# Nout Wellink: The role of national central banks within the European system of central banks- the example of De Nederlandsche Bank

Introduction by Dr Nout Wellink, President of De Nederlandsche Bank and President of the Bank for International Settlements, to the paper 'The Role of National Central Banks within the European System of Central Banks: The Example of De Nederlandsche Bank', Oesterreichische Nationalbank Conference 'Competition of Regions and Integration in EMU', Vienna, 13-14 June 2002

*   *   *

## Introduction

I would first like to thank the Oesterreichische Nationalbank for inviting me to this conference and take up the challenge of discussing the role of national central banks in Europe. Clearly, this role underwent a fascinating metamorphosis with the introduction of the single currency. Suddenly, a strong, European dimension was added to these institutions that were traditionally largely confined to national boundaries.

Consequently, the national central bank in Europe is of a peculiar sort and has a double identity. On the one hand, it is deeply rooted in national tradition and sovereignty, which reflects specific national tasks and responsibilities. On the other hand, it is part of a system of central banks responsible for a fully supranationalised monetary policy and related, common tasks.

Let me now briefly outline my paper on the role of national central banks in Europe. First, I will shortly discuss the general framework of the European System of Central Banks. Subsequently, I will touch on the System tasks and related national responsibilities. Here, I will specifically spend some time on financial stability and supervision. Clearly, this policy area has seen some major developments recently, both on the national and European level.

## The European System of Central Banks

What exactly is the European System of Central Banks? What explains its unique institutional and operational set-up? These are crucial questions in analysing the role of national central banks or, for that matter, understanding monetary union in general. Nevertheless, the questions are seldom asked, let alone answered. Since the Second World War, European integration has been a co-operative effort in which common objectives in principle override the size and power of the individual participants.

The European System of Central Banks is a both a product and a reflection of this European Community of Member States. Hence, the fundamental notion underlying the System is a joint and equal responsibility to carry out the tasks assigned by the Treaty. In this set-up, the ECB operates as the legal entity that links the spokes of the system and thus makes the joint responsibility for tasks possible. The Governing Council is the highest decision-making body of the ECB, consisting of executive board members and governors of the national central banks.

Apart from the fundamental notion of joint responsibility, two guiding principles of the Treaty determine the operational side of the System. First, subsidiarity prescribes that the responsibilities lie at the lowest possible level. In the context of the European Community, this principle respects national sovereignty and reflects the heterogeneity of its Member States. Second, the Treaty prescribes an efficient allocation of resources. In other words, the System should be effective at the least cost. In practice, there may be trade-offs between the principles of subsidiarity and efficiency, but gross inefficiencies should, of course, be avoided.

## Tasks of the European System of Central Banks

Now, with this basic System framework in mind, let me turn to the actual tasks of the national central bank that follow from the System. In the paper, I cover the tasks of deciding on and executing monetary policy, foreign reserve management, the collection and production of statistics, external relations, and the operational aspects of payment systems and banknotes. Given time constraints, I will limit myself to the conduct of monetary policy.

The fundamental notion of joint responsibilities adds value in the sense that it offers checks and balances in the monetary policy process. For example, the participation of NCB-governors increases accountability and the quality of decision-making. Indeed, given their joint responsibility for price stability, all national central banks have not only the right, but also the obligation, to fully prepare their governor in his or her capacity as an ECB-Council member.

Although fundamental to the System, the notion of joint responsibility allows for institutional flexibility when it comes to the effectiveness of monetary policy – as this clearly lies at the heart of monetary union. Let me first of all emphasise that the present size (18 members) of the Governing Council has never been a stumbling block for effective, and where necessary, rapid decision-making. Nevertheless, there is the perception that, with further EMU-enlargement, the size of the team could hamper the effectiveness of monetary policy.

That is why the Treaty of Nice goes as far as to offer the possibility to restrict the number of votes in the Governing Council on monetary policy. Clearly, on the basis of the fundamental notion on which the System is built, all governors will remain equally involved in future monetary policy decisions. However, they may not all have a vote at the same time. Moreover, the participation of NCB-governors will continue to offer checks and balances and enhance the quality of decision-making.

Let me turn to the guiding principle of subsidiarity. Clearly, the principle implies that, to a large extent, the spokes of the System take care of both inputs and outputs. Given the heterogeneity of the euro area, this bottom-up approach to System tasks makes sense. Thus, in dealing with economic, structural, or even linguistic differences and national preferences, the spokes are better positioned in the operation of monetary policy. The same goes for managing payment systems or the collection of statistics – tasks that I will leave aside for the moment. Moreover, governors and their respective central banks bring in specific local knowledge and enhance healthy competition within the System – for example in the area of research.

Of course, as explained, we should be conscious of potential trade-offs between subsidiarity and the guiding principle of efficiency. As such, there is no denying that efficiency gains can be achieved in the production and distribution of banknotes. We need to pursue these possibilities.

**Financial stability and banking supervision – national tasks of NCBs**

This brings me to the central bank tasks that fall outside the exclusive domain of the European System of Central Banks. For the Dutch central bank, these tasks take up around half of its staff and relate to international financial relations, advising the government, financial stability and banking supervision. Under the subsidiarity principle, these responsibilities lie close to the sovereignty of the nation state. Nevertheless, there are clear links and synergies with the tasks of the European System of Central Banks – which, in fact, is an important reason for national central banks having these tasks.

Let me limit myself here to financial stability and supervision – given their importance in recent European discussions. According to the Treaty, the European System of Central Banks as a whole shall contribute to the smooth conduct of policies pursued by competent authorities in the field of prudential supervision and financial stability. The collective responsibility to contribute to these policies follows from the financial stability task of the national central banks.

This involvement in financial stability is a natural reflection of other tasks, including monetary policy, payment systems and – to varying extent – banking supervision. Monetary policy relies on financial stability in order to be effective. In addition, in exercising oversight over national payment systems, central banks guard against systemic risks that could be transmitted via these systems. There are therefore clear synergies between financial stability and other tasks. Central to these synergies is the wealth of knowledge on the financial system through the central bank´s active presence in financial markets. Again, the structural differences in financial systems across the euro area mean that the financial stability task is more appropriately located at the national level, although communication and co-ordination across borders are increasingly important.

Whereas all national central banks have a financial stability task, not all have direct competence in the field of prudential supervision. The choice to delegate the supervisory task to the central bank is, of course, based on national circumstances and preferences. However, the important synergies between the financial stability and supervisory tasks should not be ignored. I will come back to this issue when I discuss the supervisory arrangements in the Netherlands. In general, it is important to stress that on both a national and European level the national central banks remain involved in discussions on prudential supervision. This is essential for the proper execution of their financial stability task and, as such, enables the System to contribute to the smooth conduct of supervisory policies.

### *Recent developments in Europe regarding supervision*

Recently, the perception of increased cross sector and cross border financial integration has resulted in demands for enhancing the supervisory structure in Europe. I fully subscribe to the ambitions to speed up the regulatory process of supervision in Europe. Moreover, the convergence of supervisory practices would serve a level playing field in European financial markets. Last year, a European committee under chairmanship of Mr Brouwer – director at the Dutch central bank – made several recommendations on this point. As I explained, the involvement of national central banks will continue to offer welcome expertise in assessing the supervisory needs and challenges of financial integration. Concerning topics directly related to financial stability and systemic risks, the national central banks will be at the frontline of European discussions, together with their counterparts from the ministries of finance.

However, I would warn against the suggestion of introducing a single European supervisor. It is a misconception to expect that a top down approach to the design of supervision in Europe would promote financial integration. Clearly, that would simply ignore the structural differences on the national level. Indeed, the practice of EMU has shown that a critical mass in integration is needed before institutional convergence (i.e. the introduction of the Euro) can work as a catalyst. Likewise, I would warn against the suggestion that from a financial stability perspective, the number of supervisors should be consolidated. Here again, the principle of subsidiarity allows for the necessary checks and balances, which would be lost if we had one supervisory giant in Europe.

### *Supervisory reforms in the Netherlands*

This brings me, as promised, to the supervisory arrangements in the Netherlands. In relative terms, the consolidation and integration of the Dutch financial sector are well-advanced. First, our experience shows that the future challenges to cross border supervision may not be merely European, but rather of a global dimension. Moreover, in the face of horizontal integration, the division of supervisory tasks in the Netherlands has recently been streamlined along functional lines. Thus, the organisational links between the Dutch central bank (as banking supervisor) and the insurance supervisor have been strengthened. This allows for an integrated approach to prudential supervision. On the other hand, issues related to the conduct of business and consumer protection have been concentrated in the Financial Markets Authority.

These recent reforms in my country subscribe to the basic principles of effectiveness and subsidiarity I referred to earlier. Thus, there was no case in terms of efficiency or effectiveness to reallocate the supervisory task already assigned to the central bank. Here, the synergies with the task of financial oversight have been acknowledged. Moreover, there is the link to our role as lender of last resort. With the supervisor in-house, a quick and effective assessment can be made of the nature of crises – including whether they involve liquidity or solvency difficulties. Consequently, the central bank has good insights into the risks for the financial system at large. Finally, the necessary checks and balances – in particular regarding supervisory autonomy and accountability – were retained.

## Conclusion

Let me conclude. It is likely that the European System of Central Banks will be continuously evolving in the interplay between hubs and spokes – exploiting efficiency gains to the extent that the principle of subsidiarity allows. However, the federal shape of the System and the firmly rooted national component of central banks reflect the main driver of European integration – the nation state. In short, that implies that, with anything short of political union, the fundamental principle of collective responsibility of the System remains in place. All central banks have to be fully involved if we are to fulfil this collective responsibility.

Moreover, the unique structure of the European System of Central Banks and the double identity of its participants add important value. The monetary policy process gains from the individual expertise, knowledge and networks of the national central banks that improve the quality of decision-making and offer checks and balances. The System set-up also enables great synergies with the execution of national central bank tasks. I referred in this respect to the national responsibilities for financial stability, and – in case of the Dutch central bank – the task of supervision.

I am convinced that, based on the fundamental notion of collective responsibility and the guiding principles of subsidiarity and efficiency, the System will continue to generate good joint and individual policies, provide proper checks and balances and even enhance the European integration process in general. As such, the national central bank might even contribute to loosening the roots of its very existence - when the nation state would dissolve into political union. But even then, differences of structure, culture and language will remain, and there will be a need for similar, regional bodies to keep monetary union operational. Referring to the theme of this conference, perhaps future generations will then witness the birth of a new entity – the regional central bank.