

ALBANIA'S WAY TO EUROPE

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1. Introduction

According to Article 49 of the Treaty on European Union, "any European state may apply to become a member of the Union". The existing Member States have established some political and economic criteria (the „Copenhagen criteria“) that have to be fulfilled by the candidates after application. They imply, shortly and in principle, the existence of a functioning democracy with respect of the human and minority rights and the existing of a market economy that is able to withstand market pressure in the internal market of the EU. Eventually, at a point of time after accession, the new Member State will introduce the Euro and therefore become a member of European Monetary Union.

A look at the map shows that Albania is very much a part of the European continent. She is therefore eligible to embark on the road to membership to the EU and, finally, to introducing the euro. In the following, some highlights of the way to that final goal shall be pointed out from the viewpoint of a national central bank (which the Bank of Albania would be in the final face after the introduction of the euro).

On this way, one can distinguish three steps:
The phase before accession,
membership in the European Union, but not yet of the euro area and
member of the euro area

2. The phase before accession

Monetary and exchange rate policy remains in national responsibility with the possibility, in principle, to choose an exchange rate system from several alternatives and to choose any monetary policy strategy. This is the stage Albania is in right now.

With increasing integration into the EU – pre-accession partnership agreements and free trade agreements with the EU – an increasing orientation towards the EU is probably sensible. This implies, inter alia, an increasing orientation of the exchange rate policy towards the euro.

Nevertheless, the unilateral introduction the of the euro is seen by the Eurosystem (see under chapter 5) as not being in line with the spirit of the Treaty, which foresees the introduction of the euro as the result of a multilateral process with the check of convergence and a test whether the conversion rate is the right one.

3. Phase after accession

After accession to the EU, which may imply action from the national central bank (Bank of Albania) only in a limited manner (capital liberalisation), Albania would be a member with an abrogation, that is, Albania would not immediately become a member of the euro area. The major consequences would be that Albania:

Would have to conduct exchange rate policy as a matter of common interest (Article 124 of the Treaty) which would exclude e.g. competitive devaluations.

An entry into the exchange rate mechanism (ERM) would be expected, meaning fixed exchange rates to the euro with a fluctuation band.

Within the ERM, other exchange rate systems like a pegging to other currencies, floating or a crawling fluctuation band versus the euro would be excluded.

Currency boards are a special case and a participation in ERM would be possible after the examination of each individual case.

4. Introducing the euro

Membership of the euro area, meaning the introduction of the euro as the national currency, would follow the application of the same criteria as for the incumbent members. They concern a maximum inflation rate and interest rates in the year before the examination, a sustainable budgetary position and two years of membership of the ERM. Furthermore, independence of the national central bank is necessary. It is the position of the Eurosystem that these criteria should be applied in a strict manner.

5. The working of the euro area

Looking at the EU today, we can see that it comprises 15 Member States, of which twelve participate in monetary union. Three countries do not (yet) participate. According to the Treaty however, all 15 Member States' national central banks (NCBs) participate in the so called "European System of Central Banks", but not in the „Eurosystem“. Starting with the „Eurosystem“, an expression that is not found in the Treaty, it comprises the ECB and the NCBs of those countries that have introduced the euro as their currency. This is the only actor that counts. The ESCB exists only, more or less, on paper for political reasons.

5.1 The institutional framework

Both the ESCB and the Eurosystem are governed by the decision making bodies of the ECB; however the ESCB has only a „shadow existence“.

The overall decision making body is the Governing Council of the ECB. It comprises the Executive Board of the ECB (more next paragraph) and the Governors of the participating NCBs. Its major responsibilities are:

to formulate the monetary policy of the euro area

to adopt guidelines and to take decisions necessary to perform the entrusted tasks

to have a consultative function as laid down in Article 105, paragraph 4 of the Treaty in its field of competence.

The Executive Board of the ECB comprises the President and Vice President of the ECB and for other members. It is the truly central gem of the euro area. It is responsible for the day-to-day-business of the ECB and especially for preparing the meetings of the Governing Council

implementing the monetary policy especially decisions taken by the Governing Council.

A delegation of powers from the governing council to the Executive Board is possible.

If and as long there are Member States with a derogation, the General Council will be constituted as the third decision making body of the ECB (Article 123, paragraph 3 of the Treaty). It comprises the President and Vice President of the ECB and the Governors of all NCBs. To sum it up shortly, it takes

over transitional tasks which, because of the derogation's of Member States, still need to be performed in stage three. Its importance can be measured by the fact that the Governing Council meets every fortnight and the General Council every three months.

Turning to the functioning of the Eurosystem, the supreme decision making body is, as already stated, the Governing Council. Its work is assisted, by 13 committees¹. These committees are mandated by the Governing Council and they report via the Executive Board back to the Governing Council. Excluding monetary policy, their importance should not be underestimated. They prepare almost all of the technical decisions of the Governing Council.

As to the relation between the ECB and the NCBs, there is one guiding principle: The ECB (that is, the Governing Council) takes all the decisions, the NCBs implement them. The Bank of Albania would be one of the national central banks in the future. While the NCBs are an integral part of the ESCB according to the Treaty. In reality read: (the Eurosystem) and shall act in accordance with the guidelines and instructions of the ECB. They are the only ones which are in contact with the markets and with credit institutions. Figuratively speaking, the ECB is the head preparing decisions of the Governing Council whereas the NCBs are the body, carrying out the decisions taken in the head (in principle, by the Governing Council).

5.2 The distribution of tasks

The distribution of tasks between the centre and the Member States can be laid out as follows:

ECB (the Governing Council)

- to formulate the monetary policy
- to specify the regulatory, organisational and logistical framework of the Eurosystem
- to authorise the issuance of banknotes
- to issue legal acts (regulations, recommendations, decisions)
- to offer advice to the appropriate institutions and bodies
- to prepare and address the annual report on the activities of the Eurosystem and on the monetary policy

National Central Banks

- to implement the single monetary policy
- to manage the foreign exchange reserves of the ECB
- to carry out operations in foreign reserve assets remaining with the NCBs
- to perform functions other than those specified in the Treaty which are conferred upon the respective national central bank by national law

It follows from the above that NCBs are indispensable to the functioning of monetary union at present and in the foreseeable future. The execution of monetary policy by the ECB alone would not be manageable, giving the differences in the structures of national financial and especially banking markets. Whereas, e.g. in the Netherlands there are only five major players, in Germany, there are around 2700 banks. Apart from structural there are, of course, linguistic and generally cultural differences between the Member States. These reasons militate for postponing any further centralisation to a more or less distant future.

Concerning the role of a national central bank in the Eurosystem, the basic distinction is between the functions performed for the Eurosystem and those performed on its own account, being disconnected from it. The major duties in connection with the Eurosystem are:

- to implement the refinancing transactions with credit institutions
- to manage the minimum reserves
- to conduct the foreign exchange operations for the ECB with its reserves (the ECB does not conduct foreign exchange operations)

¹ For accounting and monetary income, banking supervision, banknotes, budget, external communications, information technology, internal audit, international relations, legal, market operations, monetary policy, payment and settlement systems, statistics

to operate a large value transborder payment system ("TARGET") and to promote the smooth operation of the payment systems
cash distribution
public relations work in the national language
to advise the government in the field of monetary policy
to collect statistical data

These examples were taken from the tasks the Deutsche Bundesbank performs. They would closely resemble those of other NCBs in monetary union. In the case of the Deutsche Bundesbank, some tasks remain that are not connected to the monetary union proper, but are being allowed by the Eurosystem, as long as they do not disturb monetary policy. They are:

performing as a fiscal agent for the national government
managing the national foreign exchange assets
participating in banking supervision
co-operating in international bodies
technical central bank co-operation
managing the pension reserves of the federal government
out-of-court customer complaints body for cross-border transfer payments

5.3 The relationship between ECB and NCBs

Lastly, it should be mentioned that the ECB is owned by the NCBs and could be considered as a "branch". Article 29 of the Statute of ESCB lays down that the NCBs' percentage share in the capital of the ECB shall be equal to the sum of

50 % of the share of the respective Member State in the population of the Community in 1997 and
50 % of the share of the respective Member State in the gross domestic product of the Community at market prices in the years 1992-1996.

These figures are revised normally every 5 years.

The NCBs are therefore shareholders of the ECB, meaning the headquarters in Frankfurt, comprising its staff and the Executive Board – which is, of course, independent. The annual budget of the ECB is submitted annually for decision by the Governing Council.