

The European Integration Process – A Changing Environment for National Central Banks

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On October 21, 2005, the Oesterreichische Nationalbank (OeNB) held a high-level workshop labeled “The European Integration Process – A Changing Environment for National Central Banks” for an international audience.¹ The workshop provided an overview of the changing role that national central banks (NCBs) play in Europe, with a focus on the institutional and legal challenges the individual NCBs face. Moreover, it provided a platform for exchanges among NCB representatives of countries currently undergoing different stages of European integration.²

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In his opening remarks, *Josef Christl* (OeNB) drew attention to the decentralized nature of the European System of Central Banks (ESCB) and the Eurosystem and pointed out that the credibility NCBs enjoyed in their respective countries decisively contributes to the success of the euro and hence of the European integration process. Christl called for a reinforcement of NCB cooperation in Europe and assessed the workshop as a step toward reaching this target. In times of institutional uncertainty and during the phase of reflection about the EU Constitutional Treaty, Christl emphasized, it is particularly important to have a stable currency which promotes a common European identity far beyond the confines of Economic and Monetary Union (EMU). The single currency plays a key role as a catalyst for political integration and continuous economic reforms and represents a successful step toward European integration.

By linking the supranational and national levels, the Eurosystem NCBs represent the communication interface of the European single currency. Moreover, the decentralized structure of the ESCB/Eurosystem enables the NCBs to contribute to the stability-oriented monetary and economic policy and to secure financial stability across the EU and at the national level.

According to Christl, the integration of the NCBs into the European decision-making mechanisms and forums changes these bodies’ working methods at all hierarchical levels and in all areas of their work. The closer the cooperation among NCBs is, the more opportunities they have to develop and benefit from best practice. Efficient cooperation within the ESCB/Eurosystem and flexible, specialized NCBs are essential for Europe and the success of the euro.

In his keynote speech, *Tommaso Padoa-Schioppa* (former member of the Executive Board of the European Central Bank) laid the groundwork for the individual panels in the workshop by analyzing the changing tasks of NCBs in Europe in a historical context and highlighting different trends.

Historically, NCBs were monopolists who were solely responsible for the issue of banknotes. Central banks used the term “national” in their designations because it was the nation-state that had the right to issue banknotes from the end of the 18th century onward. The term “central” referred to central banks’ uniqueness, to centralized state structures and to centralized exercise of power by the state. However, the central bank of the euro is not a national bank, nor is Europe a state. Had the economic and fiscal

¹ The OeNB will publish a separate workshop issue containing the contributions presented at this workshop. It is scheduled for publication in the first quarter of 2006 and will be available in print and online on the OeNB’s website (www.oenb.at).

² The opinions voiced by the speakers at this workshop are their own views and do not necessarily reflect the official position of the institution they represent.

policy environment in Europe not evolved, no consensus could have been reached on the introduction of the euro and the building of the ESCB and the European Central Bank (ECB), nor would it have been possible to invest the terms “central” and “national” with new meaning.

What changed especially dramatically is the NCBs’ role in fiscal policy-making and in commercial banking. The central banks’ concentration on monetary policy tasks and the trend toward independence are achievements of the Treaty of Maastricht; hence, they are quite recent developments. The ESCB and Eurosystem are more independent than the individual NCBs, as it is not accountable to a single political body; any change in the ESCB/ECB Statute requires the consent of all 25 Member States.

Another trend, noted Padoa-Schioppa, is the internal reorganization of the NCBs. While the Bank of England never established a branch network, the structure of the Banque de France includes around 200 branches. Consequently, the introduction of the euro cannot be blamed for the closure of branches in some EU Member States. Additionally, changes in NCBs are also set in motion by global development, and some of them should be seen independently of European integration, e.g. new tasks in safeguarding financial stability. Some areas in which NCBs have traditionally been active are changing, but the NCBs continue to play a key role within the ESCB/Eurosystem.

Preparing for EU/ESCB Membership

Panel I was entitled “Institutional challenges for central banks – comparing experiences.” Central bank representatives from Croatia, Romania, Estonia

and Austria provided an overview of organizational changes and new institutional requirements facing their banks.

Alfred Matejka (Hrvatska narodna banka), whose country has now begun EU accession negotiations, explained that Hrvatska narodna banka had just established an EU division and had restructured its banking supervision operations. Moreover, open market operations had just been introduced as a new monetary policy instrument. Within the framework of the Stabilisation and Association Agreement, Croatia is taking further steps to liberalize capital transactions.

Cristian Popa (Banca Națională a României) clarified that the Banca Națională a României, as the central bank of an acceding country, was focusing on internal restructuring activities that included a definition of the bank’s core competences, the closure of branches and the improvement of internal communications. Further challenges extend in particular to making progress with the liberalization of capital transactions, introducing inflation targeting, reforming the electronic payment system and redenominating the currency.

Martin Pöder (Eesti Pank) noted that ever since Estonia joined the EU and its central bank became a member of the ESCB, Eesti Pank has been faced with a heavier workload, the manifold topics that the ESCB deals with and a greater coordination effort at the national level. The greatest challenges that Eesti Pank is confronted with is the fulfillment of the convergence criteria, the logistical and organizational preparation of the introduction of the euro and the justification of Eesti Pank’s role to the public.

Isabella Lindner (OeNB) provided a résumé of the impact of Eurosystem membership on the OeNB: In legal

terms, the OeNB has transferred monetary sovereignty, whereas in real terms, it has gained influence on European monetary policymaking. The OeNB has remained responsible for the implementation of monetary policy at the national level. The demands on OeNB staff have risen. ESCB-wide harmonization, also at the legal level, is increasingly affecting many of the OeNB's business areas. The OeNB has found niches and areas within the Eurosystem in which it can specialize. Another consequence is greater intercultural networking, lobbying and increased competitive pressure – albeit with a team spirit – within the Eurosystem.

Panel II dealt with “Adjusting central bank legislation – legal challenges.” Central bank representatives from Austria, Bulgaria, Turkey and Macedonia discussed the need to amend central banking legislation when adopting the EU treaties. *Sandra Dvorsky (OeNB)* provided an overview of the legal challenges for the three Southeastern European countries represented on the panel. *Rossen Grozev (Bulgarian National Bank)*, *Derya Yesiladali (Türkiye Cumhuriyet Merkez Bankası)* and *Toni Stojanovski (National Bank of the Republic of Macedonia)* presented the reform steps their banks had already taken or were preparing to take.

As each of these three countries is at a different stage of the European integration process, progress with legal adaptation also differs. Bulgaria's central banking law has largely been adapted to the EU Treaty provisions, whereas Turkey and Macedonia need to make further efforts to adapt legislation to EU standards. Above all, the central banks' independence needs to be strengthened, and the possibility of direct influence of the national government (Turkey) or parliament (Mac-

edonia) on monetary policymaking must be limited.

The Role for NCBs in an Enlarging Eurosystem – a Dynamic Environment

In this session, *panel I* covered “The ECB and NCBs – relations within the Eurosystem.” Speakers of the ECB, the Banque de France, De Nederlandsche Bank and the OeNB analyzed the development of the division of responsibilities between the ECB and the NCBs within the Eurosystem.

In his statement, *Roman Schremser (ECB)* provided insights into the federal structure of the Eurosystem and emphasized the importance of the NCBs in all three stages of decision-making, namely the preparation of decisions in the NCBs and in the committees, decision-making at the level of the ECB Governing Council and the decentralized implementation of these decisions.

Philippe Bonzom (Banque de France) sees the decentralized structure of the Eurosystem as a guarantee for a level playing field between the individual centers. It takes into account the multicultural and multilingual plurality that is Europe and puts the expertise, credibility and legitimacy of the NCBs at the disposal of the Eurosystem in its entirety. Moreover, NCBs also have responsibilities outside the scope of the Eurosystem, such as banking supervision or representation at the International Monetary Fund (IMF).

Carel van den Berg (De Nederlandsche Bank) emphasized that the system of checks and balances in place between the NCBs and the ECB currently favored the NCBs, but could become a central subject of debate again. In the future, the Executive Board of the ECB will gradually gain influence in the domain of international financial relations. On the other hand, the role

of the ESCB/Eurosystem committees, in which the NCBs play an important role, may also be strengthened. Moreover, the NCBs' responsibilities in addition to their ESCB tasks will continue to gain importance.

Alexandra Schober-Rhomberg (OeNB) examined the development of the role that the NCBs play in the Eurosystem and explained that the flexible institutional structure of the Eurosystem allows for a different division of responsibilities in different business areas. Various organizational models which have developed over time are represented in the different business areas of the Eurosystem. In the decentralized model, a specific function is exercised by all NCBs and is coordinated by the ECB; in the consolidated model, one central bank (an NCB or the ECB) exercises a task; and in the pooling model, a group of NCBs acts on behalf of the other Eurosystem members. In the end, size, expert knowledge, specialization, location and legal as well as economic framework conditions at the national and at the EU level are the main factors which will determine an NCB's standing within the Eurosystem.

During *Panel II*, which was entitled "Decision-making in central bank systems," speakers from the Freie Universität Berlin, the U.S.A. and Belgium commented on institutional decision-making scenarios for central bank systems.

Helge Berger (Freie Universität Berlin) welcomed the reform of voting modalities in the Governing Council of the ECB. In an international comparison, however, the number of Governing Council members remains high. Therefore, additional reforms could be made if the EU is enlarged further

and the euro is introduced in all EU Member States.

In his speech, *Dominique Servais (Nationale Bank van België/Banque Nationale de Belgique)* pointed out that the Treaty of Nice had decisively limited the adjustment of voting arrangements in the Governing Council of the ECB. The Treaty of Nice did not provide a legal basis for a change in the composition of the Governing Council of the ECB and of the division of responsibilities between the Governing Council and the Executive Board of the ECB. Much rather, it established a system for voting right reform dependent on the sequencing of euro area enlargement. As Servais noted, the voting rights model that the ECB uses combines efficiency with political rationale. The difficulties involved in the ratification process of the EU Constitutional Treaty demonstrate the need for a decentral ESCB/Eurosystem. The efficiency of the Eurosystem and trust in institutions is decisively influenced by the latter's proximity to the people.

Nathan Sheets (Federal Reserve Board) presented an overview of the institutional setup of the Federal Open Market Committee, the highest decision-making body of the Federal Reserve System (Fed). The correspondence between voting rights and economic strength is not unique to the reformed voting rights model of the Governing Council of the ECB; a voting rights model of this type also applies to the Fed. The decentralized nature of the Fed and the decentralized structure of the ESCB/Eurosystem are comparable only up to a point, Nathan Sheets cautioned.