



THE INSTITUTIONS OF THE ECONOMIC AND MONETARY UNION

The institutions of the Economic and Monetary Union (EMU) are largely responsible for establishing European monetary policy, rules governing the issuing of the euro and price stability within the EU. These institutions are: the European Central Bank (ECB), the European System of Central Banks (ESCB), the Economic and Financial Committee, the Eurogroup and the Economic and Financial Affairs Council (Ecofin).

LEGAL BASIS

- Articles 119-144, 219, 282-284 of the Treaty on the Functioning of the European Union (TFEU);
- Protocols annexed to the Treaty on European Union (TEU): Protocol (No 4) on the statute of the European System of Central Banks and the European Central Bank, Protocol (No 14) on the Eurogroup.

OBJECTIVES

The main objectives (2.6.1) of the institutions of the EMU are to:

- Finalise the completion of the internal market by removing exchange rate fluctuations and abolishing the costs inherent in exchange transactions, as well as the costs of hedging against currency fluctuation risks;
- Ensure comparability of costs and prices within the Union, which helps consumers, stimulates intra-Union trade and facilitates business;
- Reinforce Europe's monetary stability and financial power by:
 - Ending, by definition, any possibility of speculation between the Union currencies;
 - Ensuring, through the economic dimension of the EMU that the new currency is less vulnerable to international speculation;
 - Enabling the euro to become a major reserve and payment currency.

ACHIEVEMENTS

- A.** The institutions of the first stage of the EMU (1 July 1990 — 31 December 1993)
No monetary institutions were established during the first stage of the EMU.



B. The institutions of the second stage of the EMU (1 January 1994 — 31 December 1998)

1. The European Monetary Institute (EMI)

The EMI was established at the beginning of the second stage of the EMU (pursuant to Article 117 of the EC Treaty) and took over the tasks of the Committee of Governors and the European Monetary Cooperation Fund (EMCF). It had no say in the conduct of monetary policy, which remained the prerogative of the national authorities. Among its main tasks for the implementation of the second stage of the EMU were the strengthening of both cooperation between the national central banks and the coordination of Member States' monetary policies with a view to ensuring price stability. In accordance with Article 123(2) of the EC Treaty, the EMI was dissolved following the establishment of the ECB, for which it had paved the way (1 June 1998).

2. The Monetary Committee

This committee consisted of members appointed in equal numbers by the Commission and the Member States. Set up to promote the coordination of Member States' policies to the full extent needed for the functioning of the internal market (Article 114 of the EC Treaty), it had an advisory role. It was dissolved at the start of the third stage and replaced by the Economic and Financial Committee (Article 134 TFEU).

C. The institutions of the third stage (1 January 1999 onwards)

1. The European Central Bank (ECB) ([1.3.11](#))

a. Organisation

Established on 1 June 1998, the ECB is based in Frankfurt am Main. It is run by two bodies that enjoy independence from Union institutions and national authorities (namely the ECB Governing Council and the Executive Board) and – for certain tasks – by the ECB General Council (which is not itself a decision-making body of the European System of Central Banks, ESCB, described in subsection 2 below). The Treaty of Lisbon introduced the ECB as an institution of the EU (Article 13(1) TEU, Articles 282-284 TFEU); prior to this, it had had no status according to the provisions of the EC Treaty, although it had nevertheless had legal personality.

i. The Governing Council

Comprises the Members of the Executive Board and the Governors of the national central banks of those countries that have adopted the euro (Article 283 TFEU and Article 10(1) of the [Statute of the European System of Central Banks and of the European Central Bank](#), 'the Statute'). As the supreme decision-making body, it adopts the guidelines and takes the decisions necessary to ensure the performance of the tasks entrusted to the ESCB, formulates the monetary policy of the Union (including, as appropriate, decisions relating to intermediate monetary objectives, key interest rates and the supply of reserves in the ESCB) and establishes the necessary guidelines for its implementation (Article 12 of the Statute). The Treaty of Lisbon states that the members of the ECB Executive Board are selected and appointed by mutual consent by a qualified majority in the European Council (Article 283 TFEU).



ii. The Executive Board

Comprises a President, Vice-President and four other members, all appointed by common accord of the Heads of State or Government of the euro area Member States for a non-renewable period of eight years (Article 283 TFEU). It is entrusted with implementing monetary policy and, in doing so, gives the necessary instructions to national central banks. It is also responsible for the preparation of meetings of the Governing Council and for the current business of the ECB (Articles 11 and 12 of the Statute).

iii. The General Council

The General Council (Article 44 of the Statute) consists of the President and Vice-President of the ECB and the Governors of the Central Banks of all EU Member States, regardless of whether they have adopted the euro. It contributes to the collection of statistical information, coordinates the monetary policies of those Member States that have not adopted the euro and oversees the functioning of the European exchange rate mechanism.

b. Role

Whereas either the ECB or the national central banks may issue banknotes within the euro area, only the ECB may authorise their issuing. Member States may issue coins subject to approval by the ECB of the volume of the issue (Article 128 TFEU). The ECB takes the decisions necessary for the ESCB to carry out the tasks entrusted to it under its Statute and through the Treaty (Article 132 TFEU). Assisted by the national central banks, it collects the necessary statistical information either from the national authorities responsible or directly from economic agents (Article 5 of the Statute). It is consulted on any proposed Union act in its fields of competence and, at the request of national authorities, on any draft legislative provision (Article 127(4) TFEU). It is responsible for the smooth running of the trans-European automated real-time gross settlement express transfer system (TARGET2), which is a euro payment system that links up the national payment systems and the ECB payment mechanism. The ECB makes the arrangements to integrate the central banks of the Member States joining the euro area into the ESCB.

The ECB may perform specific tasks concerning policies relating to the prudential supervision of credit institutions and other financial institutions (Article 127(6) TFEU and Article 25.2 of the Statute). The ECB has been granted additional tasks under the Single Supervisory Mechanism (SSM) concerning the direct oversight of 'significant' banks in the euro area and other participating Member States. The national authorities in the Member States continue to oversee the 'less significant' banks, in cooperation with the ECB; cross-border cooperation of supervisory authorities in the Union is ensured by the three European Supervisory Agencies (ESAs): The European Banking Agency (EBA), the European Securities and Market Agency (ESMA) and the European Insurance and Occupational Pensions Authority (EIOPA). This supervisory system is supplemented by the new macro-prudential oversight institution, the European Systemic Risk Board (ESRB).



2. The European System of Central Banks (ESCB) and the Eurosystem

a. Organisation

The ESCB consists of the ECB and the national central banks of all EU Member States (Article 282(1) TFEU and Article 1 of the Statute). It is governed by the same decision-making bodies as those of the ECB (Article 282(2) TFEU). The Eurosystem comprises only the ECB and the national central banks of the Member States in the euro area.

b. Role

The ESCB's fundamental task lies in maintaining price stability (Article 127(1) and Article 282(2) TFEU, Article 2 of the Statute). Without prejudice to this objective, the ESCB supports the general economic policies contributing to the achievement of the Union's objectives. It discharges this task by carrying out the following functions (Article 127(2) TFEU and Article 3 of the Statute):

- Defining and implementing the monetary policy of the Union;
- Conducting foreign-exchange operations consistent with the provisions of Article 219 TFEU;
- Holding and managing the Member States' official foreign reserves;
- Promoting the smooth operation of payment systems; and
- Contributing to the smooth conduct of policies pursued by the competent authorities relating to the prudential supervision of credit institutions and the stability of the financial system (Article 127(5) TFEU and Article 3.3 of the Statute).

3. The Economic and Financial Committee

The Member States, the Commission and the ECB each appoint no more than two members of the Committee (Article 134(2) TFEU). Its duties are the same as those of the Monetary Committee, which it succeeded on 1 January 1999, with one important difference: notifying the Commission and the Council of developments on the monetary situation is now the responsibility of the ECB.

4. The Economic and Financial Affairs Council (Ecofin)

Ecofin brings together the finance ministers of all EU Member States and is the decision-making body at European level. Having consulted the ECB, it takes decisions regarding the exchange-rate policy of the euro vis-à-vis non-EU currencies, while adhering to the objective of price stability.

5. The Eurogroup

Originally called Euro-11, the meeting of the Economics and Finance Ministers of the euro area changed its name to 'Eurogroup' in 1997. This advisory and informal body meets regularly to discuss all the issues connected with the smooth running of the euro area and the EMU. The Commission and, where necessary, the ECB are invited to attend these meetings (Article 1 of the Protocol (No 14) on the Eurogroup). The role of the Eurogroup was enhanced by the Treaty of Lisbon with the aim of increasing coordination in the euro area. The term 'Eurogroup' is also mentioned for the first time in this Treaty (Article 137 TFEU). Official innovations include the election by the majority



of the Member States represented in the Eurogroup of a Chairman of the Eurogroup for a term of two-and-a-half years (Article 2 of the Protocol (No 14) on the Eurogroup). At the informal Ecofin meeting in Scheveningen on 10 September 2004, Luxembourg's Prime Minister and Minister of Finance, Jean-Claude Juncker, was elected President of the Eurogroup. He thus became the Eurogroup's first elected and permanent President for a mandate that started on 1 January 2005. Since 13 July 2020, Paschal Donohoe, Minister for Finance of Ireland, has been the President of the Eurogroup. He was elected on 9 July 2020.

ROLE OF THE EUROPEAN PARLIAMENT

A. Legislative role

1. The European Parliament, together with the Council, in the ordinary legislative procedure:

- Adopts detailed rules for the multilateral surveillance procedures (Article 121(6) TFEU);
- Amends certain Articles of the ECB's Statute (Article 129(3) TFEU); and
- Lays down the measures necessary for the use of the euro as single currency (Article 133 TFEU).

2. The European Parliament is consulted on the following issues:

- Arrangements for Member States' introduction of euro coins (Article 128(2) TFEU);
- Agreements on exchange rates between the euro and non-EU currencies (Article 219(1) TFEU);
- Choice of countries eligible to join the single currency in 1999 and subsequently;
- Nomination of the President, Vice-President and other Members of the ECB Executive Board (Article 283(2) of the TFEU and Article 11.2 of the Statute);
- Any changes to voting arrangements within the ECB Governing Council (Article 10.2 of the Statute);
- Legislation implementing the excessive deficit procedure provided for in the Stability and Growth Pact;
- Any changes to the powers given to the ECB to supervise credit and other financial institutions (Article 127(6) TFEU);
- Changes to certain Articles of the Statute (Article 129(4) TFEU).

3. The European Parliament is informed about the detailed provisions concerning the composition of the Economic and Financial Committee (Article 134(3) TFEU).

B. Supervisory role

1. Under the Treaty on the Functioning of the European Union

The ECB addresses an annual report on the activities of the ESCB and on the monetary policy of both the previous and current year to Parliament, the Council and the Commission, and to the European Council. The President of the ECB must then



present this report to the Council and to Parliament, which may hold a general debate on that basis (Article 284(3) TFEU and Article 15.3 of the Statute). The President of the ECB and the other members of the Executive Board may, at the request of Parliament or on their own initiative, be heard by Parliament's relevant committees (Article 284(3), subparagraph 2).

2. Parliament's roles

Parliament called for the extensive powers of the ECB provided for under the Treaty – i.e. freedom to determine the monetary policy to be pursued – to be balanced by democratic accountability (resolution of 18 June 1996). To that end it instituted a 'Monetary Dialogue'. The President of the ECB, or another Member of its Governing Council, appears before Parliament's Committee on Economic and Monetary Affairs (ECON) at least once every three months to answer questions on the economic outlook and to justify the conduct of monetary policy in the euro area. In addition, Parliament routinely delivers an opinion on the ECB's annual report in the context of an own-initiative report.

The new supervisory responsibilities of the ECB are matched with additional accountability requirements under the [Single Supervisory Mechanism Framework Regulation](#). The practical arrangements for this are governed by an interinstitutional agreement between Parliament and the ECB. The accountability arrangements include the attendance of the Chair of the Supervisory Board at the competent committee, the Economic and Monetary Affairs Committee; answering questions asked by Parliament; and confidential oral discussions with the Chair and Vice-Chair of the competent committee upon request. In addition, the ECB prepares an annual supervisory report, which is presented to Parliament by the Chair of the Supervisory Board.

For more information on this topic, please see the website of the Committee on Economic and Monetary Affairs ([ECON](#)).

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