

THE ECB'S RELATIONS WITH EUROPEAN UNION INSTITUTIONS AND BODIES – TRENDS AND PROSPECTS

ARTICLES

The ECB's relations with European Union institutions and bodies – trends and prospects

More than one decade has passed since the launch of the euro and the creation of the European Central Bank (ECB). This article reviews the evolution of the relations of the ECB – against the background of its independent status and its responsibility for the single monetary policy of the euro area – with each of the relevant European Union (EU) institutions and bodies over this period. It identifies four common trends: an increased frequency of interaction; a broadening of the topics discussed; a deepening of the discussions, with an increased number of contributions by the ECB; and an increase in the number of specific deliberations in euro area composition. The institutional setting of Economic and Monetary Union (EMU), put in place by the Maastricht Treaty and solidly based on the independence of the ECB, has thus proved sound. The Treaty of Lisbon provides opportunities to further enhance economic governance, and should be fully exploited by the parties involved.

I INTRODUCTION

With the creation of the euro, those EU Member States that have introduced the single currency have achieved what the Lisbon Treaty lists as an objective of the Union: “an economic and monetary union whose currency is the euro”. EMU marks a break in the traditional link between a currency and the nation state. The construction of EMU involves the transfer of monetary and exchange rate policies to the EU level, while economic policies largely remain within the remit of Member States and are subject to coordination procedures. In order to ensure a smooth functioning of EMU via effective interaction between the relevant national and supranational economic policy-makers, a tailor-made institutional framework – equivalent to the arrangements that exist within a nation state – has been put into place. The Treaty establishing the European Community – since 1 December 2009 the Treaty on the Functioning of the European Union (TFEU) referred to hereinafter as “the Treaty” – provides for close interaction between the ECB, in full respect of its prerogatives and independence, and other EU economic policy-makers, ranging from consultation through policy dialogue to regulatory competences. Within the boundaries set by the Treaty, these relations have evolved over time in response to the challenges that have arisen, thus contributing to the smooth functioning of EMU.

This article presents an overview of the ECB's relations with EU institutions and bodies

to date.¹ It first briefly describes their underlying political, economic and financial basis. It then reviews how the ECB's interactions with each of the relevant EU institutions and bodies have developed over the past decade and identifies certain common trends. Particular attention is devoted to changes observed since the beginning of the financial turmoil in summer 2007. In conclusion, the article considers the future prospects of the ECB's relations with EU institutions and bodies, in particular in the light of the implications of the Treaty of Lisbon.

2 THE RATIONALE BEHIND THE ECB'S RELATIONS WITH EU INSTITUTIONS AND BODIES

The ECB occupies a special position within the institutional framework of the EU, given its specific tasks and independent status. Its interactions with EU institutions and bodies are built on clear principles and legal provisions reflecting their political, economic and financial basis.

2.1 POLITICAL RATIONALE: INDEPENDENCE

The Treaty assigns a clear and unambiguous mandate to the ECB to maintain price stability. It grants the ECB full independence from

¹ See also the article entitled “The ECB's relations with institutions and bodies of the European Community” in the October 2000 issue of the Monthly Bulletin as well as the relevant part of the special issue of the Monthly Bulletin on the occasion of the 10th anniversary of the ECB.

political inference to fulfil this mandate. Given that these provisions have been enshrined in both the Treaty and the Statute of the European System of Central Banks (ESCB) and of the ECB, rather than in ordinary legislation, they have gained “constitutional” status. An independent central bank, removed from the political decision-making process, is indeed in a better position to achieve the primary objective of price stability, as it can look ahead over a longer horizon, while politicians have shorter-term objectives in line with the election cycles. Empirical evidence across countries and long time spans confirms that greater central bank independence is associated with lower average inflation.² The respect for the ECB’s independence implies that the ECB’s relations with other policy-making bodies cannot go beyond a non-binding dialogue. Notably, there cannot be any *ex ante* coordination of monetary policy with economic policy, as this would blur the allocation of responsibilities between policy-makers, which in turn would dilute accountability.

The Treaty confers on the ECB exclusive competence for the monetary policy of the euro area. The ECB has therefore been entrusted with the core aspect of monetary sovereignty. Just like any other independent central bank, the ECB is required to subject its actions and decisions to public scrutiny and demonstrate that it “acts within the limits of the powers conferred upon it by the Treaties” (Article 13 of the Treaty on European Union). It is therefore called upon to explain and justify to European citizens and their elected representatives how it uses the powers and prerogatives with which it has been entrusted to pursue its objectives – in short, it must be held accountable. Transparency serves accountability. A strong commitment to transparency imposes self-discipline on policy-makers, which helps to ensure that their public policy decisions and explanations are consistent over time. This, in turn, also supports the credibility of public policies. It is therefore in the ECB’s self-interest to safeguard the public

acceptance of the ECB’s independent status and to ensure that its decisions are properly explained.

Consequently, both the Treaty and the Statute of the ESCB and of the ECB contain a number of provisions that lay down the ECB’s reporting obligations (for more details see the box, which presents the main legal provisions governing the ECB’s relations with EU institutions and bodies). The ECB is required to address an annual report on its monetary policy and other activities to the European Parliament, the Council of the European Union (EU Council), the European Commission and the European Council. Moreover, the President of the ECB and the other members of the Executive Board may be heard by the competent committees of the European Parliament, either at the Parliament’s or their own request.

Finally, the ECB goes beyond the reporting obligations laid down in the Treaty and strives towards effective and regular communication vis-à-vis the general public, via press conferences, speeches by Executive Board members, the Monthly Bulletin and a range of other task-related publications.

2.2 ECONOMIC RATIONALE: THE PROPER FULFILMENT OF THE ECB’S TASKS

Beyond these reporting requirements, the relations between the ECB and EU institutions and bodies also have an economic and functional basis. The ECB – as the central bank of the euro area – is in contact, at the European level, with the authorities and the social partners. In the European context, this interaction is rendered more complex owing to the allocation of policy responsibilities to the different levels of government, both supranational and national. Economic actors operating at the national level have a significant impact on price developments

² See, *inter alia*, A. Alesina, and L. Summers, “Central Bank Independence and Macroeconomic Performance: Some Comparative Evidence”, *Journal of Money, Credit and Banking*, 25:2, 1993.

through mechanisms such as wage bargaining or fiscal policy. Regular dialogue between the ECB and other relevant economic policy-makers provides an opportunity for the ECB to enrich its information set and explain its course of monetary policy, and for its counterparts to improve their understanding of the ECB's actions and how their own actions feed into the monetary policy

transmission process. In this way, the ECB can provide a reliable reference parameter for the decisions of individual actors. Moreover, for those tasks where the ECB shares competences with other EU institutions or bodies, for instance in the field of statistics, the Treaty explicitly calls for cooperation between the ECB and the institutions or bodies concerned.

Box

RELEVANT LEGAL TEXTS CONCERNING THE ECB'S RELATIONS WITH EUROPEAN UNION INSTITUTIONS AND BODIES

The Treaty on the Functioning of the European Union

Article 284

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 134

1. In order to promote coordination of the policies of Member States to the full extent needed for the functioning of the internal market, an Economic and Financial Committee is hereby set up.

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

Resolution of the European Council of 13 December 1997 on economic policy coordination in Stage Three of EMU and on Articles 138, 219 and 284 of the Treaty (ex Articles 111 and 113)

(...) 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.

2.3 FINANCIAL RATIONALE: ENSURING SOUND FINANCIAL MANAGEMENT

Scrutiny of the ECB's financial management and integrity is of crucial importance, as the functions performed by the ECB involve taxpayers' money. The Statute of the ESCB and of the ECB provides for two layers of external control: on the one hand, an independent external auditor is appointed to audit the annual accounts of the ECB (Article 27.1); on the other hand, the European Court of Auditors examines the operational efficiency of the management of the ECB (Article 27.2). The annual report of the European Court of Auditors, together with the ECB's reply, is published on the ECB's website and in the Official Journal of the European Union.

In addition, the ECB falls within the scope of the anti-fraud scheme that was set up by the European Parliament and the EU Council at the end of the 1990s. The "OLAF Regulation"³ provides, inter alia, for the internal investigation of suspected fraud within EU institutions and bodies by the European Anti-Fraud Office (OLAF), which is an independent investigation service within the European Commission. In June 2004 the Governing Council of the ECB

adopted a decision laying down the rules according to which OLAF would carry out internal investigations. According to those provisions, OLAF's investigative powers are applicable to all ECB tasks, and the ECB is committed to fully cooperate with OLAF in combating fraud.

3 A DECADE OF RELATIONS

Against the background of the political, economic, financial and legal basis for interaction between an independent ECB and the relevant institutions and bodies of the European Union, this section presents these relations and reviews their development over time.

3.1 THE EUROPEAN PARLIAMENT

The European Parliament – as the body which derives its legitimacy directly from the citizens of the European Union – is the key focus of the ECB's reporting obligations. The President of the ECB appears four times a year before the

³ Regulation (EC) No 1073/1999 of the European Parliament and of the Council of 25 May 1999 concerning investigations conducted by the European Anti-Fraud Office (OLAF).

Committee on Economic and Monetary Affairs (the ECON Committee). In addition, the President and other members of the ECB's Executive Board appear before the ECON Committee to discuss specific issues.⁴ Furthermore, and most importantly, the President appears at least once a year before the Parliament's plenary session to present the ECB's Annual Report. Finally, the European Parliament is consulted on the appointment of the President, Vice-President and other members of the ECB's Executive Board.

Over the past decade, the ECB's relations with the European Parliament have widened in scope and deepened in intensity. Besides the regular assessment of the economic situation in the euro area and the monetary policy stance, the various exchanges of views have covered an increasing number of topics, such as enlargement of the euro area, international cooperation, payment and settlement systems, and financial stability and supervision. The latter theme has increased in prominence, especially since the start of the financial crisis. In its various resolutions on economic and financial developments in the European Union, the European Parliament has recognised the timely and decisive actions taken by the ECB in managing the financial turmoil and advocated the enhancement of the ECB's role in the field of financial stability.

Furthermore, these relations have deepened over time. Beyond the interaction and exchange of views with the members of the ECON Committee itself, the ECB has maintained constructive relations with the European Parliament at the highest level, for example through regular meetings between the Presidents of the two institutions. The ECB has also been supportive of the European Parliament's efforts to enhance inter-parliamentary cooperation involving the national parliaments of the EU Member States, for example by explaining the ECB's actions during the financial crisis to a Joint Parliamentary Meeting.

Moreover, the ECB has established a voluntary practice of replying in writing to questions from all members of the European Parliament –

channelled via the chairperson of the ECON Committee – on issues related to the ECB's fields of competence. The ECB considers this practice to be fundamental, insofar as it provides feedback on topical issues from the representatives of EU citizens and, thus, from the public at large. This continuous interaction also offers an opportunity to respond to EU citizens' concerns and to convey key messages to members of the European Parliament. The ECB also informs the European Parliament of the actions taken in following up suggestions contained in the European Parliament resolution on the ECB's Annual Report. In recent years, the hearings of the President of the ECB in the plenary session have also included the Commissioner for Economic and Monetary Affairs and the Eurogroup President and have thus become an opportunity for a comprehensive discussion on euro area economic policy issues. Finally, a delegation of the ECON Committee has regularly visited the ECB over the last few years to exchange views with the members of the Executive Board on a variety of issues.

In addition to these formal institutional relations at the policy level, the ECB and the European Parliament have developed close working relations. In this context, ECB staff have provided the European Parliament, upon request, with expertise on technical issues (e.g. euro counterfeiting, capital requirements and statistics), in the spirit of mutual sincere cooperation among EU institutions.

3.2 THE ECOFIN COUNCIL, THE EUROGROUP AND THEIR PREPARATORY COMMITTEES

3.2.1 THE ECOFIN COUNCIL

The ECOFIN Council is the key forum for the coordination of Member States' economic policies (as stated in the European Council Resolution of 13 December 1997). The ECB is invited to participate in meetings of the ECOFIN Council whenever matters relating to the objectives and tasks of the ECB are discussed. Such topics include, among others, the Broad Economic Policy Guidelines (BEPGs), the reform of the

4 For more information, see the ECB's Annual Report.

European financial supervisory and regulatory framework or the external representation of the European Union in international fora. Moreover, the President of the ECB presents the ECB's Convergence Report to the ECOFIN Council in the context of the biennial examination of the state of convergence of the countries still outside the euro area and provides information on the preparation for the introduction of euro banknotes and coins.

The relations between the ECOFIN Council and the ECB are not a one-way street. The Treaty (and the Statute of the ESCB and of the ECB) explicitly provides for the possibility of the President of the ECOFIN Council participating in meetings of the Governing Council and the General Council of the ECB. In practice, the Eurogroup President attends the meetings of the Governing Council. At the same time the Treaty expressly excludes any voting rights on the part of the President of the ECOFIN Council when participating in meetings of the ECB's Governing Council. This interaction at the highest level enhances the flow of information between all parties involved, promotes mutual understanding of each other's policy views and allows for a dialogue on issues of common interest, in full respect of the respective responsibilities.

In addition to its formal monthly meetings, the ECOFIN Council also meets on an informal basis every six months, offering an opportunity for frank and open discussion on topical issues. The President and Vice-President of the ECB attend these informal meetings, alongside the governors of the national central banks (NCBs) of the ESCB, who accompany the economics and finance ministers of their respective Member States.

Looking back over how the interaction has developed over the past ten years, the start of the financial turmoil in August 2007 marks a discernible intensification. From the creation of the ECB in 1998 until the start of the financial turmoil, participation of the ECB at Executive Board level in the meetings of the ECOFIN

Council took place on an ad hoc basis, linked to the discussion of specific topics close to the ECB's field of competence (e.g. in addition to the aforementioned themes, issues related to the introduction of euro banknotes and coins, the introduction of the Lamfalussy framework for financial regulation and supervision, and the implementation and reform of the Stability and Growth Pact). Since the start of the financial turmoil in August 2007, a more intense dialogue between the ECB and the ECOFIN Council has become necessary, which has been reflected in a more frequent attendance of the President and/or Vice-President of the ECB at ECOFIN Council meetings. On average, they have attended at least one out of two formal ECOFIN Council meetings, as well as the additional informal meetings called by the relevant Presidency of the EU Council in the context of the financial crisis.⁵ Besides the more frequent attendance at meetings, on several occasions the ECOFIN Council has called on the ECB, sometimes together with the European Commission, to provide expertise and analysis in connection with, for instance, common EU guidelines on the design of national bank rescue packages, government guarantees for bank debt and asset relief schemes.

A further example of the intensification of the interaction between the ECB and the European institutions and bodies is the creation of a "financial crisis cell" (comprising the President of the ECB, in conjunction with the NCBs; the President of the European Commission; the President of the Eurogroup; the Presidency-in-office; and the governments of the Member States) to enable the EU to take rapid and effective crisis response measures.

3.2.2 THE EUROGROUP

The Eurogroup is an informal body composed of the finance ministers of the euro area countries that provides a forum for the discussion among governments of "issues connected with their shared specific responsibilities for the single

⁵ Such as the one called by the French Presidency in December 2008 and the one called by the Swedish Presidency of the EU in September 2009 in the run up to the Pittsburgh summit on 24-25 September 2009.

currency.” (Luxembourg European Council Conclusions 1997). Generally, the Eurogroup meets once a month on the eve of the ECOFIN Council meeting. The Commissioner for Economic and Monetary Affairs and the President of the ECB, normally accompanied by the Vice-President, attend the Eurogroup meetings on a regular basis. The meetings of the Eurogroup set the stage for an open dialogue in a climate of mutual trust and respect.

Notwithstanding this informal nature, a number of changes have been introduced over the last ten years in order to enhance the organisation of the meetings and boost the Eurogroup's visibility. For instance, since 2005 the Eurogroup has elected a President with a two-year mandate, thus ensuring greater continuity both internally and externally. Moreover, press conferences are organised immediately following the meetings, during which the Eurogroup President – joined by the Commissioner for Economic and Monetary Affairs and, when appropriate, the President of the ECB – communicates the results of the Eurogroup meeting. Especially on those issues where a consistent message from all participants of the meetings is of particular importance, the Eurogroup endeavours also to decide on key aspects of the external communication of its deliberations. Finally, a regular dialogue between the Eurogroup President and the European Parliament has been instituted.

Over time, the agenda of the Eurogroup has gradually expanded. In addition to the discussions on the economic situation and fiscal policies, the Eurogroup also examines increasingly frequently structural policies, with a particular focus on issues of crucial importance for the euro area and the smooth and sustainable functioning of monetary union (such as wage and competitiveness developments, inflation and growth differentials and commodity price developments). Moreover, the Eurogroup has also recently addressed issues related to the financial sector, mostly against the background of the financial crisis. The frequency, scope and

depth of the discussions on these issues have increased over the years.

The Eurogroup has also proved to be an appropriate medium for preparing a common euro area approach for ECOFIN Council decisions on matters closely related to the euro area, such as the appointment of ECB Executive Board members, the specific part of the BEPGs that is dedicated to the euro area, Council decisions in the context of an Excessive Deficit Procedure (EDP) concerning a euro area country, etc. Eurogroup meetings have also served as a platform for strategic discussions on euro area enlargement. The Eurogroup President takes part in the main international financial fora, in particular the meetings of the G7 and the International Monetary and Financial Committee, alongside the President of the ECB.

3.2.3 THE ECONOMIC AND FINANCIAL COMMITTEE

The Economic and Financial Committee (EFC) is a consultative committee, established by the Treaty itself (see box), which contributes to the preparation of the work of the ECOFIN Council. The EU Member States, the European Commission and the ECB each appoint no more than two members and two alternates of the Committee. The ECB members of the EFC are members of the Executive Board of the ECB. The EFC Alternates meet before the meetings of the EFC in order to prepare the discussions of the parent committee. The EFC has a very broad mandate, ranging from discussion of the economic situation and the BEPGs to the surveillance of fiscal policy (including the annual updates of the stability and convergence programmes and the preparation of European positions on various international issues). For the purposes of discussions and decisions in the context of the Exchange Rate Mechanism (ERM II), the EFC meets in a special format consisting of the EFC members from national administrations, the EFC members from non-euro area central banks, two ECB representatives, two European Commission representatives and the President of the Alternates.

Two major developments can be identified during the past decade. First, in response to the 2004 enlargement of the European Union, and the concomitant increase in its membership, the EFC has acted to improve the efficiency of its work. Since this enlargement, the EFC has met in two compositions, namely a restricted composition (without the representatives of the NCBs of the EU Member States) and a full composition (including the NCBs).⁶ Second, the EFC has significantly stepped up its analysis and discussion of key policy areas, in particular as new issues have emerged, e.g. in connection with the enlargement of the European Union and the euro area (including competitiveness and balance of payments programmes) and the emergence of financial stability issues.

For the latter, special formats have been established, the most prominent one being the Financial Stability Table (FST). The EFC-FST meets twice a year, ahead of the two informal ECOFIN meetings, and prepares the discussions of the ECOFIN Council on the assessment of financial stability in the EU. For the purpose of an appropriately informed debate, additional stakeholders are invited to these deliberations: the chairpersons of the Committee of European Banking Supervisors, the Committee of European Securities Regulators, the Committee of European Insurance and Occupational Pensions Supervisors and the ESCB Banking Supervision Committee. Finally, the EFC also benefits from the input of the Financial Services Committee, in which the ECB also participates. During the financial crisis, and particularly at its height, following the demise of Lehman Brothers in September 2008, the ECB's relations with the EFC intensified in frequency and scope – mirroring the developments at the level of the ECOFIN Council – as the EFC played a key role in monitoring and coordinating, on a daily basis at times, the preparation and implementation of Member States' national rescue plans and EU and IMF support programmes.

The Eurogroup Working Group (EWG) is a consultative sub-committee of the EFC,

restricted to representatives of the euro area countries, the European Commission and the ECB, which contributes to the preparation of the work of the Eurogroup.

3.2.4 THE ECONOMIC POLICY COMMITTEE

The Economic Policy Committee (EPC) is another consultative Union body which contributes to the preparation of the work of the ECOFIN Council, in close cooperation with the EFC, with a specific focus on structural policies aimed at improving growth potential and employment in the European Union. The EU Member States, the European Commission and the ECB each appoint two members of the Committee. The ECB attaches the utmost importance to the implementation of structural reforms in the Member States as a means to increase the flexibility of the economy, enhance its resilience to economic shocks and ultimately achieve a higher, sustainable long-term growth rate and a higher level of employment. In addition, structural reforms are key to the smooth functioning of EMU, as the countries can no longer resort to some of the pre-EMU adjustment mechanisms to restore their competitiveness. The ECB's participation in this Committee therefore represents an opportunity to contribute to the ongoing work in this field at the European and the national level, fully respecting the respective competencies of all the parties involved.

The EPC's work, since the start of EMU, was initially focused on a limited number of topics, essentially related to structural reforms, productivity and labour market reforms. Over time, the Committee has also started to address topics such as energy and climate change, developments in commodity prices, the reduction of administrative burdens and competitiveness issues in a currency union. Since August 2005, the EPC has also been meeting in a Eurogroup composition with the aim of

⁶ For further details see G. Grosche and U. Puetter, "Preparing the Economic and Financial Committee and the Economic Policy Committee for Enlargement", *Journal of European Integration*, 30:4, 527-543.

contributing to discussions of the Eurogroup on issues within the competence of the EPC. These include structural reforms related to the Lisbon agenda and structural aspects of macroeconomic policy-making, such as population ageing and the quality of public finances.

3.3 THE EUROPEAN COMMISSION

Given its core functions as the initiator of EU legislation and guardian of the EU Treaties, the European Commission is naturally a key actor in the dialogue between the ECB and economic policy-makers within the Eurogroup and the ECOFIN Council. The Commissioner for Economic and Monetary Affairs attends Eurogroup and ECOFIN Council meetings. In addition, the Treaty (see box) states that a member of the European Commission (generally the Commissioner for Economic and Monetary Affairs) can participate in the meetings of the ECB's Governing Council – although without having either the right to vote or, unlike the President of the EU Council, to submit a motion for deliberation. The Commissioner attends around half of the meetings of the ECB's Governing Council. This dialogue is particularly important in the light of the crucial role played by the European Commission in EU economic policy-making and the fact that the European Commission is entrusted with several specific tasks relating to EMU (such as the formulation of the BEPGs, the monitoring of budgetary matters and reporting to the EU Council thereon, and the assessment of the state of convergence in the EU Member States with a derogation).

Finally, the two institutions have developed a close working relationship and a wide variety of regular and ad hoc contacts at the working level (e.g. in the fields of statistics and payment systems and in relation to the preparation of the Convergence Reports). Mirroring the intensification of relations with the bodies and committees mentioned above, relations with the European Commission have also deepened and broadened over time, particularly since the start of the crisis, during which the European Commission has played an important role in

the coordination of the policy response at the European level and in preventing a fragmentation of the single market.

3.4 THE EUROPEAN COUNCIL AND THE EU COUNCIL IN THE COMPOSITION OF HEADS OF STATE OR GOVERNMENT

The European Council – bringing together Heads of State or Government and the President of the European Commission and, since 1 December 2009, the newly created President of the European Council and the High Representative for Foreign Affairs and Security Policy – plays a crucial steering role in European affairs in that it gives political guidance and impetus to the European Union, takes the most important decisions and puts the seal of approval on significant documents. The European Council is distinct from the EU Council meeting in the composition of Heads of State or Government, which is a specific format of the EU Council. Unlike the latter, the European Council has not until now been recognised as a formal European institution. The Treaty of Lisbon, however, changes the status of the European Council by formally recognising it as a Union institution and by introducing a “permanent” President of the European Council, who will chair its meetings during a once-renewable term of two and a half years.

The President of the ECB has been invited to several meetings of the European Council, as well as to the ad hoc informal summits at the level of EU Heads of State or Government that have been called since the beginning of the financial crisis, such as the informal European Council meetings on 1 March and 17 September 2009 and the summit of euro area Heads of State in Paris on 12 October 2008. The aim of the latter was to coordinate the response to the crisis by the euro area countries.

3.5 THE MACROECONOMIC DIALOGUE

The Macroeconomic Dialogue (MED) was established by the European Council in June 1999. The MED is an institutionalised dialogue

among the European monetary authorities, the EU Council, the European Commission and the social partners at European level, which is intended to enhance understanding of the policy requirements entailed by EMU. The Dialogue is based on full respect for the independence of all actors involved, in particular the independence of the social partners in the wage formation process and that of the ECB in relation to the single monetary policy. The MED takes place twice a year, first at the technical level and then at the political level, and provides a forum for an exchange of views about the economic situation, as well as discussions on special topics related to labour market conditions and developments in fiscal and structural policies. The ECB is represented in the MED at political level by the President.

4 COMMON TRENDS

On the basis of the above overview, four common trends can be identified that characterise the

developments in the ECB's relations with EU institutions and bodies since its creation:

- (i) an increased frequency of interactions (as illustrated by the increasing number of meetings attended by the ECB – see chart below);
- (ii) a widening of the topics discussed;
- (iii) a deepening of the discussions, with an increased number of written contributions by the ECB;
- (iv) an increase in the number of specific deliberations in euro area composition.

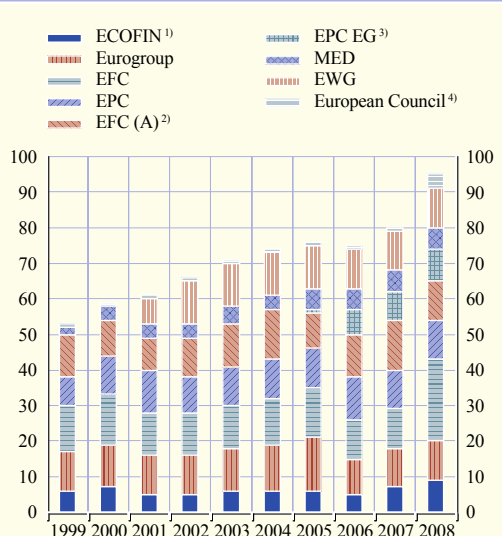
This has fostered the creation of a climate of mutual trust and understanding between the relevant policy-makers, which is conducive to a smooth functioning of EMU.

In particular, the period since the start of the financial market turmoil in August 2007 has been characterised by an increased focus of the discussions on issues related to the financial sector and has thus engendered an intensification of the ECB's relations with EU institutions and bodies at all levels.

This enhanced interaction is likely to continue and to further develop in the context of the creation of two new European bodies, namely the European Systemic Risk Board and the European System of Financial Supervisors (a network of supervisors consisting of the European Banking Authority, the European Securities and Markets Authority and the European Insurance and Occupational Pensions Authority), which are going to be established to enhance the framework for macro and micro-prudential supervision in the European Union.

Finally, a discernible trend towards a more clearly defined euro area focus of deliberations can be observed from the increased number of meetings in euro area composition only, together with a widening and deepening of

Number of attended meetings per year and per body



Source: ECB.
 1) Includes informal ECOFIN.
 2) EFC Alternates.
 3) EPC Eurogroup Working Group.
 4) The European Council and the EU Council in the composition of Heads of State or Government.

those discussions. This means, for instance, that in addition to its initial focus on the economic situation and fiscal policies, the Eurogroup now also examines structural policies more often, with a particular focus on issues of crucial importance for the euro area, such as competitiveness developments in euro area Member States.

The analysis has shown that the institutional setting put in place by the Maastricht Treaty is fundamentally sound. The ECB's relations with EU institutions and bodies have evolved over the past decade within the existing framework, without there being any urgent need for a fundamental overhaul of the system.

5 IMPLICATIONS OF THE TREATY OF LISBON

In line with this positive assessment of the institutional setting of EMU, the Treaty of Lisbon makes no fundamental change to the provisions of the previous Treaties.⁷ Nevertheless, it introduces some noteworthy changes with a view to, on the one hand, consolidating the monetary pillar and, on the other hand, improving the functioning of the economic pillar, in particular with regard to the euro area.

5.1 CONSOLIDATION OF THE PROVISIONS ON MONETARY UNION

As far as the monetary union pillar is concerned, the ECB's mandate is reinforced by the elevation of the primary objective of the ECB, i.e. price stability, to an objective of the European Union as a whole. This implies that Member States should work towards this objective in framing their economic policies. The ECB welcomes this change. In addition, an "economic and monetary union whose currency is the euro" is also considered to be an EU objective.

Moreover, the ECB, initially established as a Community body of a sui generis nature, becomes a Union institution. This is a step to simplify and enhance the transparency of the Union's institutional framework – the

institution that is responsible for the single currency will be listed as a Union institution, rendering its status and position in the European Union's overall institutional architecture more accessible to European citizens. Important as this step will undoubtedly be for the Bank's external perception, in practice, little is expected to change for the ECB, as it retains all its special institutional features such as its independence, regulatory powers and legal personality. The firm anchoring of these features in the new Treaty is essential to the successful performance of the ECB's tasks. The Treaty of Lisbon actually further strengthens the ECB's independence by explicitly referring for the first time to the ECB's financial independence. Finally, whilst being an EU institution entails a duty of mutual sincere cooperation between all Union institutions, this was already applicable to the ECB.

Another noteworthy change in the new Treaty is that the term "Eurosystem" is introduced for the first time into primary legislation. This should further clarify the distinction between the Eurosystem and the ESCB.

Moreover, the members of the ECB's Executive Board will be appointed by the European Council acting by a qualified majority rather than, as now, by common accord of the governments of Member States. The appointment procedure will thus become more supranational and be brought into line with the decision-making procedures for other key nominations.

Finally, the euro area members will be entitled to make recommendations on euro area enlargement: the final decision on the introduction of the euro in a Member State will still be taken by the EU Council as a whole, but it will take into account the specific views expressed by the euro area members.

While the overall functioning of the monetary union pillar is left untouched by the Treaty

⁷ See the box entitled "The Treaty of Lisbon" in the December 2007 issue of the Monthly Bulletin.

of Lisbon⁸, the institutional position of the ECB is strengthened in several respects. This goes hand in hand with a number of innovations in the area of economic governance.

5.2 ENHANCEMENT OF THE PROVISIONS ON ECONOMIC POLICIES

The Treaty of Lisbon provides a number of opportunities to enhance the economic governance of the euro area. The Eurogroup is for the first time recognised in the Treaties. Nevertheless, it retains its current informal status and thus does not have any formal decision-making powers. The Eurogroup's President will serve a two-and-a-half year term.

Moreover, the role of euro area Member States and of the European Commission is strengthened with regard to both the BEPGs and the EDP. The Treaty of Lisbon will confer on the European Commission the power to directly address an opinion to a Member State in the event of non-compliance. Once the ECOFIN Council becomes involved, during the subsequent step of the procedure, the Member State concerned will be allowed to take part in the discussions on the necessary recommendations but will no longer have a vote. Most importantly, decisions on non-compliance with the BEPGs or the EDP by euro area countries will be taken by euro area countries only.

The specific shared responsibilities for the management of the single currency are also recognised in the possibility of "enhanced cooperation" among euro area Member States. A new provision allows them, by a qualified majority, to adopt new measures to enhance the coordination and surveillance of their budgetary discipline and to set out specific economic policy guidelines for themselves. Any such measure, provided it is compatible with the Treaty and adopted in accordance with the relevant procedures on the BEPGs and EDPs, will be legally binding on euro area countries.

These noteworthy innovations are welcome as they should contribute to enhancing the economic governance framework for the euro

area. In order for their full potential to be realised, they need to be fully implemented in line with the Treaty of Lisbon.

Finally, as regards the external representation of the euro area, the Treaty of Lisbon clarifies and improves the current provisions, but does not bring about fundamental changes. As is currently the case, the euro area countries, should they wish to do so, can decide, by a qualified majority, to mandate a particular body or person to represent the euro area in a unified way in international fora. The new Treaty explicitly provides for the EU Council to have the means to take "appropriate measures to ensure unified representation". It remains to be seen whether, and if so how, the creation of new EU foreign policy posts by the Treaty of Lisbon will affect the international representation of the euro area.

6 CONCLUSIONS

This article has described the institutional framework of EMU as established by the Treaty, and specifically the interactions between the ECB, in full respect of its independent status, and economic policy-makers. It has functioned well over the last decade: EU economic policy-makers have been able to respond flexibly and pragmatically within the current framework to the unprecedented challenges that have arisen, including the financial crisis. The Treaty of Lisbon provides a number of opportunities to further enhance economic governance, which should be fully exploited by all parties involved. The euro area is thus well equipped to face the economic policy challenges that lie ahead (such as fiscal consolidation, population ageing, climate change financing, etc.). A challenge of immediate importance will be to have an equally well-functioning and effective set-up for financial supervision: the ECB stands ready to take an active part in this regard.

8 Under the Treaty of Lisbon, the former Article 111 of the Treaty, on exchange rate policy and the conclusion of monetary and exchange rate agreements, has been moved from the title on economic and monetary policy to a new part on EU external action. However, the allocation of responsibilities in this field has been left unchanged.