

# The ECB. The EMU. Advantages and Disadvantages of the Euro.

## BFI Lecture 9.2.

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- 1 The European System of Central Bank (The ESCB)
- 2 The European Monetary Union (EMU)
- 3 Advantages and Disadvantages of the Euro

# Statute and Main Goals of the ESCB

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Main Goal of any bank within the ESCB: Maintain medium-term price stability (2% CPI). How:

- deposit and lending facilities
- repo agreements (1-Week and 3-Months)
- reserve ratio (2%)

# ECB Independence

**Article 108** of the Treaty establishing the European Community:

“When exercising the powers and carrying out the tasks and duties conferred upon them by this Treaty and the Statute of the ESCB [Eurosystem],...



**shall seek or take instructions** from Community institutions or bodies, from any government of a Member State or from any other body.”

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# Members of the ESCB

## THE EUROPEAN SYSTEM OF CENTRAL BANKS (ESCB)



ORGANISATION



# Members of the Eurozone

## THE EUROSISTEM



ORGANISATION

€ European Central Bank

1 Nationale Bank van België /  
Banque Nationale de Belgique

2 Deutsche Bundesbank

3 Central Bank and Financial  
Services Authority of Ireland

4 Bank of Greece

5 Banco de España

6 Banque de France

7 Banca d'Italia

8 Central Bank of Cyprus

9 Banque centrale du Luxembourg

10 Bank Ċentrali ta' Malta/  
Central Bank of Malta

11 De Nederlandsche Bank

12 Oesterreichische Nationalbank

13 Banco de Portugal

14 Banka Slovenije

15 Suomen Pankki – Finlands Bank



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# The Euro

## ESCB

**ESCB:** A system involving the central banks of the EU members + the ECB

## Eurosystem

**Eurosystem:** ECB + the central banks of the *countries using the €* as their official currency

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Who are these countries?



# Parallels between the FED and the Eurosystem

## The Fed

- 1 Who governs: BoG (7 members)
- 2 Who makes policy: the FOMC (7 + 5)
- 3 Who are the members: the Federal Reserve banks
- 4 BoG members serve 14 years

## The Eurozone

- 1 Who governs: Executive board (6 members)
- 2 Who makes policy: the Governing council (6 + 15)
- 3 Who are the members: the national central banks
- 4 EB members serve 8 years

# The European Monetary Union (EMU)

How does a country become a member of the Eurosystem?

The Maastricht criteria:

- ① **Price stability:** at most 1.5% higher CPI than the average for the 3 best countries in inflation
- ② **Exchange rate stability:**
  - $\pm 15\%$  around the parity vs. the € for 2 years
  - no devaluation of the currency 2 years before joining
- ③ **Interest rate convergence:** main interest rates not higher than 2% more than the 3 best countries in inflation
- ④ **Fiscal stability:**
  - Government deficit  $\leq 3\%$  of GDP
  - Gross government debt  $\leq 60\%$  of GDP

# Advantages and Disadvantages of Joining the EMU

## Advantages

- ↓ in transaction costs:  
incentives to go international  
for the local firms
- reduces currency risk
- overall stability of the  
economic environment

## Disadvantages

- loss of independence of  
monetary policy
- monetary policy no longer  
tailored according to local needs,  
inflexible
- risk of asymmetric economic  
shocks