1974)	<ul style="list-style-type: none"> • To contribute to the preparation of the work of the EU Council by providing analyses, opinions on methodologies and draft formulations for policy recommendations, particularly on policies for improving growth potential and employment. • To provide advice to the European Commission and the EU Council. • To provide a framework for Macroeconomic Dialogue at the technical level. 	<ul style="list-style-type: none"> • The Member States, the European Commission and the ECB are each represented by no more than four members.
Macroeconomic Dialogic (established 1999)	<ul style="list-style-type: none"> • To exchange information and opinions on how to design a macroeconomic policy in order to contribute towards higher levels of employment on the basis of strong, non-inflationary, growth. 	<ul style="list-style-type: none"> • The Member States are represented by a ministerial “Troika” from the current, subsequent and preceding presidencies, selected from the ECOFIN and Social Affairs Council. • The European Commission, the ECB and a non-euro area national central bank also participate. • The social partners are represented by EU-level federations of employers and trade unions.

Level of ECB participation	Frequency of meetings/ subgroups	Other observations	Body/ forum
President or Vice-President; other members of the Executive Board report on specific topics	<ul style="list-style-type: none"> Hearings of the ECB before the Economic and Monetary Affairs Committee in principle four times a year. Presentation of the ECB's Annual Report to a plenary session. ECB officials can be invited before a parliamentary committee whenever a need arises. 	Monetary dialogue between the ECB and the European Parliament is a core element in the process of holding the ECB accountable.	European Parliament
President/Vice-President, or, exceptionally, other members of the Executive Board of the ECB	<ul style="list-style-type: none"> Usually once a month. Twice-yearly informal meetings, national central banks, the ECB and the European Commission are invited. Various sub-structures, Committee of Permanent Representatives (COREPER) and working groups. 	The ECOFIN Council is one of the compositions of the EU Council. Generally, the EU Council is the main legislator at the European level, in many cases in co-decision with the European Parliament.	EU Council (ECOFIN)
President and Vice-President, or, exceptionally, other Executive Board members	<ul style="list-style-type: none"> Usually once a month, before the ECOFIN meetings. 	The Eurogroup is an informal entity which was established on the basis of a Resolution of the 1997 Luxembourg European Council. The Eurogroup has no legal basis in the Treaty and has, as such, no legislative powers.	Eurogroup
Vice-President, and a member of the Executive Board; two senior staff members act as alternates.	<ul style="list-style-type: none"> Usually once a month. Sub-structures include committee of alternates and various working groups (e.g. Financial Experts Group; Working Group on EU Government Bonds and Bills; Working Group on Statistics; Euro-Coins Subcommittee) which meet to prepare EFC meetings. 	Successor to the Monetary Committee (established 1958). Provides the main framework within which the dialogue between the EU Council and the ECB can be prepared and continued at the level of senior officials from ministries, national central banks, the European Commission and the ECB.	Economic and Financial Committee
3 ECB staff members	<ul style="list-style-type: none"> Usually once a month. Various subgroups (e.g. a working group on structural reform indicators) meet to prepare EPC meetings. 	Work focuses mainly on structural issues. Organises an annual in-depth review of structural reforms in the Member States; the resulting Annual Report on Structural Reforms feeds into the elaboration of the Broad Economic Policy Guidelines.	Economic Policy Committee
President or Vice-President and one accompanying person	<ul style="list-style-type: none"> Twice a year (spring and autumn). The Macroeconomic Dialogue at the technical level prepares meetings at the political level. A steering committee provides support. 	The Macroeconomic Dialogue is otherwise known as the "Cologne process". It forms part of the European Employment Pact and is intended to complement the "Luxembourg process" (employment policy strategy) and the "Cardiff process" (reform of capital and product markets).	Macroeconomic Dialogue

notably the Banking Advisory Committee (established under the aegis of the European Commission) and the Groupe de Contact (a committee of banking supervisory authorities from all the countries of the European Economic Area). A more detailed presentation of the relations between supervisory authorities in Europe and the Eurosystem's involvement is provided in the article entitled "EMU and the banking supervision" in the April 2000 issue of the ECB Monthly Bulletin.

Payment systems

Promoting the smooth operation of payment systems is an essential feature of the role of a modern central bank and forms part of the Eurosystem's basic tasks (as defined in Article 105 (2) of the Treaty), as it contributes to the stability of the financial system, to public confidence in the currency and to the effective transmission of

monetary impulses. (For more details, see the ECB press release containing the "Statement on the role of the Eurosystem in the field of payment systems oversight", as issued on 21 June 2000.) On account of their link with payment systems and monetary policy, the Governing Council of the ECB also takes action to ensure the soundness and efficiency of securities settlement systems.

In this context, the ECB co-operates closely with the European Commission and with other regulatory authorities, providing impulses and advice on the necessary regulatory and legislative framework at the Community level. More information on developments related to payment and securities settlement systems is contained in the articles entitled "TARGET and payments in euro" and "Consolidation in the securities settlement industry" in the November 1999 and February 2000 issues of the ECB Monthly Bulletin respectively.