

European creating a big improvement in the eu

[Finance](#)



European Central Bank – its contribution to Eurozone and the

EU Introduction This paper examines the contribution of European Central Bank within the Euro-zone area and European Union. European central bank is considered to be one of the most important institutions of the European Union. European central bank is a corporation that is fully owned by the government but operates independently, they lay down interest rates, policies and manage the volume without any government interference. This paper focuses mainly on ECB contribution on EU capital market, labour force.

This paper proves that ECB policies and decisions have created and still create a big improvement in the EU capital market by boosting labour force within the eurozone. The policies introduced by the European central bank have an upward effect on both real GDP (gross domestic product) and HICP (harmonised Index of consumer prices) inflation within the eurozone. How was ECB created? ECB is the successor of the European Monetary Institute (EMI) that was created in the second stage of EU Economic and Monetary Union (EMU) whose intention is to handle the transitional issues of states adopting euro. EMI was created from the European Monetary Cooperation (EMCF) and they both lay down the foundation that leads to the creation of ECB. ECB officially replaced EMI on 1st June 1998 as a result of European Union treaty (Treaty of Maastricht).

ECB covers all Eurozone member countries which are now 19 countries (during its creation it covers a eurozone of 11 member countries). Article 13 of the Treaty of EU recognised ECB as an official EU institution during the enforcement of the Treaty of Lisbon. Why was ECB created and it

contributions? ECB was created to manage the euro, maintain price stability and enforce EU monetary and economic policies.

European central bank has contributed greatly to EU capital market and same time offers great support to the Capital Market Union (CMU). In relation to capital market ECB aims at maintaining proper working and integrated euro area capital market by escalating the easy and smooth transmission of monetary policy. One of the great contribution of ECB to the eurozone is the control and significant reduction of inflation rates to below 2 %. In November 2017, the inflation rate in the Euro area reached 1.5 percent (The Statistics portal). ECB has been improving the capital market among the euro-zone by giving equal attention to cross born equity in terms of financing and assets ownership with the euro-zone, and the monetary policies implemented by European Central Bank has helped in maintaining price stability and also in the reduction of unemployment rate. Eurozone economy newspaper reported that the unemployment rate in the euro-zone area fell to 8.7 per cent in November 2017, according to Eurostat, the European Commission's statistics bureau.

And it came down from 8.8 per cent the previous month and it considered to be the lowest ever since 2009, meaning that the region's economic and financial crisis has dropped by 1.1 per cent over the past year.

(Claire Jones, January 9, 2018). There is a reverse in the capital flows in the euro zone from net inflows to net outflow which started from mid-2014 as a result of ECB credit easy package and this programme created a materialize effects on other countries through capital flows and relative asset price

movements (Benoit Coeure (Executive board member of ECB) speech about “ The international dimension of European Central Bank asset purchase programme” in Frankfurt, German on 11th July 2017.) European Central Bank monthly economic bulletin issued on 6th 2017 shows that immigrants are contributing and supporting the eurozone labour force size in terms of employment and unemployment excluding those who are not interested in working and it has contributed to the potential economic growth within the eurozone area. Immigration has a larger positive impact on the working age population during the recovery period from the previous economic crisis. ECB as an institution occupy an important position in the maintenance of an healthy and secure banking system and this task is done by them implement a strong and agreeable policy that can attracts financial investor. ECB prevent countries from falling into bad equilibrium through a program title “ Outright Monetary Transactions (OMT)” which created a change in regime within the euro-zone and same time trigger the significant decline in interest rate spread and for that reason should be made a lender of last resort in government bond market (Paul De Grauwe page 521-523). What are the criticism faced by ECB? One of the big challenges faced by ECB was the criticism from the German finance minister who stated that “ low interest rates were causing an extraordinary problem for German banks and pensioners and same time risked fuelling the rise of Eurosceptic in Germany” (Wolfgang Schauble) which was later rejected by Mario Draghi who consider the critic as an interference to the independent policy of the ECB and was supported by Angela Merkel.

The ECB increase the money stock thereby leading to a risk of inflation (Milton Friedman), this was later rejected by recent studies which shows that increase in money base doesn't lead to increase in money stock which is regarded as one of the vital tools the ECB has been using in the flight against inflation rate within the eurozone (Cesifo economic studies volume 59 issue 3). According to Goodfriend M. ECB should avoid operations that mix monetary and fiscal policies because it will be a lost to ECB, if the government fails to pay back their debts and for this reason ECB should not be involve in government bond market since it the responsibility of the tax payers (Journal of Monetary Economics, 2011 vol. 58 page. 1-10). This view can be rejected by Belke and Polleit view which stated that the main objective of ECB is to resolve financial stability conflicts and to show concern in avoiding losses and same time shows positive equity (Economic Internationale, 2010, vol.

124, page. 5-15). Goodhart and Illing criticized ECB for violating Bagehot doctrine by their act of providing bailout to banks and governments that are considered to be insolvent and that an unlimited liquidity should be set as the penalty rate by the central banks (Financial crises, 2002 oxford university press). How does ECB work? The central banks of all the 28 EU member states function as a branch of the ECB, and they all works in connection to each other, considering ECB as its head. All the 28 EU member countries along with the European central bank formed the European system of central banks. ECB consist of three major governing bodies which are: • The Governing Council • The Executive board and • The General council.

Conclusion This paper examines the contributions made by the European central bank to the eurozone and EU economy as a whole, and I can state that ECB has contributed greatly to the economy development of the EU, some of its policies has greater impact on other countries economic policies. As an institution empowered by 19 eurozone member countries it has outstained itself from making biased policies but has catered for the economic growth and well-being of the eurozone areas, saving the 19 member countries government from falling into economic crisis. And it has helped in the rapid reduction and maintenance of inflation rate which was considered as a threat to the eurozone economy before the establishment of ECB.

And also, in the maintenance of price stability which has led to the potential economy growth of EU economy. European central bank has succeeded in creating a complete monetary union in Europe which is considered as a contribution towards political union (Krugman).