

Comparison between european central bank and federal reserve bank

[Finance](#)



Finance and Accounting 28 September Comparison of European Central Bank and Federal Reserve Bank Printing Press The Federal Reserve Bank (FEB) and the European Central Bank (ECB) have the sole power to issue money. They print the money with respect to the national and European zone currencies, for U. S FED in dollars and ECB in Euros respectively. According to Bagus, they both produce the base money to finance their respective governments (n. p.). This role aims to fulfill their objectives in price stability and supplementing the monetary system. The production of this base money occurs mystically to keep the money in the circulation and service government debts. Ideally, they enjoy the monopoly of controlling money supply and can use the money printing policy to manage the financial situation in their currency zones. Monetary Policy Objectives Comparing the two, FED can be described as having multiple objectives, while the ECB has a single mandate. By the Federal Reserve Act, FED is set to handle several compatible goals; price stability is given more emphasis, but employment and low inflation are also given an implicit rank among other economically concerned objectives. The article clause requires that in the process of sustaining a long-run expansion of the money and credit aggregates match up with the nation's long-run potential to enhance production, it should ensure stable prices, maximum employment, and moderate long-term interest rates to be achieved (Gerdesmeier et al. 13). On the other hand, the Euro system focuses on its single responsibility of maintaining price stability. Signed in the treaty of the functioning of the EU in the Article 127, price stability is given an overriding importance to the employment and the balanced economic growth among the members of the union (" Objective" n.

p.). Independence Concerning the level of political influence, ECB is considered free of any intercepts from its union members. This has remained enforced over the years as new member countries joined the union. Probably because each member is a separate nation with its own leadership, directives and economic priorities that need to be handled correctly to solve a nation's problems would affect the others. The level of independence for the Federal system can, however, be termed less rigid, considering that the U. S. Constitution grants Congress the right to coin money and regulate the value of the currency under various demanding circumstances, which can be attributed to the political influence (Gerdesmeier et al. 15). Susceptibility of FED to political whims is high with any changes to the Federal Reserve System's structure, or organization influenced by the vote of the majority in Congress. In terms of financial independence, each bank as an individual entity has its own budget, but financial needs are met differently: FED is self financing, while ECB's capital is met by the Euro-area National Central Banks (NCB). Open Market Operations In the production of base money, each central bank uses a traditionally identified distinct process too; ECB employs the produce money and a lend process, while FED prefers the produce money and a purchase method (Bagus n. p.). FED produces money in their computers, uses it to buy U. S. treasuries, and upon exchange creates money through the selling. ECB also creates money, lends it to the banking system for a specified period of time, and then prefers government bonds as the collaterals for the loans. Although they are both able to create the base money, there is a yield of more money supply to sustain the government, but beyond their actual means. Besides money production, they can use

these approaches to absorb extra funds into the monetary system. Structure of the Central Banks and Formulation of Monetary Policies EAC' governing council and FED's Federal Open Market Committee (FOMC) aid in decision making and formulation of the monetary policies. The structure and organization of the ECB has changed with time, especially as new members joined the European Union. However, there are currently twelve NCBs in the Euro system, just as there are 12 Federal Reserve banks in strategized states within specific regions of the USA. Comparing the scheduled time, the members of the board of governors of FED are appointed for a fourteen-year period by the President, while the 6 members of the ECB executive board serve almost half the time, under the appointment of the common accord of the heads of governments or states from the Euro area nations (Audorff et al. 9-12). The FOMC in whole consists of 5 more governors and the presidents from the 12 Federal Reserve banks, while the governing council of ECB has presidents of each NCB participating in the EMU, in addition to the earlier mentioned executives. Moreover, as the members of the governing council of ECB vote equally, five extra, but required votes in decision making have to be on a rotational basis, since not every member can vote in FOMC. This brings a variation in voting. Works Cited Audorff, Epps, Keller, Prelipcean. "Federal Reserve vs European Central Bank." terry. uga. edu. n. d. Web. 28 Sep. 2013. . Bagus, Philipp. "The Fed and ECB: Two Paths One Goal." mises. org. 9 Sep. 2011. Web. 28 Sep. 2013. . Gerdesmeier, Dieter, Francesco, Paolo Mongelli, and Barbara Roffia "The Eurosystem, the US Federal Reserve and the Bank of Japan: Similarities and Differences." europa. eu. March 2007.

Web. 28 Sep. 2013. . “ Objective of Monetary Policy.” europa. eu. n. d. Web.
28 Sep. 2013. .