



EUROPEAN CENTRAL BANK

EUROSYSTEM

**Chiara Zilioli**  
European Central Bank

# The role of central banks in ensuring financial stability

**IMFS Conference on Monetary and Financial Stability  
Economic and Legal Limits of Central Banking  
Frankfurt, 26 November 2013**

## Before the crisis: financial stability tasks in the TFEU

Crisis response: renewed focus on financial stability

ECB's expanded financial stability mandate, and the other actors

Limits and conditions to the exercise by the ECB of SSM tasks

Macroeconomic and financial stability expertise: an important reason to confer the supervisory competence to the ECB

Concluding remarks

# Objectives of the Eurosystem

## Primary objective

- **Price stability (Article 127(1) TFEU)**

## Secondary objectives

- **Support the general economic policies of the Union (ex. balanced economic growth)**
- **The ECB shall act:**
  - in accordance with the principle of open market economy with free competition
  - favouring efficient allocation of resources
  - in compliance with principles in Article 119 TFEU:
    - stable prices
    - sound public finances and monetary conditions
    - a sustainable balance of payments

## Tasks of the Eurosystem

### 1 - Surveillance

- Article 127(5) TFEU
- Contribute to the smooth conduct of policies pursued by competent authorities relating to prudential supervision of credit institutions and the stability of the financial system
- Surveillance, Financial Stability Review, issuing of other publications

### 2 - ECB opinions

- Article 127(4) TFEU and 25.1 ESCB Statute
- ECB is consulted on draft financial sector legislation in the area of financial regulation and financial stability

### 3 - Emergency liquidity assistance

- Article 14.4 ESCB Statute
- Responsibility for ELA lies with national central banks but should not interfere with the objectives and tasks of the Eurosystem

### 4- Payment systems

- Some of the ECB tasks have a direct relevance for /impact on financial stability: in particular Article 127(2) TFEU
- Promote the smooth operation of payment systems
- Operation of TARGET2, T2S
- Oversight of market infrastructures

### 5 - International cooperation

- Article 6 ESCB Statute
- Participation in committees such as IMF, FSB, BIS, EBA, ESRB

# Summary

Before the crisis: financial stability tasks in the TFEU

**Crisis response: renewed focus on financial stability**

ECB's expanded financial stability mandate, and the other actors

Limits and conditions to the exercise by the ECB of SSM tasks

Macroeconomic and financial stability expertise: an important reason to confer the supervisory competence to the ECB

Concluding remarks

# Crisis response: renewed focus on financial stability

## De Larosière Report 25 February 2009

- Called for an integrated European System of Financial Regulators (EBA, EIOPA and ESMA)
- Stated that ECB uniquely placed for macro-prudential supervision (ESRB)
- ECB should not have micro-prudential supervision: conflict of interests with monetary policy, too complex, no competence to insurance activities

## Commission Blueprint for a deep and genuine economic and monetary union – Launching a European Debate (28 November 2012)

- Short term – establishment of SSM and SRM
- Medium term – enhanced economic and budgetary policy integration and proper fiscal capacity
- Long term – full banking union and full fiscal and economic union

## Van Rompuy Report 5 December 2012

- Single European banking supervision and common resolution authority

# Macro-prudential policy, micro-prudential policy and financial stability

## Financial stability

### Macro-prudential

Limit distress of the financial system as a whole

Protecting overall economy from significant losses in real output

### Micro-prudential

Supervise and limit distress of individual institutions

Protecting depositors and investors

Attempts to mitigate risk of contagion (systemic risk)

# Overview

Before the crisis: financial stability tasks in the TFEU

Crisis response: renewed focus on financial stability

**ECB's expanded financial stability mandate, and the other actors**

Limits and conditions to the exercise by the ECB of SSM tasks

Macroeconomic and financial stability expertise: an important reason to confer the supervisory competence to the ECB

Concluding remarks



## 1 - European Systemic Risk Board

- ECB provides analytical, statistical, logistical and administrative support for the ESRB

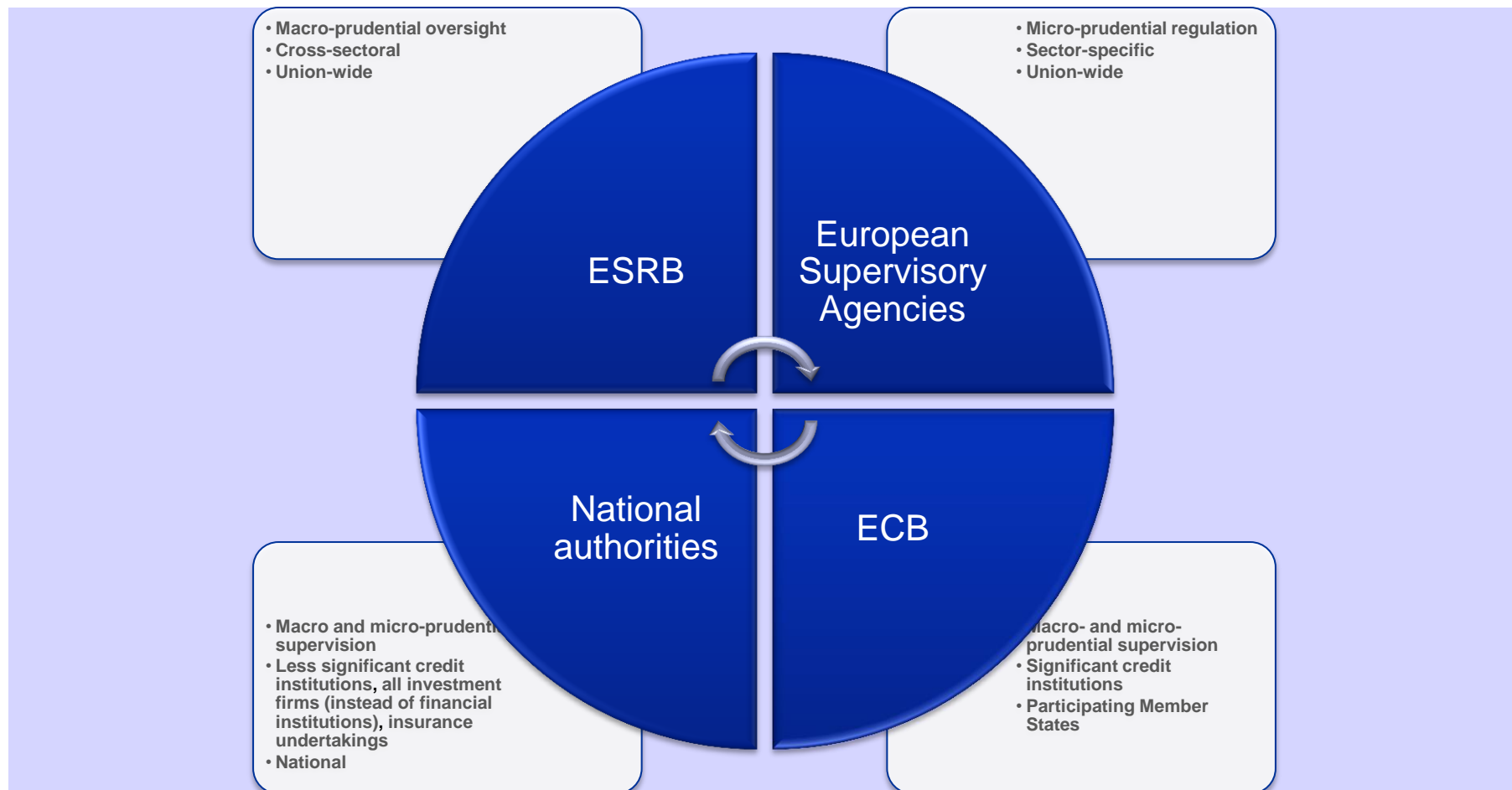
## 2 - Single Supervisory Mechanism

- Micro-prudential supervision of significant credit institutions in participating Member States
- Macro-prudential supervision (limited to topping up CRD IV capital buffers and macro-prudential measures) of all credit institutions in cooperation with Member States' designated or competent authorities

## 3 - Single Resolution Mechanism

- ECB foreseen as observer in Resolution Board

## New regulatory landscape



# Overview

Before the crisis: financial stability tasks in the TFEU

Crisis response: renewed focus on financial stability

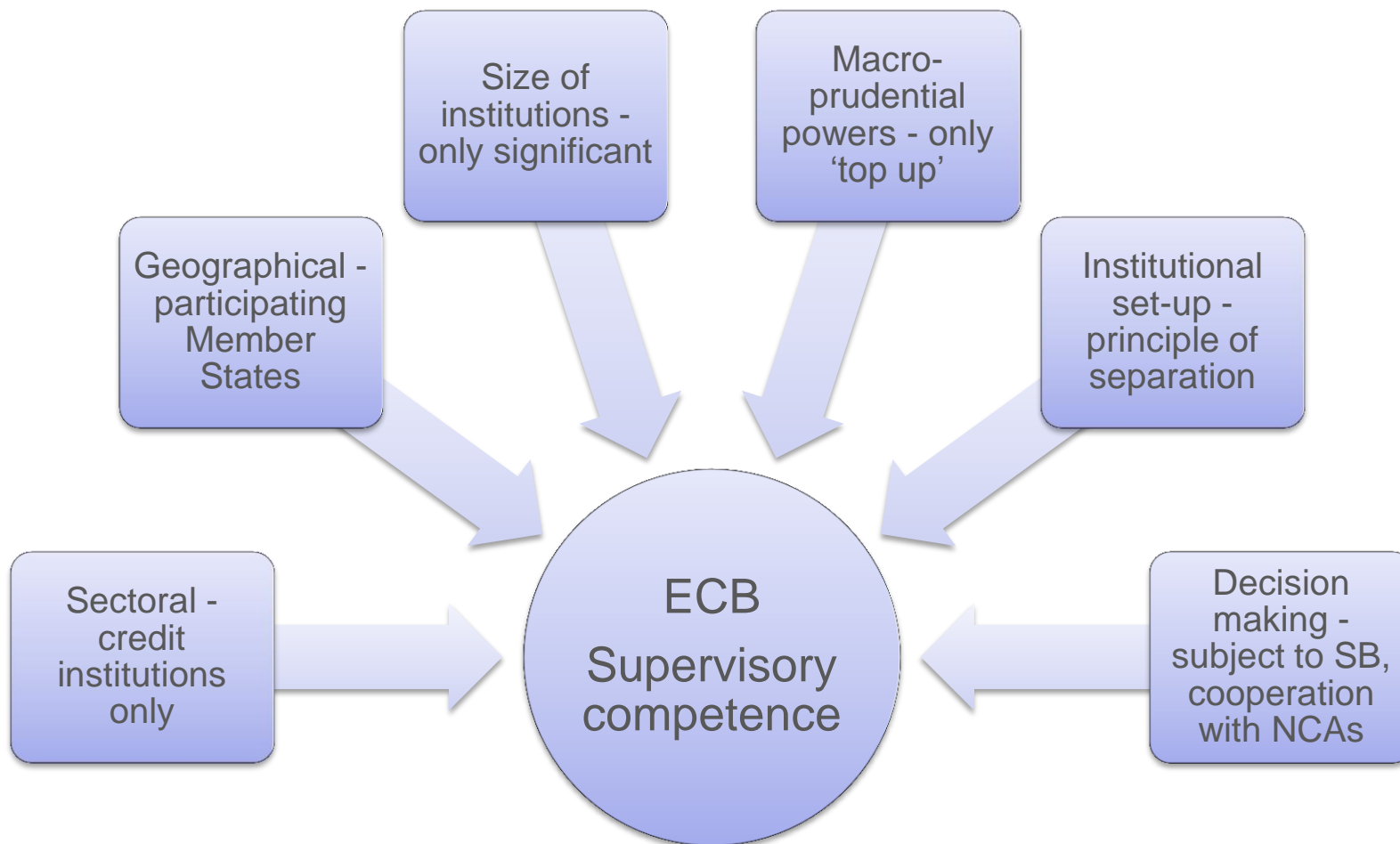
ECB's expanded financial stability mandate, and the other actors

**Limits and conditions to the exercise by the ECB of SSM tasks**

Macroeconomic and financial stability expertise: an important reason to confer the supervisory competence to the ECB

Concluding remarks

# Limits and conditions to the exercise by the ECB of SSM tasks



## Conditions regarding the exercise of SSM tasks

### Separation of monetary and supervisory function

Supervision without prejudice to monetary policy, other tasks, ESRB

ECB staff organisationally separated, separate reporting lines

Governing Council completely differentiated, separate meetings, agendas

**Mediation panel**

### Involvement of Supervisory Board

For all supervisory tasks, Governing Council shall act upon proposal of draft decision from SB

### Independence

ECB and national supervisory authorities acting within SSM shall act independently from external influence

Members of Supervisory Board and Steering Committee shall act in Union interest (however they are called "representatives")

### Accountability and transparency

ECB shall submit annual report on supervision to EP, Council, Commission, euro Group and national parliaments

Chair SB shall present report to EP, euro Group

Chair may be heard by EP, euro Group

ECB shall reply orally or in writing to questions from EP, euro Group

# Overview

Before the crisis: financial stability tasks in the TFEU

Crisis response: renewed focus on financial stability

ECB's expanded financial stability mandate, and the other actors

Limits and conditions to the exercise by the ECB of SSM tasks

**Macroeconomic and financial stability expertise: an important reason to confer the supervisory competence to the ECB**

Concluding remarks

## An important reason to confer the supervisory competence to the ECB

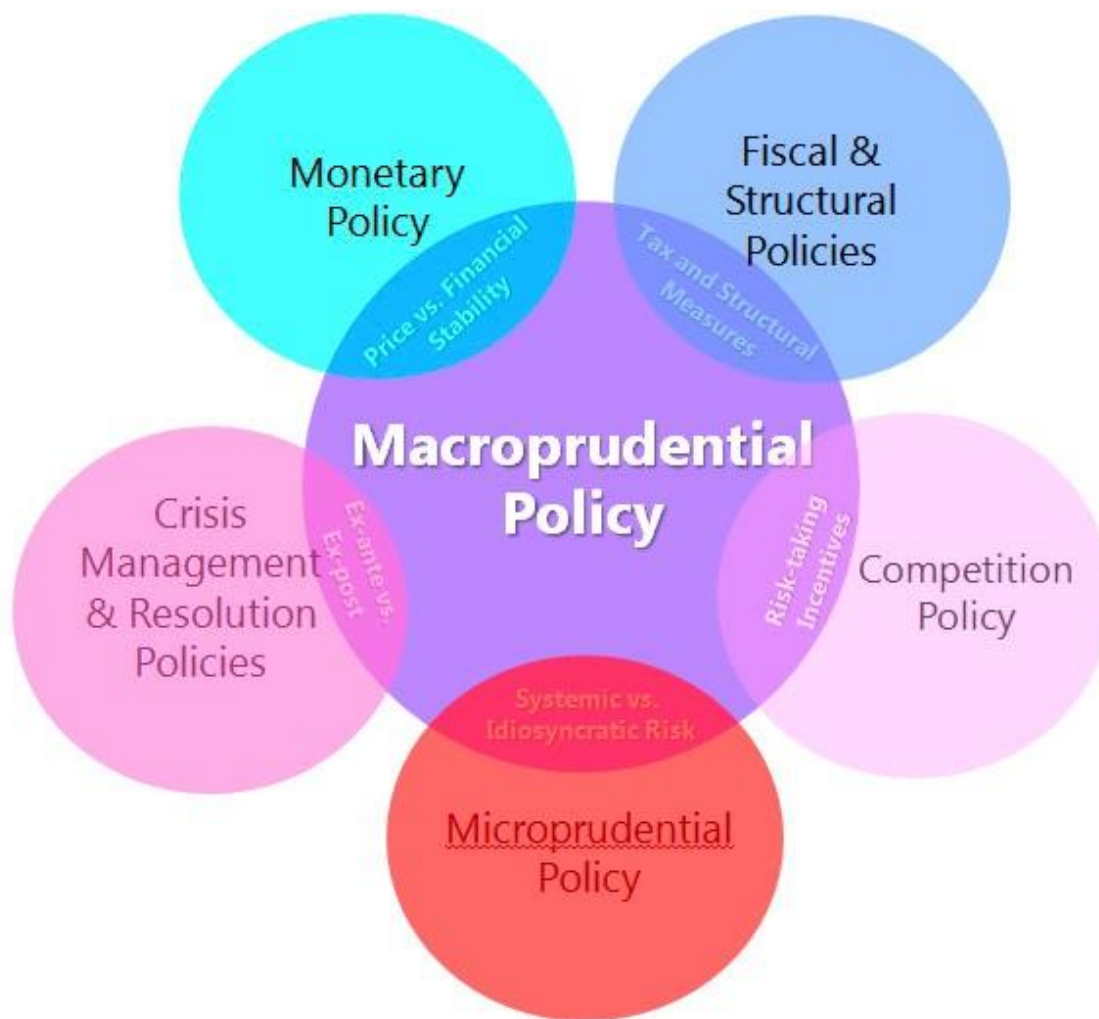
### Independence

- Avoiding conflicts of interest between price stability and financial stability
- Facilitates more accountability for supervisory function

### Synergies

- Expertise in macroeconomic and financial stability issues
- Macro-prudential function
- Exchange of information between functions

**Figure 1. Relationship between Macprudential and Other Policies**



Source: IMF staff



# Overview

Before the crisis: financial stability tasks in the TFEU

Crisis response: renewed focus on financial stability

ECB's expanded financial stability mandate, and the other actors

Limits and conditions to the exercise by the ECB of SSM tasks

Macroeconomic and financial stability expertise: an important reason to confer the supervisory competence to the ECB

**Concluding remarks**

- Financial stability cannot be ensured by one single actor
- ECB has a legitimate interest in financial stability (instrumental to price stability)
- The ECB's mandate in financial stability has been increased
- This leads to increased accountability
- ECB Independence (in monetary policy but also in supervision) is essential – accountability is not control
- Broader ECB's mandate in financial stability leads to potential conflicts of interests.
  - Monetary policy v. financial stability, separation principle
  - Financial stability (EU) v. fiscal policy (national) – need for SRM to avoid mismatch
- Independence does not mean isolation: the ECB will cooperate increasingly with macro-prudential, supervisory and resolution authorities at national and European level.