



FEDERAL  
RESERVE  
BANK  
*of* ATLANTA

Miami Branch

# Euro Challenge Workshop

Thursday, January 27, 2011

# HISTORY

# History of the Fed

## ▣ 1791 – 1811: First Bank of the United States

- Nations first Central Bank
- Helps unify country's economy
- Faced major opposition
- 20 year charter not renewed

## ▣ 1816 – 1836: Second Bank of the United States

- Serves same functions as First Bank
- Financed debt from War of 1812
- Bank President Nicholas Biddle and U.S. President Andrew Jackson at odds over bank
- 20 year charter not renewed
- Central banking was not revived for more than 75 years

# History of the Fed

- ▣ 1863: The National Banking Act was passed
  - Nationally-chartered banks
  - Bank notes backed by U.S. government securities
  
- ▣ 1913: Federal Reserve System Established
  - Nation's third central bank
  - Banking Panic of 1907 raises need for central bank
  - Created safer and more stable monetary and banking system
  - The Fed has a 20 year charter, however, McFadden Act of 1927 gave Fed permanence

# History of the Fed

## ▣ 1930's: The Great Depression

- Depression led to bank and business failures
- Federal Reserve's role not well defined
- Fed didn't act as lender of last resort to the banking system as originally envisioned in 1913
- Fed did little to expand money or credit
- Unemployment reached 25%
- Major deflation during this period

During this period, Congress passed several laws that changed the financial system and the Federal Reserve

- Glass-Steagall Act of 1933 (Created FDIC)
- Banking Act of 1935 (Authorized current FOMC)

# History of the ECB

- ▣ 1952: The European Coal & Steel Community
  - Founding members were Belgium, Germany, France, Italy, Luxembourg and the Netherlands Bank
  - To withdraw resources used for war to preserve peace
- ▣ 1958: European Economic Community and European Atomic Energy Community (Euratom)
- ▣ 1967: European Communities (now known as the European Union)
  - ECSC, EEC and Euratom merged
  - Joint decisions and policies for many industries



# History of the ECB

## ▣ 1970: The Werner Report

- Proposed to create the Economic and Monetary Union by 1980
- Plan lost momentum with the collapse of the Bretton Woods system

## ▣ 1979: European Monetary System

- Created by nine members of EEC
- Main feature was the exchange rate mechanism
- Required adjustments in monetary and economic policy

## ▣ 1986: Single European Act

- This Act set a timeframe for launching the Single Market and the need for achieving EMU

# History of the ECB

- ▣ 1988: European Council confirmed EMU
  - EC central bank governors formed a committee of monetary policy experts
  - Resulted in the Delors report that details a three step program to achieve EMU
- ▣ 1992: Treaty on European Union
  - Established the European Union
  - Added chapter on monetary and economic policy
- ▣ 1999: European Central Bank opened
  - Currency among initial 11 member banks was fixed
  - Single monetary policy
- ▣ 2002: Introduction of Euro Currency and Coin



# History Similarities

- ▣ States/Countries in both areas were independent
- ▣ States / Countries realized the benefit and need of a unified economy
- ▣ A committee was formed to research and define the needs
- ▣ A plan was formulated to expedite creation of system

# STRUCTURE AND FUNCTIONS

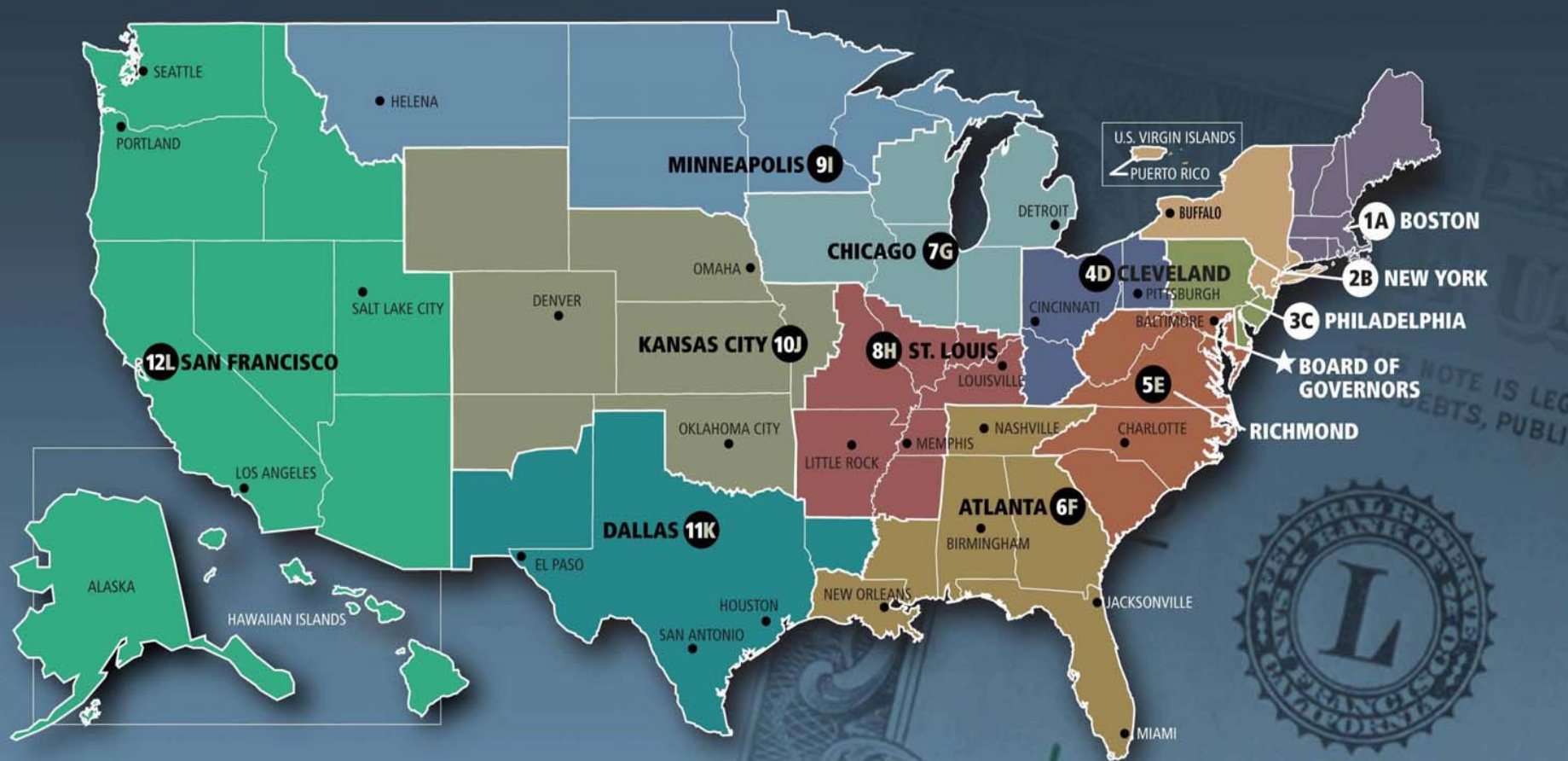
## Federal Reserve System Structure

- ▣ The Board of Governors
- ▣ 12 Federal Reserve Banks
- ▣ 24 Branches

## European Central Bank Structure

- ▣ Executive Board
- ▣ 16 National Central Banks
- ▣ 27 Member Banks

# The 12 Federal Reserve Districts



- Each district has a **corresponding letter and number**.
- These letters and numbers **appear on the \$1 bill**.
- Many districts also have **regional branches or offices**.



# THE EUROSISTEM



## ORGANISATION

### € European Central Bank

- 1 Nationale Bank van België / Banque Nationale de Belgique
- 2 Deutsche Bundesbank
- 3 Central Bank and Financial Services Authority of Ireland
- 4 Bank of Greece
- 5 Banco de España
- 6 Banque de France
- 7 Banca d'Italia
- 8 Central Bank of Cyprus
- 9 Banque centrale du Luxembourg
- 10 Bank Ċentrali ta' Malta / Central Bank of Malta
- 11 De Nederlandsche Bank
- 12 Oesterreichische Nationalbank
- 13 Banco de Portugal
- 14 Banka Slovenije
- 15 Národná banka Slovenska
- 16 Suomen Pankki – Finlands Bank



# THE EUROPEAN SYSTEM OF CENTRAL BANKS (ESCB)



## ORGANISATION

€ European Central Bank

1 Nationale Bank van België /  
Banque Nationale de Belgique

2 Българска народна банка  
(Bulgarian National Bank)

3 Česká národní banka

4 Danmarks Nationalbank

5 Deutsche Bundesbank

6 Eesti Pank

7 Central Bank and Financial  
Services Authority of Ireland

8 Bank of Greece

9 Banco de España

10 Banque de France

11 Banca d'Italia

12 Central Bank of Cyprus

13 Latvijas Banka

14 Lietuvos bankas

15 Banque centrale du  
Luxembourg

16 Magyar Nemzeti Bank

17 Bank Ċentrali ta' Malta /  
Central Bank of Malta

18 De Nederlandsche Bank

19 Oesterreichische  
Nationalbank

20 Narodowy Bank Polski

21 Banco de Portugal

22 Banca Națională a României

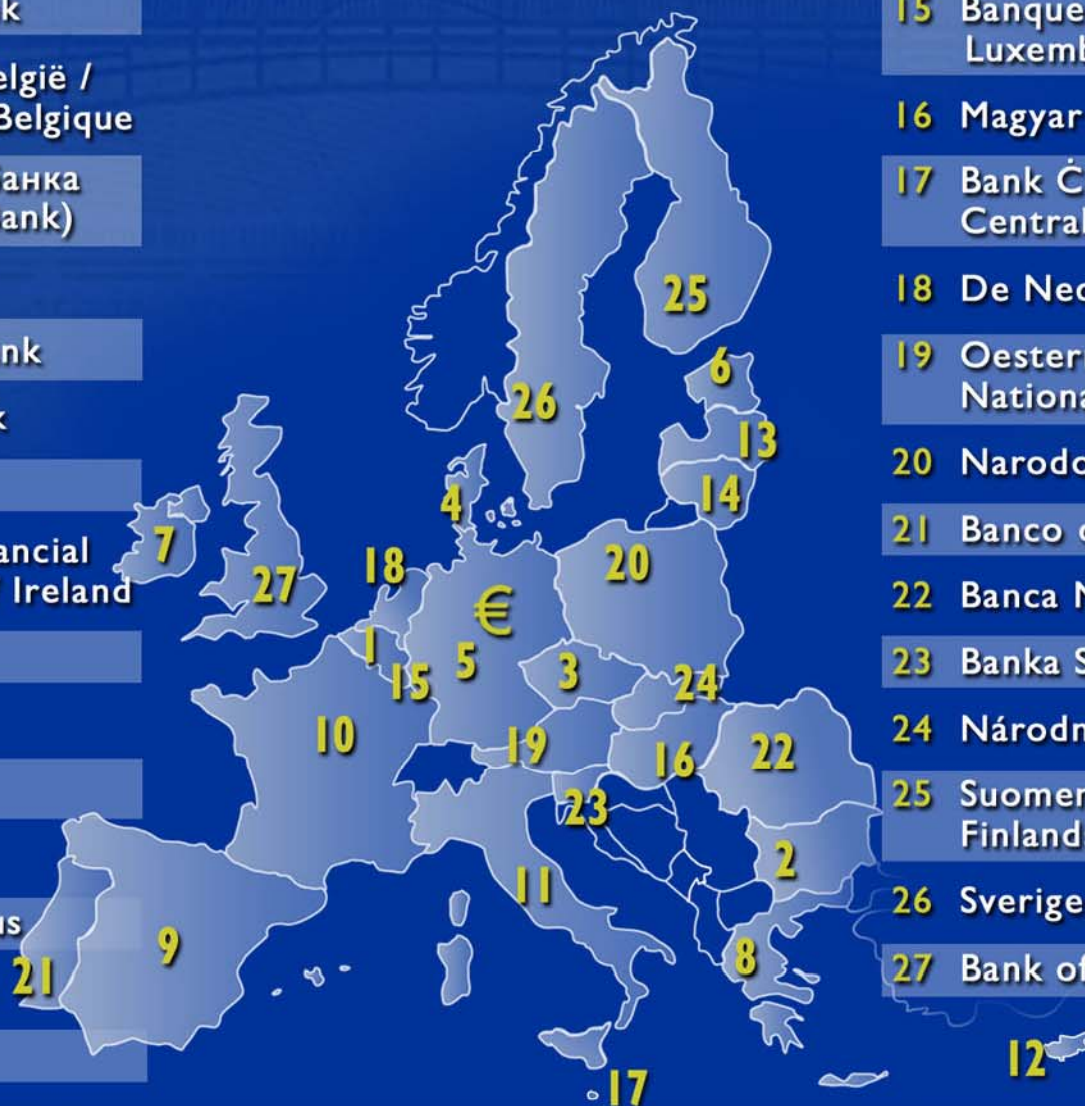
23 Banka Slovenije

24 Národná banka Slovenska

25 Suomen Pankki –  
Finlands Bank

26 Sveriges Riksbank

27 Bank of England





## Federal Reserve Board of Governors

- ▣ Seven members
- ▣ Appointed by U.S. president and confirmed by the Senate
- ▣ Staggered, 14-year terms
- ▣ Ben Bernanke - Chairman

## European Central Bank Executive Board

- ▣ Six members
- ▣ Appointed by the Heads of State of member countries
- ▣ 8 year term
- ▣ Jean Claude Trichet, President

## Federal Reserve Goal

To provide the nation with a safer, more flexible, and more stable monetary financial system.

Why? Multiple bank failures throughout history due to inflexible financial system & periods of high unemployment

## European Central Bank Goal

To maintain price stability

Why? Due to Germany's hyperinflation in the 1920's with the issuance of the 50 million Mark note

## Federal Reserve Primary Functions

- ▣ Conduct monetary policy
- ▣ Supervise and regulate the banking system
- ▣ Provide payment services

## European Central Bank Primary Functions

- ▣ Conduct monetary policy
- ▣ Conducting foreign exchange operations
- ▣ Promote an efficient payment system
- ▣ Hold and manage foreign reserves

## Federal Reserve Monetary Policy FOMC

- ▣ The Seven Governors have voting authority
- ▣ Five Reserve Bank Presidents have voting authority (New York and four others on a rotating basis)
- ▣ The Seven non-voting Presidents participate fully in FOMC Meetings
- ▣ The FOMC meets eight times per year

## European Central Bank Monetary Policy Governing Council

- ▣ Six members of the Executive Board
- ▣ 16 Governors of National Central Bank
- ▣ Meet twice a month, first meeting to conduct monetary policy, second to discuss ECB management

# Conclusion

**Both central banks try to achieve broadly similar objectives even if their strategies are different.**

# QUESTIONS