ESCB / ECB: Draft statutes

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Statement by President Pöhl to the Committee of the European Parliament on economic and monetary matters and industrial policy

It is a great pleasure for me to meet with you again and to continue the fruitful exchange of views which we began in May 1990 with a view to giving practical effect to the revised Council Decision of 12th March 1990 on co-operation between the central banks of the EEC Member States. In accordance with the topics suggested by the Chairman, Mr. Beumer, I will focus my introductory remarks primarily on the principal features and underlying considerations of the draft Statute of the European System of Central banks and of the European Central Bank. I will also take this opportunity to inform you briefly of recent progress in the Committee of Governors' efforts to strengthen monetary policy co-ordination. Of course, I will gladly provide you with answers and explanations to any questions you may wish to raise in the context of these two topics.

In preparing the draft Statute the Committee of Governors responded to the request of the European Council which, at its meeting in June 1989, had asked the competent bodies of the Community to carry out the preparatory work for the Intergovernmental Conference (IGC). The work of the Governors was guided closely by the concepts developed in the "Report on Economic and Monetary Union in the European Community" (the Delors Report) and was based on the assumption that there is a clear political will and firm commitment to continue with the process of integration to the final stage of Economic and Monetary Union, i.e. a situation in which exchange rates between Community currencies have been irrevocably locked and when eventually the national currencies will be replaced by a single currency. The Statute does not yet deal with the issues of transitional arrangements, i.e. in particular the steps to be taken in Stage Two, the transition to Stage Three and the implications of full participation in the System by some of the Member States at different dates. Moreover, there are also certain aspects of a more technical nature, especially those relating to the distribution of income, which are still under active consideration and the Committee will soon present its proposals to the IGC.

While there was broad agreement in the Committee on the fundamental principles of the System, a few provisions appear between square brackets, indicating areas where no full agreement could be reached. However, these few areas of diverging views should not distract from the full agreement that has been reached amongst the governors of European central banks with regard to the fundamental pillars on which the System is to be built.

Firstly, there is full recognition that monetary policy is indivisible, that responsibility for monetary policy cannot be shared out between autonomously acting bodies, and that there is no scope for regional differentiation in the setting of monetary policy. Consequently, the Statute ensures that with the move to the final stage the monetary policy of the Community will be centralised. The responsibility for formulating and implementing the monetary policy of the Community will be vested with the System and be formally attributed to its decision-making bodies, the Council and the Executive Board. The Council will be the supreme authority of the System, taking, in particular, the strategic monetary policy decisions and establishing guidelines for their implementation. The daily management of monetary policy - involving operational decisions in response to changing market conditions - will be in the hands of the Executive Board which will act in accordance with the Council's decisions and guidelines.

Secondly, there is full agreement that the primary objective of the System shall be to maintain price stability. Without prejudice to the primary objective, the System shall also support the general economic policy of the Community. In addition, the Statute lists basic tasks normally associated with a central bank as well as specific advisory functions.

Thirdly, there is full consensus that for the attainment of the primary objective it is important that the decision-making bodies shall not be influenced by considerations which could be in conflict with the pursuit of price stability. The Statute therefore firmly establishes the principle of independence of the System in that it states that its institutions and decision-making bodies shall act independently of instructions from political authorities. The favourable experience with independent monetary authorities made by a number of countries is particularly relevant for a plural Community society where competing interests may tend to give greater thought to short-term considerations and thus lead to pressures in favour of a monetary policy stance which would not always be compatible with price stability in the longer run. One important aspect of independence is that the members of the decision-making bodies can exercise their powers and perform their tasks in a situation of assured tenure and the Statute therefore lays down specifically the terms of office and the conditions and procedures under which the members of the Council and the Executive Board can be relieved from office. Moreover, to give practical effect to the principle of independence, several functional, operational and financial conditions must also be met. This implies, in particular, that for the decision-making bodies to be able to direct monetary policy towards price stability, they should not be obliged to fulfil tasks which would render it extremely difficult, if not impossible, to attain the primary objective of the System. Let me mention two aspects which in my mind are very important in this respect. The first one is the absence of any obligation to provide monetary financing to the public sector and the Statute specifically denies the System the possibility of giving overdrafts or any other type of credit facility to public entities. The second aspect is the degree of freedom the System possesses in the conduct of exchange market interventions. While the Statute acknowledges that the responsibility for decisions concerning the exchange rate regime of the Community rest with the political authorities, it also needs to be taken into account that operations in the exchange market are closely interconnected with monetary policy and thus may affect the ability to attain price stability. For this reason the Statute establishes the obligation to consult the System with a view to reaching consensus consistent with the objective of price stability prior to any decisions relating to the exchange rate regime. However, no common view was reached as to whether or not the System should be committed to follow a particular exchange rate policy involving, for instance, the defence of an informal exchange target decided by the political authorities.

The fourth basic pillar of the System is that there must be democratic legitimacy and accountability. The System is firmly embedded in a democratic society. This is to a significant extent ensured by the fact that the Statute as part of the Treaty will have to be approved by the Member States and be ratified by their parliaments. The powers entrusted to the decision-making bodies and the scope of their responsibilities are clearly defined in the Statute and the members of the decision-making bodies will be appointed by the appropriate political authorities. The President and the Vice-President will be nominated by the European Council after consultation with the European Parliament.

Moreover, the independence of the System should not be seen as an attempt to escape the public's eye. On the contrary, the Statute establishes an open and transparent System. To this end the Statute calls for the preparation of an annual report which the President shall present to the European Council, the Council of Ministers and the European Parliament. The transparency of the System is further enhanced by enabling the President of the Council of Ministers and a member of the Commission to attend meetings of the supreme decision-making body of the System and, conversely, the System's President shall be invited to participate in meetings of the European Council and the Council of Ministers whenever matters relating to the System's objectives and tasks are discussed. Moreover, the System's President and members of the Executive Board may attend meetings of the European Parliament's specialised committees - following the tradition of our meeting today.

As I mentioned before, there is full support among the EEC Central Banks for establishing these four fundamental pillars of the System. Let me conclude my summary remarks on the System by sketching out briefly its organisational features and certain important legal aspects.

The System consists of a new central institution - the European Central Bank (ECB) - endowed with legal personality, and the central banks of the Member States. For the System to operate efficiently and coherently the Statute obliges the Member States to ensure that national legislation, including the Statutes of the national central banks, is compatible with the provisions of the Statute and the Treaty. The System as such has no legal personality and should be regarded only as a term describing the existence of the ECB and the national central banks as integral parts of the System, governed by a common set of rules and committed to the objectives and tasks entrusted to it. This construction was chosen to meet, on the one hand, the requirements of a single, centrally-decided monetary policy and to offer, on the other hand, the possibility of executing operations through both the ECB and the national central banks. While there is consensus that, in accordance with the principle of subsidiarity, there is a presumption for carrying out operations through the national central banks, no common view was reached in the Committee of Governors of how to embody the principle of subsidiarity in the Statute, i.e. the degree of discretion that might be exercised in choosing between the ECB and the national central banks when executing operations.

Finally, it is proposed to annex the Statute to the new Treaty in the form of a Protocol. This ensures that the Statute - as the Treaty itself - will have the status of primary Community law and therefore any amendment of the Statute would normally be subject to the procedure applied to EEC Treaty changes. However, as the Statute also contains a number of more technical provisions which might have to be adjusted in the light of changing operational conditions, the Statute foresees the introduction of simplified amendment procedure, which would be strictly limited to such technical provisions.

As I stressed at the beginning of my remarks the Statute, as presented in preparation of the IGC, does not yet contain detailed provisions on the transition to the final stage. These complex issues arising on the way to Stage Three of EMU and, in particular, the arrangements for the second stage, have not yet been discussed at great length in the Committee of Governors and I can only give you my personal views regarding the transitional problems. The Statute, if annexed to the Treaty, clearly defines the monetary features and the objectives of where the process of EMU shall lead. Clarity about the final stage is an indispensable prerequisite before taking the step to the second stage. The date for this stage and the conditions which have to be fulfilled when entering into it have been fixed by the European Council at its meeting in October 1990 in Rome. However, the content of the second stage remains unclear. This applies in my view particularly to the "new institution of the Community" which, according to the Rome Conclusions will be established at the start of the second stage and which will make it possible in particular:

- to strengthen the co-ordination of monetary policies;
- to develop the instruments and procedures needed for the future conduct of a single monetary policy;
- to oversee the development of the ecu.

In my capacity as Chairman of the Committee of EEC central bank governors I want to refrain from expressing a view at this juncture on this delicate political issue.

I agree, however, very much with M. Delors who at the recent ECOFIN meeting noted that our focus on the final and the second stages of EMU has led us - or at least the public discussion - to neglect the developments in the present Stage One. Indeed, without success in co-ordinating economic and monetary policies and without achieving a greater convergence of performance, the prospects of EMU do not become credible or realistic. For this reason we have greatly strengthened our efforts in the Committee of Governors to promote the co-ordination of monetary policies. In this context, we have developed a common framework for the monitoring of monetary policy. This framework was applied for the first time in November 1990 in our exchange of views on the direction of national monetary policies in 1991 and their consistency with the overall objective of achieving convergence at a low level of inflation and a desirable degree of exchange rate stability in the EMS. This forward-looking exercise will soon be followed by an ex post analysis of monetary trends in comparison with policy targets. In order to base these deliberations on firmer ground we are currently developing in a pragmatic way a system of indicators, with particular emphasis on harmonising to the extent necessary and possible monetary aggregates.

The first common assessment by the Committee of Governors of monetary policy targets and intentions for 1991 also formed the basis for my presentation on monetary policy issues to the ECOFIN Council, which on 28th January 1991 undertook multilateral surveillance in accordance with the revised Council Decision on economic convergence. The main conclusion of the Committee of Governors was to persevere with a monetary policy stance that leaves no room for inflationary tendencies regaining strength while taking due account of the risks inherent in the less favourable climate reflecting developments inside the Community as well as abroad. This policy stance - which was fully endorsed by the Ministers - was considered necessary not only to forestall second-round effects from the oil-price rise and to send the right signals to wage bargainers, but also to demonstrate the Community countries' continuing commitment to the objective of downward convergence of inflation. The success of monetary policy efforts to contain inflation and secure exchange rate stability continues to depend on positive contributions from other areas, among which fiscal policy plays a crucial role. Indeed, as I have pointed out on many occasions, a monetary union is only viable if parallel progress is made in the field of economic union and that means first of all the pursuit of sound and consistent fiscal policies.