

第6回 国際通貨論 I  
International Monetary Study I  
*Economic Policies in the Euro Area (1)*

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# The Monetary policy in the euro area 金融政策

## 1. The framework of economic policies in EMU

*The double-decker structure of two macro-economic policies (fiscal and monetary) at the Community and national levels.*

- >Single monetary policy by ECB
- >Single foreign exchange policy by the Community (Council of Ministers) and ECB
- >Multiple fiscal (budgetary) policies by member states within the constraint of the Stability and Growth Pact
- >Multiple structural and other micro-economic policies by member states

## How can policy objectives of growth, employment, price stability and balanced external accounts be achieved through a proper policy mix?

- >The single currency → the monetary policy and exchange rate policy must be one at the Community level.
- >The principle of “subsidiarity” and resistance to the delegation of sovereignty → the fiscal policy remains basically at the level of member states.
  - **importance of surveillance and policy coordination !**
- >Structural/micro-economic policies become especially important for flexible labor and product markets.

## 2. Monetary policy: objectives and functions of ECB

### (1) Organization [see Table 2.1]

The ESCB (European System of Central Banks) was designed after the model of Deutsche Bundesbank → decentralization and federal structure

- >Eurosystem: ECB + euro area 12 national central banks
- >ESCB: ECB + EU 15 national central banks
- >Decision making bodies: Governing Council (18=12+6) and the Executive Board (6)
- >Policy implementation: national central banks

## (2) Policy objectives 政策目的

### (i) Primary objective: to maintain price stability

(ie. Inflation rate within 2%)

### (ii) Secondary objective: to support general economic policies in the Community

### (iii) Interim targets: money supply (monetary aggregate M3\*) and inflation rate

\*M3: currency in circulation + euro area residents' holding of following liabilities of money issuing institutions [overnight deposits + deposits of maturities of up to 2 years + deposits at notice of up to 3 months + repurchase agreements + money market fund shares/units + money market paper and debts up to 2 years]

### (3) Major policy instruments 政策手段

- (i) Open market operations (公開市場操作) : the most important interest rate and liquidity adjustment instruments, ie. buying and selling of mainly government debts under a repurchase agreement 現先取引 (two week repos at 2% as of end Sep 2004)
  - (ii) Standing facility (常設貸出預り金枠) : the marginal lending facility against collateral, and deposit facility for overnight money (at 3% and 1% respectively)
  - (iii) Reserve requirement (最低準備率) : the requirement for financial institutions to maintain minimum reserves with the central bank.
- (note) Bundesbank made use of a rediscount rate (公定歩合) , which ECB did not adopt as a policy instrument.

## Divergence of economic performance among euro members

	CPI (inflation rate)		GDP (change on year ago)	
	Jun 2003	Aug 2002	Q1 2004	Q1 2002
Euro area	+2.4	+2.1	+1.3	+1.3
Germany	+1.7	+1.2	+1.5	+1.1
France	+2.4	+1.8	+1.7	+1.8
Netherlands	+1.4	+3.3	+0.9	+0.5
Spain	+3.5	+3.6	+2.8	+1.8

(source) The Economist dated 24-30 July 2004 and 31 Aug-6 Sep 2002.

## (4) Independence and accountability of ECB

>Article 107 (new version 108) of the Maastricht Treaty guarantees the independence of the ECB from governments.

>5 tests of central bank's independence

- (i) Institutional: no instruction from government
- (ii) Personnel: guarantee of tenure, no arbitrary dismissal
- (iii) Functional: no restriction to the primary objective of price stability
- (iv) Financial: sufficient financial base
- (v) Economic: prohibition of credit extension to government

>Accountability: more than Bundesbank, less than FRB



## (5) Supervision of financial institutions and “lender of last resort” 金融監督と最後の貸し手機能

>ECB does *not* have the authority of financial supervision or the function of LLR.

(cf. Bank of Japan is equipped with both roles. BoJ Law Articles 37 and 38)

>Member states are responsible for financial supervision (soundness and liquidity management)

>It is doubtful if national central banks can function as LLR without legal basis and decision-making authority.

→In case of cross-border bank failures what effective measures can be taken at national and EC levels?

## 3. Foreign Exchange Policy

### (1) Fundamental principles

>Article 3A (now Article 4) of the Maastricht Treaty: In the “conduct of a single monetary policy and exchange rate policy, the primary objective of both of which shall be **to maintain price stability.**”

(a) Euro’ internal value (price stability): ECB’s sole responsibility

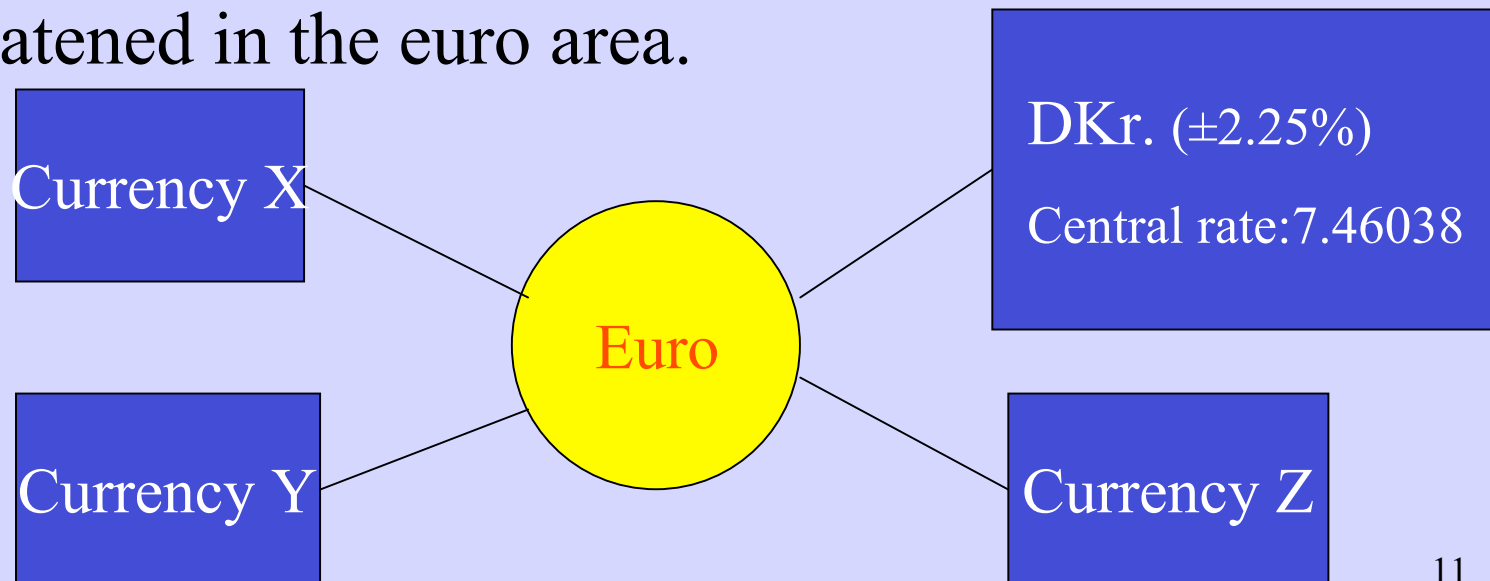
(b) Euro’s external value (exchange rate): division of roles

The Council of Ministers formulates the “general orientation for exchange rate policy. “

ECB carries out market interventions.

## (2) ERM 2 (Exchange Rate Mechanism 2)

- > Participation is voluntary: Denmark is the only participant (UK and Sweden are outside). New EU members from Eastern Europe are expected to join.
- > The ECB and national central banks intervene automatically on foreign exchange markets to maintain a fluctuation band, so far as the price stability is not threatened in the euro area.



### (3) Arguments about target zone

- >Is the exchange rate target zone possible between the euro, US dollar and yen?
- >If (i) capital moves freely and (ii) exchange rates among three currencies are to be stabilized in an agreed zone, (iii) monetary policies must be coordinated closely.
- >The theory of impossible triangle: among policy objectives of (i) stable exchange rate, (ii) free capital movement and (iii) autonomy in monetary policy, only two can be realized.

