

Euro challenge part one

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Structure and functions

- <http://www.ecb.europa.eu/ecb/educational/html/index.en.html>

The ECB explained...

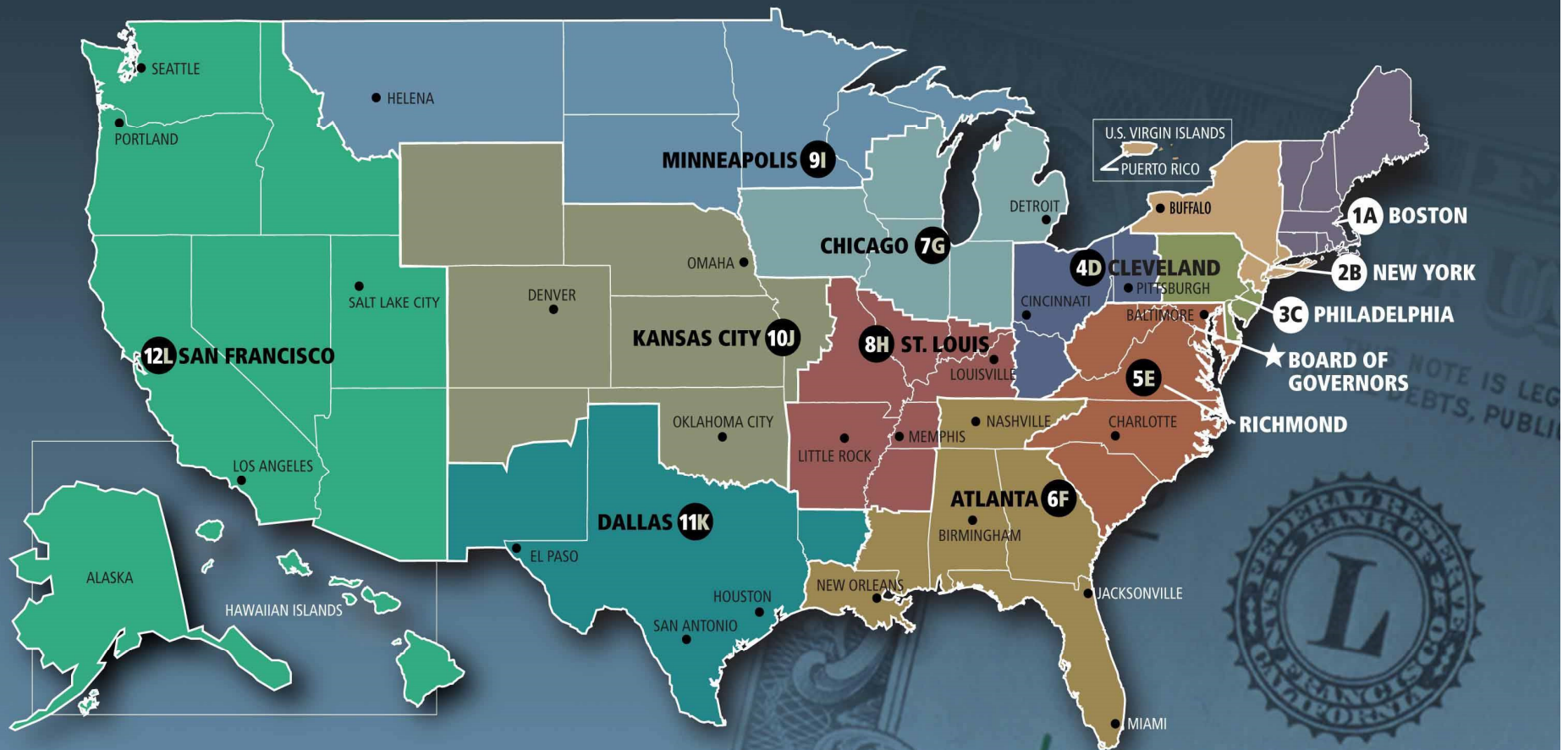
Federal Reserve System Structure

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

European Central Bank Structure

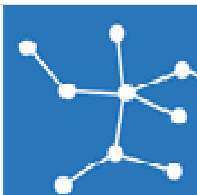
- Executive Board
- 18 National Central Banks
- 28 Member Banks

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



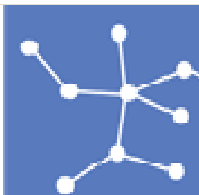
ORGANISATION

€ European Central Bank

- 1 Nationale Bank van België/
Banque Nationale de Belgique
- 2 Deutsche Bundesbank
- 3 Eesti Pank
- 4 Central Bank of Ireland
- 5 Bank of Greece
- 6 Banco de España
- 7 Banque de France
- 8 Banca d'Italia
- 9 Central Bank of Cyprus
- 10 Latvijas Banka
- 11 Banque centrale du Luxembourg
- 12 Central Bank of Malta
- 13 De Nederlandsche Bank
- 14 Oesterreichische Nationalbank
- 15 Banco de Portugal
- 16 Banka Slovenije
- 17 Národná banka Slovenska
- 18 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 of Ireland

8 Bank of Greece

9 Banco de España

10 Banque de France

11 Hrvatska narodna banka

12 Banca d'Italia

13 Central Bank of Cyprus

14 Latvijas Banka

15 Lietuvos bankas

16 Banque centrale du
Luxembourg

17 Magyar Nemzeti Bank

18 Bank Ċentrali ta' Malta/
Central Bank of Malta

19 De Nederlandsche Bank

20 Oesterreichische
Nationalbank

21 Narodowy Bank Polski

22 Banco de Portugal

23 Banca Națională a României

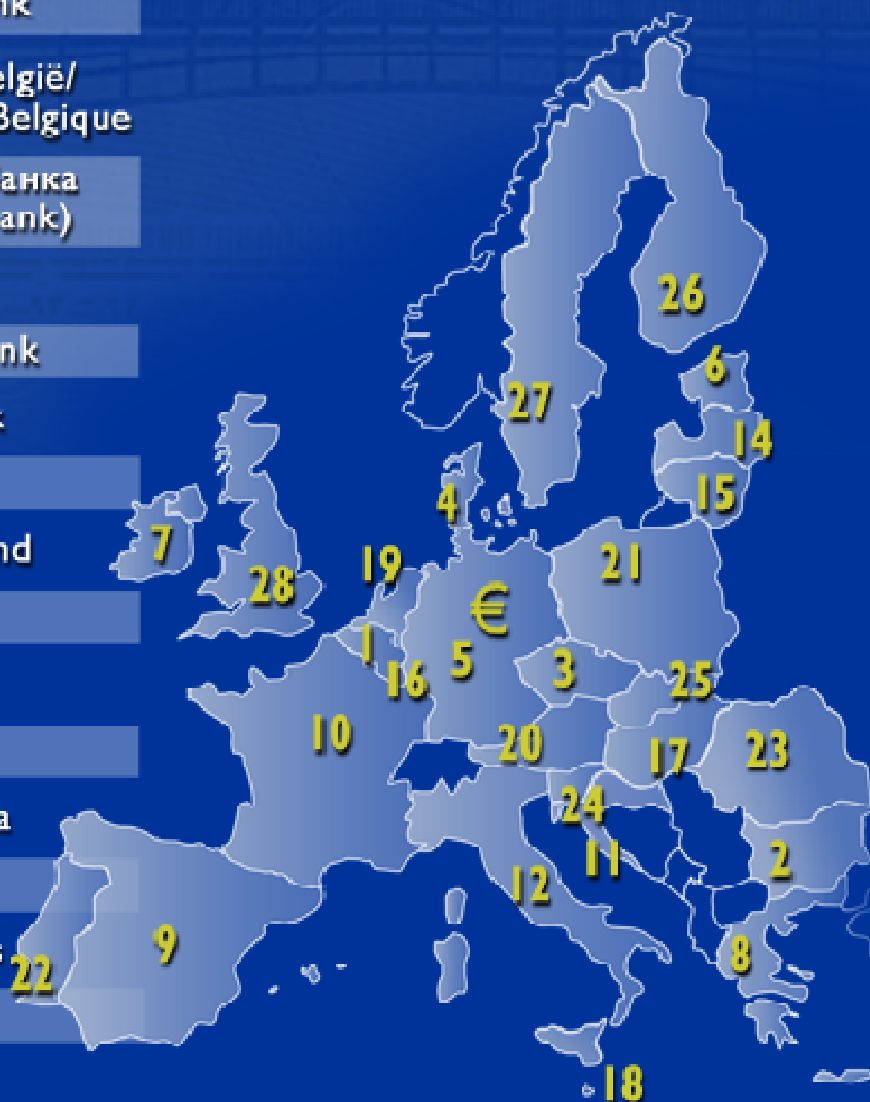
24 Banka Slovenije

25 Národná banka Slovenska

26 Suomen Pankki –
Finlands Bank

27 Sveriges Riksbank

28 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
- Mario Draghi, President

Federal Reserve Dual Mandate

Stable prices & High
employment

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

European Central Bank Single Mandate

Stable prices

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

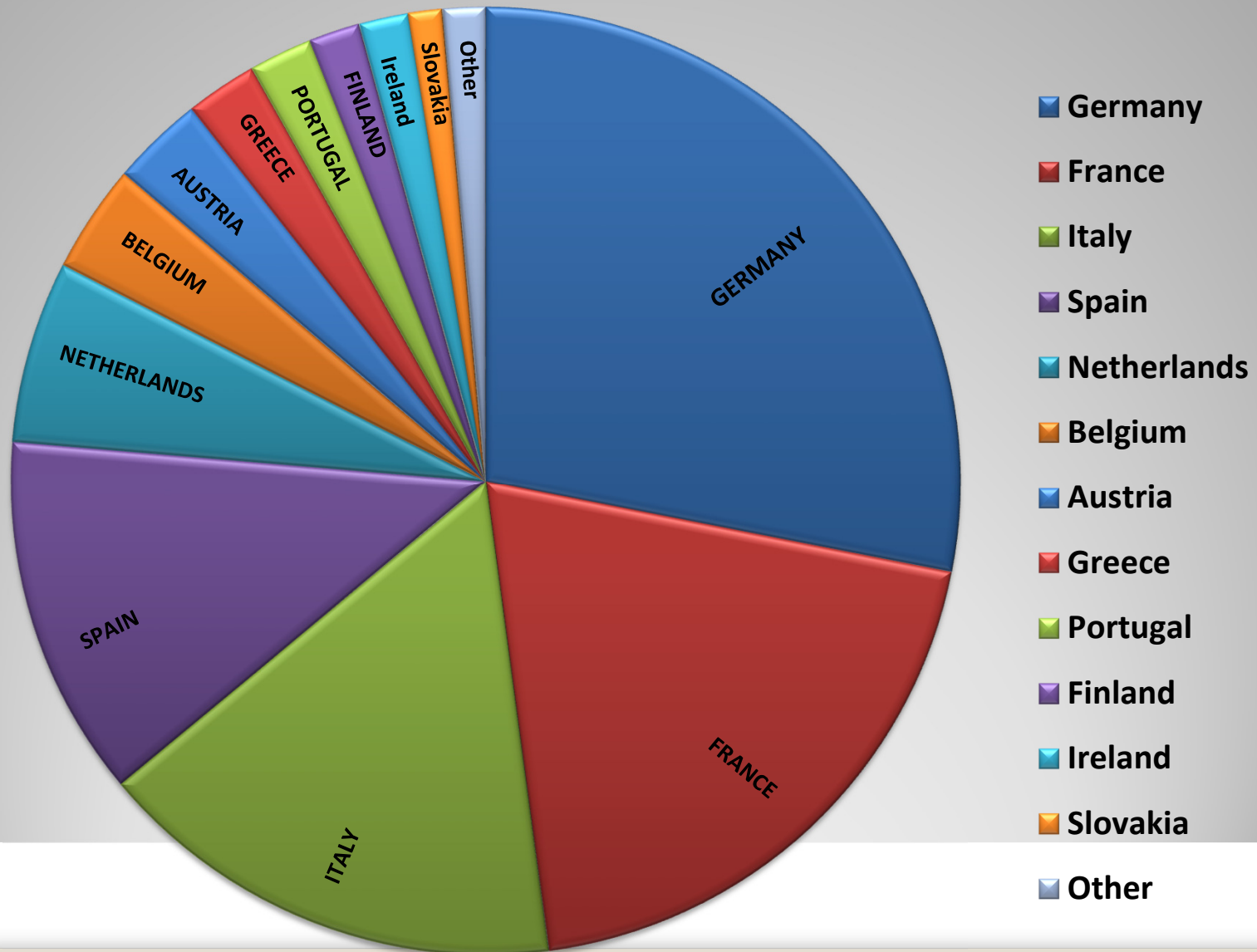
- Six members of the Executive Board
- 16 Governors of National Central Bank
- Meet twice a month, first meeting to conduct monetary policy, second to discuss ECB management

Conclusion

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

Current Euro Crisis

GDP by Euro Area Countries



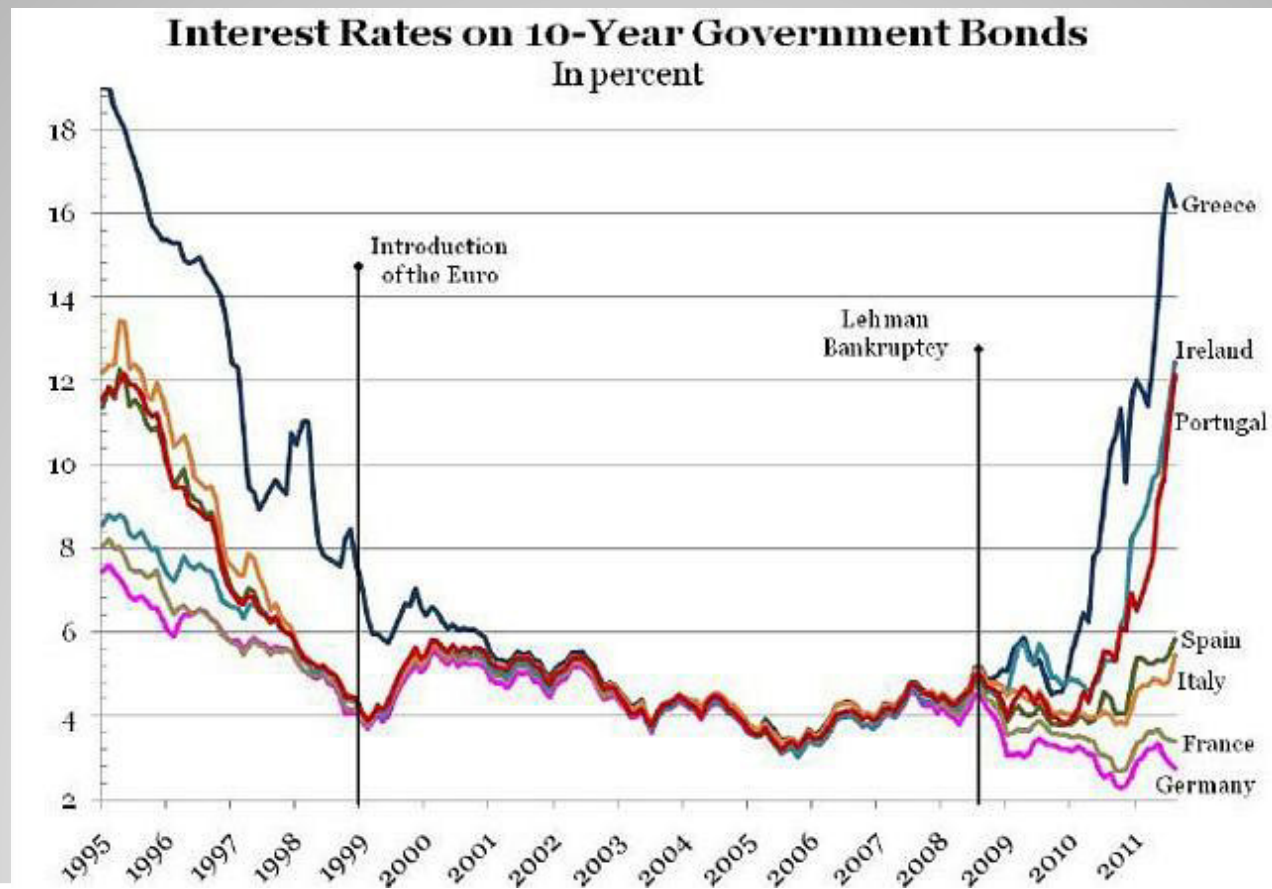
- <http://www.youtube.com/watch?v=8r-1uijMS8A>
- <http://www.oecd.org/eco/outlook/euroareaeconomicforecastsummary.htm>

The Euro Crisis explained...

- The Euro currency introduced in January 1999
- Adopting countries experienced economic and financial benefits:
 - Lower, less volatile inflation
 - Converging sovereign financing costs
 - Large cross-border capital flows
- But problems festered underneath:
 - Divergence in “competitiveness,” or relative labor costs
 - Divergent intra-Eurozone trade balances
 - Increasing budget deficits and debt-to-GDP ratios (Greece, Italy, somewhat for France)
 - Asset-price bubbles in real estate and finance (Spain and Ireland, primarily; like the UK, which is on the pound sterling)

Euro Crisis: History

Convergence in sovereign financing costs



Questions?