

**European Central Bank**

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**Abstract**


The European Central Bank (ECB) is an independent central bank responsible for managing the Eurozone's monetary policy and price stability. The aim of the ECB is to support economic growth by keeping inflation in the Eurozone at a low and stable level. The main task of the ECB is to ensure price stability. However, the ECB's policy decisions also take into account other macroeconomic objectives, such as economic growth, employment, and financial stability. The ECB has set its inflation target at around 2%. The ECB's monetary policy tool is interest rates. By setting the policy rate, the ECB influences the money supply and financial conditions in the market. By setting interest rates, the ECB aims to ensure price stability and promote economic growth. The ECB's decision-making body is the Monetary Policy Committee. This committee determines and implements the monetary policy of the euro area. The Committee analyzes economic data, evaluates the inflation outlook, and determines appropriate policy steps. The resolutions cover all countries in the euro area and are intended to act together. The independence of the ECB is protected against political or external interference that influences policy decisions. This independence enables the ECB to effectively achieve price stability and gain credibility. One of the other important tasks of the ECB is to supervise the Eurozone's banking system and ensure financial stability. The ECB monitors the health of banks, conducts stress tests and takes action as needed. This aims to support economic stability by maintaining financial stability.

The independence of the ECB is protected against political or external interference that influences policy decisions. This independence enables the ECB to effectively achieve price stability and gain credibility. One of the other important tasks of the ECB is to supervise the Eurozone's banking system and ensure financial stability. The ECB monitors the health of banks, conducts stress tests and takes action as needed. This aims to support economic stability by maintaining financial stability. Economic policy practitioners in economies have set economic stability and sustainable economic growth as the main goal. In order to achieve these goals, monetary and fiscal policies need to be implemented in a coordinated manner. Central banks stand out as actors that implement monetary policy. Today, the biggest problem of economies is price stability. To ensure price stability, central banks implement monetary policy, which is supported by fiscal policy programs set by governments.

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The European Union represents an important integration movement in world history. In this integration process, economic integration plays an important role. The member states of the European Union have delegated their sovereign powers in some areas to the authorized bodies of the Union. One of these bodies is the European Central Bank. The European Central Bank and the European System of Central Banks operate under the rules of law established by the powers delegated by the member states.

## **INTRODUCTION**

The history of central banks began with Riskbank, which was founded in Sweden in 1668. With the establishment of the US Federal Reserve in 1913, the number of central banks worldwide was around twenty. After the First and Second World Wars, the number of central banks increased with the newly established countries. With the dissolution of the Soviet Union, more new countries and central banks were established in the 1990s, and the number of central banks increased to 172 in 1997. With the establishment of the European Central Bank in 1998, this number increased to 173 (Karadağ, 2007).

Initially, central banks had the task of financing war and ensuring budget balance, but today they have taken on the task of aiming for price stability. The fight against inflation has become the main goal of modern central banks. While ensuring price stability, the independence of central banks is a very important issue. However, independence alone is not a sufficient criterion. Central banks also need to be transparent and accountable institutions. Central banks must be independent to ensure the effectiveness of monetary policy. The independence of central banks and the effects of inflationary tendencies have led to price stability becoming the primary goal of central banks. Many studies have shown that there is a link between price stability and central bank independence. It is important to reflect on the evolution of central banks and their tasks. Achieving price stability requires a combined assessment of factors such as the independence and accountability of central banks. In addition, it should be noted that central banks play a critical role in achieving and maintaining economic stability.

The legal basis of the European Central Bank is established by the Treaty on European Union and the Statute of European Central Banks. These documents highlight the need for central banks to make decisions independent of the government in order to achieve their monetary policy objectives. The Maastricht Treaty, signed in 1993, united the European Communities under unity and not only mandated the independence of the European Central Bank, but also emphasized the need for National Central Banks to be independent. After the signing of the Maastricht Treaty, candidate countries applying for membership in the European Union are required to fulfill economic and political criteria. If a candidate country is admitted to membership by fulfilling the Copenhagen Criteria, the country's central bank is included in the European System of Central Banks and has a say in determining the common monetary policy. However, if it does not fulfill the Copenhagen Criteria, it continues to implement its own monetary policy and is not effective in determining the common monetary policy (url-1).

In the light of these data, the independence of the European Central Bank and the independence of national central banks play an important role in the economic and monetary integration process of the European Union. The fulfillment of the criteria set for membership by the candidate countries ensures the participation of central banks in the European System of Central Banks and compliance with the common monetary policy. This, in turn, supports the monetary union and economic stability of the European Union. The Central Bank of the EU (European Union) is an important institution that determines and implements the policies of the euro, the European economy and currency. In the Eurozone, which is among the 27 member states of the EU, it operates to ensure price stability and guide monetary policy.

The establishment and history of the European Central Bank has a very interesting history. With the formation of the Eurozone, it was decided to establish the ECB in order to ensure financial integration and a common monetary policy implementation in the European economy. The ECB was established in 1998 and began to be used as the official currency of the euro in 1999. Since then, the ECB's responsibilities and powers have gradually expanded (ECB, 2023). The European Central Bank operates as an independent and autonomous institution. The independence of central banks ensures that they are protected from political pressures and external influences when making policy decisions. This, in turn, allows the ECB to implement its decisions more independently and effectively. The main

task of the ECB is to ensure price stability. The ECB's monetary policy tools and objectives focus on keeping inflation under control and maintaining price stability. However, the ECB also has a significant impact on other economic indicators, such as economic growth, employment, and financial stability (ECB, 2023).

The relationship of the EU Central Bank with the banking sector is also of great importance. The ECB plays an important role in banks' liquidity management and supervision. The ECB's responsibilities include regulating interbank payment systems, supporting banks, and maintaining financial stability. The history of central banks goes back to Riskbank, which started operating in Sweden in 1668. The number of central banks has also increased rapidly due to the increase in the number of former colonial countries that gained their independence, especially after the Second World War. In the early years of their establishment, the main purpose of central banks was to finance war expenditures and ensure budget balance. However, with the legal changes made for central banks in the following periods, central banks have come to their current status and turned into a modern system (ECB, 2023).

Within the scope of this study, the effects of the EU Central Bank on the economy, monetary policy instruments, its relationship with the banking sector and its international role will be examined in more detail. The aim of this study is to examine the duties, functioning and effects of the European Central Bank in detail and as a result, to better understand the importance of central banks in the field of economic policy. The information we will gain in the course of this study will help us gain an in-depth understanding of the field of economics and finance and will enable us to evaluate the role of central banks in ensuring economic stability (ECB, 2023).

To provide students with an understanding of the importance of central banks in economic policy direction by examining the functioning of the European Central Bank, its policy instruments and effects in detail. The project aims to enable students to analyze how the ECB's monetary policy objectives and instruments affect economic growth and price stability. It also aims to provide students with a comprehensive perspective by exploring the relationship of the European Central Bank with the banking sector, the measures it takes to ensure financial stability, and its international role. This project provides an opportunity for students to develop their knowledge and understanding of economics, finance, and central banking, while also highlighting the critical role of central banks in maintaining economic stability.

### **Historical Development of Central Banking**

While ensuring domestic and external economic stability and sustainable economic growth and development are aimed in economies, monetary and fiscal policies should be implemented in a coordinated manner by economic policy implementers. The combination of these policies plays an important role in ensuring economic stability and increasing growth potential (url-1, 2).

Central banks stand out as monetary policy implementers. Monetary policy aims to keep inflation under control, ensure economic stability, and protect the value of the currency by regulating the money supply and interest rates. Central banks determine and implement these policies in line with the principles of independence. Effective monetary policy is vital for economic growth and stability (url-1,2).

Fiscal policy, on the other hand, aims to ensure economic efficiency and stability by regulating the income and expenditures of the state. It directs economic balances and growth by using tools such as government budget policies, tax policies, and public spending. Harmonized implementation of fiscal policy along with monetary policy plays an important role in achieving economic objectives. In this context, economic policy practitioners aim to ensure domestic and foreign economic stability and support sustainable economic growth and development by using monetary and fiscal policies together in a coordinated manner. Central banks, as implementers of monetary policy, assume important responsibilities such as ensuring economic stability and keeping inflation under control (url-1,2).

Central banking aims to ensure that monetary policy is carried out effectively and that the value of the currency is maintained. With the change of factors such as economic conditions, inflation, stability, and risks in the financial system, the roles and functions of central banks may also evolve. Therefore, in order to understand the emergence of central banking, it is important to consider economic, financial and social factors as a whole, not just cyclical events such as wars. "According to Charles Goodhart, the historical reasons behind the formation of central banks include the financial advantages that governments derive from central banks, the desire to put an end to the confusion caused by the fact that every bank that wants to print money issues its own money, the management and preservation of the country's precious metals reserves, and the development of the payments system." (Bordo and Schwartz, 1997).

"Before the beginning of the 20th century, there was no clearly defined concept of central banking," the text says, referring to the historical development and emergence of central banking. In ancient countries, a bank that had the authority to issue banknotes and carry out banking transactions of the government rose to the position of a central bank over time. These banks, which were originally called "issue or national banks", were not called central banks. However, over time, they started to operate as a central bank by undertaking tasks such as regulating and converting banknote issuance within the framework of the restrictions set by the state (url-3).

It is that central banking has evolved in a historical process and is primarily defined by tasks such as the privilege of issuing banknotes and the fulfillment of its role as the ultimate lending institution. Central banks perform important tasks such as ensuring economic stability, conducting monetary policy, and regulating the financial system by operating in a manner free from commercial concerns (San 2006). It is noted that the first established central banks initially operated like private commercial banks. This is due to the fact that with the increase in monetary functions and economic efficiency, the need for banking activities increases. This circumstance has made possible the formation of central banks. The fact that the state had to supervise and undertake the issuance of banknotes led to the birth of central banking. As economic development and the importance of monetary functions increase, so does the demand and need for banking activities. States have established central banks to supervise and control the issuance of banknotes. This led to the birth of central banking and the emergence of institutions that undertook important tasks such as regulating monetary policy and controlling the financial system (url-3).

"The Bank of England had a monopoly on the issuance of paper money in 1844 and in 1870 it assumed the function of the last authority of liquidity. This bank, regulated by the Peel Law, developed the techniques and principles of central banking and achieved a privileged position compared to other banks by acting as a state banker with the issuance of banknotes. Thanks to the fact that the government acted as a banker, other banks turned to opening accounts with the Bank of England. In this way, the Bank of England has evolved over time into an institution that maintains banks' cash reserves, provides clearing house services and meets temporary liquidity needs." The turning point in the real emergence of central banks is their transformation from a competitive institution that aims at profit maximization in their operations to a competitive institution that does not aim at profit maximization. Central banks initially emerged as private commercial banks rather than public for-profit entities (they were nationalized by nationalization attempts in the early twentieth century). The first banks to issue banknotes were found in the second half of the 17th century. Although the Bank of Stockholm issued the first banknote in 1661, its validity period was quite short (url-3).

An important milestone in the real emergence of central banks is their transformation from a competitive and profit-oriented institution to a non-competitive and non-profit-oriented institution. Initially, central banks emerged as private commercial banks rather than public non-profit organizations. However, they were nationalized with the expropriation attempts of the early 20th century. The first banks issuing banknotes were found in the second half of the 17th century. Although the Bank of Stockholm issued the first banknote in 1661, the validity period of this banknote was quite short. This illustrates the evolution of central banks and how their functions have changed over time.

We can see the changes in the number of central banks in the world since 1900 in ten-year periods from Table 1. While the number of central banks in the world was 18 in 1900, this number reached 160 in 1990. With the establishment of the European Central Bank, this number increased to 173. The Central Bank is an independent public institution that determines the monetary policy of a country or region, controls the money supply, sets interest rates to achieve price stability, and can use other economic instruments to achieve economic stability. Central Banks typically print countries' currency, manage foreign exchange reserves, operate interbank payment systems, and oversee the banking sector. They can also analyze economic data to make economic policy recommendations and intervene in crisis situations. Central Banks operate in line with the main objectives such as ensuring price stability, supporting economic growth and maintaining stability (url-3).

The historical process of central banks dates back to as old as human history. People have used currencies since the beginning of trade and economic activities and have felt the need to protect and manage these currencies. However, the emergence and development of central banks in the modern sense dates back to more recent times. The origins of central banks were laid in Europe in the 17th and 18th centuries. During this period, the rapid development of trade and financial activities increased the need for governments to protect and manage their currencies. The first central banks emerged as institutions that were usually under the control of governments and implemented national monetary policy. The Bank of England in England was founded in 1694 and is one of the pioneers of central banks. The Bank of England was tasked with financing the government's borrowing needs, printing notes, and managing monetary policy. Similarly, central banks have been established in other European countries and have played important roles in determining and implementing national monetary policy. In the last century, the importance and role of central banks has increased even more. The Industrial Revolution and economic developments have highlighted the importance of central banks in ensuring financial stability and regulating monetary policy. Central banks have also started to undertake tasks such as regulating the banking system, facilitating interbank payments, and regulating foreign exchange markets. At the turn of the century, economic crises and wars around the world made the role of central banks even more important. Especially during the Great Depression, central banks tried to reduce economic imbalances by tightening monetary policy and took measures to ensure financial stability.

Today, central banks play a critical role in the management of national economies. Using monetary policy tools, they focus on important goals such as keeping inflation under control, supporting economic growth, ensuring financial stability, and protecting the value of national currencies. The historical process of central banks has evolved depending on economic and financial developments. Principles such as the independence, professionalism, transparency and accountability of central banks are important to increase the effectiveness of central banks and ensure their credibility. In addition, cooperation and coordination between central banks are of great importance in ensuring international economic stability. Today, central banks operate in many countries around the world and play an important role in ensuring monetary policy and financial stability. Central banks contribute to the sustainable development of national economies through their duties such as combating economic crises, ensuring price stability and supporting economic growth.

Although the history of money dates back to ancient times, many goods, from seashells to precious metals, were used as a medium of exchange before money was invented. Again, it was revealed that the first paper money was used in China in 806 AD. In the West, the first paper money was issued in the late 17th century, about 1690, by the Massachusetts Government in the United States, and by the Goldsmiths in England (TCMB, 2014).

**Table 1. Central Bank Numbers 1900-1990**

<b>Decade</b>	<b>Central Bank Numbers</b>
1900	18
1910	20
1920	23
1930	34
1940	41
1950	59
1960	80
1970	108
1980	137
1990	161

**Source:** Capie et al., 1994.

In order to better understand the changes and developments in the functions of central banking, we can classify the central banking process as classical and modern.

### **Classical Central Banking Era**

Central banks have started to implement new policies in the classical period. With the adoption of the gold standard, central banks have gained more control over their monetary policies and the issuance of banknotes. However, increased trade and economic fluctuations have led central banks to develop new policies and deal with economic challenges. This period can be considered as a period in which the role and functions of central banks have changed. With the transition to the paper money system, the obligation of central banks to convert the banknotes they issue into gold has disappeared. In this system, the issuance of money is regulated in accordance with the economic policy of the government in such a way as to protect internal and external value. With this new system, the duties of central banks have also increased. Maintaining the monetary policy determined by the state and ensuring the stability of money requires state intervention in central banks. Especially after the First World War, in many countries, there was a development in which there was a greater participation of the state in the capital and management of central banks. "In the pre-1970 period, which started with the First World War and when discretionary monetary management was implemented intensively, central banks provided easier and cheaper loans to their governments to cover their deficits, and used discretionary money management in this direction and to directly control the distribution of credit. In this period, monetary policies were seen as a supportive factor for fiscal policies in achieving the main economic objective." (Santomero et al., 2001).

The oil crisis in the early 1970s had negative effects on economies and caused central banks to change their policies. In this period, the classical understanding of central banking was replaced by the modern central banking period. The oil crisis emerged with the sudden rise in oil prices and shook global economies deeply. This has led to problems such as rising inflation, slowing economic growth and increasing unemployment rates. Central banks have had to make policy changes to adapt to these new economic conditions. The modern era of central banking is one in which central banks have taken a more active role and have begun to use various instruments to ensure economic stability. Monetary policy instruments have become more flexible, and more effective control over factors such as interest rates and the money supply has been achieved. Central banks have focused on achieving price stability by adopting new policy frameworks, such as inflation targeting. During this period, the duties of central banks included goals such as supporting economic growth, reducing unemployment, and ensuring financial stability. In addition, duties such as providing liquidity in times of crisis, supervising banks and maintaining financial stability have taken their place among the responsibilities of central banks.

In this way, the oil crisis changed the role and policies of central banks and paved the way for the beginning of the modern central banking era. In this period, it is seen that central banks are making efforts to ensure economic stability more actively and effectively.

### **Modern Central Banking Era (1980 and +)**

Modern central banking refers to today's understanding of central banking. In this period, which started in the 1980s, the main goal of central banks is to ensure price stability. In this period, there are some important differences from the central banking of the previous classical period. Modern central banks take a more distinctly anti-inflationary approach, have a higher level of instrumental independence, and do not rely on direct controls. In this period, it is accepted that the main task of central banks is to ensure price stability, and it is thought that other economic targets can only be contributed by policies that maintain price stability. In modern central banking, the emphasis is on the risk that government spending will be financed through the expansion of the money supply, which will lead to inflationary trends. In order to minimize this risk, central banks strictly control monetary expansion and follow policies focused on maintaining price stability. During this period, central banks use various tools to ensure economic stability. They aim to maintain price stability by effectively controlling interest rates, the money supply, and other monetary policy instruments. They also make policy decisions by monitoring economic data and assessing economic developments. In the modern era of central banking, the independence of central banks and their focus on price stability play an important role in ensuring economic stability. The understanding of central banking in this period encourages economic decisions to be made with a more independent and long-term perspective." (Fischer 1995:1).

### **Examples of Central Banking in the World**

**Bank of Sweden – 1668 (Riksbank)** It is the world's first central bank. Rather than being for-profit, it originated as a private commercial bank. It is known that it was founded in Sweden with the help of a Dutch businessman. Founded in 1668, the Bank of Sweden is considered one of the oldest central banks in the world. The Bank of Sweden was established to meet the needs of the Swedish economy, finance trade, and regulate monetary policy (url-5):

The Bank of Sweden came into existence in the early 17th century due to financial difficulties and wars in the Kingdom of Sweden. The Swedish government needed a central financial institution to finance war spending and ensure economic stability. In line with these needs, the Bank of Sweden (Riksbank) was officially established in 1668. The bank's goal was to support the Swedish economy, facilitate trade, and regulate monetary policy. Since its inception, the Bank of Sweden has carried out commercial banking activities. It carried out bank operations with the aim of providing loans to the public, financing trade and providing liquidity to the Swedish economy. In addition, the Swedish Bank's responsibilities included regulating the Swedish krone, the Swedish currency, and controlling the money supply. By implementing monetary policy, the bank aimed to control inflation and ensure economic stability (url-4).

Today, the Bank of Sweden continues to operate as the main financial institution of the Swedish economy. The bank performs tasks such as setting monetary policy, controlling the money supply, ensuring financial stability, conducting economic analysis, and regulating the payments system. In addition, the Bank of Sweden cooperates with international financial institutions to monitor global economic developments and ensure Sweden's integration into the international financial system. The Bank of Sweden (Riksbank) is a well-established financial institution that has served the Swedish economy for over 350 years and occupies an important position in the international central banking field.

**The Bank of England (1694):** Established to finance the Nine Years' War with France. It is also known that it was founded in London by Scottish businessman Willeam Peterson (Hoca, 2008). The Bank of England is one of the oldest central banks in the world, founded in England in 1694. The bank's founding and history have been shaped by financial and economic developments in the UK, the needs of the government, and the evolution of monetary policy. Important stages in the establishment of The

Bank of England and its operation up to the present day: The establishment of The Bank of England came about due to the financial difficulties and wars that England experienced in the 17th century. The British government needed a financial institution to finance wars, manage public debt, and ensure economic stability. In line with these needs, in 1694 The Bank of England was officially established. The bank was established with the aim of providing loans to the government, printing money, and ensuring financial stability. Today, The Bank of England operates as the principal financial institution of the UK economy. The bank performs tasks such as setting monetary policy, controlling the money supply, ensuring financial stability, supervising banks, and conducting economic analysis. In addition, the bank plays an important role in the UK's international economic relations and the functioning of the global financial system. Historically, the Bank of England has performed important functions such as ensuring financial stability, providing financing to the government, and guiding monetary policy. Today, it maintains its importance as one of the basic elements of the UK economy and financial system.

Bank of France – 1800 (Banque de France) operated as a private commercial bank until the mid-19th century, when it was nationalized in 1945. The Banque de France, or Bank of France, is a financial institution founded in 1800 that is the national central bank of France. The bank's founding and history are based on factors such as the evolution of France's financial system, economic fluctuations, and monetary policy requirements. The Banque de France has played an important role in shaping France's financial system and monetary policy. Today, it continues to operate as the main financial institution of the French economy and contributes to ensuring national and international financial stability.

Reichsbank - 1875 With the completion of the political union of Germany, 33 banks within the borders of the country were authorized to issue banknotes. With the law enacted in 1875, the Reichsbank was given the role of a central bank (Oktar, 1996). The Reichsbank is an institution known as the central bank of Germany and was founded in 1875. The creation of the bank took place with the aim of strengthening the economic unity of the German Empire and ensuring financial stability. Important stages related to the establishment of the Reichsbank and its functioning up to the present day:

The Reichsbank was established on January 1, 1876 as the central bank of the German Empire. The founding process is associated with the economic unification of Germany. With the creation of the German Empire in 1871, the need arose to create a central bank to replace the different currencies and banks in the various states. The Reichsbank was created to meet this need and regulate the national financial system. The Reichsbank was tasked with setting Germany's monetary policy and ensuring financial stability. The bank had the power to control the money supply, set interest rates, manage exchange rates, and regulate the national banking system. It also had the authority to issue government bonds to meet the government's financing needs and support national economic policies.

Following World War II, the Reichsbank was restructured, and with the division of Germany, separate central banks were formed in East and West Germany. The central bank in West Germany was reconstituted in 1948 as the Deutsche Bundesbank and continued as the Federal Bank of Germany (Bundesbank) after German unification. The central bank of East Germany joined the Bundesbank in 1990 with the reunification of Germany. The Deutsche Bundesbank, the current successor to the Reichsbank, serves as Germany's central bank. The Bank sets Germany's monetary policy, ensures price stability, and uses a variety of instruments to support economic stability. The history of the Reichsbank is closely related to the economic unification of Germany and the development of its financial system. The bank has played an important role as a central point of Germany's national financial system. However, it has faced several challenges throughout its history, such as wars and economic difficulties. The functioning and policies of the Reichsbank have changed over time and adapted to the period. Changes have been made in monetary policy and financing strategies, especially in times of war. Problems such as inflation and economic instability experienced during these periods illustrate the difficulties faced by the Reichsbank.

Today, the successor to the Reichsbank, which operates as the Deutsche Bundesbank, plays an important role in ensuring Germany's economic stability and managing monetary policy. The



Bundesbank also represents Germany's role in the European Economic and Monetary Union (EMU). In conclusion, the founding and history of the Reichsbank is closely related to the evolution of Germany's financial system and the development of Germany's economic power. The bank has played an important role in ensuring Germany's national financial stability and guiding its economic policies.

### **German Central Bank - 1957 (Bundesbank)**

The Bundesbank, which is wholly owned by the state, pioneered the establishment of independent central banks. Although it has responsibilities to the government on some fundamental issues, it has quite broad powers in many ways (such as the formulation of monetary policy and the selection of its objectives, the regulation of the money supply) (Oktar, 1996). The German Central Bank (Bundesbank) was established on 1 August 1957 as the central bank of the Federal Republic of Germany. It was founded in order to ensure economic stability and to independently determine monetary policy during Germany's post-World War II reconstruction process. The history of the Bundesbank is closely related to the economic development of Germany in the post-World War II period. Germany's post-war inflation problem and economic instability have become an important requirement for the independence and effectiveness of the central bank.

The establishment and functioning of the Bundesbank plays a critical role in Germany's economic stability. As an independent central bank, the Bundesbank aims to ensure price stability, keep inflation under control, and maintain economic stability. The Bundesbank's tight monetary policies and independent decision-making process have a significant impact on Germany's economic performance and financial stability. The bank's decisions play a decisive role in Germany's inflation, growth, employment and other economic indicators. The reliability, transparency and accountability of the Bundesbank increase the bank's efficiency and influence. The bank's monetary policy decisions and practices can have a significant impact on financial markets and affect the performance of the German economy. As a result, the Bundesbank, as Germany's central bank, is an institution that has undertaken the task of ensuring price stability and maintaining economic stability. Working on the principles of independence, transparency and efficiency, the Bundesbank makes a significant contribution to Germany's economic performance.

### **U.S. Federal Reserve - 1913 Federal Reserve FED**

The Federal Reserve was established on December 23, 1913, by the Federal Reserve System Act. This law established the organization and management of the Federal Reserve as the central bank in the United States. The main purpose of its establishment is to regulate monetary policy in the country, ensure the stability of the financial system and promote economic growth. The Federal Reserve is governed by the Federal Reserve Board, headquartered in Washington, DC. The Federal Reserve System consists of 12 regional banks and their branch networks. Each regional bank is responsible for keeping track of the economic conditions and the stability of the banking system in that region. The Federal Reserve Board sets and implements monetary policy, makes banking regulations, supervises payments, and makes provisions to maintain financial stability. It is hers depending on various factors such as economic conditions and global financial developments. The consequences of the central bank include goals such as control, keeping the death toll low, and the consequences of economic growth. The decisions and policies of the Federal Reserve can win over both the economic situation in the United States and the global financial markets.

### **Central Banking Today**

The most important features of today's central banking include price stability, independence, reliability, accountability, and transparency. These characteristics are the basic principles of central banks to ensure economic stability and contain problems such as inflation. In the past, both developed countries and developing countries have faced serious inflation problems from time to time. Especially in the 1970s, factors such as the abandonment of the Bretton-Woods system and oil shocks created a major inflation problem at the global level. In this period, it has been understood that ensuring economic stability depends on price stability and that price stability is too important an issue to be left to daily policies.

Since an independent central bank sets price stability as the ultimate goal, it creates a sense of trust in society and internationally. Independence allows the central bank to make independent decisions, away from short-term political pressures. This helps inflation expectations fall more quickly and ensure economic stability. An independent central bank, while ensuring price stability and confidence in money, must also explain its policies to society and adopt the principle of accountability. The central bank should communicate with the public and express its policies transparently. This increases public confidence in the central bank and ensures the comprehensibility of policy decisions (url-6).

### **Price Stability**

Price stability is an important condition for achieving economic and social stability. Fluctuations such as inflation or deflation, which affect people's consumption, saving, and investment decisions, create uncertainty and make it difficult to make economic decisions. At the same time, inflation or deflation can lead to arbitrary distribution of wealth and a decrease in savings (url-7). The deterioration of price stability leads to negative economic and social effects. Uncertainty increases, investment decisions are delayed or become risky. Inflation erodes savings by reducing people's purchasing power. Deflation, on the other hand, can lead to a decrease in demand, causing an economic recession. For these reasons, ensuring price stability is an economic and social imperative. Without price stability, economic prosperity goals such as sustainable growth and employment growth cannot be achieved. In order to achieve price stability, long-term, decisive and consistent monetary and fiscal policies should be followed.

### **Independence**

The independence of the central bank is an important concept and is the result of a series of statutes and procedures. In this case, the central bank is clearly tasked with the task of ensuring monetary stability and does not receive any direct instructions from public administration. An independent central bank refers to having the ability to implement its own policies and act against the influence of political authority when necessary. The independence of the central bank plays an important role in ensuring economic and financial stability. Independence allows the central bank to focus on the goal of controlling inflation and achieving price stability. This allows monetary policy to be carried out effectively and to reduce fluctuations in the economy. Independence ensures that the central bank is independent of political pressures in its decision-making process and can make the best decisions based on economic analysis. This ensures credibility and stability, and is trusted by society and international markets. An independent central bank can act independently of economic policies and adjust its policies as needed. This allows it to respond more effectively to economic fluctuations and crises. The independence of the central bank is important for ensuring economic stability and maintaining price stability. An independent central bank brings confidence and stability to the economy and helps to improve economic prosperity by implementing effective monetary policy (Eijffinger and Haan, 1996:1).

### **Establishment-History of the European Central Bank**

The European Monetary Union is considered as a comprehensive process of the European integration movement. In this process, the development of the European Union, the common currency Euro, the common monetary policy and institutions such as the European Central Bank (ECB) play a fundamental role. In addition to economic integration, the European Monetary Union also represents a political union and a symbolic union. In addition, the European Monetary Union has a significant psychological impact, because Europe's common currency and central bank reinforce the sense of trust and solidarity among European countries and contribute to the European integration movement (TCMB, 2023).

	Governing Council	Executive Committee	
General Council	Banque National de Belgique Deutsche Bundesbank Bank of Greece Banco de Espana Banque de France Central Bank & Financial Services Authority of Ireland Autority	Banca d'italia Banque Central du Luxembourg De Nederlandsch Bank Oesterreichische National Bank Bank do Portugal Soumen Pankki- Finlands Bank Banka Slovenije	Ecosystem
	Česká národní banka Danmarks Nationalbank Eesti Pank Central Bank of Cyprus Latvijas Bank Lietuvos banks Magyar Nemzeti Bank	Národná banka Slovenska Sveriges Riskbank Bank of England Central Bank of Malta Narodowy Bank Polski	

**Figure 1. European System of Central Banks, Eurosystem, European Central Bank (Scheller, 2004)<sup>5</sup>**

The ECB, together with the National Central Banks of the 27 EU member states, forms the European System of Central Banks (ECBS). The ECBS is governed by the European Central Bank's Governing Council, Executive Board and General Council. The General Council also organizes the relations of non-member countries of the monetary union with the ECBS. The use of a single currency necessitated a wide institutional structure. At the heart of this institutional structure is the European Central Bank. "There are three reasons why there is a system for carrying out the functions of a central bank in the euro area, rather than a single central bank:

a.

(Karadağ, 2007:54-55).

### Structure of the European Central Bank

The European Central Bank (ECB) is an independent institution within the European Union (EU). The ECB is governed by the Central Banks of the European System (ESCB), which is made up of representatives of the central banks of all the member states of the EU. The management of the ECB is carried out by two main bodies, the Governing Council and the Executive Board. The Governing Council consists of the President of the ECB and the governors of national central banks and makes decisions on setting monetary policy. The Executive Board, on the other hand, is responsible for the implementation of monetary policy and the management of day-to-day affairs. The aim of the ECB is to ensure price stability and takes decisions accordingly. The Governing Council of the European Central Bank consists of the Executive Board and the General Council.

### Duties and Responsibilities of the European Central Bank

The European Central Bank (ECB) is an institution responsible for implementing monetary policy in the Eurozone and ensuring the stability of the Euro. The duties and responsibilities of the ECB are determined by the Maastricht Treaty of the European Union (EU) and other legal instruments governing the establishment of the ECB. Key tasks and responsibilities of the ECB (The European Central Bank, 2006):

<sup>5</sup> Figure 1. It shows the countries that make up the European System of Central Banks and the Eurosystem, as well as the countries that make up the Governing Council, the General Council and the Executive Board of the European Central Bank.

### **Monetary Policy Setting:**

The main task of the ECB is to ensure price stability in the Eurozone. The ECB pursues an independent monetary policy with the aim of controlling inflation and maintaining the purchasing power of the Euro.

**Control of Money Supply:** The ECB is responsible for taking the necessary steps to control the money supply and ensure a stable currency in the Eurozone.

**Setting Interest Rates:** The ECB influences the money supply by setting policy interest rates. This is important for achieving economic balance and maintaining price stability.

**Exchange Rate Policy:** The ECB sets exchange rate policies to ensure that the euro has an impact on exchange rates.

**Ensuring Financial Stability:** The ECB is tasked with maintaining the stability of the financial system and monitoring problems in the banking sector.

**Currency Production and Circulation:** The ECB is authorized for the production and circulation of Euro banknotes and coins. However, the printing and circulation of Euro banknotes is carried out by the national central banks of the member states.

**Economic Analysis and Reporting:** The ECB analyses the state of the Eurozone economy and publishes reports on it on a regular basis.

**Cooperation with Eurozone Countries:** The ECB cooperates with the central banks and financial authorities of other countries in the Eurozone.

**Establishing a Legal Framework:** The duties and powers of the ECB are determined by the EU Treaties and other legal instruments governing the establishment of the ECB. This framework ensures the independence of the ECB and its ability to carry out its tasks.

These tasks of the ECB are aimed at ensuring economic stability in the Eurozone and keeping the euro a strong currency (The European Central Bank, 2006):

### **Effects of the ECB on the Economy**

The monetary policy and other policy instruments implemented by the European Central Bank (ECB) have various effects on the Eurozone economy. ECB's effects on the economy (url-1):

The ECB's main goal is to achieve price stability. Monetary policy tools aim to keep inflation under control. Achieving price stability means that the overall price levels in the economy are stable. This helps consumers and businesses better predict future prices and plan their economic decisions more accurately. The ECB's guidance of monetary policy by setting interest rates affects credit conditions. Changes in interest rates affect the borrowing costs of consumers and businesses. Low interest rates can increase demand for credit and spur economic growth. Higher interest rates, on the other hand, can constrain demand for credit and help keep inflation in check.

The ECB uses a variety of instruments to provide liquidity to banks. Especially in times of financial crisis, the ECB may take special measures to provide loans to banks and increase liquidity in emergencies. This supports financial stability and helps banks deal with liquidity issues. The ECB buys assets such as public and private sector bonds through asset purchase programs. This affects asset prices, giving asset holders an increase in value. Asset purchases can provide an increase in liquidity in the economy and lower interest rates in financial markets. This, in turn, can stimulate economic growth and investment. The ECB's communication policy guides the expectations of economic actors by sharing monetary policy decisions with the public. ECB officials explain their policy stance and future actions and help economic actors shape their decisions based on this information. Communication policy is an important tool for achieving economic stability and can influence economic prospects. The monetary policy and policy tools implemented by the ECB play an important role in the Eurozone economy with their effects such as ensuring price stability, promoting economic growth, supporting financial stability and providing liquidity.

## Conclusions and Recommendations

The European Central Bank (ECB) plays a critical role in ensuring financial stability and conducting monetary policy in the Eurozone. The European Central Bank's (ECB) principle of independence and stability is a critical element to ensure economic stability and market confidence. However, steps can be taken in various areas to improve the ECB's effectiveness and create a more solid economic footing in the Eurozone. As a suggestion;

Transparent and straightforward communication on the ECB's policy decisions can boost confidence among market participants, the business community, and the public. By providing more information about policy decisions, economic analysis, and future projections, one can contribute to market expectations. The ECB must be effectively prepared for possible economic crises. Strengthening crisis management strategies is important to be able to respond quickly and effectively. In addition, it is important to optimize communication strategies in crisis situations. It is important to regularly supervise the banking sector to ensure financial stability. The ECB must maintain and develop effective supervisory mechanisms to strengthen the health and resilience of the banking system. Economic diversification and competition can increase the resilience of an economy. Within the framework of this principle, the ECB should support the development of various sectors and focus on policies that encourage competition. In addition to the ECB's efforts to maintain price stability, which is its main mandate, flexibility should be given to policy instruments to ensure overall economic stability and build confidence. The ECB should strengthen its cooperation with other economic and financial authorities in the Eurozone. Working together to achieve common goals can lead to more effective solutions in crisis situations.

These steps could contribute to enabling the ECB to carry out its tasks more effectively and maintaining economic stability in the Eurozone. However, it is important that each step is carefully planned and implemented, because the specific conditions of each economic region must be taken into account.

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