

The operational framework of the Eurosystem and financial markets

On 5 and 6 May 2000, the European Central Bank hosted a conference on “The operational framework of the Eurosystem and financial markets”. The conference was organised by the ECB’s Directorate General Operations and Directorate General Research. Its purpose was to provide a forum for a thorough discussion of the Eurosystem’s operational framework for monetary policy and of its interaction with financial markets. It involved the ECB, the Eurosystem’s national central banks and other central banks, the Eurosystem’s counterparties in operations, researchers from academia and international organisations. The papers presented can be downloaded from the ECB web page (www.ecb.int).

Conference programme

Welcoming address:

Sirkka Härmäläinen (Executive Board, European Central Bank)
“The operational framework of the Eurosystem”

Presentation and general perspective of the Eurosystem’s operational framework

M Manna, H Pill and G Quirós (European Central Bank):
“The Eurosystem’s operational framework in the context of its monetary policy strategy”

U Bindseil (European Central Bank):
“Central bank liquidity management: theory and euro area practice”

Panel discussion:

T Baliño (International Monetary Fund)

X Freixas (Pompeu Fabra University)

C Goodhart (Bank of England and London School of Economics)

Collateral and infrastructural aspects of the Eurosystem’s operational framework

O Mastroeni (European Central Bank):
“The collateral framework of the Eurosystem: some evidence in the first months of the European Monetary Union”

I R Terol and D Russo (European Central Bank):
“The euro area securities clearing and settlement infrastructure: recent changes and issues for debate”

Panel discussion:

D Humphrey (Florida State University)

J Mèrère (SICOVAM)

P Twilhaar (ABN AMRO Bank)

A comparison between operational frameworks

P Fisher (Federal Reserve Bank of New York):

“A comparison between three operational frameworks: the Eurosystem, the Fed and the Bank of Japan”

(Background paper “Main features of the monetary policy frameworks of the Bank of Japan, the Federal Reserve and the Eurosystem”)

C Borio (Bank for International Settlements):

“A critical perspective on the existing operational frameworks”

Panel discussion:

D Gros (CEPS)

I Kuroda (Bank of Japan)

D Blenck (European Central Bank)

The performance of the Eurosystem’s operational framework since the introduction of the euro: an appraisal

P Vergara (Rabobank):

“The performance of the Eurosystem’s operational framework: a market appraisal”

Gabriel Perez Quirós (European Central Bank) and *Hugo Rodriguez* (Pompeu Fabra University):

“The daily market for funds in Europe: has something changed with the EMU?”

Panel discussion:

J L Escrivá (European Central Bank)

A Steppan (Bankaustria-Credit Anstalt)

T Välimäki (Bank of Finland)

Dinner address:

V Gaspar (European Central Bank):

“Financial markets and the monetary policy strategy of the ECB”

The integration of euro money markets

B Biais (Toulouse University), *P Hartmann* and *M Manna* (European Central Bank):

“The microstructure of the euro money market”

M Ciampolini (Banca Commerciale Italiana) and *B Rohde* (Dresdner Bank):

“Money market integration: a market perspective”

Panel discussion:

J Alonso (Bank of Spain)

E Pauly (Bank of France)

K Tsatsaronis (Bank for International Settlements)

G de Vidts (European Repo Council)

Developments in the euro bond markets

G Bishop (Adviser to Salomon Smith Barney):

“The euro bond market: developments and implications for monetary policy”

Panel discussion:

L Boman (European Commission)

J C Corrigan (Irish National Treasury Management Agency)

C Monticelli (Deutsche Bank)

L van Velden (the Netherlands Bank)

The operational framework used to implement monetary policy is designed to adjust the liquidity supply to demand, so that the very short-term interest rates on the money market settle down at levels close to the minimum bid rate. That therefore maximises the signalling function on the monetary policy stance. The central banks of other industrialised countries with well-developed financial markets have also opted to conduct an interest rate policy. The Eurosystem's operational framework made it possible to stabilise the overnight rate around the desired level in the first seven reserve maintenance periods of 2007. The purpose of the Eurosystem operational framework and its monetary policy instruments is to implement the monetary policy decisions of the Governing Council of the European Central Bank (ECB). The task of monetary policy implementation is decentralised and therefore involves, in addition to the ECB, the national central banks (NCBs) of those countries that have adopted the euro. In addition, a substantial degree of financial market segmentation along national borders persisted, resulting in significant heterogeneity in financing conditions for households and firms across the euro area countries.¹⁰ Moreover, despite improvements in the funding situation of the euro area banking system, banks continued to deleverage in a number of euro area countries. The operational framework of the Eurosystem's monetary policy is based on the principles laid down in Article 127 of the Treaty on European Union, which states that in pursuing its objectives, the Eurosystem "shall act in accordance with the principle of an open market economy with free competition, favouring an efficient allocation of resources and in compliance with the principles set out in Article 119". The most important principle is operational efficiency, which can be defined as the capacity of the operational framework to enable monetary policy decisions to feed through as precisely and as fast as possible to short-term money market rates. Equal treatment and harmonisation. What are the regulatory authorities of banking activities and financial markets in countries of the world? The main objective of the Eurosystem, as defined by the Maastricht treaty, is to maintain price stability. The governing council of the governors of the Eurosystem central banks collectively defines the monetary policy, which is then implemented locally by each central bank. It defines the regulatory operations framework for market companies (stock exchanges, settlement-delivery systems) and investment firms, and more generally for investment services professionals. The AMF may conduct inspections or investigations and if necessary sanction violators. The regulatory authorities in the United States.