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EUROPEAN CENTRAL BANK: OBJECTIVES, TASKS, POLICYMAKING, AND RESPONSIBILITIES

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Abstract. *The paper is the output of a scientific project IGA no. 3/2020 - M «Innovations of Public Administration in the SR: Determination of Economic and Legal Aspects, with Reflecting European Countries Novelty Factors». (Funder: VSEMs IGA VSEMs, i.e. School of Economics and Management in Public Administration).*

1. Introduction to the problems, setting goals and objectives

Sustainable, adequate, and efficient operations of the Central Bank depends on many internal and external factors, such as: crises, pandemics, legal regulation, the main goal and objectives of the ECB (ECB), selection of principles, competencies, instruments and mechanisms of monetary policy [1; 14], efficient work of the executive power, etc.

The purpose of this comprehensive scientific research is to determine the *ex lege* aspects of the security and efficient operation of the European Central Bank (ECB) with a focus on innovation and analysis of current trends *de lege lata* to ensure sustainable development of the European Union, as well as to prepare *de lege ferenda* proposals to improve the efficient operation of the central bank. Based on the purpose, the authors have set the following objectives: 1) to investigate the legal status of the ECB; 2) to identify the quantitative primary objective of ECB and responsibility for its failure; 3) to analyze the structure of the main pillars of the EU

Banking Union, 4) to characterize the architecture of the EU Banking Union and its bodies, 5) on the basis of this analysis (scientific knowledge and *de lege lata*), to prepare proposals for conclusions and develop *de lege ferenda* to improve the regulation of EU banking systems and EU member states.

2. The European Central Bank

The ECB have legal personality, enjoy in each of the Member States the most extensive legal capacity accorded to legal persons under its law; it may, in particular, acquire or dispose of movable and immovable property and may be a party to legal proceedings [1].

The President of the Council and a Member of the Commission participate, without having the right to vote, in meetings of the Governing Council of the European Central Bank [2].

The President of the European Central Bank invite to participate in Council meetings when the Council is discussing matters relating to the objectives and tasks of the ESCB.

3. *De lege lata* analysis of the ECB main objective

The main goal of the ECB is to maintain price stability. It should be noted that the Treaty on the Functioning of the European Union did not enshrine the terminus technicus “price stability”, therefore the Council of Governors (Presidents) of the ECB consolidated the quantitative definition of the concept of “price stability” [3]. It is defined as the annual growth of the harmonized consumer price index of the Eurosystem less than 2% in the medium term and, in this relation, introduces a new concept - the Harmonized Indices of Consumer Prices (HICP), which is the only key indicator of price stability in the Eurosystem as one of five convergence criteria. The formula for determining the price stability index for the member countries of the Eurosystem is the same for the correct and uniform price stability index identification [4].

The European Commission, the ECB, Eurostat, and the statistical offices of the Eurosystem members are working on drawing up the formula and its components, which are the basis for determining the level of consumer prices. The ECB's primary goal is to maintain price stability over the medium term as monetary policy can affect price stability only with significant time lags [5].

4. Main Tasks of the ESCB

The main tasks of the ECB are: 1) to define, implement and manage the EU monetary policy; 2) to ensure price stability within the framework of the activities of the European System of Central Banks and the Eurosystem (Regulation (EU) č. 1024/2013); 3) to support the EU economic policy; 4) to provide the necessary information (opinions, certificates, etc.) to the competent authorities of the EU or EU member states (Regulation (EU) No 806/2014); 5) to advice competent authorities when adopting regulations at the EU level or at the level of EU member states; 6) to adopt regulations; 7) to ensure the proper and uninterrupted operation of payment systems; 8) to exercise banking supervision; 9) to determine interest rates, the value of the euro and carry out foreign exchange interventions; 10) to monitor financial risks: this includes risk assessment of investment from the ECB's own funds and in the implementation of credit operations, etc.

To achieve the goals and fulfill *certain tasks*, in accordance with the principle of building an open market economy with free and fair competition, the European

Central Bank has the following powers (Regulation (EU) č. 1024/2013): 1) rule-making; 2) advisory; 3) implementation of monetary policy; 4) supervision of the activity of credit and financial institutions [6; 7].

It should be noted that the ECB independently decides on the choice of tools, mechanisms, and methods to achieve the main goal and accomplish the objectives.

When implementing monetary policy, the ECB's activities are based on the following principles: 1) efficiency, 2) responsibility, 3) transparency and openness, 4) orientation towards medium-term goals 5) continuity, and 6) independence [8].

5. Powers and Instruments of the ECB

The ECB has the exclusive right to authorise the issue of euro banknotes. Member States issue euro coins subject to the ECB's approval of the volume of the issue. The ECB passes regulations and takes decisions necessary for carrying out the tasks entrusted to the ESCB under the Treaty and the ECB Statute. It also makes recommendations and delivers opinions [9]. The ECB consult on decisions establishing common positions and on measures relating to unified representation of the euro area in international financial institutions. The ECB establish relations with central banks and financial institutions in other countries and with international organisations.

6. Judicial control and related matters. Auditing

The acts or omissions of the ECB are open to review or interpretation by the Court of Justice of the European Union in the cases and under the conditions laid down in the Treaty on the Functioning of the European Union. The ECB may institute proceedings in the cases and under the conditions laid down in the Treaties [10].

The accounts of the ECB and national central banks audit by independent external auditors recommended by the Governing Council and approved by the Council.

7. Responsibilities of the ECB

The ECB President reports to Parliament on monetary issues in a quarterly Monetary Dialogue. The ECB also prepares an annual report on monetary policy which is presented in Parliament. Parliament adopts a resolution on this annual report. MEPs may put questions for written answer to the ECB. Parliament is also consulted in the procedure to appoint members of the ECB's Executive Board [11].

The new supervisory responsibilities of the ECB are matched with additional accountability requirements under the SSM Regulation [12]. The practical modalities 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 [13].

8. Conclusions

Based on the *de lege lata* analysis and the results of scientific research of the EU banking union, in order to optimize the organization and activities of the EU banking union to ensure sustainable, intelligent and inclusive development with

reflection on current challenges and threats, we can draw the following conclusions:

1) The European Central Bank (ECB) is the central institution of the Economic and Monetary Union, and has been responsible for monetary policy in the euro area since 1 January 1999. The ECB and the national central banks of all EU Member States constitute the European System of Central Banks. The primary objective of the European System of Central Banks is to maintain price stability. Since 4 November 2014, the ECB has been responsible for specific tasks relating to the prudential supervision of credit institutions within the framework of the Single Supervisory Mechanism. As a banking supervisor, the ECB also has an advisory role in assessing the resolution plans of credit institutions.

2) The ECB responsible for specific tasks relating to the prudential supervision of credit institutions within the framework of the Single Supervisory Mechanism.

3) The EU banking union has a significant flaw in the organization of the system (which can lead to far-reaching economic consequences) – the ECB performs two functions important for the financial system: 1) the creation and implementation of the EU monetary policy and 2) banking supervision of banks (credit institutions) in the euro area. This approach to the “architecture” of the banking union does not correlate with the basic principles of economic theory and practice of organizing banking systems in a number of developed countries, which, in our opinion, is counterproductive in the context of achieving the main goal of the European System of Central Banks - ensuring price stability (consumer prices).

Based on the results of the scientific analysis, we propose to introduce *de lege ferenda*:

a) The main goal of the ECB is fixed correctly, and its achievement can be quantified. Therefore, we are convinced that the position of the European Parliament should be strengthened and given the right to remove the President of the ECB from his post if the ECB has not ensured the achievement of the goal of the SCS for 2 years.

b) To change the system of organizing banking supervision in the EU and create a sui generis independent public institution in the EU, which will provide supervision of large credit and financial institutions in the EU.

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