

Changes to the ECB's voting rules

With Lithuania joining the euro area on 1 January 2015, the total number of states using the single currency reaches 19, consequently bringing about significant changes in the decision-making structures of the European Central Bank (ECB). In particular, there is a new rotation system for the votes of the national central bank governors sitting in the Bank's Governing Council. The introduction of the new system comes at a time when financial markets are widely expecting the Governing Council meeting due to take place on 22 January – the first meeting concerning monetary policy decisions under the new rules – to make significant decisions with a view to further stimulus for economic growth.

The Governing Council

The ECB's highest decision-making body is the Governing Council, which in accordance with Article 283 TFEU includes the Executive Board and the central bank governors of euro area Member States. The Executive Board comprises the President (currently Mario Draghi), the Vice-President, and four other members, all of whom are appointed by EU Heads of State or Government in the European Council. Executive Board members (including the President) are chosen based upon their professional experience and not as a result of geographical considerations. The Executive Board is charged with preparing Governing Council meetings, the implementation of monetary policy in the euro area (as agreed upon in Governing Council meetings) and is furthermore responsible for the day-to-day operation of the ECB, including regulatory functions.

The central bank governors of the Member States are appointed by their own national administrations and partake in the Governing Council meetings which are held twice monthly (although decisions which have a direct impact on monetary policy are, since the beginning of 2015, only taken every six weeks). [The Statute of the European System of Central Banks and the European Central Bank](#) sets out the voting procedure of the ECB's Governing Council and emphasises the principle of 'One member, one vote'. The original composition of the Governing Council allowed for a simple interpretation of this principle, with 10 governors representing the states which used the single currency from the outset (or 11 once Greece joined), plus the six members of the Executive Board.

Changes to the voting system

In view of the prospect of EU enlargement, an 'enabling clause' was included in the [Nice Treaty](#), which gave the Council (meeting at the level of Heads of State or Government) the power to amend Article 10(2) of the Statute which sets out the method by which the Governing Council votes and reaches decisions. In 2003, the ECB recommended that, in order to accommodate future euro area enlargement, the Bank's Governing Council change to a rotation system. The aim of this change was to ensure that the Governing Council would maintain an effective and efficient decision-making capacity, regardless of the timeframe or scale of future accessions to the euro area. The European Council supported the change, whereas the Parliament, which was only consulted on the issue, voted to reject the proposed voting rules.

According to the Statute, as revised in 2003, the rotation system should have come into force when the 16th Member State joined the euro area (i.e. bringing the total number on the Governing Council to 22). That point came in January 2009, when Slovakia adopted the euro, but in December 2008 the Governing Council (again acting on the revised Article 10(2) of the Statute) decided to [delay the implementation of the new rotation system](#).

The new system instead came into force in January 2015 with the arrival of the 19th euro area Member State. Under it, central bank [governors are assigned to two groups](#), exercising their voting right with

different frequencies, corresponding to the strength of the economy, size of the financial sector and capital share in the ECB of their respective state. Countries in the first group – includes Germany, France, Italy, The Netherlands and Spain – will now share 4 voting rights, while the remaining 14 countries will share 11 voting rights. As such, governors from the five largest economies will vote 80% of the time, while the percentage for governors in the second group will be significantly lower.

Under the system the second group of countries will be split into two groups when the number of Member States in the euro area exceeds 21. Regardless of the overall number of national central bank governors in the Governing Council, all governors will continue to participate in meetings and contribute to discussions, but will simply not be entitled to vote at all meetings.

The voting rights are allocated by rotation on a month by month basis within each group and the ECB has published [a calendar](#) setting out the voting rights for the coming two years.

Comparison with the US Federal Reserve

The rotation system is similar to that used by the US Federal Reserve's [Federal Open Market Committee \(FOMC\)](#). The FOMC consists of 12 members. Seven are board members of the Federal Reserve System (appointed by the US President with the approval of the Senate and chosen to best reflect the political, financial and geographical interests of the country). The remaining five members are presidents of the eleven Reserve Banks. One key distinction in the US model is that certain regions enjoy preferential treatment; the President of the New York Fed has a permanent voting right, while the Presidents of the Federal Reserve Banks of Chicago and Cleveland vote every other year. The remaining nine Federal Reserve Districts' Presidents vote every third year.

European Parliament position

Long before the change came into force, MEPs voiced concern that the 'One member, one vote' principle would be jeopardised as a result of the rotation system. In a [resolution adopted on 10 March 2003](#) the Parliament outlined serious reservations concerning the ECB's recommendation for a new system, fearing that it would create a three-class system which would differentiate according to national origin, ultimately leading to an unwanted segregation of states within the euro area. Furthermore, the Committee on Economic and Monetary Affairs, which had drafted the resolution, was not convinced that the new system would increase efficiency given that all governors, whether in possession of a voting right or not, would continue to take part in discussions at Governing Council meetings. Finally, the Committee raised the issue of accountability and transparency, questioning whether the new system was at all comprehensible.

As an alternative, the Committee proposed a double majority system, based on the model then due to come into force in the Council as of 1 January 2005. Under this system every member of the Governing Council would hold a permanent voting right. Any member of the Governing Council could request verification that the simple majority achieved actually represented a significant share of the euro area population.

Academic debate

The EP's reservations concerning the rotation system reflect a broader academic debate on the issue. The main way in which the ECB aims to establish a degree of accountability and transparency is through the [Monetary Dialogue](#) which it conducts with the EP. This consists of quarterly hearings of the ECB President before the Parliament's Economic and Monetary Affairs committee, as well as the President's annual appearance during one of the plenary sessions in Strasbourg. The legal basis of the Monetary Dialogue is set out in [Article 284\(3\) TFEU](#). However, a 2014 [Bruegel paper](#) points out that, when compared to the Bank of England or the US Federal Reserve, the ECB continues to suffer from an accountability deficit.

Conversely, [Hayo and Méon](#) point out that the ECB's Governing Council has traditionally reached decisions through consensus. This being the case they ask why the change in the voting procedure should be of much concern at all, and indeed so much that the Governing Council felt it necessary to delay its implementation by six years. Why, for example, should Member States fear that monetary policy may be less appropriate to their needs when they can no longer cast a vote if decisions have been made by consensus up to now? The situation is further complicated due to decisions on monetary policy only being taken every six weeks in future, with that schedule not reflecting the monthly rotation system on the Governing Council.

However, the 22 January meeting will be the first for which the ECB publishes [minutes](#) – some four weeks later – so the effects of the voting change will surely be the subject of further research in the short term.