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THE DEGREE OF CENTRAL BANK AUTONOMY IN THE COMMUNITY MEMBER STATES

(Ownership, appointments and
organizational set-up,
responsibilities, state financing)

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It takes account of the situation up to 1 July 1990.

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PREFACE

The independence of Central Banks from the State is generally considered as a basic prerequisite for monetary stability. However, it is often pointed out that "independence does not mean independence from the government, but independence within the Government".

In a Resolution (A3-99/90) on Economic and Monetary Union (EMU) adopted in May 1990, the European Parliament stressed that the European Central Bank System (ECBS), to be established in the later stages of EMU, must be given sole power to control the money supply and to use, without requiring prior authorization, all the instruments necessary to influence the money markets.

The Parliament also emphasized, that this autonomy should be "situated in the context of concerted action and cooperation with the Community institutions and the national authorities and implies a duty to lend active support to the general economic policy objectives laid down by the Community's political authorities".

The objective of the present comparative study, prepared by the Directorate General for Research of the European Parliament, is to describe the degree of autonomy of the Central Banks of the Member States in their relationships with Government.

Ownership of capital, appointment procedure for key posts and organizational structure, responsibilities as laid down by law and the existence or not of legally prescribed limits in financing the State are the major autonomy indicators used in this study.

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B E L G I U M

(Banque Nationale de Belgique/Nationale Bank van België)

(a) OWNERSHIP

50% of shares are government-owned and 50% are freely traded. However, the State controls, directly or indirectly, the absolute majority of the shares.

(b) APPOINTMENTS AND ORGANIZATIONAL SET-UP

After a proposal by the government, the Crown appoints the Governor, who is ex-officio Chairman of both the Board of Directors (Comité de Direction) and the Supervisory Board (Conseil de Régence). The Governor's term of office runs for five years. He may be dismissed.

In addition to the Governor, the Board of Directors comprises three to six Directors, who are appointed by the King for a six-year term on a proposal by the Supervisory Board. The Board of Directors takes decisions on all matters not falling exclusively within the terms of reference of the Supervisory Board.

The Supervisory Board comprises the Governor, the Directors and ten other members ('Régents'). The last-named officers are elected by the Shareholders' General Meeting for a three-year term. Two Directors are nominated by the trade unions, three are nominated by the industrial employers' associations, chamber of commerce and farmers' organizations, two are representatives of the public-sector financial institutions and the other three are nominated by the Minister for Finance. The Supervisory Board discusses all matters of general importance concerning the Central Bank, the banking and credit system and the economic development of the country. It sets interest rates and lays down the conditions governing re-discounting, collateralized loans and cash advances.

(c) RESPONSIBILITIES

Responsibility for monetary policy in Belgium has been deliberately conferred jointly upon the Government and the Central Bank, reflecting Parliament's wish for monetary policy not to be subjected to Government's exclusive responsibility. The external monetary policy is being exercised by the Government, while the Central Bank plays an advisory role. The Belgian Central Bank is responsible for interest-rate and re-discounting policy, as well as for regulating bank credit. It also enjoys the exclusive right to issue notes and conducts the Government's transactions under the supervision of the National Audit Office.

For the purposes of implementing banking legislation, the Central Bank may submit proposals and issue opinions. Banks are required not only to provide the Central Bank with information on credit which has been arranged or taken up, but also to submit to it a detailed annual balance sheet together with a profit-and-loss account and a monthly interim statement.

All transactions by the Central Bank are supervised on behalf of the Minister for Finance by a Government Commissioner; he is entitled to suspend any measure which runs counter to the law, the Bank's statutes or the 'national interest'.

(d) STATE FINANCING

The budget deficit is mainly financed by borrowing from the Central Bank, by borrowing on the money markets, by issuing medium- and long-term promissory notes, by borrowing on foreign financial markets and by drawing on reserves.

Direct Central Bank lending to the Belgian Government depends on negotiations between the Minister for Finance and the Bank. All agreements related to Central Bank credit to the Government should be published in the Official Journal.

In addition, the Ministry of Finance can obtain Central Bank funding via the 'Fonds des Rentes'. This Fund has Central Bank powers, as it intervenes in the money and capital markets and decides about open market policy. It is directed by a committee comprising six representatives, three from the Ministry of Finance and three from the Central Bank, and is chaired by one of the representatives of the Ministry of Finance. The volume of Central Bank credit for the Fund is currently five to six times larger than the volume of direct credit granted to the Ministry of Finance.

D E N M A R K (Danmarks Nationalbank)

(a) OWNERSHIP

The Bank is organised as a non-profit self-governing institution. It is wholly owned by the State.

(b) APPOINTMENTS AND ORGANIZATIONAL SET-UP

The Board of Governors, the Board of Directors and the Committee of Directors are the main authorities of the Bank.

The Board of Governors has three members. The Chairman is appointed by the Crown (i.e. the Government) and continues to hold office until the age of 70. The other two members are appointed by the Board of Directors. The Board of Governors is in charge of the planning and implementation of monetary policy on the basis of general principles laid down in cooperation with the Government.

The Board of Directors consists of 25 Directors: 8 are members of the Danish Parliament, 2 are appointed by the Minister for Economic Affairs and 15 are elected by the Board of Directors itself. The Minister is the Chairman of

the Board of Directors. The Governors answer to the Board of Directors. The Board meets once every quarter.

The Committee of Directors consists of 2 members of the Board of Directors who are appointed by the Minister for Economic Affairs and 5 further members of the Board who are elected annually. The Committee of Directors takes responsibility for administrative matters, and is the Bank's supervisory authority. It generally meets once a month.

(c) **RESPONSIBILITIES**

Monetary and foreign-exchange policy in Denmark is determined by the Government in collaboration with the Central Bank. The Ministry of Commerce is in charge of the foreign exchange legislation, but the administration of the regulations has been delegated very largely to the Bank, which is also in charge of the daily quotation of exchange rates and the administration of Denmark's official international liquidity.

The collaboration between the Government and the Bank is maintained through such current contacts as may be required from time to time and through periodical consultations (normally once a month) between the Bank's Board of Governors and the Cabinet Ministers responsible for matters involving economic policy. In addition, there is a formal cooperation, through the Royal Bank Commissioner (at present: the Minister for Economic Affairs) who, acting as the Government's representative, supervises the Bank's discharge of the central bank responsibilities assigned to it.

The Danish National Bank has the sole right of note issue and expedites financial transactions on behalf of the State. It is the supervising authority for commercial banks, serves as the banker of the Government and, in cooperation with the Treasury, is in charge of current sales of government paper.

Monetary policy is implemented by way of the official discount rate and by regulating liquidity, notably through the borrowing facilities available to the banking system in the Central Bank, and by current sales of government paper and other operations on the bond market. In addition, the

Central Bank has concluded voluntary agreements with the banking system and the mortgage-credit institutes, restricting their lending operations in order to ensure that these are adjusted in the light of the performance of the economy. The voluntary system of agreements should be viewed against the fact that variable cash-reserve ratios or placement rules are not applied and that mortgage credit institutes are free to issue bonds for sale on the bond market.

In reality, the Board of Governors takes all important monetary and credit policy decisions only after consulting the Government. On the other hand, the Government consults the Central Bank in matters of external monetary policy, for which the Minister for Economic Affairs is formally responsible.

d) STATE FINANCING

There are no legal limits to the financing of the State by the Central Bank. There is, however, an agreement that the Government's credit requirements must be covered by the sale of Treasury paper. It is on this basis that the Bank intervenes on the market to regulate trade, but has no concrete obligation to buy Treasury paper. The profits from the Bank's operations are transferred to the Government, after reserves have been deducted.

F E D E R A L R E P U B L I C O F G E R M A N Y
(Deutsche Bundesbank)

(a) OWNERSHIP

The Deutsche Bundesbank is state-owned.

(b) APPOINTMENTS AND ORGANIZATIONAL SET-UP

The President and Vice-President of the Deutsche Bundesbank are nominated by the Federal Government and appointed by the Federal President for a term of office of not more than eight years but not less than two years.

The decision-taking authority within the Bundesbank is the Central Bank Council, which comprises the President and Vice-President of the Bundesbank, the other members of the Board of Directors (no more than eight; six at present), and the Presidents of the eleven Land Central Banks. The Central Bank Council lays down the basic monetary policy framework and, in general, takes decisions on the most important issues, such as changes in interest rates and minimum reserve ratios. It meets every two weeks.

After consultation of the Central Bank Council, the members of the Board of Directors and the Presidents of the Land Central Banks are nominated by the Federal Government and the Upper House of the West German Parliament (Bundesrat) and appointed by the Federal President for a term of office of no more than eight years but not less than two years. Except on grounds of personal conduct, they may not be removed from office until the end of their term. The Board of Directors is the Bank's executive authority, implementing the decisions taken by the Central Bank Council. Its Chairman is the President of the Bundesbank.

(c) RESPONSIBILITIES

Paragraph 12 of the Bundesbank Act (1957), provides that: "Without prejudice to the performance of its functions, the Deutsche Bundesbank shall be required to support the general economic policy of the Federal Government. In exercising the powers conferred on it by this Act it shall be independent of instructions from the Federal Government".

This is the essence of its autonomy. Only the obligation to support the general economic policy of the Federal Government, seemingly, interferes with the autonomy of the Bundesbank, since the formulation "without prejudice to the performance of its functions" implies that the Bundesbank has an own

right to interpret what this obligation specifically means. It should be underlined that the Central Bank is not subject, in the course of its duties, to directives from the Federal Government, though it is required, with due regard for its responsibilities, to support the Government's overall economic policy.

Paragraph 13 of the Bundesbank Act contains the following rules for cooperation between the Government and the Central Bank: (a) The Bundesbank is required to advise the Federal Government on matters of fundamental monetary policy significance and to provide it with information on request. (b) The Members of the Federal Government have the right to take part in the consultations of the Central Bank Council. They have no voting rights but may table motions. On their request, decisions can be held over for up to two weeks. (c) The Federal Government must admit the President of the German Bundesbank to its consultations on matters of monetary policy significance.

Pursuant to Paragraph 3 of the Bundesbank Act, the Deutsche Bundesbank is responsible for 'safeguarding the currency', and is, therefore, empowered to set independently the key interest rates, minimum reserve ratios, and to lay down the principles governing its credit and open market operations. It also has the sole right to issue notes and, together with the Federal Banking Supervisory Office, supervises the banking system.

While the Bundesbank controls the most important instruments of the internal monetary policy, the Federal Government is formally responsible for the external monetary policy. However, after the demise of the fixed exchange rates system of Bretton Woods, this role of the Government has lost its importance.

The functional independence of the Bundesbank is ensured also in regard to the European Monetary System (EMS). On the basis of an agreement with the Federal Government dating from 1978, the Central Bank is authorized, in case of large EMS interventions and delayed adjustment of the exchange rate, to stop the interventions in order to protect the internal stability of the currency.

d) STATE FINANCING

The granting of cash advances to public-sector agencies by the Central Bank is governed by paragraph 20 of the Bundesbank Act. This empowers the Bundesbank to grant the Federal Government, the Länder, and specifically stipulated Federal Funds short-term credits in the form of current-account and government-note credits (cash advances) up to the maximum amounts laid down in the Act. The ceiling is fixed at 6,000m DM for the Federal Government. The ceilings laid down in the Act for the Länder and Federal Funds are significantly lower. These short-term advances are not intended for financing the budget deficit but for bridging over fluctuations in tax revenue. The Bundesbank does not grant long-term credit to the public sector.

The Bundesbank is not obliged to finance indirectly the State, though it has occasionally bought Federal Bonds for its portfolio. The Federal State has a right to the profits of the Bank (its net profits are distributed according to paragraph 27 of the Bundesbank Act).

F R A N C E (Banque de France)

(a) OWNERSHIP

Under the Act of 2 December 1945 the Central Bank was given the legal status of a state undertaking and its capital was transferred to the State.

(b) APPOINTMENTS AND ORGANIZATIONAL SET-UP

The Governors and the two Deputy Governors are appointed by the President of France on a decision by the Council of Ministers (Cabinet). All three are appointed for life and may be dismissed by the President. The

Governor, assisted by the two Deputy Governors, is responsible for the Bank's management and administration.

The Bank's General Council (Conseil Général) supervises the Bank's activities as a whole. The Council consists, in addition to the Governor and the Deputy Governors, of a further nine members who are appointed by the Minister for Economy and Finance, and one member elected by the staff. The mandate in the General Council lasts for six years. A representative of the Ministry of Economy and Finance has a suspensive veto in the General Council. The Council's main task is the general administration of the Bank and the use of its funds.

(c) RESPONSIBILITIES

Monetary policy in France is decided by the Government, but the Banque de France plays an important role in its preparations and implementation. In practice, the most important decisions are often taken jointly by the Central Bank and the Finance Ministry, although the Ministry generally has the last word. It is in this framework that the Bank implements the exchange rate policy and administers the foreign exchange reserves of the country. The Central Bank, which has the sole right of note issue, also administers state finances and monitors credit expansion.

The Banque de France operates in close cooperation with the National Credit Council (Conseil National du Crédit) and the Banks' Supervisory Commission (Commission du Contrôle des Banques) in implementing Government credit policy.

The Parliament has given the National Credit Council (CNC) powers to implement monetary policy; it can, for example, decide on the minimum reserve ratio. The Council has 45 members who belong to it as representatives of public agencies, the banks and other financial institutions, borrowers and trade unions. The chair in the National Credit Council is held by the Minister for Economy and Finance, but, in practice, the meetings are normally chaired by the Governor of the Bank of France in his capacity as Vice-President of the Council.

Constituted within the Conseil National du Crédit, the Banking Regulation Committee (Comité de la réglementation bancaire) has regulatory powers, like fixing prudential rules and minimum capital.

(d) STATE FINANCING

Though the size of direct financing of the Government by the Central Bank is limited (FF 31,8 billion on 1.1.1987), indirect financing is formally at the Bank's discretion. The Government, however, takes the final decision on the size of indirect financing.

G R E E C E (Bank of Greece)

(a) OWNERSHIP

The Bank of Greece was founded in 1927 as a joint-stock company. Almost 60% of the shares are controlled directly or indirectly by the State.

(b) APPOINTMENTS AND ORGANIZATIONAL SET-UP

The Governor and the Deputy Governor(s) are appointed by the Government upon proposal from the Bank's General Council. They are appointed for a term of four years and may be reappointed. The Governor may participate, after invitation, in the Governmental Council, chaired by the Prime Minister, which decides on major economic issues and is responsible for the coordination and implementation of the governmental programme. The Governor is also a member of the Supreme Council of Economic Policy, an intergovernmental body, chaired by the Prime Minister, and responsible for the formulation of economic policy.

The governing authority is the Administrative Council (General Council), which consists of the Governor, the Deputy Governor(s) and nine Counsellors. At least five of the Counsellors must be prominent figures in industry, trade or agriculture. The nine members are elected for three years by the General Meeting of shareholders. The Administrative Council is entrusted with the overall conduct of the affairs of the Bank.

The Board of Management consists of the Governor, the Deputy Governor(s) and the Managers of the Bank. It looks after the day-to-day business of the Bank, meets at least once a week and reports every month to the General Council.

The Minister of Finance can appoint a Government Commissioner, who has the right to attend General Meetings of shareholders and meetings of the Bank's General Council, but not to vote. The Commissioner has, however, the right of suspensive veto.

(c) RESPONSIBILITIES

The broad guidelines for and the general objectives of monetary and foreign exchange policies are set by Government (Law 1266/82). The Bank of Greece is consulted when policy is formulated and is responsible for the development and implementation of these policies and for enforcing the necessary controls and regulations. It also has the sole right of note issue, executes transactions on behalf of the State, and exercises the prudential control of the banking system.

The Bank of Greece imposes reserve requirements on all credit institutions operating in Greece, sets the discount rate and buys, sells and discounts treasury bills (open market operations), within the limits and terms set by its General Council. Following the liberalization measures introduced in mid-1987, the interest rates still set by the Bank of Greece are minimum interest rates on savings deposits and on short and long-term loans.

The Bank controls and manages the country's gold and foreign exchange reserves, legal and beneficial ownership of which is vested in the Bank (Law 5422/32) and is also responsible for the implementation of foreign exchange

policy. Exchange rates are set in the inter-bank market and are quoted on a daily basis. In addition, the Bank is empowered to supervise the enforcement of exchange controls and regulations (Greece, together with Portugal, Ireland and Spain, are due to liberalize their capital movements at the end of 1992).

(d) STATE FINANCING

Short-term advances by the Bank of Greece to the State for financing the annual budget deficit can be up to 10% of total budgetary expenditure. The advances have to be paid back to the Bank three months after the end of the financial year. The Bank can also buy treasury bills either directly from the Government or from the market. Financing of the budget deficit takes the form principally of state loans on the international financial markets.

I R E L A N D (Central Bank of Ireland)

(a) OWNERSHIP

The Irish Central Bank is wholly owned by the State.

(b) APPOINTMENTS AND ORGANIZATIONAL SET-UP

The Governor (usually a former Finance Minister) is appointed by the President of the Republic on a proposal by the Government. His term of office runs for seven years.

The Board of Directors consists of the Governor and eight Directors. The Governor is appointed for seven years while the Directors are appointed for five years. At present, three Directors are appointed by the Finance Minister on the nomination of the Associated Banks (the major clearing

banks). The Board of Directors monitors the activities of the Bank and takes decisions on the basis of proposals from the Bank management.

(c) RESPONSIBILITIES

The Central Bank has a monopoly of note issue and is responsible for monitoring the banking sector. It is the highest monetary authority in the country and is wholly responsible for the instrumentalization of monetary policy: operating a money supply policy, a discount policy and an exchange rate policy within the framework of the EMS. The Bank performs its tasks with a considerable degree of autonomy and consults regularly with the Department of Finance, especially within the context of the EMS where the Bank's function is to protect the value of the currency within the narrow band of the Exchange Rate Mechanism.

Monetary policy is formulated by the Bank at the beginning of each year when the annual state budget is being prepared by the Government. A money growth target is not published although this is a factor very much involved in the formulation of monetary policy by the Bank. The maximum increase in private sector credit will be arrived at by the Bank, having regard to official external reserve balances in the light of expected current and capital balance of payments flows and the relationship of domestic interest rates to foreign interest rates.

(d) STATE FINANCING

There is no legally fixed limit to the financing of the State by the Central Bank. However, the financing of the budget deficit is secured principally through loans on the international financial markets.

The Central Bank, for its part, finances the budget deficit with short-term transfers, all of which must be repaid by the end of the financial year. The purchase or sale of government securities is utilised by the Bank as a liquidity management mechanism.

20% of the profits of the Irish Central Bank go to its reserves, while the rest is given to the State.

I T A L Y (Banca d'Italia)

(a) OWNERSHIP

The Banca d'Italia is a public law corporation. Its shares can only be acquired by savings banks, public law credit institutions, 'banks of national interest' and by social security institutions and insurance undertakings.

(b) APPOINTMENTS AND ORGANIZATIONAL SET-UP

The Governor is appointed by the Administrative Council. The appointment must be approved by the Government and the President of the Republic. The Governor is assisted in carrying out his duties by a Director-General and two Deputy Directors-General.

The Administrative Council consists of the Governor, the Director-General, the two Deputy Directors-General and thirteen members who are elected by the shareholders in the thirteen main regional administrations of the Central Bank. The Governor chairs the Administrative Council, which is the highest authority of the Bank.

A representative of the Finance Minister may attend meetings of the Administrative Council, and has the right to demand a postponement for a maximum of five days of the implementation of any decisions that he considers contrary to the Bank's statute or to legislation.

(c) RESPONSIBILITIES

Responsibility for the financial sector, and consequently for borrowing and lending operations, is held by the Inter-Ministerial Committee for Credit and Savings (Comitato Interministeriale per il Credito e il Risparmio - CICR), which determines the basic features of Italian money, credit and exchange-rate policy. The CICR consists of the Finance Minister, who holds the chair, and is responsible, vis-à-vis the Parliament, concerning monetary policy. Other Ministers holding economic affairs portfolios participate in the Committee, while the Governor of the Bank has the ex-officio right to attend its meetings.

The Banca D'Italia, which has sole note-issuing rights, is required by the Banking Act to implement the instructions and decisions of the CICR committee. It is free to choose the necessary means, though for some cases prior permission of the Finance Minister is necessary.

As well as implementing monetary policy, the Bank is required to monitor banking activities. This covers all public or private law institutions that accept deposits and either grant short-term credit (commercial banks) or are active in medium- or long-term credit operations (special credit institutes).

Since the Bank carries out public-sector activities and provides services on the account of the State, it is subject to state monitoring. The monitoring agency is a standing committee, chaired by the Treasury Minister, which acts on the Minister's instructions to regulate bank notes in circulation, amend the statute of the Banca d'Italia and implement legislation relating to the Central Bank.

(d) STATE FINANCING

The Treasury has at its disposal a current-account credit of 14% of estimated budgetary expenditure, as well as any additional expenditure subsequently approved by Parliament for the same financial year. If this ceiling is exceeded the Central Bank must, on the expiry of a 20-day period,

suspend payment on transactions on behalf of the State until the balance has again fallen within the prescribed limits. The Central Bank should be legally authorized for any credit to the State above the 14% limit.

The decision of indirect financing of the state budget by the Bank through the purchase of government securities lies, de jure, at the sole discretion of the Bank and there are no restrictions imposed on it.

Moreover, there exists an indirect form of state financing, the significance of which should not be underestimated, in the form of foreign exchange advances (to finance state imports) by the Italian Foreign Exchange Agency to the Treasury. The Foreign Exchange Agency covers these advances from its own current-account credit with the Central Bank.

L U X E M B O U R G

On the basis of the special protocol on Monetary Union with Belgium to the Treaty on Belgian-Luxembourg Economic Union, Luxembourg is without a Central Bank of its own. The Belgian currency also circulates as legal tender in Luxembourg and it accounts for the greater part of Luxembourg currency in circulation. Available estimates suggest that Luxembourg's own currency issues account for about 19% of currency in circulation in Luxembourg.

Since there is no Central Bank, monetary policy is in the hands of the Government and the Institut Monétaire Luxembourgeois (IML) founded in 1983. The role of the IML is similar to that played by Central Banks in other Member States.

INSTITUT MONETAIRE LUXEMBOURGEOIS

(a) OWNERSHIP

The institution is owned by the State.

(b) APPOINTMENTS AND ORGANIZATIONAL SET-UP

The Administrative Council decides on the guidelines for the Institute, and monitors the latter's activities. It consists of seven members who are appointed by the Government to a four-year term.

The Board of Directors is the highest executive authority of the Bank. It consists of three members (a Director-General and two Directors), who are appointed to a six-year term of office by the Grand Duke on a proposal by the Government. The Board of Directors is responsible for the administration of the IML and for the implementation of its policies.

(c) RESPONSIBILITIES

Under the law of 20 May 1983, the main activities of the IML are, maintaining the stability of the currency, implementing Luxembourg's commitments under the international currency agreements, and monitoring the financial sector. The IML has no absolute issuing right, since the Banque Internationale à Luxembourg also has money creation rights, though only up to the symbolic maximum of 50m Flux. Luxembourg's emissions are realized on the basis of protocols in the framework of the Economic Union with Belgium. It is evident that due to the Union, monetary policies in both countries have to be strictly compatible.

The Institute is responsible for maintaining the stability of the currency internally by credit regulation. Responsibility for monetary stability externally, however, lies with the Banque National de Belgique.

The commitments under international currency agreements derive principally from the monetary agreement with Belgium of 1981, Luxembourg's participation in the institutions set up under Bretton Woods, and its participation in the European Monetary System. Though IML's responsibility is limited only to the implementation of international agreements, the Luxembourg Government is, however, responsible for the content.

The absence of an authentic Central Bank denies the Luxembourg Government the option of pursuing an indirect credit policy. Consequently, the Institute - with the approval of the Finance Minister - issues directives to the banks in order to control the growth of bank liquidity and the granting of credit. Also, the IML is exercising the prudential surveillance of the banking and financial sectors of Luxembourg.

Interest rates in Luxembourg are set by the State Savings Bank (Caisse d'Epargne de l'Etat).

(d) STATE FINANCING

The Luxembourg budget has in recent years been financed entirely from revenue.

P O R T U G A L (Banco de Portugal)

(a) OWNERSHIP

The Bank has been nationalized since 1974.

(b) APPOINTMENTS AND ORGANIZATIONAL SET-UP

The Governor and the two Deputy-Governors are appointed by the Government on a proposal by the Finance Minister for a period of five years.

The Board of Directors is formed by the Governor, who is the Chairman, three Vice Governors and seven to nine Directors, appointed by the Cabinet, following a proposal by the Finance Minister, to exercise their duties for renewable five-year terms of office. The Board of Directors is responsible for the realization of the Bank's purposes assigned by law.

(c) RESPONSIBILITIES

The by-laws of the Banco de Portugal (Decree-Law 644/75) set the range of its functions in the following way: "As central bank, that it shall be the responsibility of the Bank, under the Direction of the Finance Minister, to perform the duties as Banker of the State, financial consultant to the Government's director and controller of the monetary and financial policy, manager of the foreign assets of the country and intermediary in international monetary relations".

To regulate the money and financial markets, the Bank may adopt the general measures required to ensure the coordination of the activities of such markets with the objectives of economic policy as defined by the Government. In order to achieve these objectives, the Bank can, inter alia, fix the discount rate and impose reserve requirements.

Although recent measures directed at laying the foundations of a more market-oriented system have introduced some flexibility (e.g. the complete liberalization of interest rates on banks loans), monetary control still relies significantly on administered instruments: direct ceilings on credit expansion, an administered pivot interest rate (minimum interest rate, on six months deposit) and a "crawling-peg" exchange rate practice. The expected inflation differential against the main trade partners is used to establish,

usually at the beginning of the year, the (announced) pace of devaluation for the whole year.

The management of the public sector debt is the responsibility of the Ministry of Finance, with the Central Bank acting on a merely advisory basis. In some cases, the Bank operates as a representative of the Treasury (e.g. auctioning Treasury Bills in the inter-bank market, managing the corresponding reporting system).

The Banco de Portugal exercises the prudential supervision of the banking sector. It is also the exchange authority of the Republic of Portugal and in that capacity it is responsible for the definition of the principles governing external assets and payments.

(d) STATE FINANCING

Financing of the State by the Bank of Portugal is enabled through an interest-free current account, but also through the purchase of government paper and securities issues.

The Central Bank can open an account free of charge in favour of the State up to the equivalent of 10% of the Central Government's current revenue collected in the previous year, and shall further grant to the State financing for the cover of the budget deficit, although with the nature of credit of last resort, up to the amount fixed by Parliament following a proposal by the Government.

S P A I N (Banco de España)

(a) OWNERSHIP

The Banco de España was nationalized in 1962.

(b) APPOINTMENTS AND ORGANIZATIONAL SET-UP

The Governor and the Deputy-Governor are appointed by the Government on a proposal by the Minister for Economy and Finance for a period of four years.

The General Council consists of the Governor (who holds the chair), the Deputy Governor and thirteen members. The latter include six members who are appointed by the Government for a period of three years and are prominent figures in the economy, two Directors of the Economy and Finance Ministry, four Directors of the Central Bank, appointed by the Governor, and, lastly, one representative of the staff.

The Executive Council consists of five members: the Governor, the Deputy Governor and three members who must already belong to the group of Administrative Council members appointed by the Government (the two Economic and Finance Ministry Directors and the four Central Bank Directors are excluded).

Whereas the General Council (meeting once a month) exercises a monitoring function on the general activities of the Bank, it is the Executive Council (meeting once a week) that takes responsibility for matters of day-to-day policy.

(c) RESPONSIBILITIES

Although the overall objectives of monetary policy are laid down by the Government, the Banco de España participates actively in shaping such policy and in securing its implementation. The Central Bank has, for example, a free hand in open market interventions, in the fixing of reserve coefficients or in formulating interest-rate policy.

The Banco de España exercises monitoring powers in the banking sector and has a note-issuing monopoly (the upper limit of the money in circulation

is decided by the Government). It also informs Parliament, at the latter's request, about developments in the field of monetary policy.

(d) STATE FINANCING

The Central Bank's direct credit to the Government, in the form of interest-rate free short-term cash credit, can be to a maximum of 12% of budgetary expenditure. Credit above this limit has to be authorized by the Parliament.

There are no limits set to the purchase of Government securities by the Central Bank.

THE NETHERLANDS (Nederlandsche Bank)

(a) OWNERSHIP

The Bank was nationalized in 1948.

(b) APPOINTMENTS AND ORGANIZATIONAL SET-UP

The Bank Governor is appointed by the Crown on a proposal by the Finance Minister. His term of office runs for seven years.

The Governing Board, the Supervisory Board and the Bank Council are the main authorities of the Netherlands Central Bank. The Governing Board consists of the Governors and five members, who are appointed by the Crown on a proposal by the Government. The term of office of the Directors likewise runs for seven years. The Board of Directors takes the most important decisions of the Central Bank and is responsible for its management.

The Governing Board consists of twelve members who are similarly appointed to a 4-year term of office. The Executive Council monitors the activities of the Governing Board and approves the annual balance sheet, but does not take any technical decisions on monetary policy.

The Bank Council consists of seventeen members: a Royal Commissioner, who represents the Government, four members, who come from the Executive Council, and twelve members who are prominent figures in trade, industry, agriculture, the financial sector and the trade unions. The Bank Council discusses general questions of the Nederlandsche Bank policy. It is also an advisory body for the Minister of Finance in affairs concerning the Bank.

The Royal Commissioner acts as link between the Finance Minister and the Bank. He has the right to attend, in an advisory capacity, the meetings of the Bank Council and the Supervisory Board. Specifically, the Commissioner does not have the right to ask for a suspension of any decision taken by a Central Bank organ.

(c) **RESPONSIBILITIES**

The major task of the Nederlandsche Bank is, similar to that of the German Bundesbank, the stability of the national currency. It should regulate the value of the Gulden in such a manner "as will be most conducive to the nation's prosperity and welfare, and in so doing seek to keep the value as stable as possible" (Bank Act of 1948).

The Bank Act of 1948 provides that the Minister of Finance, "may, after consultation with the Bank Council, give such directions to the Governing Board as he thinks necessary for the Bank's policy to be properly coordinated with the Government's monetary and financial policies". However, this provision has never been implemented as, in practice, the Governing Board of the Central Bank and the Minister of Finance consult with each other and try to agree on matters of monetary policy.

In particular, the Central Bank has the sole right to issue bank notes, administers the official gold and foreign currency reserves and acts as sole agent in transactions on behalf of the State. It monitors the banking

sector and is responsible for the discount and open-market policy. The Finance Minister is, on the contrary, competent for the external monetary policy.

In the event of activities likely to jeopardize monetary stability, which is the Bank's particular responsibility, the Bank is expected to restore orderly behaviour with associations in the credit sector. This arrangement goes back to a tradition from the pre-war period. Relations between the Central Bank and the rest of the banking sector had by then already come to be based on voluntary arrangements (gentlemen's agreements) which always led to satisfactory results in practice. Legislation does, nevertheless, provide that, in the event of the failure of discussions, certain general regulations may be enforced.

The management of public sector debt belongs primarily to the responsibilities of the Minister of Finance. In practice, the Minister of Finance will consult with the Bank's Governor on this matter within the framework of their regular talks about the coordination of financial and economic policies.

(d) STATE FINANCING

Direct, cash credit from the Nederlandsche Bank to the State is restricted by law at the low level of 150 billion Guilders. The Finance Ministry can also claim Central Bank credit for bridging short-term financial requirements up to a maximum 3% of last year's budget revenues. No indirect financing through the purchase of government securities is provided.

The profit of the Central Bank is almost entirely channelled to the sole shareholders, the State. There is a limited possibility of withholding profits in the Central Bank, under which - by the special permission of the Minister of Finance - amounts can be added to special reserves.

UNITED KINGDOM (Bank of England)

(a) OWNERSHIP

The Bank of England was nationalized in 1946.

(b) APPOINTMENTS AND ORGANIZATIONAL SET-UP

The Governor and the Deputy Governor of the Bank of England are appointed by the Crown on a proposal by the Prime Minister (or Chancellor). The Governor maintains day-to-day contacts with the Government. The term of office of the Governor and Deputy-Governors is five years.

The Bank's Court of Directors consists of the Governor, the Deputy Governor, four full-time Executive Directors (three from Central Bank Administration and one from the Treasury) and twelve honorary part-time Directors, who are recruited from the private sector. The members of the Court of Directors are appointed in the same way as the Governor or Deputy Governors, but their term of office is four years. Ministers in office, MPs and civil servants are excluded from membership of the Court of Directors.

The Governor, Deputy Governor and the four full-time Directors make up the informal Executive Committee which assumes responsibility for matters of day-to-day policy of the Bank. The part-time Directors are denied access to 'confidential information' that could have an influence on the financial markets. Their membership of the Court of Directors, nevertheless, enables them to exercise a general monitoring function on the administration and activities of the Central Bank.

(c) RESPONSIBILITIES

The Bank of England is responsible for the execution of monetary policy in the UK. Ultimate responsibility for the formulation of monetary

policy (i.e. decisions about money supply and interest rates) is in the hands of the Treasury.

Since nationalization, the Bank has been under an obligation to the Government to adhere to such directives as the Treasury may consider appropriate: 'The Treasury may from time to time give such directions to the Bank as, after consultation with the Governor of the Bank, they think necessary in the public interest.' (Bank of England Act 1946, paragraph 4(1)). However, no such directives have been issued to Britain's Central Bank since the legal power to do so was created.

The Bank requires the prior approval of the Chancellor for major monetary policy measures. However, the Treasury can and does delegate the day-to-day responsibility for the execution of monetary policy to the Bank and the formulation of monetary policy involves close cooperation with the Bank of England. As a rule, the Treasury is kept informed continuously so that it can steer the tactical decisions in the direction it deems desirable while also setting out the strategic framework (at present in the form of Medium Term Financial Strategy) within which the daily decisions are carried out.

The Bank of England is responsible for bank monitoring, manages the government debt and has the sole right of note-issue in England, Wales, Scotland and Northern Ireland.

There is now a general agreement that the main instrument of monetary policy is short-term interest rate. Short-term interest rates are influenced by the Bank's day-to-day operations in the Sterling money market, in particular the rates at which the Bank makes liquidity available to the discount houses.

The issue of long-term securities is at present not intended to influence the level of long-term interest rates as an element of monetary policy but rather to fund the net total of maturity debt, the Public Sector Borrowing Requirement, and any underlying change in foreign exchange reserves, by sales of Government debt outside the bank and building society sectors.

C O R R I G E N D U M

RESEARCH AND DOCUMENTATION PAPERS

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THE DEGREE OF CENTRAL BANK AUTONOMY IN COMMUNITY MEMBER STATES

Page 29, para. 3, please read as follows:

The Bank of England is responsible for bank monitoring and manages the government debt. The Bank has the right of note-issue in England and Wales and supervises it in Scotland and Northern Ireland.

The two basic instruments of Monetary Control used by the Bank of England now are Open Market Operations (purchase and sale by the Bank of Government Stocks with more than one year to run) and Discount Rate. The Bank also engages in the sale and purchase of bills to control liquidity.

Previously, when Sterling had a fixed parity, the Bank, as agent of the Treasury, had an international obligation to intervene as necessary to stop the exchange rate moving outside specific limits. When Sterling floated (1972) this obligation ceased. Since then the responsibility of fixing the range of fluctuation of exchange rate has been in the hands of the Treasury, which determines, in consultation with the Bank, to what extent the exchange rate should be influenced by direct intervention and/or changes in interest rates.

(d) STATE FINANCING

In accordance with a traditional restriction on short-term bridging credits ('overnight ways and means advances'), the upper limit and duration of which are determined from year to year in a so-called 'Appropriations Act', direct financing of the State by the Bank for the purpose of implementing the budget is unusual, although there is no legislation to prevent such activity or to set an upper limit to it.

After remuneration of reserves, Central Bank profits go to the Government.

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