



THE EUROPEAN CENTRAL BANK



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With the euro now in our pockets, more than 300 million European citizens are connecting with the European Central Bank (ECB) in everyday life. The new currency essentially performs the three classic functions of money – a medium of exchange, a store of value and a unit of account – but it is much more than that.

The start of Stage Three of Economic and Monetary Union on 1 January 1999 marked the opening of a new chapter in the history of European integration. Over the subsequent three years, mainly banking professionals and traders in financial markets were able to embrace the new European currency. But when the euro banknotes and coins entered into circulation on 1 January 2002, the momentous changes became clear for everyone.

The euro is the most tangible symbol of a common “European identity” to date, and naturally it has a strong impact on economic developments throughout the euro area.

All this is the product of bold and visionary political decisions which also led to the establishment of the ECB. The national central banks of the 12 euro area countries and the ECB together constitute an entity we call the “Eurosystem”, the primary objective of which is to maintain price stability in the euro area.

Being at the heart of this entity, the ECB places great emphasis on effective communication with the public. We want to explain what our objectives are, how we attain them and what challenges we face. This can indeed be a challenge in itself, trying to put our message across in the complex environment of many cultures, languages and traditions. After all, we need to be understood by the population of an area stretching across the entire continent, from the Arctic Circle to the Mediterranean. In all our communication activities, therefore, we try to abide by the principles of openness and transparency, sharing with the public information on which the ECB bases its decisions.

This brochure gives information about the euro and the tasks of the ECB and the Eurosystem. It is part of our efforts to provide basic information to citizens in an accessible manner. I trust that it will go some way towards achieving our objective.

Frankfurt am Main, September 2002



Willem F. Duisenberg
President of the European Central Bank

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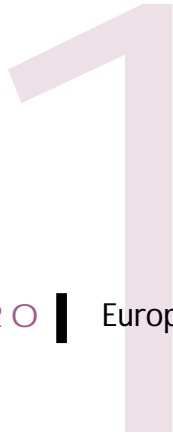
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THE EURO | Europe's new currency

Since 1 January 1999 Europe has had a new currency, the euro. On that date the euro replaced the national currencies of 11 countries: Belgium, Germany, Spain, France, Ireland, Italy, Luxembourg, the Netherlands, Austria, Portugal and Finland. On 1 January 2001 it also replaced the national currency of Greece. These 12 countries are known collectively as the euro area. Three of the European Union (EU) Member States have not yet adopted the euro: Denmark, Sweden and the United Kingdom.

The introduction of a single currency for more than 300 million European citizens provides tremendous benefits for both consumers and businesses. It facilitates the trading of goods and services between the participating countries, thus strengthening the Single Market in the European Union. For exporting and importing companies, the risk of fluctuating exchange rates is limited to trade with countries outside the euro area.

There are also benefits for travellers. As a result of the introduction of the euro banknotes and coins in January 2002, people travelling between euro area countries do not need to change money or pay exchange fees. In addition, the use of the same currency in 12 countries has made prices across the euro area directly comparable. The result of all these new developments should be increased cross-border competition and greater prosperity throughout the euro area.

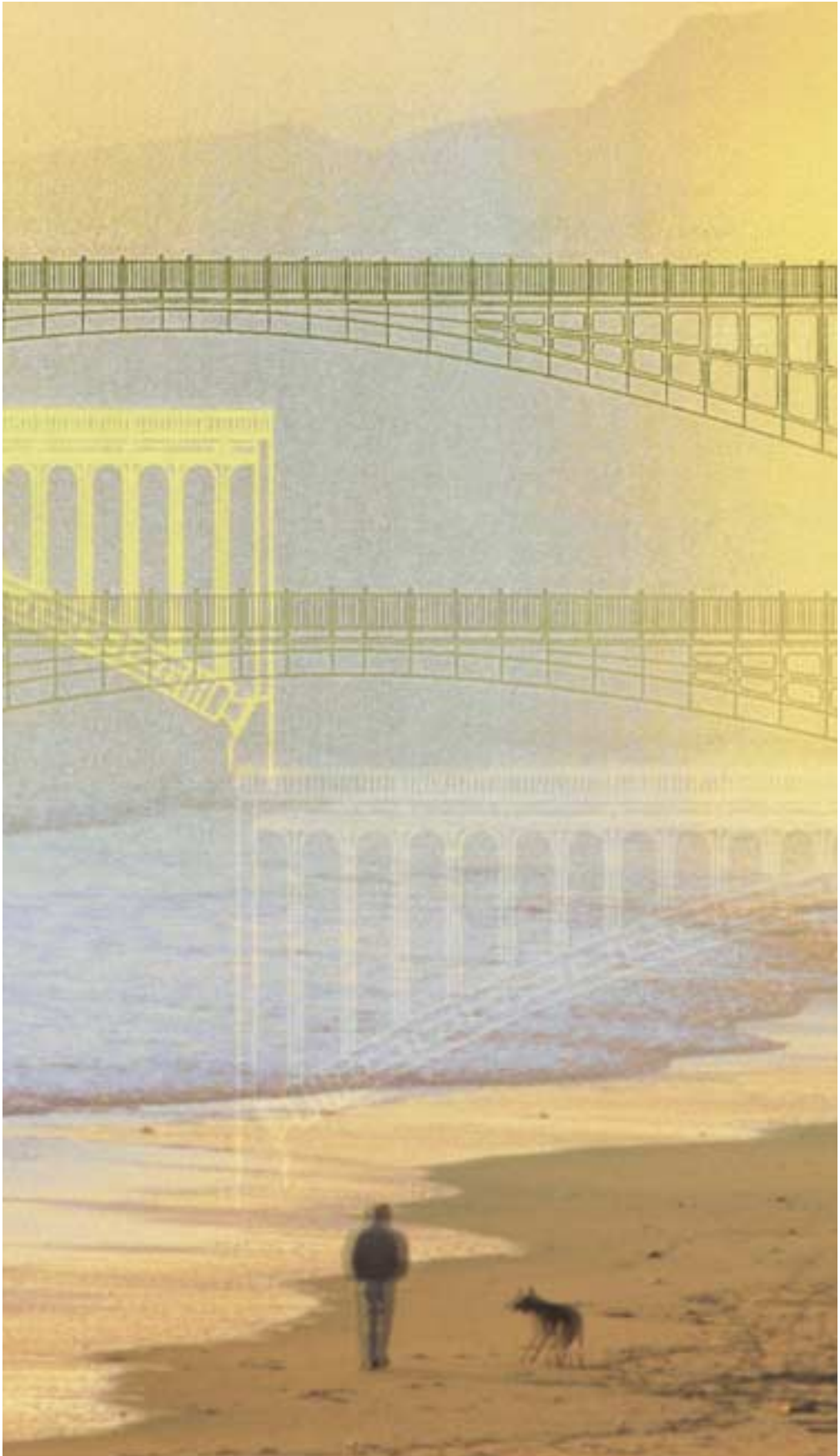
The euro is intended to be at least as stable as any of the former national currencies in the euro area. It is the task of the European Central Bank (ECB) to make sure that you will be able to buy approximately the same amount of goods and services for €1,000 next year as you can today. In other words, to maintain price stability in the euro area as a whole. To achieve this, the ECB and the national central banks of the euro area countries are working together to implement a stability-oriented single monetary policy. Of course, governments also have a role in maintaining price stability by pursuing sound tax and spending policies, as do wage negotiators by observing prudence.

Countries wishing to adopt the single currency must meet a number of economic criteria: low inflation, sound public finances, low interest rates and stable exchange rates. They must also ensure the political independence of their national central banks. The fulfilment of these convergence criteria – known as the Maastricht criteria – laid a solid foundation for the new currency before it was launched.

Euro banknotes and coins were introduced on 1 January 2002. In a logistical operation of unprecedented magnitude and complexity, the national banknotes and coins were taken out of circulation and replaced by billions of euro banknotes and coins. The whole operation was concluded within two months. However, the national central banks of the euro area will still exchange the old banknotes – and in some cases the old coins – for some time to come.

IRREVOCABLY FIXED CONVERSION RATES

1 euro =	40.3399	Belgian francs
	1.95583	Deutsche Mark
	340.750	Greek drachmas
	166.386	Spanish pesetas
	6.55957	French francs
	0.787564	Irish pounds
	1,936.27	Italian lire
	40.3399	Luxembourg francs
	2.20371	Dutch guilders
	13.7603	Austrian schillings
	200.482	Portuguese escudos
	5.94573	Finnish markkas





|| CORNERSTONE || The European Central Bank

The European Central Bank (ECB) is the guardian of price stability in the euro area. Established on 1 June 1998, it is one of the world's youngest central banks. However, it has inherited the credibility and expertise of all the euro area national central banks, which together with the ECB implement the stability-oriented monetary policy for the euro area.

The legal basis for the ECB and the European System of Central Banks (ESCB) is the Treaty establishing the European Community. According to this Treaty, the ESCB is composed of the ECB and the national central banks of all 15 EU Member States. The Statute of the European System of Central Banks and of the European Central Bank is attached to the Treaty as a protocol.

There are around 1,100 (August 2002) staff members at the ECB headquarters in Frankfurt am Main, Germany. Recruited from all 15 EU countries, they work in close co-operation with the staff of the national central banks to prepare and implement the decisions of the ECB's decision-making bodies.

The highest decision-making body of the ECB is the Governing Council. It consists of the six members of the Executive Board and the 12 governors of the national central banks of the euro area. Both the Governing Council and the Executive Board are chaired by the President of the ECB.

The key task of the Governing Council is to formulate the monetary policy for the euro area. Specifically, it has the power to determine the interest rates at which commercial banks may obtain liquidity (money) from their central bank. Thus the Governing Council indirectly influences interest rates throughout the euro area economy, including the rates that commercial banks charge their customers for loans and those that savers earn on their deposits.

Governing Council



Back row (left to right):

Vitor Constâncio, Banco de Portugal; **Jean-Claude Trichet**, Banque de France; **Nicholas C. Garganas**, Bank of Greece; **Guy Quaden**, Nationale Bank van België/Banque Nationale de Belgique; **Matti Vanhala**, Suomen Pankki – Finlands Bank; **Klaus Liebscher**, Oesterreichische Nationalbank; **Ernst Welteke**, Deutsche Bundesbank; **Yves Mersch**, Banque centrale du Luxembourg; **John Hurley**, Central Bank of Ireland; **Jaime Caruana**, Banco de España; **Antonio Fazio**, Banca d'Italia; **Nout Wellink**, De Nederlandsche Bank

Front row (left to right):

Tommaso Padoa-Schioppa, Executive Board; **Otmar Issing**, Executive Board; **Lucas D. Papademos**, Vice-President; **Willem F. Duisenberg**, President; **Sirkka Härmäläinen**, Executive Board; **Eugenio Domingo Solans**, Executive Board

The Executive Board of the ECB consists of the President, the Vice-President and four other members. All are appointed by common accord of the Heads of State or Government of the 12 countries which form the euro area.

The Executive Board is responsible for implementing the monetary policy as formulated by the Governing Council and gives the necessary instructions to the national central banks for this purpose. It also prepares the meetings of the Governing Council and manages the day-to-day business of the ECB.

Executive Board



Back row (left to right):
Eugenio Domingo Solans, Otmar Issing, Tommaso Padoa-Schioppa

Front row (left to right):
Lucas D. Papademos, Vice-President; Willem F. Duisenberg, President;
Sirkka Härmäläinen

The third decision-making body of the ECB is the General Council. It comprises the President and the Vice-President of the ECB and the governors of all 15 national central banks of the EU Member States. The General Council contributes to the advisory and co-ordinating functions of the ECB and to the preparations for the possible enlargement of the euro area.

The working units of the ECB are grouped into Directorates General, Directorates and Divisions, overall responsibility for which lies with individual members of the Executive Board.

General Council



Back row (left to right):

Nicholas C. Garganas, Bank of Greece; **Guy Quaden**, Nationale Bank van België/Banque Nationale de Belgique; **Matti Vanhala**, Suomen Pankki – Finlands Bank; **Klaus Liebscher**, Oesterreichische Nationalbank; **Ernst Welteke**, Deutsche Bundesbank; **Yves Mersch**, Banque centrale du Luxembourg; **Edward A. J. George**, Bank of England; **John Hurley**, Central Bank of Ireland; **Jaime Caruana**, Banco de España; **Nout Wellink**, De Nederlandsche Bank; **Antonio Fazio**, Banca d'Italia

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EUROPEAN SYSTEM OF CENTRAL BANKS (ESCB)

General Council

European Central Bank (ECB)

Governing Council

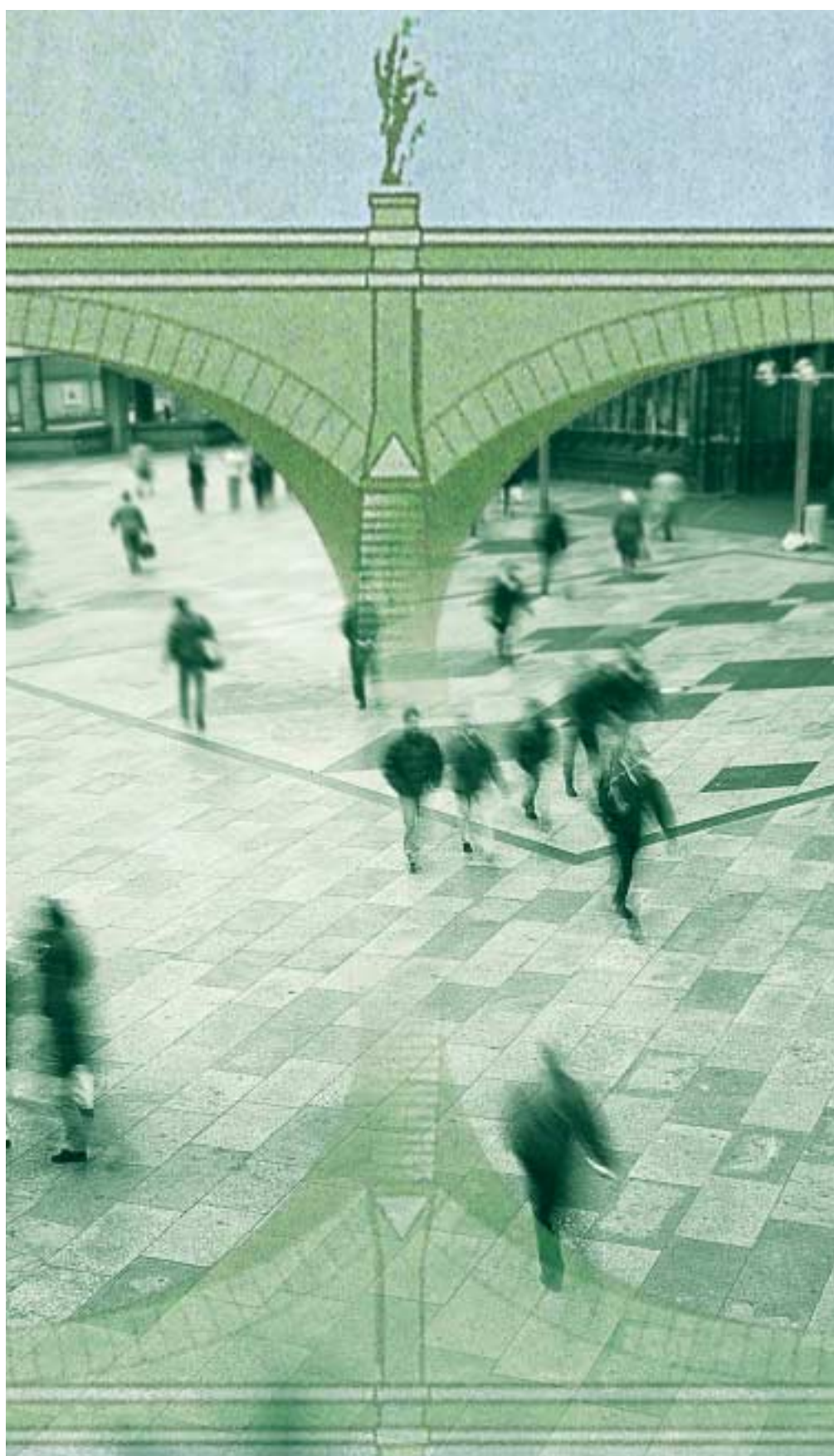
Executive Board

Nationale Bank van België/
Banque Nationale de Belgique
Deutsche Bundesbank
Bank of Greece
Banco de España
Banque de France
Central Bank of Ireland

Banca d'Italia
Banque centrale du
Luxembourg
De Nederlandsche Bank
Oesterreichische Nationalbank
Banco de Portugal
Suomen Pankki – Finlands Bank

Danmarks
Nationalbank
Sveriges Riksbank

Bank of England



3

STRUCTURE | The Eurosystem



The 12 national central banks in the euro area and the ECB together form the Eurosystem. This term was chosen by the Governing Council to describe the arrangement by which the European System of Central Banks (ESCB) carries out its tasks within the euro area.

As long as there are EU Member States which have not yet adopted the euro, this distinction between the Eurosystem and the ESCB will need to be made.

The national central banks of the three Member States which have yet to adopt the euro (Denmark, Sweden and the United Kingdom) do not take part in decision-making regarding the single monetary policy for the euro area. These Member States continue to have their own national currencies and conduct their own monetary policies.

An EU country that wishes to adopt the euro at a later stage can do so, provided that it fulfils the convergence criteria. The ECB is required to give its opinion on the level of convergence before a country is allowed to join the euro area.

The Eurosystem depends on a smoothly functioning banking system through which monetary policy operations can be performed. In the 12 participating countries, as many as 8,000 credit institutions (commercial banks, savings banks and other financial institutions) can act as a channel for monetary policy transactions aimed at either increasing or decreasing the supply of liquidity to the euro area.

The Eurosystem has a vital interest in the efficiency and stability of the banking industry. It is therefore natural for the Eurosystem to monitor developments in the banking sector closely, as foreseen by the Treaty establishing the European Community, even though responsibility for banking supervision remains in the hands of the national authorities.



The basic tasks of the Eurosystem are:

- to define and implement the monetary policy for the euro area;
- to conduct foreign exchange operations and to hold and manage the official foreign reserves of the euro area countries;
- to issue banknotes in the euro area; and
- to promote the smooth operation of payment systems.

Further tasks are:

- to collect the necessary statistical information either from national authorities or directly from economic agents, e.g. financial institutions;
- to review developments in the banking and financial sector; and
- to promote a smooth exchange of information between the ESCB and supervisory authorities.



THE EUROPEAN SYSTEM OF CENTRAL BANKS



EUROPEAN CENTRAL BANK



NATIONALE BANK VAN BELGIË/
BANQUE NATIONALE DE BELGIQUE



DEUTSCHE BUNDESBANK



BANQUE DE FRANCE



CENTRAL BANK OF IRELAND



DE NEDERLANDSCHE BANK



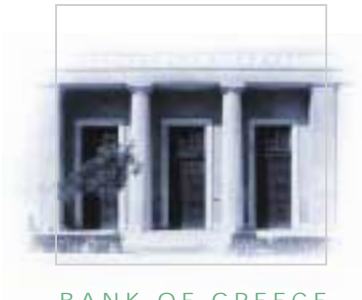
OESTERREICHISCHE NATIONALBANK



DANMARKS NATIONALBANK



SVERIGES RIKSBANK



BANK OF GREECE



BANCO DE ESPAÑA



BANCA D'ITALIA



BANQUE CENTRALE DU LUXEMBOURG



BANCO DE PORTUGAL

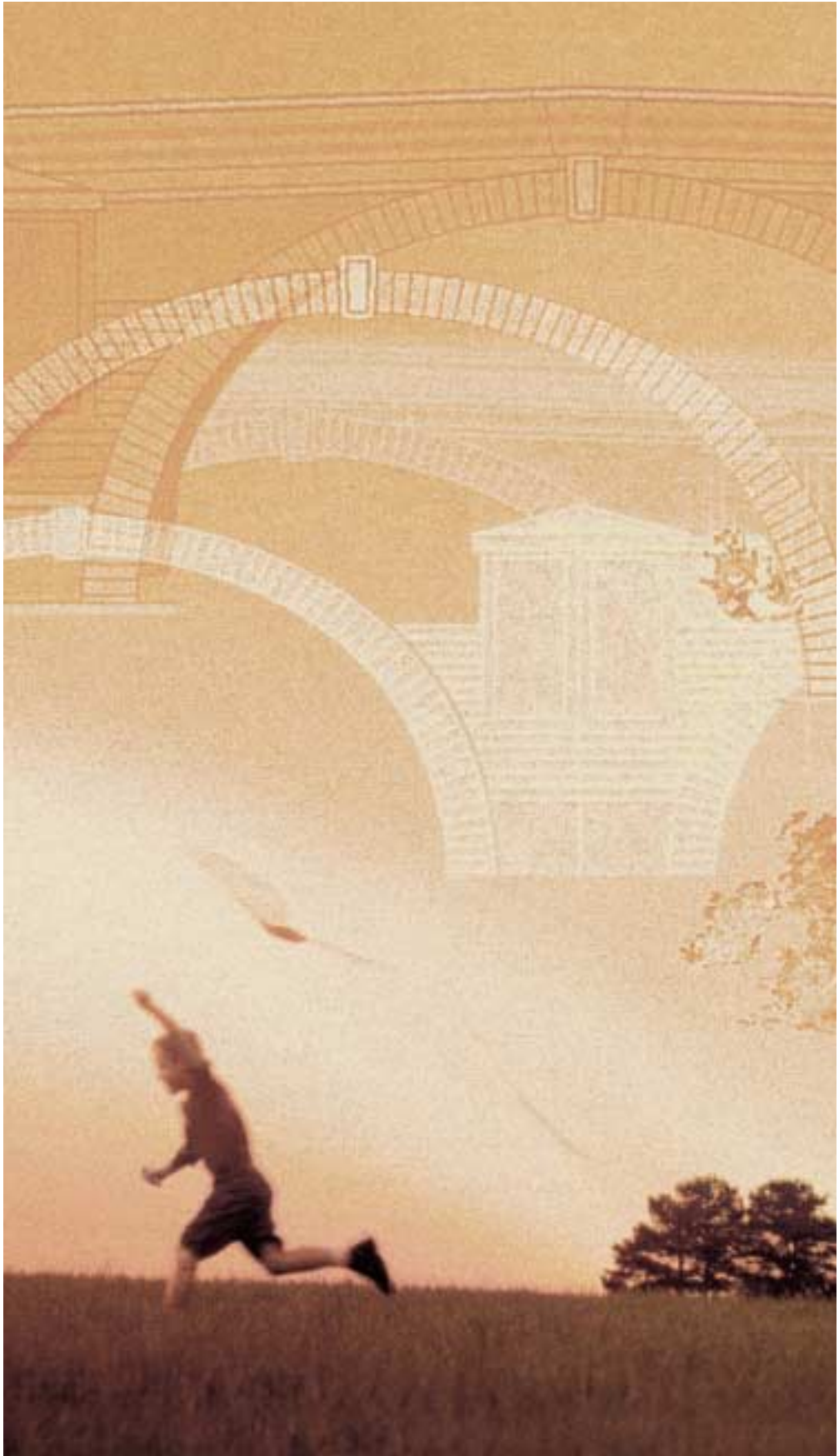


SUOMEN PANKKI - FINLANDS BANK

EUROSYSTEM



BANK OF ENGLAND



4

STABILITY | Stable prices



The primary objective of the Eurosystem is to maintain price stability in the euro area, thus protecting the purchasing power of the euro. Ensuring stable prices is the most important contribution that monetary policy can make to achieving a favourable economic environment and a high level of employment. Both inflation and deflation can be very costly to society, economically and socially.

Without prejudicing its primary objective of price stability, the Eurosystem also supports the general economic policies in the European Community and acts in accordance with the principles of an open market economy, as stipulated by the Treaty establishing the European Community.

TREATY ESTABLISHING THE EUROPEAN COMMUNITY, EXCERPT FROM ARTICLE 105

HOVEDMÅLET FOR ESCB ER AT FASTHOLDE PRISSTABILITET.

DAS VORRANGIGE ZIEL DES ESZB IST ES, DIE PREISSTABILITÄT ZU GEWÄHRLEISTEN.

ΠΡΩΤΑΡΧΙΚΟΣ ΣΤΟΧΟΣ ΤΟΥ ΕΣΚΤ ΕΙΝΑΙ Η ΔΙΑΤΗΡΗΣΗ ΤΗΣ ΣΤΑΘΕΡΟΤΗΤΑΣ ΤΩΝ ΤΙΜΩΝ.

THE PRIMARY OBJECTIVE OF THE ESCB SHALL BE TO MAINTAIN PRICE STABILITY.

EL OBJETIVO PRINCIPAL DEL SEBC SERÁ MANTENER LA ESTABILIDAD DE PRECIOS.

L'OBJECTIF PRINCIPAL DU SEBC EST DE MAINTENIR LA STABILITÉ DES PRIX.

L'OBIETTIVO PRINCIPALE DEL SEBC È IL MANTENIMENTO DELLA STABILITÀ DEI PREZZI.

HET HOOFDDOEL VAN HET ESCB IS HET HANDHAVEN VAN PRIJSSTABILITEIT.

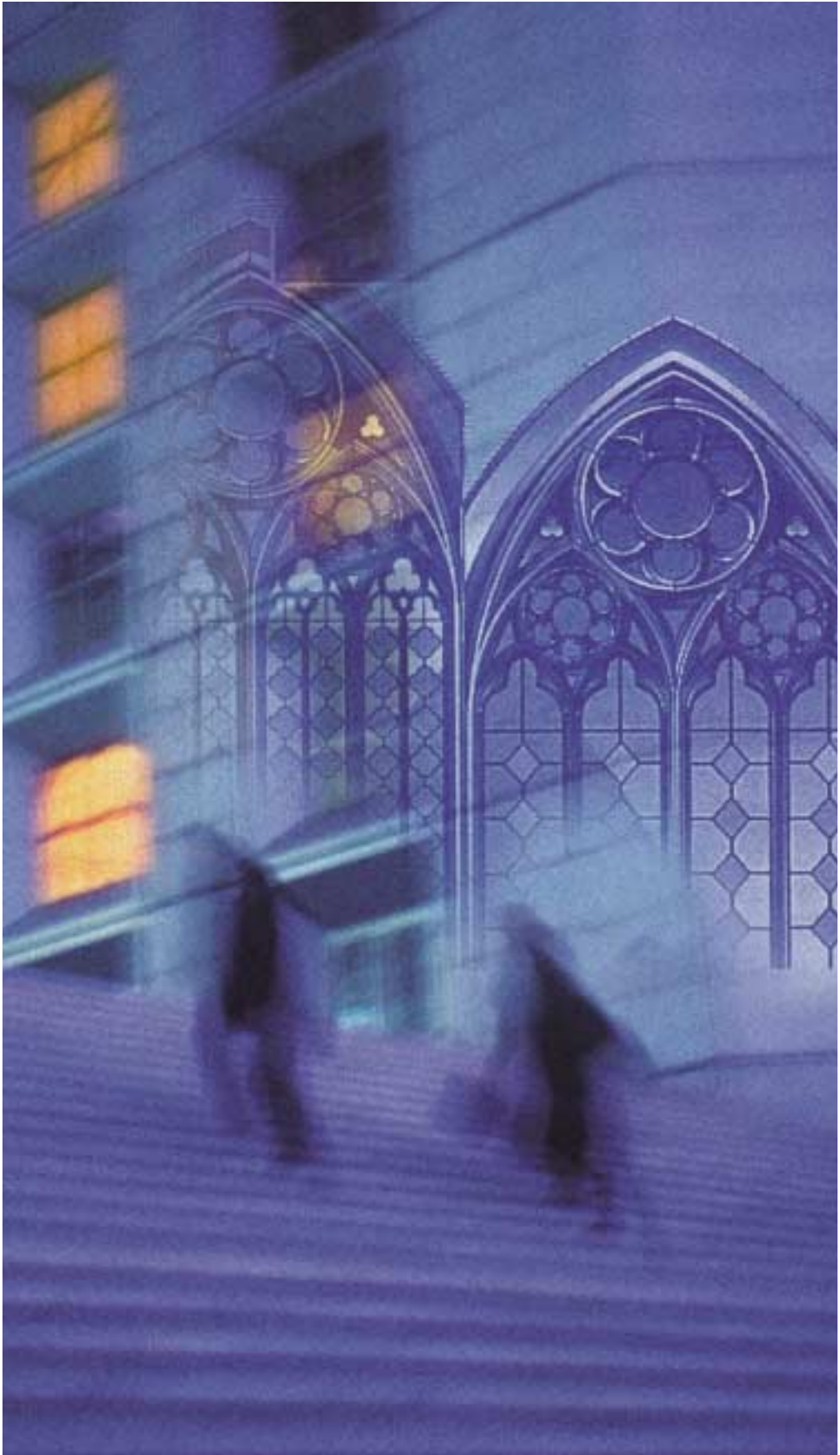
O OBJECTIVO PRIMORDIAL DO SEBC É A MANUTENÇÃO DA ESTABILIDADE DOS PREÇOS.

EKPJ:N ENSISIJAISENA TAVOITTEENA ON PITÄÄ YLLÄ HINTATASON VAKAUTTA.

HUVUDMÅLET FÖR ECBS SKALL VARA ATT UPPRÄTTHÅLLA PRISSTABILITET.

In order to make it easier for the public to assess the success of the single monetary policy, the ECB has announced a precise definition of its primary goal. Price stability has been defined as a year-on-year increase in consumer prices of below 2%.

It is well known that, in the short term, price developments cannot be fully controlled by monetary policy, since it takes time for monetary policy action to feed through to changes in the price level. In the short term, prices are affected by a variety of other factors, such as fluctuations in the prices of raw materials or changes in indirect taxation. Therefore, the aim is to maintain a stable price level over the medium term. Seasonal fluctuations and other very short-term effects should not be seen as signalling a deviation from the objective of price stability.



5

INDEPENDENCE | The ECB's position



Independence is vital to the operational success of any central bank. In line with the provisions of the Treaty establishing the European Community, the Eurosystem enjoys full independence in performing its tasks: neither the ECB, nor the national central banks in the Eurosystem, nor any member of their decision-making bodies shall seek or take instructions from any other body. The Community institutions and bodies and the governments of the Member States are bound to respect this principle and must not seek to influence the members of the decision-making bodies of the ECB or of the national central banks.

The Eurosystem has all the instruments and competencies necessary to conduct an efficient monetary policy. The Eurosystem may not grant any loans to Community bodies or national government entities. This shields it further from political interference.

The ECB has its own budget, independent of that of the European Community. This keeps the administration of the ECB separate from the financial interests of the Community.

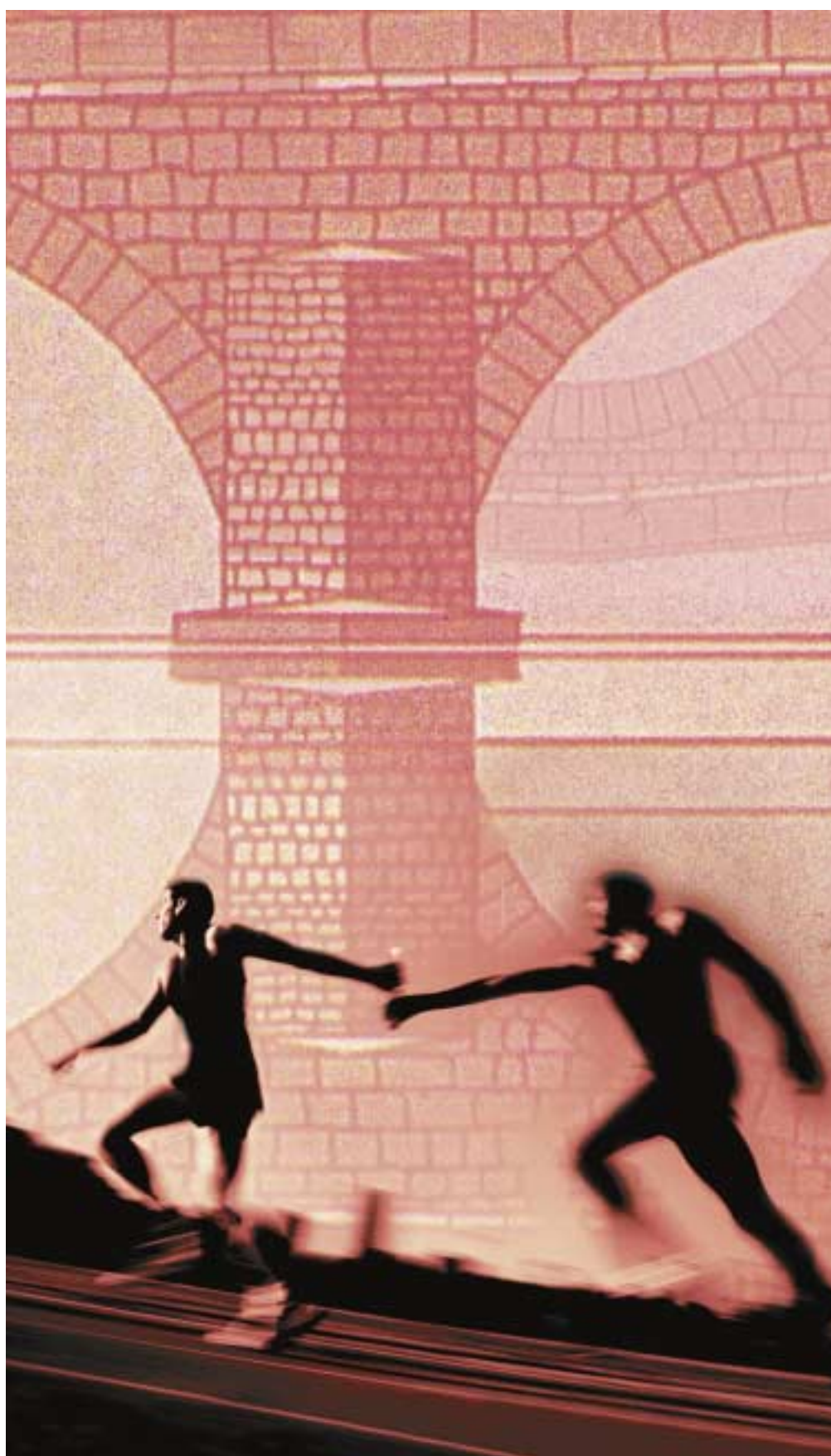
The capital of the ECB does not come from the European Community but has been subscribed and paid up by the national central banks. The share of each Member State in the gross domestic product and in the population of the European Union determines the amount of each national central bank's subscription.

The members of the ECB's decision-making bodies have long terms of office and can be dismissed only for serious misconduct or inability to perform their duties.



At an international level, arrangements exist for the ECB to be represented at the International Monetary Fund (IMF), one of the key elements of the international monetary system, and at the Organisation for Economic Co-operation and Development (OECD). The ECB participates in meetings of these international organisations with the sole aim of exchanging information. The independence of the ECB is thus fully respected.





6



TRANSPARENCY | Credibility and accountability

To maintain its credibility, an independent central bank must be open and clear about the reasons for its actions. It must also be accountable to democratic institutions. Without encroaching on the ECB's independence, the Treaty establishing the European Community imposes precise reporting obligations on the ECB.

The ECB publishes a consolidated weekly financial statement of the Eurosystem. This reflects the monetary and financial transactions of the Eurosystem during the preceding week. The ECB must publish reports on the activities of the ESCB at least once every quarter. It also has to draw up an Annual Report on these activities and on the monetary policy of the previous and current year and present it to the European Parliament, the EU Council, the European Commission and the European Council. The publications of the ECB are available on request and may also be viewed on the ECB's website. The website offers the full range of ECB publications, as well as links to the websites of the 15 EU national central banks.

The European Parliament may hold a general debate on the Annual Report of the ECB. 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, present their views to the competent committees of the European Parliament. Such hearings generally take place each quarter.

In fact, the ECB has committed itself to going beyond the reporting requirements specified in the Treaty. The President explains the reasoning behind the Governing Council's decisions in a press conference which is held immediately after the first meeting of the Governing Council every month. Further details of the Governing Council's views on the economic situation and the outlook for price developments are published in the ECB's Monthly Bulletin, which is available in all 11 official languages of the European Community.



A member of the European Commission has the right to take part in the meetings of the Governing Council and the General Council, but not to vote. As a rule, the Commission is represented by the commissioner responsible for economic and financial matters.

The ECB has a reciprocal relationship with the EU Council. On the one hand, the President of the EU Council may take part in the meetings of the Governing Council and the General Council of the ECB. He may put forward a motion to be discussed in the Governing Council, but may not vote. On the other hand, the President of the ECB is invited to the meetings of the EU Council when the Council is discussing matters relating to the objectives and tasks of the ESCB. Apart from the official and informal meetings of the ECOFIN Council (which brings together the EU ministers of economics and finance), the President also takes part in meetings of the Eurogroup (which are meetings of the ministers of economics and finance of the euro area countries). The governors of the national central banks attend the informal ECOFIN Council meetings.

The ECB and the EU national central banks are also represented on the Economic and Financial Committee, a consultative Community body which deals with a broad range of European economic policy issues.



7



TOOLBOX | Strategy and instruments

The specific way in which the ECB pursues its primary objective of maintaining price stability is laid down in what is called the monetary policy strategy.

The Governing Council has chosen a monetary policy strategy which ensures as much continuity as possible with the strategies pursued by the national central banks prior to Monetary Union. At the same time, the launch of the euro presents a completely new situation. This has to be taken into account as the monetary policy is developed.

The strategy rests on two pillars.

The first pillar

A prominent role for money. This is signalled by the announcement of a reference value for the growth of the money supply in a broad sense, inflation being seen as ultimately the result of too much money chasing a limited amount of goods and services. The monetary aggregate known as M3 is calculated by adding together cash in circulation, short-term deposits in credit institutions (and other financial institutions) and short-term interest-bearing securities issued by these institutions. The reference value for the annual growth rate of M3 (since 1999: 4½%) is intended to help the Governing Council to analyse and present the information contained in the monetary aggregates in a manner that offers a coherent and credible guide to its monetary policy.

The second pillar

A broadly based assessment of the outlook for future price developments and the risks to price stability in the euro area. This assessment is made using a wide range of economic indicators, which provide information on future price developments. Examples of such indicators are wages, the exchange rate, long-term interest rates, various measures of economic activity, fiscal policy indicators, price and cost indices, and business and consumer surveys.



All in all, the combination of the two pillars of the ECB's strategy ensures that monetary, financial and economic developments are closely monitored and analysed. This thorough analysis enables the ECB to set its interest rates at a level that best serves the maintenance of price stability. By safeguarding the euro's purchasing power in this way, the ECB's monetary policy also supports the external value of the euro, as measured by its rate of exchange against other currencies. However, the exchange rate is not in itself a policy objective.

In order to achieve its primary objective of maintaining price stability, the Eurosystem has a set of monetary policy instruments. The purpose of these is to influence market interest rates, manage the liquidity situation in the banking system and signal the general direction of monetary policy. Monetary policy is formulated by the Governing Council of the ECB. Its implementation is largely decentralised, with most of the operations being carried out by the national central banks.



The most important instruments

The **main refinancing operations** are used to provide the banking system with sufficient liquidity and to signal the general stance of monetary policy. They are conducted once a week and have a maturity of two weeks.

The **longer-term refinancing operations** are also liquidity-providing transactions, but are conducted monthly and have a maturity of three months.

Two **standing facilities** are also offered. These aim to provide and to absorb overnight liquidity. The interest rates on these standing facilities form a corridor for movements of overnight market interest rates.

- The **marginal lending facility** allows counterparties (i.e. financial institutions such as banks) to obtain overnight liquidity from the Eurosystem against eligible assets.
- The **deposit facility** can be used by counterparties to make overnight deposits with the Eurosystem.

Fine-tuning operations are executed on an ad hoc basis, with the aims of managing the liquidity situation in the market and of steering interest rates. One specific goal is to smooth the effects on interest rates of unexpected liquidity fluctuations in the market.

By imposing **minimum reserve requirements** on credit institutions the ECB aims to stabilise demand for central bank money. Each credit institution must keep a certain percentage of its own customer deposits in a deposit account with the Eurosystem. This in turn stabilises money market interest rates.

EUROSYSTEM

Refinancing operations

Marginal lending facility

Fine-tuning operations

Deposit facility

Minimum reserves



CREDIT INSTITUTIONS

Credits and loans

Deposits



HOUSEHOLDS AND FIRMS

○○○○○○○○○▷ = liquidity flow

The backbone of the single money market of the euro area is the system for payment transfers known as TARGET (which stands for Trans-European Automated Real-time Gross settlement Express Transfer system). TARGET links together 15 national payment systems – one in each of the EU Member States – and the ECB payment mechanism. This makes it possible to transfer large amounts of money between bank accounts from one end of the European Union to the other within minutes, if not seconds.

The TARGET system has facilitated the development of a single money market in Europe and clears cross-border payments to a value of more than €450 billion every day. Add to this domestic payments and the figure rises to above €1.5 trillion. TARGET has proved to be a secure and reliable mechanism and is now by far the most important payment system in Europe and one of the three largest worldwide.



|| GLOSSARY || Explanation of keywords

Central bank: an institution which – by way of a legal act – has been given responsibility for conducting the monetary policy for a specific area.

Convergence criteria: a set of economic conditions which have to be met by EU Member States before they can participate in the euro area. These criteria – often referred to as the Maastricht criteria – relate to the achievement of low inflation, sound public finances, stable exchange rates, and low and stable interest rates. They are described in the Treaty establishing the European Community and in protocols attached to the Treaty.

Credit institution: “an undertaking whose business is to receive deposits or other repayable funds from the public and to grant credit for its own account” (Article 1 of the First Banking Co-ordination Directive (77/780/EEC)). Banks and savings banks are the commonest types of credit institutions.

Deflation: a process in which the general price level falls continuously over a sustained period of time. If prices are expected to continue to fall, purchases of goods may be delayed in anticipation of lower future prices. This could result in further falls in prices and ultimately in a downward spiral in the economic cycle. Falling prices in certain sectors of the economy, due to technical progress or increased competition, should not be considered as deflation.

ECOFIN: see [EU Council](#).

Economic and Financial Committee (EFC): a consultative Community body set up at the start of Stage Three of Economic and Monetary Union. The EU Member States, the European Commission and the European Central Bank (ECB) each appoint no more than two members of the EFC.

Economic and Monetary Union (EMU): The Treaty establishing the European Community describes the process of achieving Economic and Monetary Union in three stages. Stage One of EMU started in July 1990 and ended on 31 December 1993. It was mainly characterised by the dismantling of all internal barriers to the free movement of capital within the European Union. Stage Two of EMU began on 1 January 1994. It provided for, among other things, the establishment of the European Monetary Institute (EMI), the prohibition of financing of the public sector by central banks and the avoidance of excessive deficits in public finances. Stage Three started on 1 January 1999 with the transfer of monetary competence to the Eurosystem, the irrevocable fixing of exchange rates between the currencies of the participating EU Member States and the introduction of the euro.

EU Council: a body made up of representatives of the governments of the Member States, normally the ministers responsible for the matters under consideration (therefore often referred to as the Council of Ministers). The EU Council meeting in the composition of the ministers of economics and finance is often referred to as the ECOFIN Council.

Euro: the name of the European currency adopted by the European Council at its meeting in Madrid on 15 and 16 December 1995, to be used instead of the term ECU.

Eurogroup: an informal gathering of the ministers of economics and finance of the EU Member States participating in the euro area. At meetings of the Eurogroup the ministers discuss issues connected with

their shared responsibilities in respect of the single currency. The European Commission and the European Central Bank (ECB) are invited to take part in the meetings. The Eurogroup usually meets immediately before a normal ECOFIN meeting.

European Central Bank (ECB): Established on 1 June 1998 and located in Frankfurt am Main, the ECB has its own legal personality. It ensures that the tasks conferred upon the Eurosystem and the European System of Central Banks (ESCB) are carried out either by the ECB itself or by the national central banks.

European Commission (Commission of the European Communities): the institution of the European Community which ensures the application of the provisions of the Treaty establishing the European Community, develops Community policies, proposes Community legislation and exercises powers in specific areas. In the area of economic policy, the Commission recommends broad guidelines for the economic policies in the Community and reports to the EU Council on economic developments and policies. It monitors public finances within the framework of multilateral surveillance and submits reports to the EU Council. It consists of 20 members and includes two nationals each from Germany, Spain, France, Italy and the United Kingdom, and one from each of the other EU Member States.

European Council: provides the European Union with the necessary impetus for its development and defines the general political guidelines thereof. It brings together the Heads of State or Government of the Member States and the President of the European Commission (see also [EU Council](#)).

European Monetary Institute (EMI): The EMI was a temporary institution established at the start of Stage Two of EMU (on 1 January 1994). The main tasks of the EMI were to strengthen central bank co-operation and monetary policy co-ordination and to make preparations for Stage Three of EMU. The EMI ceased to exist on 1 June 1998.

European Parliament: consists of 626 representatives of the citizens of the EU Member States. It is part of the legislative process, though with different prerogatives according to the procedures through which EU law is to be enacted. In the framework of EMU, the Parliament has mainly consultative powers. However, the Treaty establishing the European Community establishes certain procedures for the democratic accountability of the ECB to the European Parliament (presentation of the Annual Report, general debate on the monetary policy, hearings before the competent parliamentary committees).

European System of Central Banks (ESCB): is composed of the ECB and the national central banks of all 15 EU Member States.

Eurosystem: comprises the ECB and the national central banks of the EU Member States which have adopted the euro in Stage Three of EMU.

Executive Board: one of the three decision-making bodies of the ECB. It comprises the President and the Vice-President of the ECB and four other members.

Fine-tuning operations: non-regular open market operations executed by the Eurosystem mainly in order to deal with unexpected liquidity fluctuations in the market.

Foreign exchange operations: the buying or selling of foreign exchange. In the context of the Eurosystem, this means buying or selling other currencies against euro.

General Council: one of the three decision-making bodies of the ECB. It comprises the President and the Vice-President of the ECB and the governors of all 15 EU national central banks.

Governing Council: the supreme decision-making body of the ECB. It comprises all the members of the Executive Board of the ECB and the governors of the national central banks of the EU Member States which have adopted the euro.

Inflation: a progressive fall in the value of money, shown by persistent increases in the general level of prices. (See also [Deflation](#) and [Price stability](#).)

International Monetary Fund (IMF): an international organisation, based in Washington, D.C., with a membership of 184 countries (2002). It was established in 1946 to promote international monetary co-operation and exchange rate stability, to foster economic growth and high levels of employment and to help member countries to correct balance of payments imbalances.

Liquidity: the ease and speed with which a financial asset can be converted into cash or used to settle a liability. Cash is thus a highly liquid asset. Bank deposits are less liquid, the longer their maturities. The term "liquidity" is also often used as a synonym for money.

M3: The broad monetary aggregate M3 has been defined by the ECB as currency in circulation plus euro area residents' (other than central government) holdings of the following liabilities of euro area money-issuing institutions: overnight deposits, deposits with an agreed maturity of up to two years, deposits redeemable at a period of notice of up to three months, repurchase agreements, money market fund shares/units, and money market paper and debt securities with a maturity of up to two years. The Governing Council has announced a reference value for the growth of M3.

Maastricht criteria: see [Convergence criteria](#).

Minimum reserve requirement: the requirement for credit institutions to keep a deposit with the central bank. The minimum reserve requirement for an individual institution is calculated as a percentage of the money deposited by the (non-bank) customers of this institution.

Monetary aggregate (e.g. M1, M2, M3): can be defined as currency in circulation plus outstanding amounts of certain liabilities of financial institutions that have a high degree of liquidity in a broad sense.

Monetary policy: action undertaken by a central bank using the instruments at its disposal in order to achieve its objectives (e.g. maintaining price stability).

Money: an asset accepted by general consent as a medium of exchange. It may take, for example, the form of coins or banknotes or units stored on a prepaid electronic chip-card. Short-term deposits with credit institutions also serve the purposes of money. In economic theory, money performs three different functions: (1) as a unit of account; (2) as a means of payment; and (3) as a store of value. A central bank carries the responsibility for the optimum performance of these functions and does so by ensuring that price stability is maintained.

Money market: the market in which short-term funds are raised, invested and traded using instruments which generally have an original maturity of up to one year.

Organisation for Economic Co-operation and Development (OECD): The OECD (based in Paris) was founded in 1961 as the successor to the Organisation for European Economic Co-operation (OEEC). It groups 29 member countries (2001) in an organisation that, most importantly, provides governments with a setting in which to discuss, develop and perfect economic and social policy.

Price stability: Price stability has been defined by the Governing Council of the ECB as a year-on-year increase in consumer prices of below 2%. Neither prolonged inflation nor prolonged deflation is consistent with this definition of price stability.

Stage Three: see **Economic and Monetary Union (EMU)**.

TARGET (Trans-European Automated Real-time Gross settlement Express Transfer system): a payment system consisting of 15 national real-time gross settlement (RTGS) systems and the ECB payment mechanism. RTGS systems enable payments to be processed on an order-by-order basis in real time. In TARGET the national RTGS systems are interconnected so as to allow same-day cross-border transfers throughout the European Union.

Treaty establishing the European Community: The Treaty was signed in Rome on 25 March 1957 and entered into force on 1 January 1958. It established the European Economic Community (EEC) and is often referred to as the Treaty of Rome. The Treaty on European Union was signed in Maastricht (therefore often referred to as the Maastricht Treaty) on 7 February 1992 and entered into force on 1 November 1993. It amended the Treaty of Rome, which is now officially called the Treaty establishing the European Community. The Treaty on European Union has since been amended by the Amsterdam Treaty, which was signed on 2 October 1997 and entered into force on 1 May 1999. Equally, the Treaty of Nice, which concluded the 2000 Intergovernmental Conference and was signed on 26 February 2001, will further amend the Treaty establishing the European Community and the Treaty on European Union, once it is ratified and enters into force.

Addresses

European Central Bank

Kaiserstrasse 29
60311 Frankfurt am Main
Tel.: +49 69 1344-0
www.ecb.int

Austria

Oesterreichische Nationalbank
Otto-Wagner-Platz 3
1090 Wien
Tel.: +43 1 40420-0
www.oenb.co.at

Belgium

Nationale Bank van België/
Banque Nationale de Belgique
de Berlaimontlaan 14
boulevard de Berlaimont 14
1000 Brussel
1000 Bruxelles
Tel.: +32 2 221 21 11
www.bnb.be

Denmark

Danmarks Nationalbank
Havnegade 5
1093 København K
Tel.: +45 33 63 63 63
www.nationalbanken.dk

Finland

Suomen Pankki – Finlands Bank
Snellmaninaukio
00101 Helsinki
Tel.: +358 9 1831
www.bof.fi

France

Banque de France
39, rue Croix-des-Petits-Champs
75049 Paris Cedex 01
Tel.: +33 1 42 92 42 92
www.banque-france.fr

Germany

Deutsche Bundesbank
Wilhelm-Epstein-Strasse 14
60431 Frankfurt am Main
Tel.: +49 69 95 66-1
www.bundesbank.de

Greece

Bank of Greece
21 E.Venizelos Avenue
10250 Athens
Tel.: +30 10 320 1111
www.bankofgreece.gr

Ireland

Central Bank of Ireland
Dame Street
Dublin 2
Tel.: +353 1 671 6666
www.centralbank.ie

Italy

Banca d'Italia
Via Nazionale 91
00184 Roma
Tel.: +39 06 47921
www.bancaditalia.it

Luxembourg

Banque centrale du Luxembourg
2, boulevard Royal
2983 Luxembourg
Tel.: +352 4774-1
www.bcl.lu

Netherlands

De Nederlandsche Bank
Westeinde 1
1017 ZN Amsterdam
Tel.: +31 20 524 91 11
www.dnb.nl

Portugal

Banco de Portugal
148, Rua do Comércio
1101 Lisboa
Tel.: +351 21 313 00 00
www.bportugal.pt

Spain

Banco de España
Calle Alcalá 50
28014 Madrid
Tel.: +34 91 3385000
www.bde.es

Sweden

Sveriges Riksbank
Brunkebergstorg 11
103 37 Stockholm
Tel.: +46 87 87 00 00
www.riksbank.se

United Kingdom

Bank of England
Threadneedle Street
London EC2R 8AH
Tel.: +44 20 7601 4444
www.bankofengland.co.uk

Published by:
© European Central Bank (ECB)
Frankfurt am Main, 2002

Concept and design:
Heimbüchel PR Kommunikation und Publizistik GmbH, Cologne

Photography:
Claudio Hils
Martin Joppen
John van de Meent
Rob Meulemans
Marcus Thelen

Lithography:
Konzept Verlagsgesellschaft, Frankfurt am Main

Printed by:
Kern & Birner GmbH & Co., Frankfurt am Main

ISBN: 92-9181-317-6 (EN)



DEN EUROPÆISKE CENTRALBANK
 EUROPÄISCHE ZENTRALBANK
 ΕΥΡΩΠΑΪΚΗ ΚΕΝΤΡΙΚΗ ΤΡΑΠΕΖΑ
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