

## European Central Bank

The amalgamation of the 17 national central banks in the euro zone. While the constituent national banks pool their balance sheets for common policy, each NCB continues to exist as a distinct entity that conducts monetary operations on behalf of the European Central Bank in each respective home country. Like the Federal Reserve, the ECB sets the main policy rate for the euro area. Unlike the Fed, the ECB is bound by only one policy mandate, the thing called “price stability,” which it defines not as stability but as inflation, though only a little bit of inflation, say 2% per annum over the medium term. The ECB is also enjoined to promote “sustainable development” and “full employment” in a “highly social market economy,” but these are desiderata; price stability is front and center. In addition to picking interest rates, the ECB conducts foreign exchange operations for the euro zone, holds foreign currency reserves, promotes the smooth operation of payment systems, issues banknotes, collects statistics, supervises banks and has truck with institutions like the IMF and the Fed.

The ECB's focus on inflation is not entirely single-minded, as the world's financial markets learned to their immense relief on July 26, 2012. In remarks at the Global Investment Conference in London, the Ben S. Bernanke of the ECB, Mario Draghi, vowed to “do whatever it takes to preserve the euro.” To this, he added for dramatic effect: “And believe me, it will be enough.”

In late 2011 and early 2012, the ECB discounted hundreds of billions of euros of collateral in 12- and 36-month loans to Europe's beleaguered banks through the ECB's so-called Long-Term Refinancing Operations (LTRO). The ECB has purchased sovereign bonds through a variety of programs beginning with the Securities Markets Program (SMP) in 2010 and through its Outright Monetary Transactions (OMT) in 2012. Throughout the crisis, the ECB has expanded the collateral that troubled lenders can post at the discount window. For those financial institutions that could not meet the ECB's relaxed collateral requirements, the ECB has allowed individual NCBs to discount questionable assets issued by the euro zone's more troubled lenders.

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