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Ditching the Maastricht Model? The Evolving Role of the European Central Bank in the Economic and Monetary Union

Edited by Dimitrios Argyroulis, Anna-Lena Högenauer, Joana Mendes, and Nikolas Vagdoutis

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EDITORIAL

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Maastricht Overcome: An Evolving Disconnect Between the ECB's Power and Independence

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Abstract

In the course of the last two decades, the legitimacy of the European Central Bank (ECB) has withered as monetary policy has become more politicized. This editorial places these debates in the context of the literature on central bank independence. Many critical voices warned—long before the crisis—that the ideal of highly independent central banks with narrow technocratic mandates would not work in the long term and would come under particular pressure during periods of instability. Indeed, after over a decade of ongoing crisis, the ECB's functions have expanded considerably, which in turn altered its relationship with other institutions and its role in the economic and political system of the European Union. In particular, the ECB's activities during the eurozone crisis, new debates on whether the ECB should support political goals like the fight against climate change, and its participation in geopolitical stand-offs have brought its political role clearly to the fore. Crucially, this evolution challenges the ECB's high degree of independence, as decisions that are closely related to political debate also require stronger political (democratic) legitimacy and legal accountability.

Keywords

accountability; European Central Bank; European Parliament; eurozone crisis; independence; inflation; judicial review; mandate

1. Introduction

In 2022, the European Central Bank (ECB) lagged behind the central banks of the North Atlantic in increasing interest rates and, from the second half of 2022 onwards, faced ramping inflation that it long played down as a mere medium-term trend. Price stability again became the main concern of central banking. Quantitative easing, the progressive empowerment of central banks that ensued, and their much-debated legitimacy, already seemed themes of the past. And yet, the conundrum that central bank independence (CBI) poses to democracy remains. We cannot, arguably, return to the pre-financial crisis, pre-Covid years, where the exceptionality of monetary policy was widely accepted (Fernández-Albertos, 2015). The credibility of the claim that monetary policy follows the same transparent goal has been shaken—at least in the politically complex transnational EU context. The independence of central banks, disputed in the period of monetary expansion (Tooze, 2020), continues to be queried in a period of monetary contraction to fight rocketing inflation (Sandbu, 2022). The 1990s consensus that led to the creation of the most independent central bank no longer holds (McNamara, 2002).

The questioning of independence and ancillary institutional frameworks is not exclusive to the ECB. However, this reckoning of the blurred distinction between fiscal and monetary policy—through inter alia monetary financing (Bateman, 2021)—is particularly challenging in the European Monetary Union (EMU), given the ECB's singular status of institutional and legal independence, the constitutional intricacy of competence allocation in the EMU, and the ancillary democratic difficulties.

Against this background, this editorial aims to frame the thematic issue by arguing that independent CBs are not—and never were—apolitical. What changed? The tensions between CBI, the interpretation of their mandates, and accountability have become more visible in a context of political polarisation and salience of monetary policy. These reflections raise three core questions surrounding the evolution of the ECB in the past decade that the thematic issue addresses: (a) As the ECB's interpretation of its mandate changed and its role expanded, what were the drivers of this expansion? (b) How far have the accountability mechanisms evolved in parallel to the growing range of the ECB's powers? And, (c) what impact does this evolution have on the perceived legitimacy of the ECB?

2. The Inherent Limitations of CBI

CBI became a widely accepted model from 1989 onwards. Studies arguing that CBI was associated with lower inflation (e.g., Alesina & Summers, 1993; Cukierman et al., 1992) sustained a broad consensus that monetary policy should be insulated from politicians, who might wish to manipulate interest rates in the short term for electoral gains (Forder, 2005). That mostly meant recognizing *operational* independence—i.e., that the central bank can decide freely how to achieve the politically defined mandate, on the assumption that "the goals of the central bank are the prerogative of the political establishment" (Wachtel & Blejer, 2020, p.19). This combination of politically determined goals and operational independence is illustrated by the reform of the Reserve Bank of New Zealand in 1989, which kicked off the shift towards CBI (Walsh, 2011).

How CBI is defined has important implications for its impact on democracy. Thus, Walsh (2011) argued that the UK, Australia, Canada, and New Zealand do not have a problem with CBI because the concrete goals of the CB are either defined by politicians or negotiated by the CB and the elected government. Their CBs are thus not free to decide what they want to do and can only decide how they want to achieve a democratically legitimate target. The general exclusion of goal definition from the scope of CBI does not exclude, of course, that CBs have a degree of discretion over the purposes of their action. The mandates of the CB can contain multiple goals, which can create a lack of clear priorities, and the leeway this gives to CBs blurs accountability (Goodhart & Lastra, 2018). But, normally, the political institutions could redefine the mandate, something that is mostly out of reach in the case of the ECB with its treaty-based mandate. This problem is compounded by the ECB's wide discretion in interpreting this mandate and by weak accountability mechanisms. Through institutional practice and legal interpretation, the ECB has de facto carved out a degree of goal independence.

Despite the near consensus on the desirability of CBI, there have been critical voices. One of the first authors to define and discuss CBI was Friedman in 1962, but without losing sight of the need for cooperation between monetary and fiscal policy in the case of upheavals. Also, in the event of a conflict between the CB and the fiscal authority, the CB should give in (Friedman, 1962).

Wachtel and Blejer (2020) argue that the spread of CBI was tied to a narrowing of CB mandates. They remind us that central banks were originally meant to carry out government policy, e.g., the Bank of Japan, the Bank of England, or the Netherlands' Bank. The US Fed is one example of a central bank that was set up to act as a lender of last resort. During the late 20th century, however, the predominance of the goal of price stability went hand in hand with CBI and a technocratic view of CBs. Clear targets could be set, and the performance of CBs could be monitored relatively easily, which facilitated accountability. Distributive effects were limited, and the work of CBs was perceived as relatively apolitical. The financial crisis was a turning point, as financial stability and economic growth took hold of monetary policy in the period after 2007.

The most recent crises suggest that CBs do not—and probably cannot—comply with this technocratic vision in periods of instability. The political nature of CB policies then undermines the justification of CBI in a number of ways (cf. Wachtel & Blejer, 2020). Firstly, the distributional consequences of the crisis measures are larger and more long-lasting, e.g., the impact on savers or young people in the housing market. Secondly, as a result, the public became more aware of the distributional consequences of CB choices. Thirdly, there is a contradiction between the expansion of CB competences to include providing financial stability, serving as a lender of last resort role, and other crisis functions, alongside the continued claim of CBs that their mandates are still narrow (Goodhart & Lastra, 2018). Walsh (2011) goes one step further and questions whether CBI was ever really possible because of the inherent need for cooperation between CBs and fiscal authorities. In particular, it will not be possible for a central bank to control prices in the long run, if the fiscal authorities do not cooperate. A recent example of conflicting responses would be the high inflation of 2022, where CBs raised interest rates to secure price stability while many governments implemented sweeping spending plans, often without limiting assistance to those in need.

Structurally, Forder (2005) pointed out the theoretical inconsistency between claims that politicians are opportunistic and benefit-maximising based on rational choice theory and simultaneous claims that central bankers are virtuous and abstain from such calculations. Canova (2011) discussed the risk of agency capture by private interests. He points towards the close relationship between financial institutions and CBs, as well as the transfers of staff between them. A number of studies have shown how central bankers have tried to expand their own powers (e.g., Forder, 2005; Stockdale, 1999; Werner, 2003). In turn, McNamara stressed the high risk of agency slippage in the context of highly independent CBs (McNamara, 2002).

Overall, it is highly questionable whether CBI can be retained by more powerful CBs with broader mandates and politically sensitive tasks. The view that the expansion of responsibilities requires a rethinking of accountability and CBI is widely shared in the literature (cf. Balls et al., 2016; Goodhart & Lastra, 2018; Khan, 2017). Tucker (2017), for instance, urges CBs not to become too powerful, as the increase in power will call into question CBI. Yet, CBs often have either seized the opportunity or been faced with the need to expand their instruments and powers (Goodhart & Lastra, 2018; Issing, 2017). In the EU, that was, in part at least, the result of a lack of fiscal capacity at the EMU level.

In the EU context, where respect for attributed competences is one of the foundations of the EU institutions and where re-adjustments stemming from institutional practice can weaken the scope of national democratic institutions, re-interpretations of the ECB's role (ECB, 2021) raise additional questions of legality and may meet with resistance from national governments, parliaments, and courts.

3. A Democratically Untenable Status Quo: High Independence, Flexible Mandates, and Limited Accountability

The articles in this thematic issue analyze the problematic combination of high independence, expanding mandates, and limited accountability of the ECB. The first set of articles illustrates the extent and origins of the transformation of the ECB's mandate. Quaglia and Verdun (2025) use an ideational approach to show that a fundamental paradigm shift has taken place away from a narrow focus on price stability and towards a multidimensional stability paradigm that emphasizes financial and economic stability. Donnelly (2025) confirms these findings through an analysis of several cases where the ECB has used discretion to expand beyond standard rules towards emergency rules and a role in industrial policy. Matos Rosa (2025) shows from a comparative perspective that the ECB is just one of many CBs that have accepted a role in climate change policies and situates this within the debate on whether central banks venture too far into public policy. Spielberger (2025) also points out a new geopolitical dimension given, inter alia, the ECB's role in sanctions against Russia. Diessner and Genschel (2025) explain these developments from a theoretical perspective: through the notions of de-commitment and re-commitment, they analyze how the ECB can bind member states to certain commitments, but also untie them from outdated policy commitments.

The evolving mandate of the ECB has challenged the assumption that CBI is acceptable because it is constrained by a narrow and politically defined mandate. The second set of articles, thus, examines to what extent the ECB's interpretation of its role is subject to legal and political accountability, i.e., whether there are actors that can (and do) counterbalance the growing role of the ECB. Dawson and Bobić (2025) analyze legal accountability, including all three aspects of accountability to the law (to legal norms and standards), accountability through law (e.g., through courts), and accountability of law (i.e., the accountability of legal institutions to the public and each other). They conclude that legal accountability is not effective in the case of the monetary policy of the ECB. Dermine and Markakis (2025) argues that the growing centralization of the European System of Central Banks also insulates national central banks from domestic pressures, thereby weakening accountability at the national level. Vermeiren (2025) agrees that the ECB's own legitimization strategy was—in the early years—based on a narrow interpretation of price stability combined with strict performance criteria. This legitimization strategy crumbled when that interpretation was overcome. Argyroulis and Vagdoutis (2025) agree with this assessment by confronting the assumption of technocratic legitimacy with the choices that the Governing Council of the ECB has to make. Kreppel and

Tomasi (2025) focus on whether and how the European Parliament holds the ECB accountable through the political dialogue; they find some improvements insofar as parliamentarians increasingly ask why the ECB makes certain decisions and what effects those decisions have. Rehm and Ulrich (2025) look at public trust in the ECB. Interestingly, they find that the unemployment rate and public debt have a stronger influence on trust in the ECB than its performance on inflation (its primary mandate). Finally, de Haan (2025) argues that the use of forward guidance as a tool to create trust in ECB policies is problematic, as forecasts that are widely off the mark due to a volatile geopolitical and or economic context can lower trust in the ECB's expertise and policies.

4. Conclusion

Combined, these contributions show that the balance between "power" and "independence" that underpinned the creation of the ECB has been upset by the broadening of its mandate without a corresponding expansion of accountability. While the ECB voluntarily engages more actively in dialogue with the citizens, markets, and parliaments of the EU, this does not compensate for the fact that the ECB can interpret objectives that are traditionally seen as political (such as climate change) into a mandate which was originally interpreted as being narrow and technocratic, in tune with its high independence. This change could be compensated for by treaty revision that would empower the European Council or Council of the European Union to regularly revise the mandate of the ECB. This would allow the political institutions to revise the—arguably outdated—mandate from the 1990s, and to legitimize ECB policies that affect political objectives such as social inequality or climate change. In the absence of such change, the EU is faced with a growing legitimacy gap.

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Conflict of Interests

The authors declare no conflict of interests.

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ARTICLE

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The European Central Bank: From a Price Stability Paradigm to a Multidimensional Stability Paradigm

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Abstract

This article maps and explains the shift in economic thinking at the European Central Bank (ECB), i.e., its "ideational" evolution over the past two decades. When the ECB was set up in 1999 its institutional design and epistemic outlook were very much inspired by the legacy of the German central bank, the Bundesbank. Thus, the ECB embraced a "price stability" paradigm that prioritized inflation control. However, over time, policy learning in response to economic shocks (first and foremost, a series of consecutive financial and economic crises from 2008 onwards) and the internal organic evolution of the ECB have led to a shift of economic thinking at the Bank, which has also been reflected by its policy actions. The new paradigm can be characterized as a "multidimensional stability" paradigm. By relying on inter alia secondary literature, speeches, semi-structured elite interviews, and data we collected concerning the previous experience at national central banks of senior ECB staff, we identify a novel causal mechanism for ideational change at the Bank: the change in the composition of senior managerial staff from 1999 onward.

Keywords

central bank; crisis; euro; European Central Bank; monetary policy; policy paradigms

1. Introduction

The agreement on Economic and Monetary Union (EMU) in the EU led to the establishment of the European Central Bank (ECB), which is the main pillar of EMU (its monetary pillar). Since the ECB's policies have far-reaching implications in the member states as well as internationally, the Bank has become a topic of considerable academic interest, also in political science. Earlier work has discussed the setting up of the ECB and its policies in the first decade of the euro (Dyson & Marcussen, 2009; Hodson, 2011; Howarth & Loedel, 2005; Quaglia, 2008). Subsequently, scholars have examined the policy responses of the ECB to the economic and financial crises that have hit the EU from 2008 onwards by discussing the ECB as a lender of last resort (LLR; Ban, 2020) and its leadership in "saving the euro" (see Hodson, 2019, p. 5, on leadership; see also Schoeller, 2018; Verdun, 2017), including its asset purchase programme (Lombardi & Moschella, 2016). Others have discussed the role of the ECB in the Troika (Heldt & Mueller, 2021; Henning, 2017; Lutz et al., 2019), in the making of the Banking Union (Epstein & Rhodes, 2016; Glöckler et al., 2017), as well as the self-empowerment of this institution (Heldt & Mueller, 2021). Finally, some authors have analysed the communication of the ECB (Moschella & Pinto, 2019; Moschella et al., 2020).

A more limited body of literature has considered the ideational dimension of the ECB's actions, for instance, how ideas have been used as power resources by the Bank (Carstensen & Schmidt, 2018; Schmidt, 2016), the "battle of ideas" within the ECB (Ferrara, 2019; Mugnai, 2024) and its policy learning in responding to economic shocks (Quaglia & Verdun, 2023a), or its inability to learn (Matthijs & Blyth, 2015). These works have detected (limited) ideational change at the ECB and have ascribed it to the change of "leadership" at the helm of the ECB (meaning, its president) and its "policy learning" in responding to economic shocks. Moreover, this literature, on which we build, has focused on the short-medium term, examining the period from the Sovereign Debt Crisis onwards, and has tended to deal with one specific aspect of the ECB's policies, such as its interpretation of and response to crises (Ferrara, 2019; Quaglia & Verdun, 2023a), its views on fiscal policy and structural reforms (Mugnai, 2024), and banking supervision (Quaglia & Verdun, 2023b).

Our article makes three novel contributions to the ideational literature on the ECB. First, we investigate the shift in economic thinking at the ECB over the longer term: its "ideational" evolution since its inception, which is crucial for a well-rounded understanding of the matter at hand as it allows us to compare the "old" paradigm and the "new" paradigm that has informed the ECB's actions. Second, whereas the extant literature has pointed out change of leadership and learning as the main causal mechanisms for ideational change at the Bank, we add a third causal mechanism: the internal organic evolution of the ECB, specifically, the turnover of its senior managerial staff. Third, given the relatively long period covered, we focus on the main policy of the ECB, namely, its monetary policy, broadly conceived, thus, including financial stability, but do not consider the ECB's outlook concerning banking supervision, exchange rate policy, payment systems (these are all tasks allocated to the ECB, as explained in Section 3), nor fiscal policy and structural reforms, on which the ECB has no competence, but it usually has strong views (Mugnai, 2024).

This article asks to what extent there has been a change of economic policy paradigm at the ECB, and, if so, why? We argue that when the ECB was set up, in 1999, its initial institutional design and ideational legacy were inspired by the German central bank, the Bundesbank (Brunnermeier et al., 2016). Thus, the ECB embraced a "stability paradigm" (Heipertz & Verdun, 2010, p. 92), which privileged low inflation. However, over time, policy learning in response to shocks (first and foremost, a series of consecutive financial and economic crises) and the internal organic evolution of the ECB, have led to a shift of economic thinking at the Bank, which has paid more attention to its secondary objectives, namely, to support the general economic policies of the EU. The ECB has also sought to promote financial stability, arguing that it was a pre-condition for price stability. To sum up, there has been a paradigm shift from "price stability" to "multidimensional stability."

Theoretically, this article revisits the concept of "policy paradigm" developed by Hall (1993) and systematically applies it to the ECB's policy evolution over three decades. Methodologically, the article examines three key periods: the first constitutive decade of the ECB (1999–2008), the ECB's responses to the Great Financial Crisis (2008–2009) and the Sovereign Debt Crisis (2009–2015), and the ECB's response to the Covid-19 pandemic-related economic crisis (2020–2021), before Russia's full-scale invasion of Ukraine in 2022. The research relies on a variety of sources: secondary literature; an analysis of some key speeches and policy documents; semi-structured elite interviews with policy-makers and stakeholders; and the collection of data concerning the turnover of senior managerial staff at the ECB at three points in time, which coincides with the three periods listed (further details are included in Section 2).

This article contributes to the literature on macroeconomic governance in the EU by tracing and explaining the ideational evolution of a cornerstone institution of EMU (see Mabbett & Schelkle, 2019; Macchiarelli et al., 2020; Moschella, 2024, for other recent literature on the ECB). Specifically, it adds to the ideational literature on the ECB (Ferrara, 2019; Mugnai, 2024; Quaglia & Verdun, 2023a) by taking a longer-term perspective and suggesting a novel causal mechanism triggering ideational change at the Bank, the turnover of its senior personnel, in addition to the more well-established mechanisms of learning and leadership change. This article also speaks to the constructivist literature on the role of economic ideas in public policies by shedding some light on how central banks "think" (Best, 2024; see Abolafia, 2020; Conti-Brown & Wishnick, 2020, for the Federal Reserve; see Baker, 2020, for the Bank for International Settlements; see Clift & Robles, 2020, for the International Monetary Fund), adding to the burgeoning literature on how central banks "speak," i.e., communicate (see Baker et al., 2023; Ferrara et al., 2022; Moschella et al., 2020).

The remainder of the article is organized as follows. It first reviews the literature on ideational approaches to the study of EMU in general, and the ECB in particular. It then outlines the paradigm that informed the ECB's monetary policy from the establishment of the Bank in 1999 to the onset of the Great Financial Crisis in 2007–2008. The subsequent sections examine the ECB's response to the Sovereign Debt Crisis that began in the euro area in 2009 and to the Covid-19-related economic crisis, explaining how and why the ECB's response was affected by and, in turn, affected the prevailing economic ideas at the ECB. The penultimate section reflects on the factors that have affected the ideational evolution of the ECB also by providing novel data we have collected concerning senior managerial staff at the Bank over time.

2. Ideational Approaches to EMU

Since our article sets out to investigate the evolution of ideas at the ECB, our point of departure is the consolidated body of academic literature dealing with ideas, norms, and other socially constructed elements in the field of European political economy (see Quaglia et al., 2024, for an overview). This literature is embedded into the broader constructivist literature, which posits that reality is socially constructed, knowledge is socially and culturally embedded, and learning is a social process (Hay & Rosamond, 2002; Saurugger, 2013). Indeed, ideational scholars give prominence to the constitutive role of ideas, norms, perceptions, and identities, in shaping actors' preferences and structuring political conflict (Abdelal et al., 2011; Verdun, 2000).

In our work, the focus is on causal ideas—meaning shared beliefs about cause-effect in a given policy field (Parsons, 2002; Yee, 1996)—which are crucial to identify the nature of the problem as well as the ways to address it. Causal ideas have often been conceptualized as "policy paradigms" (Hall, 1993), i.e., dominant and often taken-for-granted sets of beliefs about the nature of a policy problem and how to address it. At the risk of oversimplifying, there are three components of a policy paradigm. First, there are beliefs concerning the objectives of a certain policy, which are inextricably linked to the problem definition. For example, in the realm of macroeconomic policies, the monetarist paradigm identifies high inflation as the key problem to address and, ergo, price stability is the main policy objective to be pursued. Second, there are ideas concerning the effects of specific economic instruments to deploy to pursue a certain objective, such as the exchange rate, and capital controls, as well as specific instruments of monetary policy, such as conventional and non-conventional measures. Third, there are economic policy beliefs concerning the setting (i.e., the levels) of instruments. Thus, a policy paradigm can undergo third-order changes concerning objectives, in which case, there is a paradigm shift, or second- and third-order changes concerning instruments and their setting (Hall, 1993, p. 278). Policy paradigms impact individuals (such as experts and technocrats), on the bureaucratic institutions where these experts work as well as on the broader policy-making process (Yee, 1996, pp. 92, 102).

Concerning EMU, the causal role of ideas has been investigated to explain the establishment of a distinctive type of EMU, which was built according to the stability-oriented macroeconomic paradigm propounded by German policy-makers and broadly accepted by macroeconomic elites in other member states (Dyson, 2002; McNamara, 1998). Along similar lines, Verdun (1999) characterized central bankers gathered in the so-called Delors Committee that drafted the blueprint for EMU as an "epistemic community" that shared a stability-oriented policy paradigm, as we elaborate in Section 3. Yet, EMU ideas were not always consensual (Ferrara, 2019; Jones, 2015; Mugnai, 2024); ideational conflict contributes to explaining the delayed and piecemeal response to the Sovereign Debt Crisis in the euro area, which pitted southern European countries ("sinners") vs. northern European ones ("saints"; Matthijs & McNamara, 2015).

As far as the ECB is concerned, some scholars have examined the evolution of economic thinking at the Bank since the Sovereign Debt Crisis (Ferrara, 2019; Mugnai, 2024; Quaglia & Verdun, 2023a), detecting some (limited) ideational change and ascribing it to policy learning in responding to economic shocks (i.e., crises) and the change of leadership at the helm of the ECB (i.e., its president). We build on and add to this literature by examining the evolution of the monetary policy paradigm, broadly conceived, of the ECB since its inception, that is, over the longer term. We also investigate a third (complementary) mechanism contributing to the ideational shift at the Bank: its internal organic evolution, especially, the turnover of its senior managerial staff. To this end, we collected data on the previous (national) central bank experience of these staff. In other words, whether they had worked in national central banks before taking up their position at the ECB. Since the ECB's thinking was initially heavily informed by the prevailing "price stability" paradigm at the Bundesbank (as explained in Section 3), we are particularly interested in getting a sense of whether the share of former Bundesbank officials at the ECB has changed over time. If such a percentage had diminished between 2000 and 2020, that would contribute to explaining why the ECB "thinks" less as the Bundesbank would do.

In this article we aim to examine ideational change at the collective level, considering the intersubjective process whereby human interaction leads to understanding within the organisation (Dunlop & Radaelli, 2013, p. 603). We regard the ECB as a unitary actor, even though within the ECB and its decision-making bodies there are sometimes different views. A unitary actor is one where there is a body that has full authority over all of its divisions and units. We recognise that there are differences among these composite units and the people who populate them, but ultimately, we expect the Bank to speak with one voice. By briefly considering competing ideational approaches within the Bank and tracing ideational conflicts between "doves" and "hawks" through the ECB's first decade, the euro area's Sovereign Debt Crisis, and the Covid-19-related economic crisis, we shed light on ongoing, long-standing ideational arguments within the ECB concerning a secondary mandate (van 't Klooster & de Boer, 2022) of the bank next to its well-known mandate of price stability.

To gather empirical material, we consulted a variety of secondary sources, ECB policy documents and speeches given by members of the executive board and the Governing Council. The authors read through the speeches available on the ECB website and compiled a selection of them which dealt explicitly with the monetary policy stance. Rather than offering a systematic analysis of these speeches, we reviewed them for how lead officials articulated the key concerns of the ECB. We also reviewed some speeches mentioned by interviewees (see next section). Thus, in this study, we use the speeches as heuristic devices to illustrate changes in policy objectives and instruments.

Furthermore, we carried out seven semi-structured elite interviews with senior ECB officials and their counterparts in other EU institutions. Interviewees had at least 20 years of experience with ECB policies and could reflect on both the current and past crises, many were familiar with the very early days of the ECB. The interviews lasted about one hour and both authors were present at each (virtual) interview with the respondent or respondents. We took the information collected through these confidential interviews as partial information and triangulated it with a systematic analysis of publicly available documents and a detailed survey of financial press coverage. Given the confidentiality of the interviews, we are unable to use them to attribute policy change. For that, we point to the official statements and policy documents. The interviews provide us with insights into how interviewees perceive changes in beliefs.

Finally, we collected data concerning the previous central bank experience of senior staff at the ECB per year since the start of the European Monetary Institute in 1994. Seeing that this information was not readily available, we examined the organigrams of the ECB and identified the lead officials in each of the directorates. We considered lead positions to be those who were above the level of the head of section, in other words, head of division, deputy director general, or director general. We then identified the names of those in these positions from 1994 until 2023. Some of these managerial sheets were easily available in the annual reports and some organigrams were available on the internet, also using the Wayback Machine, but others were not. Where they were not, we requested this information through contacting the ECB directly and used Who's Who EU. We then identified the divisions that we thought were most important for monetary policy (Directorate-General Economics, Directorate-General Monetary Policy, Directorate-General International and European Relations, Directorate-General Research, Directorate-General Market Operation, Directorate-General Macroprudential Policy and Financial Stability, Directorate-General Market Infrastructure and Payments, and ECB representatives in Washington and in Brussels; note that some Directorates-General had different names in earlier time periods). The executive board members for each year (and the chair of the Single Supervisory Mechanism post-2014) have been included in the broader dataset. These individuals are appointed through a different process than ordinary staff members. Governing Council members have not been included in this dataset.

The dataset produced 439 individuals (including deputy heads of division). Including merely heads of division and above, there are 356 individuals in the dataset. At the level of deputy director general and above, there are 155 individuals in the dataset. Based on information available in the public domain, we established whether they had worked at another central bank before joining the ECB (we also coded for other work experience, but for this article, we ignore that information). We coded this data on a confidence scale (rating from 4 = *very confident* to 1 = *minimal confidence*). This research was carried out in January–March 2024. In this article, we present our first analysis of this subset of the managers. We offer these data as a trend, as well as snapshots for three distinct years (2000, 2010, and 2020) to ensure a balanced distance over time. These three chosen years link to the three time periods studied in this article.

3. Economic Thinking at the ECB During its First Decade

The ECB is a supranational central bank that was established in 1999 at the beginning of the final stage of EMU (Howarth & Loedel, 2005; Kaltenthaler, 2005; Quaglia, 2008; Verdun, 2000). The ECB and the national central banks of the member states whose currency is the euro form the Eurosystem. The main decision-making body of the ECB is its Governing Council, which brings together the national central bank governors of the countries in the euro area, plus the six members of the ECB Executive Board, who are appointed by the European Council, and acting by a qualified majority. The Governing Council decides by simple majority and in the event of a tie, the president casts the decisive vote. The ECB voting rights originally operated on a system whereby each national central bank governor of the euro area country had one vote. However, following the treaty stipulations, when Lithuania joined the euro in 2015, a rotation system was implemented, since more than 18 member states had joined the euro. The rotation follows a certain ranking (member states are ranked). The governors of the countries in the group of member states ranked 1–5 share four votes. This first group includes Germany, France, Italy, Spain, and the Netherlands. All others share 11 votes. The governors take turns using their voting rights on a monthly rotation (see ECB, n.d.-a, for more details). Thus, de jure, the president is primus inter pares and, as of 2015, has one vote out of 21. Nevertheless, de facto he/she has a leadership role because he/she can set the agenda, provide vision, act as a spokesperson for the institution to the outside world, and represent the institution in other forums (Verdun, 2017).

The ECB is the most independent central bank in the world (Bernhard et al., 2002; de Haan, 1997)—its independence from the political authorities is guaranteed by an international treaty, the Maastricht Treaty. Furthermore, unlike national central banks, it has no equivalent political counterpart at the EU level with the exact same level of authority typically found in an equivalent nation-state setting (Jones, 2002; Verdun, 1996). The EU has a small budget and thus cannot play the role of fiscal authority that is typical for an advanced economy. None of the EU institutions can exert political interference in the ECB to define its monetary policy or in its execution. Its counterparts are EU institutions, such as the European Parliament, the Council of the EU, and the European Commission, but these institutions cannot hold the ECB to account in the same way as is done in a national setting and any of the dialogues and discussions cannot bind the ECB. Yet the ECB is accountable for its actions by publishing an annual report and presenting it to the European Parliament. Four times a year the ECB president participates in a Monetary Dialogue with the European Parliament Committee on Economic and Monetary Affairs. The role of democratic accountability has been problematized from the outset (Verdun, 1998), but has since been less central in debates, although scholars have called for the ECB to be more responsible and liable (Heldt & Müller, 2022). The ECB was initially given the tasks of conducting monetary policy, managing the day-to-day exchange rate policy, and overseeing the payment system. In 2015, it was given the responsibility for banking supervision (see Howarth & Quaglia, 2016). The ECB was given a clear treaty-based mandate, namely, to maintain price stability. Without prejudice to that objective, the ECB was tasked to support the general economic policies and "objectives" of the EU (e.g., full employment and balanced economic growth).

The initial institutional design of the ECB and its epistemic outlook was significantly informed by those of the German central bank (Brunnermeier et al., 2016; Dyson & Featherstone, 1999; McNamara, 1998), the Bundesbank, which, back in the 1990s, was the most powerful central bank in Europe (Marsh, 1993). The policy paradigm of the Bundesbank was inspired by ordo-liberalism (Dyson, 2000, 2016; Heisenberg, 1998; Kaltenthaler, 2005), an economic theory that is committed to competitive, free markets with limited state intervention in the economy, an effective competition policy to prevent concentration of economic power, a prudent fiscal policy, and a strong central bank, protected from political interference, with the primary objective of safeguarding price stability (Dyson, 2021; Matthijs & Blyth, 2015; Matthijs & McNamara, 2015). A constant concern of ordo-liberalism is to reduce "moral hazard," i.e., a situation where an economic actor has an incentive to increase its exposure to risk because it does not bear the full costs of that risk (on the concept of moral hazard applied to the Bundesbank; Dyson, 2000; see Chang et al., 2023, for the ECB). In some respects, ordoliberalism shares commonalities with neoclassical economics, which stresses the importance of credibility and commitment in the conduct of macroeconomic policies to manage the "rational expectations" of market actors (Barro & Gordon, 1983; Kydland & Prescott, 1977). It also postulates "monetary neutrality," whereby monetary policy may affect nominal variables, notably, the price level, but not real variables, such as the GDP (Alesina & Summers, 1993). Thus, central banks should be "independent" so as to be able to resist political pressure, "credible," that is, committed to pursuing low inflation by acting predictably, and should build a "reputation" as inflation fighters (Cukierman, 1992; Giavazzi & Pagano, 1988; Gilli et al., 1991). In short, the ordoliberal cum rational expectations thinking applied to central banking considers inflation as the main problem for the central bank to address, and thus, its primary objective is to safeguard price stability.

Initially, since the Bundesbank was the obvious point of reference for the institutional design of the ECB and the conduct of its monetary policy (Dyson, 2002; Howarth & Loedel, 2005; Kaltenthaler, 2005), the ECB adopted a narrow interpretation of its mandate, focusing only on the objective of price stability. This goal was supported strongly by the members of the then newly established Executive Board of the ECB, even though the most outspoken were the German and Dutch central bankers (e.g., Duisenberg, 1998a, 1999; Issing, 1998, 1999a). Indeed, both the first president of the ECB, Duisenberg (1999), who was a former president of the Dutch central bank, and the first chief economist of the ECB, Otmar Issing (1998), who was a former chief economist of the Bundesbank, pointed out that "price stability is at the core of the 'stability culture' that we are seeking to establish throughout Europe" (see also Noyer, 1999). The instruments used by the ECB for the conduct of monetary policy were "conventional," that is, open market operations, standing facilities, and minimum reserve requirements for banks (Scheller, 2004).

Moreover, the ECB privileged the building up of credibility, reputation, and legitimacy by acting in a very predictable way (Hodson, 2011; Quaglia, 2008). For instance, Duisenberg (1998b) remarked that "monetary policy is most effective when it is credible." Similarly, Issing (1998) stressed that for the ECB it was "vital" to build its "reputation," and the "associated credibility of monetary policy." It is also noteworthy that, initially, the ECB, following the Bundesbank's tradition, maintained some constructive ambiguity on whether it would act as LLR in response to crises (Issing, 1999b). The function of LLR is connected to the conduct of monetary policy and, therefore, it is usually performed by national central banks at the national level, whereas it was unclear who would act as LLR in the euro area during crises (Begg et al., 1998; Buiter, 1999; see Padoa-Schioppa, 1999, for a nuanced discussion of this matter).

From the establishment of the ECB onwards, two different policy paradigms have coexisted at the ECB. The names of two members of the original ECB's Executive Board, Otmar Issing and Tommaso Padoa-Schioppa, can be associated with these two different policy paradigms. One approach is close to that of the Bundesbank—the camp of the so-called monetary "hawks"—those who privilege the goal of price stability and the "traditional" functions of a central bank over other goals of a central bank. Issing (1999a, 2008) was a staunch supporter of the practice of keeping the ECB as independent as possible from governments and played an important role in shaping the ECB monetary policy in the late 1990s and early 2000s (Dyson, 2016, pp. 140, 161). Issing (1999a) clearly stated that for the ECB "the independence from political interference and a clear mandate for price stability are of utmost importance."

The other approach is more heterodox in economic terms—the monetary "doves"—those who seek to trade off inflation for other goals, first and foremost, financial stability and who might be more interested in expanding the ECB's functions with a view to rectifying the asymmetric institutional design of EMU (Verdun, 1996). Padoa-Schioppa often stressed that central banks should pay attention to financial stability, not only price stability. In one of his articles titled "Central Banks and Financial Stability: Exploring a Land in Between," Padoa-Schioppa (2002, p. 2) argued that:

> Central banks are assigned the overriding mission of preserving price stability. They have been granted independence….Economic theory re-established the long-term neutrality of money on a firm basis. More recently, the task of supervising banks has been taken away from the central bank in a number of countries. These developments have unbundled the old composite to the point that one may wonder whether financial stability—a "land in between" monetary policy and prudential supervision—still ranks among the tasks of a contemporary central bank. Indeed…there are supporters of the view that a central bank should regard financial stability as a good for which it simply takes no responsibility whatsoever.

Padoa-Schioppa (2004) also worried about the "loneliness" of the ECB (Mabbett & Schelkle, 2019), pointing out the need for a fiscal counterpart to the ECB and advocating cooperation between the monetary and fiscal authorities in the euro area in a federalist sense (Masini, 2016). Overall, in the first decade of its existence, the ECB was coloured by the success of the Bundesbank and its heritage. "Issing won in the short-term," but as explained in Section 4, "Padoa-Schioppa won in the long-term" (European Commission official, interview, December 3, 2021).

4. Economic Thinking at the ECB During the Sovereign Debt Crisis

The Sovereign Debt Crisis, which began in 2009, following the Great Financial Crisis, posed a major test for the ECB. This period is referred to in the literature and by us as the Sovereign Debt Crisis even though the crisis was characterised by multiple problems, such as a deteriorating fiscal situation, a major reduction in market confidence, and the sustainability of public finances, current account imbalances, reduction in competitiveness, and need for structural reforms (see Howarth & Quaglia, 2015; Verdun, 2015). We use the term Sovereign Debt Crisis keeping in mind the multifaceted nature of this period. In the first few years of the crisis, in terms of economic thinking, the ECB maintained its stance on the need for sound public finance, calling for fiscal austerity and structural reforms in the member states, especially in those that were most at risk of default. For instance, in August 2011, in two confidential letters, the ECB's Governing Council asked the governments of Italy and Spain for specific commitments on structural reforms and the consolidation of public finances. The ECB stated that it would intervene in the markets to stabilize the yields on government bonds only if these commitments were publicly accepted, which they were. The ECB also supported non-euro area members with credit lines, but not always on an equal basis (Spielberger, 2023). German members of the Governing Council, as well as the Bundesbank, continued to call for fiscal consolidation in the besieged Southern European member states (Weidmann, 2021). However, over time, the majority of the Governing Council of the ECB became less outspoken about the need for fiscal austerity (Ferrara, 2019; Mugnai, 2024).

During the unfolding of the crisis, the ECB underwent a revision of its policy paradigm. Whereas the previous paradigm, which was mostly inherited from the Bundesbank, was inspired by ordo-liberalism cum rational expectations, it is more difficult to ascribe the new paradigm that came to the fore at the ECB from 2012 onwards to a specific school of economic thought. Ferrara (2019) labels it as the "systemic risk" perspective and the associated macroprudential ideas that gained momentum following the Great Financial Crisis of 2008 (Baker, 2013a, 2013b). The systemic risk perspective applied to the Sovereign Debt Crisis in the euro area (De Grauwe, 2013; Foresti & Napolitano, 2022) stressed the incompleteness of EMU, its asymmetric institutional design and in-built weaknesses (Dyson, 2000; Howarth & Verdun, 2021; Verdun, 1996). It identified as a key problem the "doom loop between banks-sovereigns," that is, a vicious circle between ailing banks and struggling sovereigns, whereby fragile national banks held growing amounts of sovereign debt, while the sustainability of several national public debt loads was increasingly questioned (Gros, 2013; Merler & Pisani-Ferry, 2012). According to this view, the ECB could and should curtail the vicious circle by acting as a LLR to banks and sovereigns to stop self-fulfilling financial market dynamics (Buiter & Rahbari, 2012; De Grauwe, 2012; Krugman, 2012; Véron, 2012). Others have emphasized that many political thinkers, the original architects (Dyson & Maes, 2016) but also vocal American economists—Stiglitz (2016) and Mody (2018) are recent examples—have forcefully pointed to the weaknesses of EMU as being one part of a broader political agenda, where more and deeper integration would be necessary. EU leaders have often rebutted the American critique that EMU is part of a political agenda and that deeper integration is part of the steps forward (Masini, 2018).

In this context, the ECB developed a "multidimensional stability" paradigm, broadening its policy objectives, moving from a narrow focus on containing inflation to a broader remit concerning financial stability and, ultimately, the survival of the euro. For instance, the then president of the ECB Mario Draghi (2017), who had previously been governor of the Bank of Italy, noted that "price stability and financial stability are inherently interlinked. They tend to be mutually reinforcing" (Draghi, 1997). Moreover, in the heat of the Sovereign Debt Crisis, when financial markets were concerned about the stability of the euro, the ECB considered its task to preserve the euro. In a famous speech, Draghi (2012) remarked that "within its mandate, the ECB is ready to do whatever it takes to preserve the euro. And believe me, it will be enough." Reflecting on those events, Draghi (2019) noted that the ECB's announcement (and what later became the Outright Monetary Transactions [OMT] programme discussed next), established the ECB's "commitment to counter unwarranted redenomination risks in sovereign debt markets and acted as a powerful circuit breaker. While OMT was never activated, the effect of its announcement was equivalent to that of a large-scale asset purchase programme." The ECB also openly acknowledged its role as LLR: Peter Praet (2016), a member of the Executive Board of the ECB, gave a revealing speech titled "The ECB and its Role as Lender of Last Resort During the Crisis." This function is usual for central banks, but the ECB had initially shied away from it.

The evolution of the ECB's paradigm also concerned policy instruments, whereby the "conventional" instruments for the conduct of monetary policy were accompanied by "unconventional" instruments. Thus, the ECB adopted the Securities Market Programme to purchase bonds—especially, sovereign bonds—on the secondary markets in 2010. It subsequently adopted the Longer-Term Refinancing Operations programme by issuing low-interest-bearing loans to European banks, which in turn, used these funds to buy government bonds, effectively lowering borrowing costs for the euro area countries hit by the crisis and that had problems in refinancing their public debt on the market (ECB, n.d.-b). In 2012, the ECB announced the OMT programme, whereby the Bank stood ready to purchase in the secondary markets, bonds issued by euro area member state governments experiencing financial difficulties. However, the OMT required beneficiary governments to apply for euro area rescue funds in compliance with strict conditionality in exchange for support (Hodson, 2013).

The evolution of the monetary policy paradigm was by no means uncontroversial within the ECB. At times, disagreement transpired between the so-called "doves" and "hawks" in the Governing Council and Executive Board., and the ECB was unable to act due to this dissensus (Marsh & Ortlieb, 2021; Moschella & Diodati, 2020). Several German central bank officials were often critical of the unconventional monetary policy measures adopted by the ECB (Arnold, 2019). They wanted the ECB policies to resemble those that the Bundesbank would pursue regarding the conduct of monetary policy (European Council official, interview, September 15, 2021; ECB official, interview, August 17, 2021). The president of the Bundesbank, Axel Weber, publicly opposed ECB emergency bond buying from its inception in 2010. He was joined by four other Governing Council members of the ECB (Oakley & Atkins, 2010). Over ten years, Weber and two German members of the ECB's Executive Board (Jürgen Stark and Sabine Lautenschläger) resigned, according to various reports, because they disagreed with ECB's policies (Blackstone, 2013; Escritt & Canepa, 2019; "INSIGHT-Mario Draghi's," 2014). Whereas during the first decade following the ECB's establishment, German central bankers were often on the winning side of the argument (Brunnermeier et al., 2016), from 2011 onwards, were sometimes outvoted in the ECB's decision-making bodies.

5. Economic Thinking at the ECB During the Covid-19 Pandemic-Related Economic Crisis

The Covid-19 crisis presented the EU with a formidable crisis (Genschel & Jachtenfuchs, 2021; Jones, 2020; Quaglia & Verdun, 2023c). The ECB's paradigm shift that had taken place at the peak of the Sovereign Debt Crisis was restated during the Covid-19 pandemic-related economic crisis. Thus, the Bank consolidated its multidimensional stability paradigm that broadened the ECB's policy objectives to financial stability, the survival of the euro, and the support of the general economic policies of the EU. At the outset of the pandemic, Lagarde (2020) stated on X, "extraordinary times, require extraordinary measures…our commitment to the euro is unlimited." This sentence resembles Draghi's 2012 "whatever it takes" comment and reinforces the commitment by the ECB (Quaglia & Verdun, 2023a, pp. 642–643). For the ECB, to allow the pandemic to call into question the integrity of the single currency was an absolute no-go (European Council official, interview, September 15, 2021; ECB official, interview, July 28, 2021). Moreover, as her predecessor Mario Draghi (2017), President Lagarde (2021) specified that the ECB explicitly considered "the interactions of price stability and financial stability, reflecting our belief that each is a precondition for the other." The ECB was also aware that when central banks are the only (or main) "game in town," they should act as an LLR to banks and sovereigns with a view to protecting financial stability (de Guindos, 2020).

At the same time, the ECB was adamant that the fiscal authorities had to act at the national and European levels (ECB official, interview, July 28, 2021; ECB official, interview, August 17, 2021; economist at Bruegel, interview, September 22, 2021). In fact, the Bank understood that monetary policy is less effective when it is close to the lower bound—when interest rates are close to zero (European Council official, interview, September 15, 2021; ECB official, interview, July 28, 2021). The reason is that there is a natural end to how much lower the interest rates can go. Eventually, they go into negative territory (meaning that interest has to be paid to keep money in the bank), which has some unintended consequences (for instance that some account holders move their money away from banks). Instead, in those circumstances, fiscal policy could be used more effectively (see ECB, 2020a). Yet, as in the previous period, this view was controversial within the Bank. For instance, the president of the Bundesbank, Jens Weidmann, stepped down in October 2021 having become increasingly uneasy with the ECB's stance which had been moving away from its narrowly defined mandate. In a statement, he wrote:

> A stability-oriented monetary policy will only be possible in the long run if the regulatory framework…[ensures] the unity of action and liability [and] monetary policy respects its narrow mandate and does not get caught in the wake of fiscal policy or the financial markets. (Weidmann, 2021)

As for instruments, certain instruments that had been unconventional in response to the Sovereign Debt Crisis became the new conventional (ECB official, interview, July 28, 2021; ECB official, interview, July 29, 2021; ECB official, interview, November 9, 2021), but were adapted, scaled up, and redesigned. Thus, the ECB established the Pandemic Emergency Purchase Programme, which was a temporary asset purchase programme of private and public sector securities that ran between 2020 and 2022 (ECB, 2020b, n.d.-c) and aimed to reduce borrowing costs and increase lending in the euro area. The ECB asset purchase programme started in October 2014 and ended in November 2022. For details of the breakdown of the programme see ECB (n.d.-d). Similar to what occurred in 2016 and onwards, in the aftermath of the sovereign debt crisis when conventional monetary policy had limited impact, the ECB extended its reach through asset purchase programmes. The ECB bought corporate bonds, asset-backed securities, and covered bonds as well as securities issued by European supranational institutions. By purchasing private sector assets, the ECB increases demand and drives up the price of these assets. By purchasing government bonds, the ECB effectively contributed to closing the yield spread between government bonds of fiscally sound and less fiscally sound member states. Moreover, the ECB introduced the pandemic emergency longer-term refinancing operations to serve as a liquidity backstop to the euro area banking system (ECB, 2020b, 2020c). Some policy-makers noted that when the Covid-19 crisis began, the ECB already had a set of instruments in place that had been adopted to respond to the Sovereign Debt Crisis and that were quite diversified (ECB official, interview, August 17, 2021; ECB official, interview, November 9, 2021).

6. An Overall Assessment

Over time, the ECB has moved away from its initial narrow focus on price stability, to taking responsibility for contributing to financial stability and supporting the general economic policies of the EU. Two sets of factors favoured the ECB's shift toward a multidimensional stability paradigm: policy learning in responding to economic shocks and the internal organic evolution of the ECB. The international environment and the economic conditions at the end of the 20th century, when EMU was established, were very different from those in subsequent decades, when the world economy and, especially, the euro area, have been hit by successive economic and financial crises. Central banks are "at the forefront—and centre—of the response to crises" (Praet, 2016). They need to act as LLRs and contribute to crisis management. It is even more so in the euro area, which lacks a unified fiscal authority able to act quickly to respond to crises. In the absence of a supranational fiscal counterpart, the ECB could and should take the lead: doing so provides time and breathing space for other EU policy-makers, acting intergovernmentally or supranationally (ECB official, interview, July 28, 2021; ECB official, interview, July 29, 2021). Moreover, the period of low inflation (prior to 2021), and even, deflation, in the euro area, amidst economic and financial crises, highlighted the importance of other general economic objectives of the EU, such as economic growth and employment (see Draghi's, 2014, landmark speech). In this process, the initial objective of monetary stability, which already had been flanked by other general economic objectives, became less important, while financial stability as well as the survival of the euro took centre stage.

Besides learning in responding to crises, the shift away from the Bundesbank's thinking was facilitated by changes at the very top of the Bank (e.g., president, Executive Board, and Governing Council) as well as at the level of senior staff (ECB official, interview, July 29, 2021). To begin with, the presidents of the ECB have changed over time, and so have their epistemic outlooks: the economic ideas that informed Willem Duisenberg's (1998–2003) and Jean Claude Trichet's (2003–2011) approaches at the helm of the ECB were different from those of Mario Draghi (2011–2019) and Christine Lagarde (2019–onwards). While the impact of the turnover of presidents at the ECB is surely significant, one must bear in mind that the governance structure of the ECB restrains the decision-making power of the president. At least formally, the president has one vote of 21.

Second, when the Sovereign Debt Crisis occurred and, even more so, when the Covid-19 pandemic crisis erupted, few of the members of the Executive Board and Governing Council of the ECB as well as senior officials at the Bank had experienced the pre-EMU period, which had been characterised by the ideational dominance of the Bundesbank in monetary circles in Europe (Dyson, 2000; Marsh, 1993). Yves Mersch, who retired in 2022, was the last one in the Governing Council, who had been there when the ECB was established in 1998–1999. The staff who had built up the ECB in 1999 have now retired or are about to retire. Third, from 2011 onwards, the role of ECB chief economist, which is a key position at the Bank, for the development of its economic thinking, has no longer been covered by a former Bundesbank official or a German official. The last German to hold this role was Jürgen Stark (2006–2011)—a former vice-president of the Bundesbank—who left the ECB in opposition to recommencing the bond-buying programme during the sovereign debt crisis (Wishart, 2011).

Finally, as mentioned in Section 2, we examined a selection of ECB senior managers. In this selection of individuals, the number of ECB senior managers previously coming from national central banks decreased over time. Looking at three snapshots (2000, 2010, and 2020) we see a change. Figures 1, 2, and 3 show selected senior managerial staff at ECB and show whether or not they had prior experience in national central banks. In the first year of 2000, the vast majority of senior managers had worked in national central banks, and the Bundesbank has been well-represented over the years. By 2010, the share of managers with a Bundesbank background dropped to 15.8% (Figure 2), but the percentage returned to 19% in 2020 (Figure 3). The Bank of Italy has also been well represented over the years, but much less than the Bundesbank. The largest change that can be observed is the total number of managers with no experience in national central banks prior to starting their career at the ECB. Over time, that share went up from 14% in 2000 to 26% in 2010, to 36% in 2020. When the ECB was set up, most of the managers had national central bank experience. As the ECB matured, many more new recruits, who had joined the ECB as their first significant professional position, climbed the professional ladder within the ECB. Considering the full time span we see the same development. This trend can be observed in absolute numbers or in percentages (Figure 4). The authors offer a caveat, however, namely that some of the “not applicable” (or “NA”) might be caused by the inability to find information about the previous national central bank experience of these senior managers. Yet this number should be small as the authors were able to find plenty of other information regarding work, education, and nationality information about these senior managers, especially about the most recent years.

To some extent it makes sense to expect a reduction in the percentage of senior officials to have come from national central banks, and hence also from the Bundesbank, because during the period under study, the EU as well as the euro area have increased their membership. It is only logical that more people have joined from other member states and that more were directly recruited after completing higher education. Thus, a

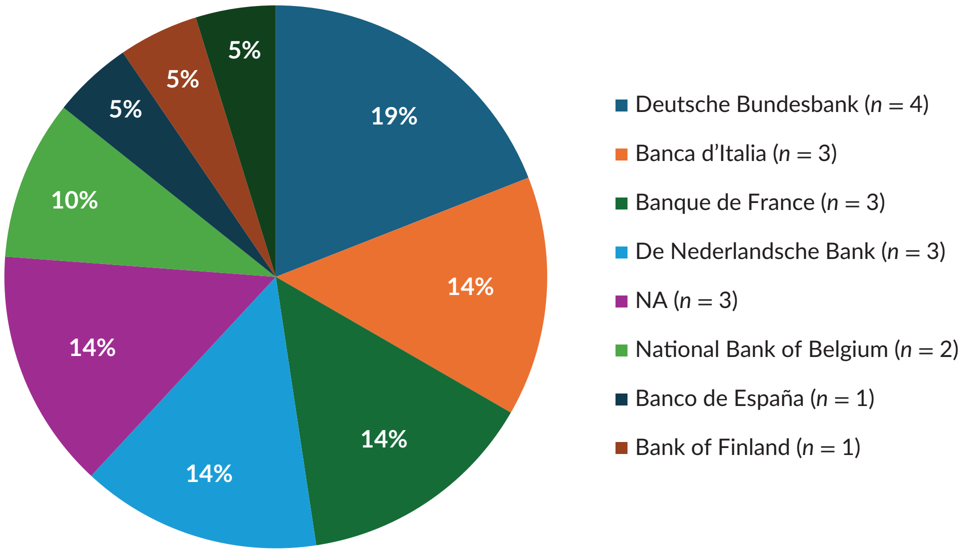

Figure 1. Selected senior managerial staff at ECB with experience in national central banks (2000). Sources: Authors’ own collection from publicly available sources.

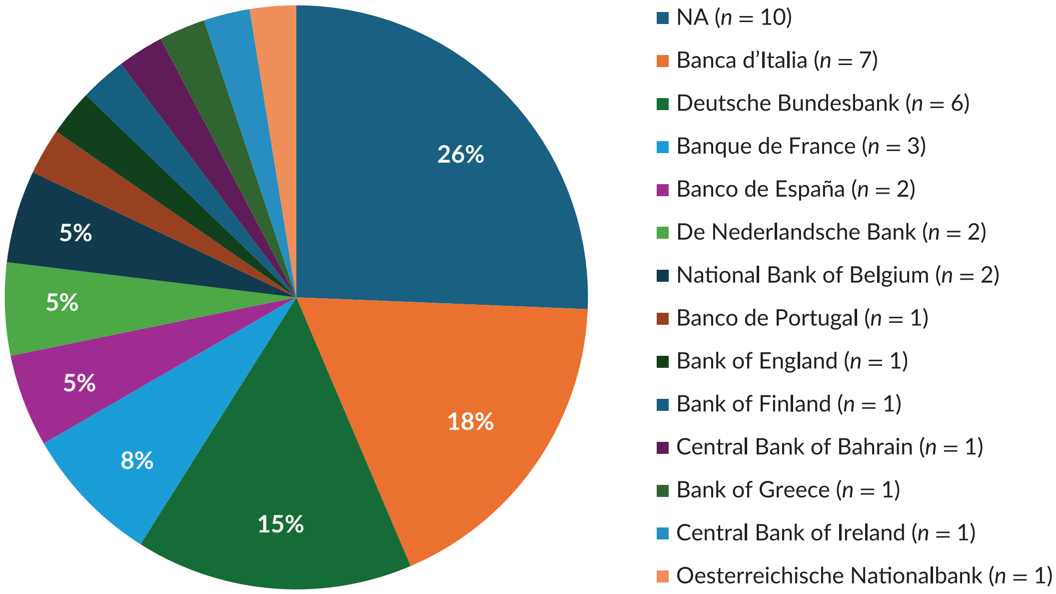

Figure 2. Selected senior managerial staff at ECB with experience in national central banks (2010). Note: All unmarked slices are 3% (*n* = 1). Sources: Authors' own collection from publicly available sources.

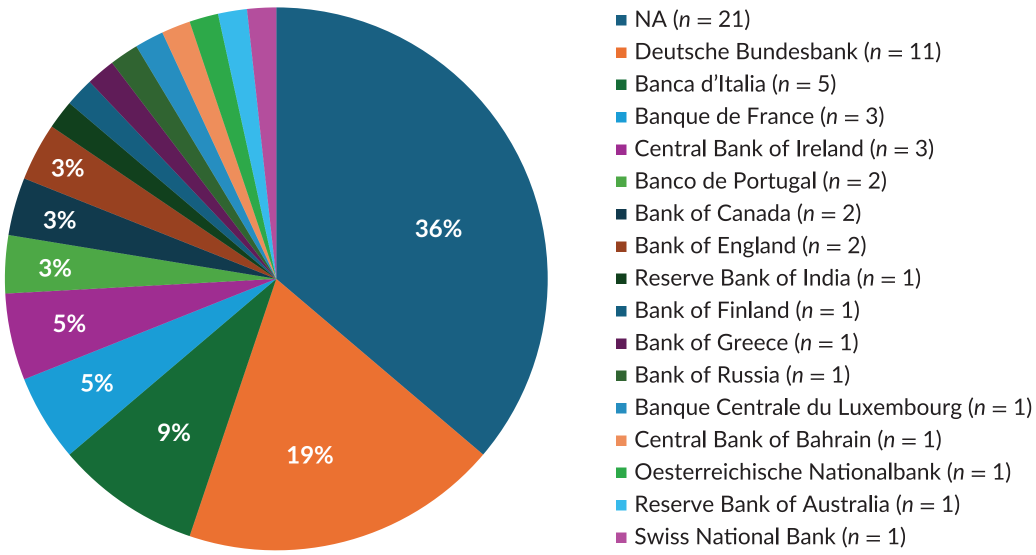

Figure 3. Selected senior managerial staff at ECB with experience in national central banks (2020). Note: All unmarked slices are 2% (*n* = 1). Sources: Authors' own collection from publicly available sources.

new generation of top- and mid-senior level policy makers were well positioned to act as conveyor belts of new economic ideas, which in the meantime had developed in the economic profession (ECB official, interview, July 28, 2021; ECB official, interview, July 29, 2021). At the same time, once the ECB had established its credibility, it became less disciplined in blocking dissenting opinions and allowed for a "freer discussion." As interviewee 2 described it:

> When the ECB started, the role model was the Bundesbank. The ECB aspired to "be as credible and to have high reputation, low inflation as the Bundesbank." Trichet was still in this mindset, he used to say, "The ECB is at least as good as the best performing predecessor central banks" [see also Trichet, 2011].

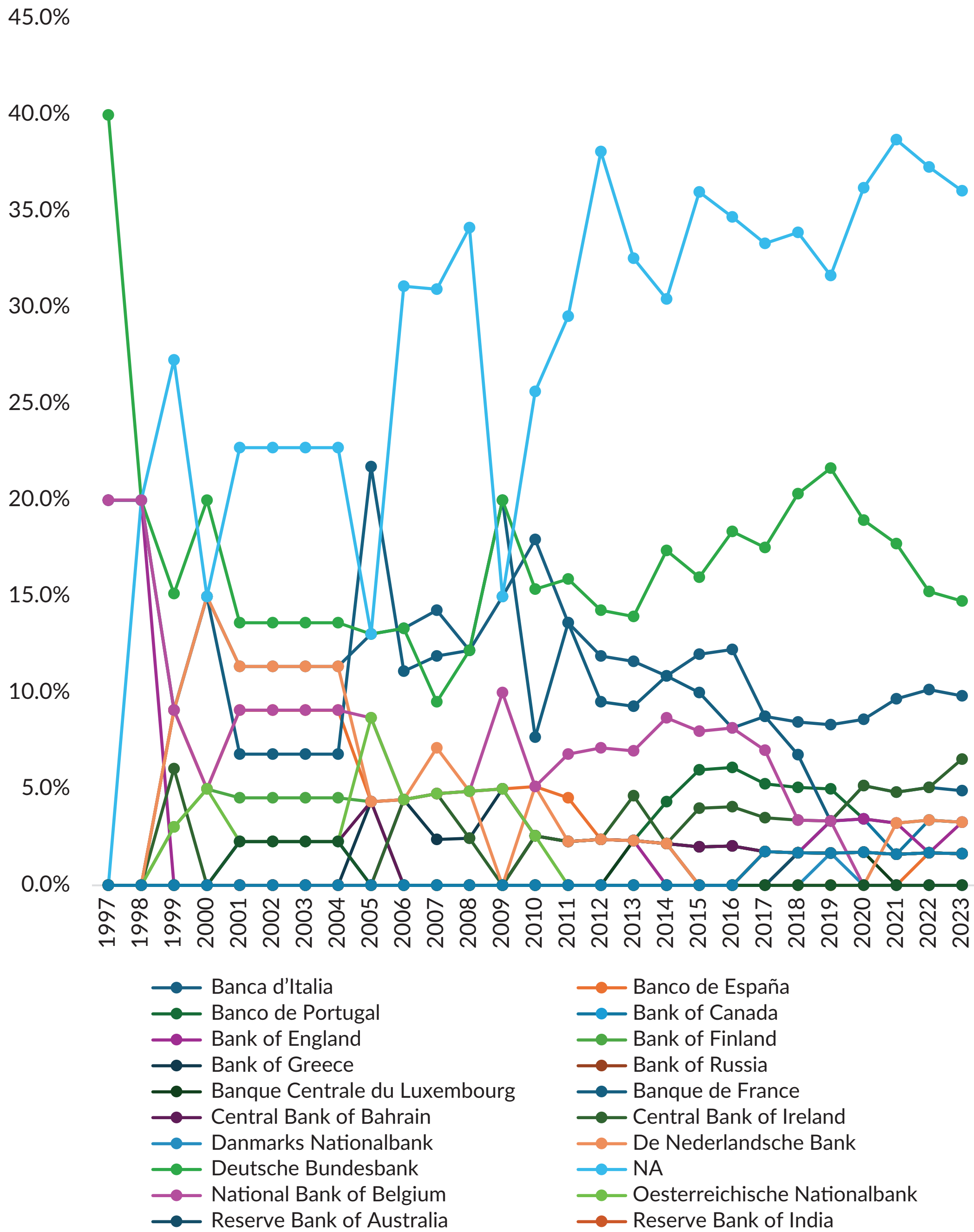

Figure 4. Selected senior ECB managerial staff national central bank experience (1997–2023). Sources: Authors' own collection from publicly available sources.

> With Draghi the whole thing changed to "we want to be like the Fed." That's the role model. Now, I think it's more like "we are as active and aggressive as the Fed." (ECB official, interview, July 29, 2021)

Of course, now that the ECB has been around for a few decades, it is, in any case, natural to compare it to the most important central bank. After all, the heritage of the Bundesbank becomes less relevant as the ECB is building its own track record (ECB official, interview, July 29; see Trichet, 2011). Another example of this learning from other institutions is articulated well by interviewee 2 when they speak about finding models for better central bank communication:

> Because we want to be better understood and more visual in our communication, we of course look around how other central banks communicate their policy. For example, we looked at the "Fed listens" events which gave us inspiration for "ECB listens"; and now such direct communication is a structural feature of how we interact [with citizens]. So, I think this kind of cross-fertilization is normal, to look at how are others doing: what are they doing well, or what is not going so well. (ECB official, interview, July 29, 2021)

Two interrelated points deserve further consideration. First, some ECB officials would insist that there has not been a paradigmatic shift because the ECB has always aimed to respect its primary mandate. Thus, non-conventional monetary policy contributed to safeguarding price stability when deflation was a menace and the transmission mechanism of monetary policy was impaired (e.g., Asmussen, 2013; Draghi, 2017). Yet, although the ECB's mandate has always envisaged some secondary objectives and the use of non-conventional monetary policy instruments, the concern with price stability in the earlier days left many at the ECB erring on the side of caution. Furthermore, in the post-Covid-19 period, the ECB was slow in responding to rising prices, suggesting that other objectives were regarded at least as important as the primary ones.

In relation to the previous point, to some extent, one could argue that the traditional "German thinking" on central bank policy was time contingent, that is, dominant in a certain socio-economic environment and historical period. We do not know what the Bundesbank's monetary policy would have been if confronted with the challenges of negative inflation, stagnation, and financial instability. Thus, the "German" label is what we think the mindset for monetary policy would be for Germany in a very different (inflation-fighting/ not deflation-fighting) environment.

7. Conclusion

This article has investigated the evolution of the monetary policy paradigm at the ECB since its inception, arguing that over time the ECB moved from being focused exclusively on price stability to adopting a multidimensional perspective on stability. Thus, the Bank broadened its policy objectives, shifting from a narrow focus on containing inflation to a broader remit concerning financial stability and the support of the general economic policies of the EU. The ECB also took over the function of LLR to euro area banks and sovereigns, a function that is usual for central banks, but the ECB had initially shied away from. Once it became clear that a limited focus on price stability could not help deal with the full range of issues that the ECB had to deal with, it tried out various tools in the toolkit (adding new ones). The ECB broadened its range of monetary policy instruments, in that conventional monetary policy measures were accompanied by unconventional measures, such as asset purchase programs, liquidity provisions via refinancing operations, and international swap lines, deployed in crisis management (for an overview of the "old" and "new" policy paradigms at the ECB, see Table 1). The evolution of the ECB's policy paradigm was important because it produced concrete effects by informing the ECB's actions during the unfolding of consecutive crises over the last one and a half decades. In turn, the ECB's response was one of the cornerstones of the EU's responses to these crises.

Thirty years after EMU had been created on paper, in the Maastricht Treaty, based on the successful model of the Bundesbank, and the ideas and practices in that polity, the ECB seems to be moving to centre stage

Table 1. Shifting policy paradigms at the ECB.

Policy paradigm	Price stability (1999–2012)	Multidimensional stability (2012–onwards)
Underlying economic theory	Ordo-liberalism cum rational expectations	Systemic risk
Objectives	Inflation control	Inflation control and financial stability
Instruments	Conventional monetary policy measures	Conventional and unconventional monetary policy measures

and considering ideas and practices established in other leading central banks, notably those of the Federal Reserve Board of the US. The ECB has evolved from its early beginnings and become a mature institution. Expert thinking about crises has changed, and so have the views within the ECB. Moving forward, as the ECB continue to face challenges in meeting its price stability objective, it also needs to remember the lessons from the 1970s when high inflation was rampant. Will the temporary increase in prices in 2021–2023 impact further on the evolution of thought within the ECB? Indeed, the ECB is at present engaged in a heated internal debate between "hawks" and "doves" about the conduct of monetary policy to deal with the inflationary surge. It will be interesting to see whether the paradigmatic shift within the ECB that we have detected in this study remains intact considering the sharp rise in inflation in recent years, which was outside the scope of the present study. While we suggest that the paradigmatic shift towards a multidimensional paradigm might explain the ECB's slow reaction to rising prices, further research is needed to assess the longevity of the multidimensional policy paradigm.

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Conflict of Interests

The authors declare no conflict of interests.

Data Availability

Data is available upon request.

Supplementary Material

Supplementary material for this article is available online in the format provided by the authors (unedited).

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ARTICLE

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Policy-Maker of Last Resort? Drivers of Discretion at the European Central Bank

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Abstract

Under what conditions does the ECB become the policy-maker of last resort? This article surveys five incidences in which the ECB created its own rules or exercised discretion beyond the effective control of political principals. ECB rule-making took place where the Bank had an initial legal mandate to be present in the policy space, where it could exploit unique institutional interfaces with the banking community and Economic and Monetary Union system, where it had advantages in expertise and information, and where the Council either fully supported the ECB to design new powers, or was divided on whether to retrench ECB freedom. The article examines discretion in macroeconomic policy instruments, capital requirements for banks, including choices that have industrial policy (targeted sectoral) effects, the design of the digital euro, and ECB efforts to force the migration of UK-based financial services to the EU.

Keywords

bank supervision; ECB; industrial policy; macroeconomic policy; microeconomic management

1. Introduction

Does legislative inaction and undersupply of economic goods in the EU drive the ECB to become the policy-maker of last resort? One of the perennial problems of EU politics is the low level of collective public financing for European policies, even when a crisis threatens the core goals of EU member states (Spielberger, 2023). The undersupply of capital on the one hand and ECB initiatives on the other to steer the money supply to meet public policy goals affect the capacity of member state governments to access capital markets. ECB decisions also affect the capacity of the private sector to finance a wide variety of EU-supported industrial policy programs. To supplement public funds for industrial policy ends, Commission proposals frequently seek to leverage private investment. Given the modest reliance of European companies on the stock market, bond market, and private equity funding compared to the US and UK (Braun et al., 2018; Piroska & Epstein, 2023), this means a high reliance on bank loans that are affected by ECB bank supervision. In addition, the ECB is central to initiatives to boost domestic economic resources by requiring financial services for the European economy to migrate from the UK to the EU, and introduce a crypto-based digital euro. These instances place pressure on or create room for the ECB to take initiatives in affecting the supply of capital under conditions of scarcity. How much of this initiative is independent of EU institutions and member states?

The ECB's competencies are in two complementary areas: macroeconomic management directed at financing for national governments and balances between national central banks, and microeconomic bank supervision affecting credit creation. Prudential supervision is one area where the ECB directly applies EU regulations on the desirability of loans banks make, the capital they need to set aside for risk management, and their ability to securitize these loans by selling them, and the risk they carry, to institutional investors. These decisions weigh heavily on the supply of private capital for special EU headline projects that fall into the category of industrial policy, as well as day-to-day and cyclical macroeconomic smoothing. From recent research, we know that the ECB has the discretion to calibrate lending rules for banks in ways that encourage countercyclical lending without being able to enforce it. We also know that ECB guidelines on capital requirements factor in the political desirability of banks holding corporate bonds devoted to climate control investments. However, we lack a more comprehensive overview of how much ECB autonomy exists, or under what conditions. This article undertakes a review across a series of initiatives to uncover how much initiative the ECB takes, in what areas, and under what conditions.

2. Explaining and Exploring ECB Discretion

As a powerful, authoritative, and politically independent EU institution, the ECB acts within treaty law (Treaty on the Functioning of the European Union), and secondary legislation relating to the Banking Union (Capital Requirements Directive and Regulations and Single Supervisory Mechanism). While interest rates are a key tool for promoting or deterring credit creation and fulfilling its mission to ensure price stability, decisions about capital requirements for bank lending are another important tool over which the ECB has some discretion. These decisions as bank supervisors influence the cost of loans that banks make to businesses and households, allowing them to steer the flow of capital into chosen industries and activities, such as green investment. In addition to discretion based on capital requirements, the ECB has also acted as the architect of a crypto-based digital euro, once EU authorities gave it the green light to proceed. However, its influence proved limited when it championed changes to EU rules on UK–EU financial services and failed in 2024. How independent is the ECB from political authorities, and under what conditions? While the ECB is independent in monetary policy, the Treaty on the Functioning of the European Union also required it to consider general economic policy as set by European institutions, which include the European Commission and the Council of the EU. Given the gradual extension of accountability norms in inter-institutional politics (Akbik, 2022; Högenauer, 2023; Maricut-Akbik, 2020; Markakis & Fromage, 2023), this constellation of EU institutions includes the European Parliament. The puzzle before us is to map and explain when the ECB exercises independence and discretion from political principals, and where the limits of those actions lie.

Starting with a principal-agent approach, this article works from the premise that the ECB expands on its original mandate and competencies over time to the extent that political principals allow it. Superior information, expertise, and institutional capacity vis a vis the Commission, Council, and Parliament (Pollack, 2002), coupled with functional and political demands for increased credit at the macro and micro levels create incentives to expand its footprint on public policy, particularly regarding the unfulfilled supply of finance. Demand and supply lead it to overstep its ex-ante mission and terms of establishment (Calvert et al., 1989). Redirection, starting with ex-post controls that notify political principals of drift and allow them to reassert control (McCubbins & Schwartz, 1984), is weak when principals are divided, or when they condone the acquisition of new powers. While division across political principals can inhibit them from realizing checks and balances against agents, an alternative explanation for ECB empowerment is that political principals remain relaxed about agent activity for the reasons of efficiency, expertise, and policy fulfilment that led them to establish agent powers in the first place. In such a case, both agent and principals evolve their goals in parallel without legalizing the change.

This article views political principals in the Council through an intergovernmentalist lens that treats the degree of conflict, deadlock, or unity as a key factor influencing agent control and powers. While governments may agree on delegation within pre-set limits in line with liberal intergovernmentalist expectations, division over priorities, may inhibit agreement on and recalibration of terms for the agent, including ex-post controls, as advocacy coalitions produce deadlock (Donnelly, 2018; Quaglia, 2023) and national governments permit unintended uses of original powers. The first scenario applies to macroeconomic policy, while the second applies to bank supervision practice to meet new challenges, in this case, the demand to increase the supply of capital, with industrial policy effects.

Political and operational independence of the ECB, therefore, depends on an interpretable legal mandate for the ECB that it can claim (creating room for agency discretion to innovate), legal support from the Court of Justice to exercise such powers when contested, and weak unity of member states in the Council over policy priorities and mandate. The ECB should have more leeway when policy requires technical expertise, certainty about responses, and access to privileged information that political principals lack. Principals may reshape mandates if they use ex-post controls that notify them of drift and unite to reassert control and strict adherence to their original mandate.

Unless ex-ante controls are very strong, these conditions favour considerable ECB discretion. Legal competence is strong and independence high for both macroeconomic policy, which focuses on managing periodic crises and smoothing economic activity over time, and bank supervision, which influences the flow of credit into the economy, sometimes in a targeted fashion. Court support in macroeconomic policy is supplemented by a permissive stance of the political principals to pursue industrial policy, including green bonds, pandemic relief, and the digital euro. Both the Council and Commission compare unfavourably to the stronger policy expertise of the ECB regarding strategy, the use of policy tools related to capital requirements, and the behaviour of banks and the financial markets they rely on. This means that the ECB knows more and can parse out the impact of rule changes better than national representatives in the Council. The same is true for the European Parliament, but to a lesser degree, given its practice of commissioning expert reports on technical matters and strategy.

The ECB's additional role as a single supervisor for the EU's banking system has effectively created incentives and discretion to manage critical components of microeconomic policy in addition to its original macroeconomic roles, with a supportive political structure, giving it further opportunities to manage the economy through its treatment of how banks lend money, including more generous loans to finance EU policy goals (Quaglia & Verdun, 2023a), including energy, health, defence, housing, and semiconductor development. This desire to attract and funnel investment into the European economy comes on top of pre-existing demands for the ECB to manage the EU's financial system, particularly lending by banks so that periodic economic crises can be managed safely and economic activity smoothed over time. This makes the European Commission in particular a willing collaborator of ECB proposals and activity in this field. At times the European Parliament has been a supportive force in giving cover to ECB initiatives that calibrate rules touching the environment (Massoc, 2024).

Finally, individual personnel changes may also be decisive in determining and stabilizing changes in the ECB's role in managing financial markets. Presidents like Jean-Claude Trichet and Mario Draghi had opposed notions of ECB roles and responsibilities regarding macroeconomic management, for example (Pierret & Howarth, 2023), while Christine Lagarde introduced new ideas of microeconomic management and industrial policy that should be examined.

Sorting these factors into drivers of high (H1), low (H2), and medium (H3) deviation from the Maastricht model of the ECB, we can set out the following categories of delegation and discretion:

H1. ECB as trustee (macroeconomic policy):

- Asymmetric information, institutional expertise, and institutional toolkit;
- Legal foundation to act and pathways to mission growth;
- Strong functional demand for ECB-regulated resources (finance);
- Division or support of political principals;
- Personnel changes (assertiveness, goals, and strategy).

H2. ECB as a constrained agent (active accounts):

- Consensus of political principals willing to enforce views;
- Strong ex-ante and ex-post control mechanisms.

H3. ECB as front-line interpreter or architect (capital requirements, green bonds, and digital euro):

- Asymmetric information, institutional expertise, and institutional toolkit;
- Legal foundation to act and pathways to mission growth;
- Strong functional demand for ECB-regulated resources (finance);
- Support of political principals.

The Duisenberg and Trichet presidencies of the ECB fit the low use of discretion and agency drift from the Maastricht model. Policy since 2012 under the Draghi presidency largely follows high discretion but remains anchored in long-term policy objectives derived from the Maastricht Treaty (low inflation). The Lagarde presidency briefly returned to the Maastricht model before market turmoil pushed it back to continuing high discretion. This continued the trend that ensuring financial and economic stability in the absence of further measures by the EU keeps the ECB in the zone of heightened agency and discretion for the foreseeable future.

To test the degree of discretion and initiative in rulemaking and application, Section 3 examines the actions of the ECB, the European Commission, and the Council of the EU in five different areas: (a) The (established) balance of payments system between national central banks to cover trade surpluses and deficits between member states, (b) relaxed capital requirement rules during the Covid-19 crisis, (c) relaxed capital requirements for loans and bonds under the European Green Deal scheme, (d) ECB leadership in designing a digital euro for use on crypto platforms, (e) and ECB advocacy of rules compelling UK-based financial services offered to European companies to be domiciled in the EU. To structure the analysis, the article outlines what each initiative is and what its impact on growth/employment/industrial policy targeted; what the legal frameworks for them are, if any; whether the Commission, Council, and Parliament have positions, what they are, and whether they are aligned or conflictual; how much the ECB has done on its own; and the outcome.

3. Cases

3.1. ECB Missions, Tools, and Discretion on Macroeconomic Policy

As the central bank for the eurozone, the ECB manages the supply of credit to the public and private sectors (interest rates, monetary transactions, and quantitative easing). The Bank considers the impact of its decisions on economic activity (aggregate demand), given the performance of national fiscal policies, which in turn are influenced by the EU's fiscal and structural policy framework: the European Semester, the fiscal compact, and the macroeconomic imbalances procedure. As with any central bank, the ECB will raise or lower interest rates to influence aggregate demand given consumer spending, business investment, government consumption, and the inflation rate. Standard macroeconomic management using interest rates focuses on smoothing economic cycles. Actions to serve as lender of last resort during crises, while standard for central banks, were not foreseen in the ECB's original mandate.

While the Maastricht Treaty's mandate focused on ensuring low inflation, the ECB pivoted in 2012 to focus on preventing deflation and eurozone fragmentation, without the full consent of the Council against the original intent of the Treaty on the Functioning of the European Union's framers, as expressed in the 1995 Stability and Growth Pact. The further absence of EU-level fiscal resources to manage macroeconomic shocks and prevent deflation through public stimulus led the ECB to compensate. The unilateral decision to extend the definition of price stability to cover both upward and downward price shifts put a floor under austerity for hard-hit economies, ensured sovereign access to international bond markets for governments facing investor strikes, and kept the eurozone together. It ultimately accomplished this by claiming the right to finance eurozone member states directly, and expanding its toolkit of liquidity instruments in ways originally unintended (Hodson, 2013). However, member state criticism was too isolated to mount any challenge to the ECB from its political principals. Once inflation returned in 2022, the ECB returned to its original mandate as the framers had intended, without being forced (Tuori, 2024).

Overall, the ECB walked the tightrope between accountability and independence in macroeconomic management and lender of last resort capacity by defending its right to interpret its mission as it sees fit, but also engaging in transparency (of monetary policy goals and decisions), engagement (discussions about priorities and performance with the European Parliament), and advocacy (to EU institutions and the member states), as well as defending its positions at the Court of Justice of the EU if required. The Court proved key to legitimizing the ECB's policy innovations under conditions of economic emergency (Chang, 2019), and fending off demands that it adhere strictly to its original mandate and restrictions.

3.2. Economic and Monetary Union: Balance of Payments System (Target2)

Beyond monetary policy, the ECB is also responsible for managing the balance of payments between national central banks, which ensures that exporting eurozone countries with current account surpluses are paid by net importers with current account deficits, allowing single-market trading to take place smoothly. The stability of the eurosystem requires government access to credit markets at payable interest rates. In the absence of a centralized fiscal capacity, national governments within the eurozone experience a cliff-edge effect if payments required for imports and outward financial transfers are not covered by incoming payments or new borrowing. These effects can be seen in the period of the eurozone crisis between 2011 and 2013 which made it impossible for most southern European countries to access credit at payable interest rates to cover imports. Part of this need for capital was provided by the ECB acting as a lender of last resort to national treasuries in financial distress. However, the ECB was also central in building up a system of day-to-day transfers and balances to make the eurozone work during normal times: the Target2 system.

The Target2 system was devised as a payment system to manage transfers between central banks, and to smooth payments by setting up accounts between them. The Maastricht Treaty explicitly forbade fiscal transfers between member states, which also implied that payment balances would have to be transferred regularly, but did not regulate the technical features of how the ECB would regulate the flow of payments between countries, leaving the issue open to ECB discretion. The ECB filled the gap to manage "temporary" payment imbalances and then made the system permanent, centralized, and a central piece of infrastructure able to smooth the economic flows between countries over time (Murau & Giordano, 2023). The outcome was a smooth, automatized system of payment netting and accounting that keeps the eurosystem running and financially stable. In doing so, the ECB acted to establish normal central bank infrastructure where it had been absent in the Economic and Monetary Union's original design. The alternative would not only have been trade limits on countries with balance of payments deficits (insufficient funds), located primarily in Southern and Eastern Europe but also surplus countries in North and Northwestern Europe that export to those countries. The internal market would have ground to a halt for both sides, in addition to a cliff edge effect in financial flows, cutting national economies off from credit.

These two situations indicate that the ECB can exercise significant discretion in level 2 rules (rules that implement EU legislation) and regulations that can point to a specific EU context or a functional necessity of exercising its responsibilities for managing the single currency and its payment systems. While not intended, the Council has not raised serious objections that would have reversed these decisions. The German central bank remains the sole critic of these innovations, plus assorted economic nationalist experts within the country.

3.3. Covid-19 Credit: Small and Medium-Sized Enterprises, Households, and Asset Bubbles

In 2014, the ECB acquired the additional role of chief supervisor for eurozone banks, within a legal framework designed to constrain risky lending and asset holdings. However, in 2020, the ECB, with the support of the Council and Commission, relaxed capital requirements at the beginning of the Covid-19 pandemic for macroeconomic and targeted industrial policy purposes. Capital requirements can be set to do things that interest rates cannot: encourage, discourage, or steer credit creation that supports policy objectives such as loans to help green the economy, build health care facilities, and fund defence production or digital infrastructure. They can also be used to boost aggregate economic demand through private credit creation where fiscal stimulus is insufficient to compensate for negative external shocks.

Where the ECB deems loans and bonds for specific purposes to be low risk, it encourages banks to steer loans in this direction by making the loans cheaper, allowing banks to set aside less capital to cover default risk. While it could be argued that such determinations amplify risk by allowing banks to make risky loans without holding sufficient reserves, this is largely at the firm level. At the industry level, public-sector decisions to increase demand for the products and services generated by the increased volume of loans are hoped to reduce the overall risk of default. Whether driven directly by government consumption, or by private investment attracted by tax incentives, banks have plausible reasons for portraying loans as low risk in an environment where fiscal policy is creating demand.

Since 2020, both external shocks and endogenous demands (policy priorities of EU institutions and the member states) put the ECB at the centre of decisions over how banks create credit to meet pressing challenges in the absence of cross-border transfers typical of a multilateral fiscal capacity. Legal discretion combined with political backing existed for the ECB to relax regulations on banks so that they would increase the supply of credit in the economy during the Covid-19 pandemic, for example, allowing the ECB capacity to decide independently to grow, based on trust, competence, and expertise (Donnelly, 2023a; Heldt et al., 2024; Quaglia & Verdun, 2023b). This extension from macroeconomic policy to microeconomic decision-making in the context of the ECB's role as a single supervisor of the single market's Banking Union is a fundamental shift in the bank's powers, responsibilities, and discretions in the post-Maastricht era (Tuori, 2023).

The Covid-19 pandemic created a negative economic shock for the entire world, as well as the euro area. As in the previous crisis, the European Commission and the Council agreed on the necessity of relaxing fiscal rules to allow increased government stimulus to support consumption and therefore aggregate demand. In addition, negotiations between those two bodies led to a mandate for the ECB as well to support credit creation, particularly for small and medium-sized enterprises (Quaglia & Verdun, 2023b). While this objective did not constitute a hard legal obligation for national governments providing state aid or for the ECB, it reflected a hope that employment could be stabilized to the greatest extent possible through the extension of loans from banks as well as support payments from government coffers.

The ECB as head of the Single Supervisory Mechanism assumed responsibility for calibrating the rules that banks would have to follow when extending loans under the Capital Requirements Directive and the Capital Requirements Regulation. The political cover had already been extended by the Commission and council for the ECB to make it cheaper and easier to extend loans while expressing a hope that these loans would be directed towards small and medium-sized businesses. In practice however, the ECB preferred that banks extend loans to "safe" borrowers rather than businesses without collateral, and warned that it would return to strict conditions on bank loans once the pandemic had passed. This meant lending to households and businesses purchasing real estate that could be repossessed in case of non-payment while keeping the bank financially solvent. Loans were primarily used to buy bigger and more expensive houses in which people could live more comfortably during lockdowns and work more easily at home (Donnelly, 2023a).

This is a case in which the ECB exercised significant discretion in the formulation of rules around implementation that also touched on the very goals itself, and supported the economy through the housing sector rather than business. For the ECB, the main point of relaxing reserve requirements was to increase the overall supply of credit to the economy and therefore aggregate demand. As long as credit got money into people's hands and was spent, the Bank was content. Meanwhile, its principal mission as bank supervisor could be seen hovering over its emergency actions, requiring banks to choose housing over companies, or reserve more money to cover loan defaults in line with renewed supervisor stringency. Safety, in terms of micro-prudential regulation and financial stability, was chosen over credit expansion, in contrast with the political directives of the Council and Commission. However, the ECB's actions encountered a permissive consensus. National governments used extraordinary fiscal stimulus for businesses instead of pressuring the ECB further.

3.4. Green Transition: Corporate Credit Treated as Less Risk for Political Purposes

Investment in green technologies, businesses, and a greener economy are political imperatives for the EU through the European Green Deal, which sets out several initiatives requiring reductions in carbon emissions to meet commitments made to the UNFCCC, but also investments in these areas. Given the lack of public funds at the EU and national levels, and to attract investment into businesses greening their processes, technologies, and products, banks are to be incentivized to give loans.

The ECB supports these goals with the incentive of relaxed risk weights, which lower capital requirements, at its own discretion. This means that banks are not held to the same level of scrutiny regarding collateral against the loans that they make and that more attention is placed on the contributions toward the Green Deal's climate control goals that the investments make (Gabor & Braun, 2023). This steering of credit through ECB discretion is effectively industrial policy. The European Green Deal was announced by the Commission in 2020 with the support of the Council, and the ECB's new approach to making it easier to make loans for green investment was made in 2021. Within the bank, new members of the ECB's Governing Council, and the presidency itself, made the policy initiative possible by rejecting arguments that bank supervision of credit creation should be as strict as possible to avoid both inflation and irrationally exuberant lending.

By 2021, the green camp of central bankers in favour of extending the ECB's remit had won (Deyris, 2023). Their primary opponents within the ECB remain the monetary conservatives who also opposed the extension of its mission to include financial stability as well as combating inflation. Likewise, its primary opponents outside the Bank were politicians and voters mobilized by political opposition to climate control goals. However, the ECB faced majority support from national governments (Jabko & Kupzok, 2024). The 2024 European Parliament elections, which saw resistance grow to climate control measures, might have not yet affected private credit provision encouraged by the ECB. This points to continued independence and discretion on how it defines and implements its tasks as banking supervisor and institution in charge of financial stability more broadly.

It should be noted however that this shift in the Bank's position towards green investments does not do away with the need for attention to risk management and collateral, just as was the case for loans extended during the Covid-19 pandemic. This means that although the ECB supports industrial policy through microprudential means, it is not a substitute for fiscal measures (Golka et al., 2024; Kedward et al., 2024).

Using capital requirements instead of fiscal policy (through public investments or tax credits) instead of fiscal policy leaves the banking system exposed to the risk and cost of default, with additional financial stability implications. It also creates future challenges for the ECB's role as monetary authority: As (green) business and economic cycles move up and down over time, the functional necessity will grow for the ECB to balance the impact of its capital reserve policy with its responsibilities for macroeconomic management, particularly economic cycle smoothing (Copley, 2024).

3.5. Crypto Rules: The Digital Euro

Another situation where the ECB attempted and exercised some rulemaking independence was in the case of a digital euro: a central bank digital currency that would be held and used on the blockchain alongside private stablecoins and other digital assets. Both the European Commission and major countries within the Council supported the development of a digital euro and encouraged legislation to make this possible. However, they were uncertain about the form it would take and the speed with which it would be ruled out. The ECB ended up taking much of the initiative for much of the public policy-making process, effectively becoming its architect. It engaged with working groups at the global level with the support of the Bank for International Settlements, and it conducted consultations with banks and various other stakeholders within the EU over the desirability and features that a digital euro could take.

The political environment in which the ECB did this was politicized, but also conducive to proceeding with a digital euro to protect and promote economic development. On the one hand, the Commission and the Council were both very concerned with the possibility of being left behind by a digital revolution and wanted a digital euro to be developed quickly and adopted extensively: not just by financial institutions but by consumers. This was essential in their view to protecting digital sovereignty and monetary authority in the eurozone, which meant offering a crypto-based means of payment superior to private alternatives vulnerable to high volatility and collapse (Westermeier, 2024). On the other, the European Parliament was highly divided with centre-right politicians and anti-system parties on the left and right both opposed to the project. In other words, the political room to generate robust legislation was lacking.

However, banking associations hated the prospect of a digital euro and did their best to stop it. Banks were concerned that once a crypto-based euro became available, their customers would prefer direct accounts at the ECB if it were allowed, putting them out of business. In order to meet these concerns, the ECB agreed to limit digital euro holdings to households only, to a maximum of €3,000 digital, and make banks the main place where households could get them. Corporations would be left outside these new arrangements, which would limit demand. The ECB also had to contend with demands from German politicians, parliamentarians, and consultation respondents, that the digital euro would have to be entirely private. In other words, users would have to have the ability to use digital euros offline, without any possibility for public authorities to gain insight into transactions.

In this situation, we see that the ECB considers political demands that are made on it by the Commission and Council and that the ECB is able to use its unique role as manager of the euro to design the scope, pace, and conditions of the rollout. The concessions made to the banking sector restrict the rollout of a digital euro quite significantly, but they do not stop it. Demands for privacy led the ECB to make the euro available for offline use and difficult to trace. The Bank added that these features even supported strategic autonomy by making the currency resilient against cyberattacks. Given the Bank's expertise, legal responsibilities, and ability to negotiate with various stakeholders on the design of a digital currency we can conclude that it has significant discretion in rule setting and can be considered an architect of the digital euro in a way that the Commission and Council themselves cannot.

However, this case also shows that the ECB works within political limits. In 2024 the Bank announced that it had the legal authority to issue a digital euro even in the absence of legislation of the Council and the Parliament in accordance with its normal capacity to issue and manage money for the eurozone. However, the ECB later in 2024 sought political cover for issuing a digital euro with dedicated legislation. While the Commission and Council remained firmly in favour of advancing the project in late 2024, it remained to be seen whether the European Parliament elected in 2024 would be as accommodating towards a digital euro as the Parliament that preceded it. We see therefore that while ECB discretion is extremely strong in this case it also chooses to respect the need for political principals to set the broader terms of its actions. The ECB assumes the role of the architect but does not cross the rubicon to claim the independent authority to issue a digital euro.

This can be seen as a case of the ECB bowing to the wisdom of respecting not only the letter of the law setting out its powers to issue currency but also the practical utility of accepting some of the claims by political principals, particularly the European Parliament. One should not expect the ECB to retreat from its own conclusions regarding how a digital currency should be formed and under what circumstances it should be launched, given how it held to its convictions in the case of monetary policy when the euro was launched. By allowing ordinary legislation to be passed, it is handing over the baton to its political principals, after which it will likely resume its independent path.

3.6. Active Accounts and Brexit-Related Financial Services

A further case in which the ECB was involved in advocating and drafting rules was in the case of financial services offered from the UK into the European market after Brexit. The European Commission, at the urging of the ECB and the European Securities and Markets Authority, proposed that British financial services companies should transfer assets and personnel from London to the EU to support their activities as fully independent entities rather than branch offices of UK-based headquarters. Without this, the EU's economy would be exposed to critical risks it could not control. The EU would also lack domestic financial resources to support innovation and growth. Particular attention was devoted to the desirability of forcing central counterparties to shift assets, personnel, and infrastructure to the EU in order to continue performing their services for the single market. For this purpose, the ECB could count on the Commission to support its argument that financial stability and monetary sovereignty as well as the performance of emergency monetary policy during crises required those assets to be within the EU and controlled by an EU supervisor (Donnelly, 2023b).

The method by which central counterparties were supposed to migrate activities was the ECB's proposal for an active account for all companies using central counterparty transactions. This meant that as companies and financial services firms used exchange rate swaps, interest rate swaps, futures, options, and ordinary financial transactions the assets of the banks taking part as members of the central counterparty would have to be located in the EU. This pushed against the footdragging by those banks and them keeping their assets either in the UK or in the US: taking orders in the single market, but processing them in the UK (Panetta, 2023).

The ECB also had the support of the European Parliament, which commissioned research on whether these initiatives were necessary. It did not succeed, however. If the ECB had been successful, it would have been responsible for proposing detailed regulations on active accounts and applying them after the legislation had been passed, as well as the fees central counterparties charged for their services, the thresholds for margin calls, and reserve requirements for participating banks. The ECB would be able to move rates up or down as it deemed circumstances required.

After a great deal of lobbying by the Bank of England and by the central counterparty banks located in London, as well as the International Swaps and Derivatives Association, the Commission withdrew its political support for the ECB's plan on active accounts before legislation could be passed. The industry's argument against the ECB being responsible for all of this activity was that it would fragment global counterparty markets, as well as national markets inside the EU, and impose high costs and greater fragility on the central counterparties located within the single market (Tamma & Asgari, 2024).

Divisions within the Council, reflecting competition between the member states over business transferred from London also played a role in undermining legislative unity on the need for active accounts. National governments, including France and Germany, remained unwilling to allow the ECB and the European Securities and Markets Authority to be the primary regulators of central counterparties in the single market. This unwillingness meant that financial supervision would be exposed to regulatory arbitrage and potentially race to the bottom competition between national competent authorities that would unleash financial stability crises further down the road. The importance of central counterparties as critical infrastructure in the financial system especially during crises made this possibility extraordinarily dangerous for the ECB and the EU as a whole. In other words, the ECB could only move forward with its rulemaking proposals and powers down the line to the extent that European legislative bodies were willing to allow that to happen.

The central counterparties case underlines that the ECB requires a legal mandate to be a policy-maker and that a legal mandate requires unity in the Council, even for the Commission to proceed with a winning legislative proposal reflecting ECB advice.

4. Discussion and Conclusions

The mini-cases studied here examine the same set of actors and their roles in the development and implementation of key issues in which the ECB plays a central part. They not only provide insight into whether the ECB has evolved beyond the original Maastricht mandate but in what ways and under what conditions (Table 1).

Beyond the ECB's discretion in interest rates and quantitative easing, this article looked at the ECB's role as lead supervisor in the Single Supervisory Mechanism. Overall, the ECB has demonstrated a willingness to set rules that it sees as necessary and consistent with its mandate as both a central bank and a bank supervisor, with both macroeconomic management and microprudential supervision in mind, including connections between the two.

The findings confirm a significant degree of ECB discretion and rule-maker of last resort in cases where existing EU legislation and policy are insufficient to meet overall macroeconomic goals (as the responsible institution

Table 1. ECB initiative, discretion, and impact by policy area.

Topic	ECB role	ECB resource	Council	Court/law/EU policy	Result
Macro and financial stability: OMT and Target2	Innovator: Supporting macro-economic goals	Expertise and infrastructural power	Divided	The law restricts ECB but has the Court's support	Strong and lasting ECB power growth beyond the original mandate
Capital requirement adjustments: Covid-19	Interpreter (front-line application): Supporting macro-economic goals	Expertise and regulatory power	Council supports tools for business loans, does not claw back ECB discretion when credit redirected	Commission does not question ECB tolerance of implementation for other purposes	Strong and temporary action, partly in line with the original mandate
Green capital requirement	Interpreter (front-line application): Supporting industrial policy goals	Expertise and regulatory power	Supports	The Commission and Parliament support industrial policy programs	Strong and lasting action, in line with the new industrial policy mandate
Digital euro	Architect: Building on behalf of lawmakers	Expertise, regulatory power, and interaction with stakeholders	Supports	The Commission supports strongly and Parliament lukewarmly supports	ECB awaiting legislative approval
Active accounts	Advocate: Supporting financial stability and industrial policy goals	Expertise and regulatory power	Divided	The Commission supports, then opposes after-industry lobbying	Failure

for monetary policy). This growth of ECB competence was the result of the Bank writing its own rules, in contradiction to its original mandate, opposed by some Council members but not a majority, and supported by the Court of Justice. The agent was able to claim new powers and rewrite the rules in the face of an emergency touching the EU as a whole. These new powers reflected traditional central bank competencies that could be developed, and a new central bank president willing to make the changes. In the case of macroeconomic policy, covering outright monetary transactions, Draghi's personal decision to claim emergency powers for the bank, and to defend them in the Court of Justice against adversaries, made a subsequent and lasting shift in the bank's role possible The Draghi revolution that transformed the ECB's role in the euro area would have been unthinkable under the Duisenberg or Trichet presidencies, both of which were far more originalist in hewing to the text of Maastricht and the intent of the Treaty's framers. Trichet's demands on euro area member states to solve their own banking problems rather than assuming a lender-of-last-resort role are well documented and stand in stark contrast to the fuller central bank under Draghi. But the precedent also made it possible for President Lagarde to pivot away from a short-lived originalist position in 2020 (not the ECB's job to keep yields small on sovereign debt) to the normal path that Draghi had made possible. Similarly, the ECB's decision to structure TARGET2 operating procedures so that balances between national systems would remain open indefinitely also took advantage of its exclusive competence as payments manager that critics were powerless to change. This leaves the ECB with the initiative and the Council unable to offer an alternative.

The Bank also has significant powers to innovate where political principals support new ECB powers but lack the expertise to shape its recommendations, interact with stakeholders, and design the instruments required to implement the decisions. As architect of the digital euro, a legislative framework was absent but political principals were largely united in supporting the Bank's ability to design the legislation on their behalf. The complicated rules around retail holdings of digital euros, the impact on banks, and the privacy features were issues that the ECB was singularly able to address and shape competently, precisely because of the interface with the private sector and civil society. This independence could have extended to issuing a digital euro without new implementing legislation, but the Bank decided to refrain from taking a step that might incur political backlash at a later date.

Institutional interfaces between the ECB and banks, coupled with pre-existing legal responsibilities for bank supervision, and broad tolerance by political principals also allowed the Bank to expand credit for industrial policy purposes by targeting specific economic sectors (real estate support as a pandemic response and green finance). The interface the Bank has with financial institutions as the lead institution of the Single Supervisory Mechanism gives it the opportunity to steer credit creation to specific sectors of the economy. By not only loosening credit temporarily but indicating to banks that loans backed by collateral would be viewed more positively in the pandemic, it was able to redirect credit from business to housing loans. By treating green loans favourably, incentives arise for banks to invest in physical infrastructure for the energy transition, which also functions as physical collateral.

Finally, where the Council is unwilling to extend additional powers to the ECB, the Bank finds itself constrained. While the ECB has a mandate for financial stability that gives it the right to become involved in strategy over central counterparties operating from outside the EU, it is powerless in the absence of support from the Council and Commission.

Overall, the patterns show that the ECB indeed is a rule-maker of last resort under specific circumstances and that the principal-agent theory gives us indications of what these are. First, the Bank requires either a legal framework providing it with a baseline of competencies (all cases except the digital euro), or united political support for the ECB to create such a law. Second, the ECB has the most discretion, even against the stated goals of the Council and Commission, where it has institutional interfaces that allow it to leverage its advantages in information, expertise, and contact with stakeholders (particularly banks). Third, divisions between political principals place the Bank at an advantage by removing the possibility of restricting the Bank's initiatives. Fourth, the support of the Court for the Bank's ability to modify rules has been key to defending the Bank's rule-making when challenged by plaintiffs. Finally, the ECB president's willingness to innovate is an essential component of decisions to exercise more discretion.

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Conflict of Interests

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ARTICLE

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No Longer Neutral: The ECB's Geopoliticization of the International Role of the Euro

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Abstract

While the euro has, since its creation, been the world's second most important currency, the ECB has long depoliticized the international role of the euro by proclaiming a neutral stance. However, as this article explains, since 2019, the ECB has embraced currency internationalization and framed the issue in geopolitical terms. This policy change reflects a response to a changed international political environment after 2018 and it has led the ECB to seek closer political coordination regarding external economic policy. As the international role of the euro has become a concern for the EU's broader geoeconomic turn, it may, however, become difficult for the ECB to reconcile its political independence with its more geopolitical view of currency internationalization.

Keywords

China; European Central Bank; European Union; geopoliticization; international role of the euro; strategic autonomy

1. Introduction

Following the EU's decision to freeze Russia's foreign reserves in 2022, it has become undeniable that the euro's status as an international reserve currency has geopolitical significance. Indeed, the euro has since its creation been the world's second-most important international currency by most measures. However, for the first 20 years, the European Central Bank (ECB, 1999, p. 31) has shown little interest in the international role of the euro and insisted that: "the internationalization of the euro, as such, is not a policy objective." Since 2019, however, the ECB has revised its stance and endorsed the international role of the euro as part of the EU's

Open Strategic Autonomy agenda (Miró, 2023). It has not just sought to "foster the international role of the euro" (Panetta & Schnabel, 2020), but also placed the "onus on European policymakers to create the conditions for the euro to thrive" (ECB, 2024b, p. 2). This article aims to understand how the ECB changed its stance on the international role of the euro over the past five years in the context of intensifying geopolitical competition.

The ECB's stance on the international role of the euro is an important issue for the study of international monetary relations. Yet while the question of whether the euro could become an internationally leading currency has widely been studied (Cohen, 2003; Germain & Schwartz, 2014; McNamara, 2008; Vermeiren, 2019), the ECB's preferences concerning the international role of the euro have received far less explicit attention (Henning, 2007). This relative lack of attention contrasts with recent work that highlights the "weaponization of finance" at the ECB (Quaglia & Verdun, 2023). By examining the ECB's changed approach towards the international role of the euro, this article thus sheds light on a neglected, but increasingly important, aspect of the ECB's policy conduct.

Moreover, the ECB's decision to endorse a stronger international role of the euro and seek cooperation from policymakers presents an intriguing puzzle: Why would a powerful independent central bank bring a previously depoliticized issue onto the political agenda and constrain its autonomy by aligning itself with foreign policy objectives?

To answer this question, this article studies the evolution of the ECB's discourse on the international role of the euro. Based on an analysis of over 100 ECB speeches and other documents, argues that the ECB's change from a neutral stance to embracing a stronger international role reflects a shift from a *depoliticizing* to a *geopoliticizing* discursive frame. After the ECB had long argued that the euro's status should best be left up to market forces, it has recently presented currency internationalization as a matter of international power competition. These changes in the ECB's international orientation and its outreach to policymakers reflected both the internal contestation of the "neutral stance," and the response to changes in the ECB's environment—notably the rise of China and the threat by the US President Trump to impose secondary sanctions against the EU in 2018. Crucially, the geopoliticizing discourse legitimized coordination between monetary and foreign policy whereas the neutral stance had sought to shield the ECB's political autonomy.

The ECB's re-appraisal of the international role of the euro in more geopolitical terms is significant in two respects. First, it highlights the ECB's agency in the EU's wider "geoeconomic turn" (Herranz-Surrallés et al., 2024) where the ECB has embedded the international role of the euro in a broader discourse on Open Strategic Autonomy. This development echoes its politicization of other policy issues (Lokdam, 2020; Tortola & Pansardi, 2019; van't Klooster, 2023). Second, the case of the ECB provides insights into when reserve-currency-issuing central banks seek to coordinate their international stances with their political executive. The decisive point was that it identified the vulnerability of its core tasks to political decisions elsewhere and accepted the political significance of being a reserve currency issuer. However, by enlisting political support to strengthen currency internationalization the ECB inevitably traded off its ability to reach its policy objectives against operational autonomy.

This article proceeds as follows: Section 2 reviews the literature on the international role of the euro and outlines the discursive frame approach that guides the analysis. Section 3 outlines the analytical approach followed in this article and the data sources used. Sections 4 and 5 examine, respectively, the ECB's depoliticizing framing of the international role of the euro and its geopoliticizing framing of the international role of the euro since 2019. The final section concludes and outlines implications for further studies of the ECB and the international role of the euro.

2. Literature Review: Geopoliticization and the International Role of the Euro

International political economy scholarship on the international role of the euro has mostly stressed that the euro lacks the institutional and political foundations for becoming a global currency capable of rivalling the US dollar (Cohen, 2003; Germain & Schwartz, 2014; McNamara, 2008). A recent contribution to this literature has, for instance, argued that the euro area has been unable to provide enough safe assets for the euro to become a major international investment currency (Vermeiren, 2019). However, the question of whether the ECB sought to strengthen the euro at all has received limited attention (Cohen, 2015 provides a partial exception).

Investigations into how the ECB has handled the international role of the euro have examined several aspects of its external policy. Given the ECB's primary mandate of price stability (TFEU, Art. 119(2) and 127(1)), Zilioli and Selmayr (1999, p. 303) have argued that inflation management should be the primary organizing principle for the ECB's foreign exchange interventions (see also Verdun, 2009). Indeed, early studies of the ECB's exchange rate preferences and its coordination with the Council of the EU regarding foreign exchange interventions suggest that this was the case (Henning, 2007; Kaltenthaler, 2003). More recent work has, by contrast, problematized the ECB's international liquidity provision through central bank credit lines (Papadia, 2013) and noted the ECB's more proactive and politically motivated provision of central bank credit lines during the Covid-19 pandemic (Spielberger, 2023). Lastly, Quaglia and Verdun (2023) argue that the ECB's price stability mandate may have been sidelined over geopolitical concerns in the context of the EU's sanctions against Russia.

This article starts from the assumption that further insights into the ECB's preferences on the international role of the euro and its role in EU external economic policy can be gained by studying how it speaks about the topic. To do so, it draws on framing theory which studies "how the definition of political issues affects policy-making" (Daviter, 2007, p. 654). It speaks to Schattschneider's (1957, p. 937) contention that "the definition of the alternatives is the choice of conflicts, and the choice of conflicts allocates power." To apply framing theory to the question of currency internationalization, the analysis draws upon the different policy frames for external economic policies proposed by Herranz-Surrallés (2024). She distinguishes between *depoliticizing* frames, which present policy issues as technical problems; *politicizing* frames that highlight domestic distributional consequences; *geopoliticizing* frames concerned with international power hierarchies; and *securitizing* frames where security is the main concern. These frames differ both regarding the discursive problematization of a policy—what is named as a problem, what its causes and effects are, and what that implies—and which types of political actors should be involved in setting policy (Herranz-Surrallés, 2024). The choice of a different framing can thus legitimize the coordination with different groups of policymakers.

To understand the ECB's framing of the international role of the euro, the depoliticizing and geopoliticizing frames are most insightful. A depoliticizing framing could be expected to limit contestation by downplaying the political significance of issuing an international currency and focusing instead on economic determinants and consequences (Fawcett et al., 2017; van't Klooster, 2023; Wood & Flinders, 2014). By presenting the matter as a technical issue best left up to market forces, deliberate political efforts to influence the outcome would moreover be delegitimized. A geopoliticizing frame, on the other hand, would highlight the power-political implications of one's standing in the international currency hierarchy (cf. Cohen, 2015). Economic drivers and effects would have to be balanced against the geostrategic benefits of currency internationalization, such as reduced vulnerability and increased international influence (Kirshner, 1995). In this framing, international currency status could not be left up to markets but would need to be actively promoted by adopting geoeconomic instruments (Herranz-Surrallés, 2024). The discursive shift in which "phenomena that were approached from a market logic…come to be framed in terms of global power rivalries and strategic goals" (Herranz-Surrallés et al., 2024, p. 923) is commonly referred to as geopoliticization (Meunier & Nicolaidis, 2019).

Table 1. Comparison of ideal-typical discourses on the international role of the euro.

	Depoliticizing frame	*Geopoliticizing frame*
Problematization	Technical issue	Power-political implications
Causes	Economic factors	Economic factors and geoeconomic policy choices
Effects	Economic	Economic and geopolitical
Normative evaluation	Leave it up to market forces	Strengthen the international role of the euro
Relevant policy actors	ECB	ECB and foreign policymakers

Source: Author's compilation based on Herranz-Surrallés (2024).

3. Analytical Approach

Qualitative discourse analysis is employed to study the ECB's discourse on the international role of the euro. The analysis sheds light on how the ECB discursively interacted with a changing international environment and how its preferences for currency internationalization were reconfigured (Carta & Morin, 2014). The analysis was conducted on ECB speeches mentioning the term "international role" and official publications between 1998 and 2023. A search of the ECB's database of all speeches by ECB executive board members yielded 143 speeches that included the term "international role." Of these speeches, 19 were excluded from the analysis because they did not discuss the international role of the euro or used the term "international role" in a footnote, leaving 124 speeches for analysis. As shown in Figure 1, most of these speeches were held between 1999 and 2005, with only a few speeches a year mentioning the term between 2005 and 2018, and some years without any speech on the topic. In 2019 and 2020, there was an uptick in the number of speeches, reflecting renewed attention to the topic of currency internationalization.

The dataset was hand-coded using MAXQDA in line with the five dimensions outlined in the previous section: how the international role of the euro is problematized; what determines it; what effects it has; what should be done about it; and which actors should act. The following analysis thus documents how the ECB framed the international role of the euro in increasingly geopolitical—as opposed to technical—terms, and how this shift legitimized and enabled a more proactive approach towards currency internationalization and outreach to policymakers outside the domain of monetary policy.

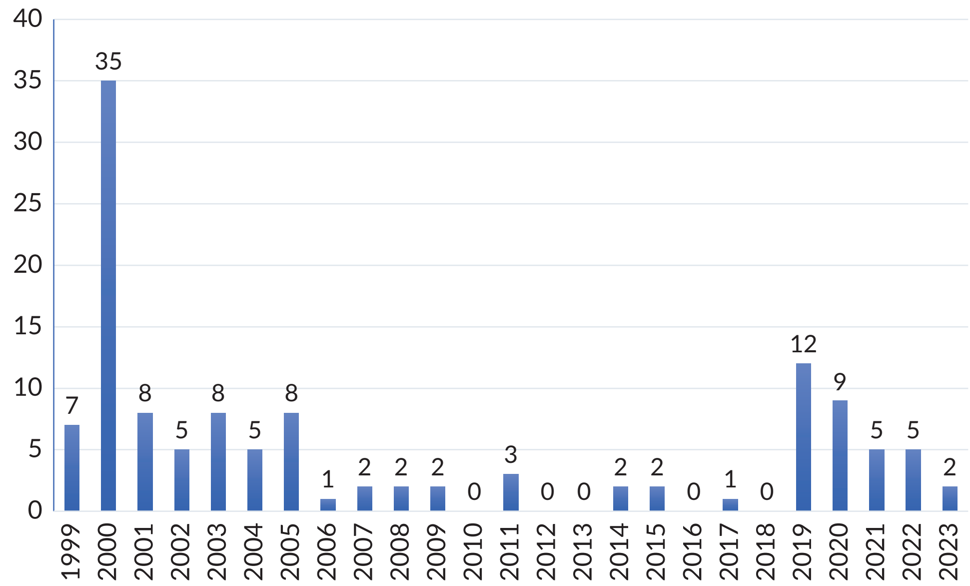

Figure 1. Number of ECB speeches mentioning "international role" per year. Note: See Supplementary File for breakdown per speaker. Source: ECB (2024c).

4. Depoliticizing the International Role of the Euro

When the euro was set up, the ECB quickly sought to set expectations for what international role the common currency would play. In January 1999, ECB President Willem Duisenberg set out the maxim that would define the ECB's attitude for the coming 20 years: "The ECB takes a neutral stance with respect to the international role of the euro" (Duisenberg, 1999b). This neutral stance had been agreed upon before the euro was operational, even if international policy had been no central concern during the preparation for the monetary union (Moss, 2009). Rhetorically, the neutral stance seemed to strike a middle ground between traditional proponents of currency internationalization, such as the European Commission and French political elites (Verdun, 2000), and opponents of currency internationalization, above all the Bundesbank (Marsh, 2009; Moss, 2011). However, as a discursive frame, the neutral stance was all but neutral (cf. Adolph, 2013; van't Klooster & Fontan, 2020); it can better be understood as an attempt to deny the geopolitical significance of the formation of the world's second-largest currency bloc and thereby depoliticize the international role of the euro.

The advent of the euro was presented as a technical issue as ECB board members expressed a benign view of the development of the international monetary system and the euro's role within it. When the euro was launched, it was expected that the euro area would constitute a major currency bloc and shift the world towards a tripolar system, where the euro would be the second-most important currency, behind the dollar, but far ahead of the yen (Duisenberg, 1998b; Noyer, 1999). Yet, from the onset, speakers emphasized that "the euro is an international currency alongside the US dollar, not against it" (Solans, 2001, 2003). Duisenberg (1999a) promised that there were "no plans whatsoever to stimulate the use of the euro as an international currency, to use the euro as an instrument of foreign policy, or to rival the US dollar." To the extent that a potential "rivalry" between the euro and the dollar was acknowledged, this was presented as a positive trend because it allowed market participants to diversify their investments (Issing, 2003; Trichet, 2004). The euro's role as an international currency was presented as regional, rather than global

(Gonzalez-Paramo, 2004; Padoa-Schioppa, 2002). If the ECB's responsibilities were discussed, these were linked to technical cooperation and policy discussions (Duisenberg, 1999a). However, the emphasis remained on the ECB's domestic responsibilities: "the best way for the Eurosystem to ensure stable conditions in the international financial system is by ensuring price stability in the euro area" (Duisenberg, 1998a; Hämäläinen, 1999b).

The ECB sought to cast the effects of currency internationalization in economic and monetary policy terms. It conceded upfront that the costs and benefits that it expected for euro-area residents as a result of a stronger international role of the euro were "of a rather speculative, forward-looking nature" and "difficult to measure" (ECB, 1999, p. 43). In a clear attempt at depoliticizing the issue, speeches during the euro's first decade preferred to discuss the implications of a stronger international role of the euro from the perspective of economic theory and monetary policy implementation, rather than practical experience or political assessments. The most frequently mentioned advantages of currency internationalization were seignorage (Duisenberg, 2000b; Solans, 1999a) and lower borrowing costs (Hämäläinen, 2002; Papademos, 2004). The most important disadvantage of currency internationalization was that currency internationalization made "monetary aggregates harder to interpret and control" (Duisenberg, 1998a, 2000b). On balance, Duisenberg (1999a) concluded that the "emergence of an international role for the euro may sometimes complicate the conduct of monetary policy." The geopolitical implications of currency internationalization were rarely mentioned; only one speech argued that the euro had "shielded many euro area countries from…adverse shocks…including geopolitical tensions" (Papademos, 2004).

The exchange rate of the euro was likewise considered from the perspective of the ECB's domestic mandate. Again the ECB initially professed neutrality, with Duisenberg (1999a) stating that "the Eurosystem deliberately does not specify a target for the exchange rate of the euro" since "[p]ursuing a target for the euro exchange rate could easily jeopardize the maintenance of price stability." After a continued decline in the euro's external value, however, the ECB intervened unilaterally in currency markets in the Autumn of 2000, responding to the impact of the falling exchange rate on euro area inflation (Henning, 2007; Kaltenthaler, 2003). Still, the ECB (2024a) maintained that "the exchange rate of the euro is not a policy target" and it has just once more intervened in currency markets, to help support the Japanese yen in 2011.

In the ECB's telling, currency internationalization was largely driven by economic factors beyond political control. It viewed the international role of the euro as the outcome of economic decisions and that it was "mainly determined by the decisions of market participants" (ECB, 1999, p. 45). Basing itself on economic theory, it expected four sets of economic factors to affect the attractiveness of the euro as an international currency (ECB, 1999): the size, depth, liquidity, and openness of the euro area's financial markets; the stability of the euro and confidence in its stability; the size, strength, and openness of the euro area's "real" economy; and the international use of the euro's predecessor currencies, especially the German mark.

Political measures to foster the international role of the euro were emphatically rejected. "[T]he international role of any currency is, and must be, based on the soundness and strength of the domestic economy, not on active external promotion" (Padoa-Schioppa, 1999). Instead, ECB speeches routinely stressed that the international role of the euro would be determined by the decisions of market participants and public authorities outside the euro area. After all, "policy makers could not directly affect the internationalization of the euro to a significant extent even if they wanted to" (Solans, 2002). The ECB insisted it would "neither foster nor hinder" the international role of the euro (Duisenberg, 2000a; Hämäläinen, 1999b; Noyer, 2000; Solans, 1999b). The most the ECB could do to strengthen the international role of the euro would be to fulfil its domestic price stability mandate, thereby bolstering confidence in the euro (Duisenberg, 1999b; Hämäläinen, 1999a; Issing, 2003; Noyer, 1999).

Even so, early ECB speeches were full of confidence that the euro's international role would inevitably strengthen. As stated by Solans (2001):

> We are convinced that the use of the euro as an international currency will come about anyway. It will happen spontaneously, slowly but inexorably, without any impulses other than those based on free will and the decisions of market participants.

And, as stated by Noyer (1998): "The more successful the ECB is in achieving its primary objective of maintaining price stability, the more will the international role of the euro be 'automatically' fostered."

The only exception to this depoliticized account of currency internationalization until the global financial crisis was a speech by Bini Smaghi (2008) in which he argued that: "the existence of 'hard power' certainly…helps in developing an international role for the currency. From this point of view, Europe cannot compete at present with other providers of 'hard power.'"

Overall, ECB speeches framed the euro's international role as an issue that implied technical challenges for the international monetary system and the ECB's policy conduct. The euro's international role would best be left up to market forces, the ECB argued, which would respond to economic fundamentals. Deliberate political efforts to strengthen the euro were, however, discredited. The best response for the ECB would be to "accept the international role of the euro as it develops as a result of market forces" (Duisenberg, 1999a) and focus on its price stability mandate. The presence of this depoliticizing frame even led the ECB to downplay its responsibility for the euro's role in Eastern European countries during the global financial crisis. In 2009, Governing Council Member Yves Mersch justified the ECB's refusal to offer more assistance as follows: "We have a mandate, price stability within the eurozone, and we fulfil the mandate.....We have a eurozone mandate, not a mandate to be a regional United Nations agency" (Atkins, 2009). In line with its neutral stance, the ECB was to handle the international role of the euro based on monetary policy concerns, not political considerations.

The global financial crisis accentuated the risks in the global monetary system but did little to change the ECB's views. The international usage of the euro declined to a record low after years of crisis in the euro area had weakened confidence in the currency. The ECB became a central player in international liquidity cooperation after it joined a standing swap network with five other leading central banks in 2013 (ECB, 2014). Though the ECB re-assessed certain aspects linked to currency internationalization in light of these developments, it remained within its depoliticizing frame of a neutral stance.

The ECB's view on changes in the international currency system was ambivalent. Some ECB working papers (Dorrucci & McKay, 2011; Fratzscher & Mehl, 2011) and speeches (Bini Smaghi, 2011; Cœuré, 2012, 2014) highlighted that the international monetary system was becoming more multipolar with the rise of emerging markets, especially China. In 2011, Bini Smaghi sketched out drastic options for the euro's role in this new monetary order that would fit with a geopoliticizing frame: "If Europe cannot find its place in the new multi-polar world, it is likely to be squeezed between the other centres of economic power and to suffer from their spillovers" (Bini Smaghi, 2011). Benoît Cœuré, who succeeded Bini Smaghi as board member in charge of the international relations department, however, returned to a more technical framing. He downplayed the potential of China's efforts to challenge the euro as the world's second currency, merely highlighting technical challenges related to policy coordination and financial stability under a multipolar currency order (Cœuré, 2012, 2014).

The ECB's assessment of the effects of the international role of the euro changed slowly. In a landmark speech in 2015, Cœuré challenged the ECB's received view of the implications of currency internationalization, while however continuing to cast the matter as a technical issue. Cœuré (2015) argued that "international currency status provides partial insulation from external disturbances." Furthermore, he acknowledged an "exorbitant duty" to provide liquidity insurance in crises, stating that the ECB was "now even more aware than in the past that with international currency status come greater responsibilities and challenges at the international and domestic level" (Cœuré, 2015). These points were taken up in the ECB's 2015 *Review of the International Role of the Euro*, which assessed that seignorage—the use of euro banknotes abroad—yielded gains of just 0.1% of euro area GDP. The review argued, however, that currency internationalization could reduce exchange rate volatility and provide insulation against foreign shocks (ECB, 2015). While the implications of euro internationalization had been reweighed, they remained limited to monetary policy matters.

By adopting a neutral stance, the ECB had sought to depoliticize the international role of the euro and shield itself from political interference to promote it. Indeed, Cœuré's speech offered a clear summary of the discursive logic that had underpinned this frame since 1999:

> The ECB's independence and its commitment to maintaining price stability in the euro area over the medium term is…a supportive factor…in the euro's international status. I doubt that a currency can gain international status if investors do not trust its issuing central bank to be free from political interference. (Cœuré, 2015)

And yet, over the following years, the geopolitical aspects of currency internationalization became all too clear, which led the ECB to abandon its neutral stance and to seek closer coordination with political actors.

5. The Geopoliticization of the International Role of the Euro

The frame of the debate about currency internationalization changed abruptly in 2018 when US President Trump announced that the US would quit the Iran nuclear deal and threatened secondary financial sanctions against the EU (Sandbu, 2019). The EU's vulnerability to US sanctions suddenly pushed the euro on the EU's foreign policy agenda as EU political leaders decided to set up a financial vehicle to circumvent any US measures (De Goede & Westermeier, 2022). Commission President Juncker (2018, p. 10) demanded that the EU "must do more to allow our single currency to play its full role on the international scene" and a communication from the European Commission (2018) titled *Towards a Stronger International Role of the Euro* was adopted at the Euro Summit in December 2018. The Commission proposed a smorgasbord of geoeconomic policies to make the euro internationally more attractive, including Capital Markets Union, payments infrastructures, and energy invoicing in euro. The threat of US sanctions had served as a "wake-up call regarding Europe's economic and monetary sovereignty" (European Commission, 2018, p. 4).

The ECB echoed this more combative framing of the international environment against the backdrop of US financial sanctions (Draghi, 2019). Cœuré (2019a) saw:

> [A] growing perception of a shift in global governance, from leadership built on trust and common identities to leadership based on...hard power where policies and doctrines are imposed on others. In such an environment, being the issuer of a global reserve currency confers international monetary power, in particular the capacity to "weaponise" access to the financial and payment systems.

In another speech he warned that:

> [T]he rising challenges to our global governance system have contributed to the belief that the EU may be more exposed to the risk that the monetary power of others is not used in its best interests, or is even used against it. (Cœuré, 2019d)

Similarly, President Lagarde (2020a) has cautioned that "the post-war global order is fracturing [and] tensions between great powers are rising" and that central banks confront a new policy environment "as geopolitical tensions continue to mount" (Lagarde, 2023).

The shift towards a multipolar international currency order was recast in more existential terms. In a context of "'system competition'...the prospect of multipolarity raises the stakes" (Lagarde, 2023). The ECB has portrayed the euro's global status as being under threat, cautioning that "the euro's international role seems to have gradually eroded" (Cœuré, 2019a; Draghi, 2019) and that "international currency status should no longer be taken for granted" (Lagarde, 2023). Chinese efforts to promote the renminbi, though noted prominently (Cœuré, 2019a; Lagarde, 2023), were no longer the only threat to the euro's international standing. When Facebook proposed the "libra" stablecoin, several speeches warned that this initiative might "undermine the international role of the euro" (Cœuré, 2019c; Mersch, 2019b). The euro's international status was no longer framed as a technical matter but as a question of global power rivalries.

In 2019, the ECB revised its stance on the international role of the euro, officially putting an end to the "neutral stance." Its re-assessment of the costs and benefits of euro internationalization involved a reweighing of the technical aspects of currency internationalization. Seigniorage, disturbing capital flows, and monetary aggregates mattered less, whereas international currency status was now presented as strengthening monetary policy autonomy and transmission (ECB, 2019, pp. 40–41). However, the ECB also added geopolitical considerations, such as "reduced exposure to unilateral decisions by third countries," to the benefits of currency internationalization and explicitly mentioned "geopolitical outreach" among the factors that drove currency internationalization (ECB, 2019, p. 48). While the report still couched its conclusions in technical jargon ECB's speeches made clear that the "international benefits of sharing a currency go beyond the monetary sphere" (Draghi, 2019). In the words of Panetta (2022c), a stronger international role of the euro would deliver "both economic and geopolitical benefits to Europeans, acting as a collective economic defence clause."

In framing the international role of the euro as a geopolitical issue, the ECB has aligned itself with the European Commission's foreign policy concept of Open Strategic Autonomy (Ioannou et al., 2023). "Strategic autonomy in payments is part and parcel of the European agenda to assert the euro's international role"

(Cœuré, 2019d; see also Lagarde, 2020a; Mersch, 2019a; Panetta, 2021b, 2022b). But more significantly, it has not just accepted, but actively demanded coordination with other policymakers (Draghi, 2019). As stated by Lagarde (2020a):

> The attitude we must strive for is one of cooperation without compromise—being open to the world, but assertive in defending our values and our interests. That means forging ahead in fields that are vital to us.…It means taking steps to reduce our common vulnerabilities and increase our autonomy. It means working together—as policymakers, businesses and Europeans. If we are to strengthen the global standing of our currency, we need our banks and our regulators to act in a European way.

And, as added in 2023: "Not compromising independence, but recognising interdependence between policies, and how each can best achieve their objective if aligned behind a strategic goal" (Lagarde, 2023).

In part, this demand for coordination has been reflected in linking the objective of euro internationalization to new geoeconomic policies that the ECB supported. Thus, the ECB's plans for a digital euro were presented as "safeguarding monetary sovereignty" and strengthening the international role of the euro (Mersch, 2019b; Panetta, 2021b, 2022b). The ECB's demands for the creation of a European safe asset were justified as another way of making the euro more attractive as a reserve currency (Cœuré, 2019b; Lagarde, 2020b, 2022). Several speakers have highlighted the potential of Capital Markets Union (de Guindos, 2020; Panetta, 2021a), and Lagarde (2020a) has concretely stressed the euro's leading role in green finance in strengthening its international role, warning that "[i]f others move faster than we do, the euro's advantage as the global green currency could fade and be lost. The euro would miss an opportunity to strengthen its international role" (Lagarde, 2021). Little was left of the ECB's objection against political efforts to promote the euro. Rather, as Panetta (2020) puts it "[t]he euro's global potential has not been fully realized.….But the right policies could unleash it."

However, the ECB has gone a step further by also urging cooperation in security matters. President Lagarde (2023) has stressed that geopolitical alliances are a strong determinant of foreign exchange reserve composition. Cœuré (2019a) remained careful to insist that "[t]he ECB…does not take a view on foreign policy questions" while warning that the international role of the euro was constrained by "Europe not speaking with one voice on international matters, including national security." Against this backdrop, "the euro symbolizes the unity of a European continent that is better able to exert global influence" (Draghi, 2019). In other words, ECB officials have expanded their understanding of euro internationalization beyond economic factors and have suggested that the EU could strengthen the global use of the single currency by acting more assertively in foreign policy matters.

For its part, the ECB has sought to portray recent policy decisions as furthering the euro's international attractiveness. During the Covid-19 crisis, the ECB stepped up its provision of international liquidity assistance and showed more awareness of geopolitical considerations (Spielberger, 2023). The ECB ensured access to euro liquidity in the European periphery and set up a permanent repo facility, called EUREP, through which other central banks could borrow euros (Cipollone et al., 2024). It argued that by "providing a reliable backstop in distressed market conditions, [the ECB] raises the euro's attractiveness for global transactions, thereby fostering its role as a leading international currency" (Panetta & Schnabel, 2020).

Coordination in security matters has, however, proven more difficult. In 2022 it was the EU's turn to "weaponize" the international role of the euro and freeze the Bank of Russia's foreign exchange assets following Russia's full-scale invasion of Ukraine (Quaglia & Verdun, 2023). The ECB at first accepted this role and promised that it would "swiftly implement the sanctions decided on by the [EU]" (Panetta, 2022a). However, it has opposed seizing the proceeds from Russian assets outright and transferring them to Ukraine, in part due to the expected impact of this measure on the international use of the euro ("Come and take them," 2023). In this more geopolitically fraught environment, the ECB (2024b) has continued to support the internationalization of the euro, but it has shifted the responsibility for taking policy measures onto foreign policymakers.

6. Conclusion

This article has examined the ECB's discursive frames applied towards the international role of the euro over the past 25 years. It has argued that the ECB has initially framed the topic of currency internationalization in depoliticizing terms, by emphasizing the technical implications for monetary policy and the importance of market forces over political objectives. Since 2019, however, the ECB has framed the topic from a more geopolitical perspective, arguing that the international role of the euro was linked to Europe's "global influence" (Draghi, 2019) and the broader push for open strategic autonomy, not least as it could help reduce the EU's vulnerability towards decisions by third countries. The ECB has signaled openness towards closer coordination with other policymakers in other fields and has advocated both geoeconomic measures and "geopolitical outreach" (ECB, 2019) to promote the euro.

This new discursive frame has implications for the ECB's role in EU external economic policymaking. The findings in this article show the ECB's agency in geopoliticizing the international role of the euro but also point to the limits on the ECB's technocratic autonomy implied by a geopolitical framing of international currency status. In the depoliticizing frame, the ECB rejected policy coordination and subordinated currency internationalization to its domestic mandate; in a geopoliticizing frame, it faces a trade-off between maintaining domestic price stability, promoting the international role of the euro, and aligning itself with wider EU geopolitical objectives. Recent policy decisions, notably the ECB's extension of central bank credit lines in 2020 and its reluctance to transfer Russian foreign exchange assets directly to Ukraine, thus illustrate the new choices before the ECB and the role that its preferences play for the geoeconomics of the EU's financial power (Quaglia & Verdun, 2024).

The ECB's involvement in "monetary geopolitics" (Monnet, 2022), also points to a larger theoretical puzzle concerning the role of independent central banks in a gepoliticizing international order. In abandoning its neutral stance on the international role of the euro the ECB has given up some of its policy autonomy as it sought to coordinate with foreign policymakers to reach strategic goals. The application of framing theory suggests that the ECB's preferences for currency internationalization and policy coordination are linked to different discursive frames. For 20 years, the ECB had sought to shield the international role of the euro from political interference by casting it as a technical matter of monetary policy. The imposition of US sanctions in 2018 and EU leaders' commitment to strengthen the euro's international role in the same year, however, highlighted the importance of geopolitical decisions in the international financial system and the political support for promoting the euro. In response, the ECB shifted to a geopoliticizing frame under which coordination with other policies was justified to strengthen the euro's international position.

However, by discursively embracing its role in the EU's external economic policy, the ECB has raised coordination problems that have not been fully addressed. It remains, for instance, unclear how far the ECB can follow foreign policy considerations based on its secondary mandate (Quaglia & Verdun, 2023; van't Klooster & de Boer, 2023), how the ECB is held accountable for the foreign policy implications of its actions, or how it could receive fiscal backing to take financial risks when that is geopolitically expedient (Papadia, 2013). One possibility could be to reduce the ECB's autonomy for decisions that have a foreign policy dimension, as is the case for the Federal Reserve (Conti-Brown & Zaring, 2019; Harris, 2015). However, it is neither clear which institution could guide the ECB on foreign policy decisions nor how this could be reconciled with the ECB's independence. ECB policymakers have accepted that issuing an international currency has geopolitical significance. This implies that the ECB's role in EU foreign policy needs to be defined more clearly in institutional terms.

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Conflict of Interests

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Supplementary Material

Supplementary material for this article is available online in the format provided by the author (unedited).

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ARTICLE

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Green Monetary Policy Measures and Central Bank Mandates: A Comparative Political Economy Analysis

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Abstract

Climate change and the political pressure for urgent policy responses have stirred an intense debate as to whether central banks should adjust their monetary policy frameworks in support of the transition to a greener economy. Despite the seriousness of environmental issues and the seeming existence of monetary policy tools to address them, some economists and central bank officials argue that monetary authorities cannot, or should not, be responsible for making policies that act upon the source of those problems. Among other reasons, the adoption of green monetary policy measures can conflict with the primary monetary policy goals, compromise the political independence of central banks, and raise questions about the legitimacy and increased power of some of these banks. Yet, evidence shows that a number of monetary authorities have already adopted environmental criteria in their policymaking, resulting in an expansion of monetary policy toolkits and areas of responsibility. This article undertakes a comparative political economy analysis of the green monetary policy measures and legal mandates of 20 central banks, covering the period between January 2010 and January 2024. This article then examines the monetary policy decisions of two case study central banks, whose green strategies appear not to be fully aligned with their mandates. The empirical findings aim to contribute to the growing political economy literature and international debate on how central banks address pressures related to environmental concerns which, although vital to society and the planet, may pose challenges to conventional goals and established mandates.

Keywords

central bank mandates; climate change; green central banking; historical institutionalism; sustainable finance; unconventional monetary policy

1. Introduction

Climate change and environmental degradation are critical issues of our time. While governments are the primary actors in matters related to economic and social welfare, the increasing severity of environmental issues and the slow implementation of climate commitments have led citizens, government officials, and leaders of organisations to call for a broader range of policy responses. In this context, an intensifying debate has been held as to the role of the central banks in the green transition given their prominent position and powerful tools to influence economic activity. The topic has received heightened attention in international forums and among central bankers. However, it continues to be surrounded by many questions about the extent to which monetary authorities should promote the greening of the economy and the financial system. It remains to be seen whether central banks will adopt a more proactive or vigilant approach to green policies, particularly if the selected options require significant changes in monetary policy frameworks, and whether central bank mandates—or their interpretation—will be revised to include considerations of environmental protection.

Drawing on the examination of 20 central bank monetary policy strategies and legal mandates between January 2010 and January 2024, this article's findings suggest that the greening of monetary policy is a highly complex process whose future is uncertain. For one thing, national and international pressures may instigate a growing number of central banks to act on climate change. For another, primary monetary policy objectives limit the ability of central banks to pursue environmental goals. Considering the Japanese and Swedish cases, the empirical findings further indicate that the incorporation of environmental factors into monetary policy decisions can be best understood through incremental patterns of policy change, notably layering and displacement forms of change, as conceptualised by historical institutionalist theorists. The results also highlight that the policy options adopted reflect the sustainable finance paradigm promoted by the Network for Greening the Financial System (NGFS)—a coalition of central banks and supervisory authorities formed in 2017 to enhance the green finance debate and strategic solutions (NGFS, n.d.). However, despite the extraordinary circumstances and the influential role of the NGFS in proposing policy reforms, pre-existing structures in the central bank narrowed the possibilities for innovation and shaped green monetary policy outcomes.

The remainder of this article is structured as follows: Section 2 relates the study to existing academic research that seeks to explain the opportunities and challenges of greening monetary policy and highlights some of the main empirical findings of this work. Section 3 introduces the study's research hypothesis and reviews the theoretical framework used to examine the rise of green monetary policy measures, which combines elements from historical institutionalism. The term "green monetary policy measures" refers to central bank policy decisions aimed at embedding environmental considerations in monetary policy operations—for instance, by establishing new policy instruments or reforming existing ones in ways that mitigate climate-related risks and provide financial incentives towards investments in firms, projects, or sectors that contribute to the quality of the environment. Section 3 further describes the methods and empirical material through which the environmental strategies adopted by each of the 20 central banks will be investigated. In support of the analysis, the study offers a new dataset on central bank green monetary policy responses (see Supplementary File 2) and a Green Monetary Policy Index (GMPI) that provides a more comprehensive overview of the degree of central bank involvement in environmental matters through monetary policy operations. Section 4 presents and discusses the results of the cross-case comparison, showing the variations in mandates and the number and strength of the green policy measures adopted across countries and economic groups. Section 5 provides a historical institutionalist analysis of the monetary policy developments at the Bank of Japan (BOJ) and the Sveriges Riksbank, including a new theoretical explanation for the differences in approaches to environmental issues. Section 6 concludes by commenting on areas that require further consideration.

2. Debate Over Greening Monetary Policy

Leveraging the power of central banks to influence economic activity and their expanded monetary policy toolkits following the 2008 global financial crisis and Covid-19, many claim that central banks should make another substantive contribution, this time in the fight against climate change. By factoring environmental aspects into monetary policy decisions, central banks encourage the market to take the net-zero transition seriously and expand green investments (BOE, 2022b; United Nations Environment Programme, 2017). While definitions of "green" vary across jurisdictions, "green investments" can be broadly described as the financing of projects "aimed at energy efficiency, renewable energy development, sustainable water management, clean transport systems' development, sustainable agriculture, pollution prevention, and climate change adaptation" (D'Orazio & Popoyan, 2019, p. 28; see also Centre for Climate Engagement, 2024). Conversely, brown investments are linked to the allocation of financial resources to activities or assets that harm the environment. Given the environmental emergency, there is a "quasi-moral responsibility" to align central bank operations with the new sustainability values and practices, as with other public sector institutions (Șimandan & Păun, 2021, p. 1; see also Howarth, 2009). From a monetary policy perspective, studies show that the increasing frequency of natural disasters and uncertain public policy responses will demand significant monetary policy action and complicate inflation forecasts for policy decisions (e.g., Dollman et al., 2020; NGFS, 2020). On the financial stability front, there is widespread acceptance that "climate-related risks are a source of financial risk," negatively impacting the stability of the financial system, including the financial position of central banks (NGFS, 2018, p. 3). These risks are claimed to be on the rise due to the growing materialisation of climate-related hazards and national efforts to achieve the Paris Agreement goals (Breman, 2020). Moreover, a body of literature brought to light that financial firms can exacerbate climate risks themselves by substantially funding high-emitting firms (BOE, 2022a; Schnabel, 2021). The European Banking Authority (EBA) deploys the terms "outside-in" and "inside-out" approaches to climate change to describe the concepts of single and double materiality (EBA, 2021, p. 32; see also Stiroh, 2022). Whereas the former entails a more passive approach whereby financial institutions identify, measure, and manage the impact of climate change risks on the banks' profitability, the latter is a two-way approach that further considers the negative externalities of the banks' activities on the environment.

Despite the growing consensus about the financial risks brought about by climate change, the implementation of climate strategies has often been delayed due to data gaps, insufficient knowledge on how to manage climate risks, and a lack of legal clarification as to whether central banks can adopt climate-targeted instruments (NGFS, 2021a). In response to these issues, some central bank officials have shared the view that early intervention with imperfect information is less costly than a late intervention with precise methods and guidance (e.g., Kuroda, 2021a, p. 9). For the Vice-Chair of the Single Supervisory Mechanism, "the risk of doing too little too late is significantly larger than the risk of central banks and supervisors overstepping their mandate" (Elderson, 2021, para. 22). In support of this thinking, research has shown that monetary policy can help minimise "climate-induced financial instability" and curb "global warming" via the deployment of nonstandard tools such as green quantitative easing and green collateral (Dafermos et al., 2018, p. 219; see also Chen et al., 2021; Chenet & Kalinowski, 2021; Couppey-Soubeyran, 2021; Schoenmaker, 2021). Ferrari and Nispi Landi (2022), as well as Abiry et al. (2022), further estimate a significant reduction in pollution levels should green quantitative easing be implemented early in the transition phase or if fiscal authorities fail to introduce an effective carbon tax. Yet, recent trends indicate a shift towards a more restrictive monetary policy, revealing the limited impact of central banks on climate change through quantitative easing.

Notwithstanding the pressing need to deal with the environmental crisis and the seeming availability of monetary policy tools to support that goal, concerns have been raised as to whether central banks should prioritise green investments. One line of criticism argues that "there can be no such thing as a green monetary policy" as it implies bringing into mandates areas that fall outside them (Issing, 2021, p. 188). Another strand of research holds that central banks can help mitigate environmental risks as part of their secondary mandates (Honohan, 2019). However, they cannot lead or be responsible for driving structural changes in what is produced and how (see also Chen et al., 2021; Cochrane, 2021; Dikau & Volz, 2021; Hansen, 2022; Honohan, 2019; Ozili, 2021; Șimandan & Păun, 2021). Some of the risks associated with central banks taking an active role in environmental matters can be summarised as follows: (a) the market neutrality principle, according to which central banks should not favour specific firms or sectors in the course of their investment operations, can be undermined if central banks favour green investments; (b) the limited expertise of central banks on climate change may lead to ineffective policies, damaging their credibility; (c) the successful implementation of green monetary policies can result in central banks being requested to intervene in other political and socioeconomic pressing areas; (d) the stretching of central banks' mission without a formal mandate can render their actions illegitimate and compromise their independence, to the extent that it results from political pressures from governments and other national and international organisations; and e) the potential expansion of legal mandates can overburden central banks with conflicting objectives and policy tools, turning monetary policy into a complex and incoherent policy area.

Irrespective of these arguments, evidence shows that several central banks have already incorporated green considerations into their monetary policy operations, particularly in emerging market and developing economies (EMDE), given their higher exposure to environmental issues and broader mandates (Dikau & Volz, 2021; D'Orazio & Popoyan, 2019). Regarding the advanced economies (AE), a change of paradigm seems to be underway (Mackintosh, 2019). After the former governor of the Bank of England (BOE) emphasised the financial risks of climate change in his 2015 speech on *Breaking the Tragedy of the Horizon* (BOE, 2015), several multilateral organisations and pressure groups have been established to enhance the sustainable finance debate. In parallel, a growing number of AE central banks have published strategies with instructions on how they intend to embed environmental criteria in their policy activities (see Supplementary File 2). On the occasion of the 2021 United Nations Climate Change Conference in Glasgow (UN COP26), the NGFS members further endorsed the Glasgow Declaration, whereby they committed to investigating how to integrate environmental considerations into monetary policy decisions (NGFS, 2021b). In this study, 17 out of the 20 central banks were members of the NGFS at the time of the UN event. Since then, the number of central bank pledges on climate change has expanded significantly, and all monetary authorities in this study became represented in the NGFS at the time of writing, except for the National Bank of Poland (NGFS, 2023). An increased engagement of central banks in the green transition is, therefore, expected, which may reflect a change of paradigm from a more neoliberal approach focused on price stability to a more reformist perspective that further entails environmental targets (Dziwok & Jäger, 2021). Such a "new job" brings to the fore earlier debates about the legitimacy and increased power of some central banks (Moynihan, 2021, p. 31; see also Högenauer & Howarth, 2019; Langley & Morris, 2020; Șimandan & Păun, 2021).

3. Theoretical Framework and Research Methods

This article aims to complement existing research by applying a comparative political science analysis to a subject that has primarily been studied in financial and economic terms (Akomea-Frimpong et al., 2022). Based on the anticipated relationship between central bank mandates and monetary policy decisions, the study's main research hypothesis is drawn from one of the core concepts of historical institutionalism: Central bank mandates create a path dependency which significantly shaped the development of green monetary policy measures. Historical institutionalism is a recognised analytical framework used to theorise the processes by which institutions are devised, changed, and sustained over time and across different settings. Its theoretical elements emphasise the role of past events in explaining present structural configurations, the influence of critical junctures in the inception and reinforcement of path-dependent trajectories, and the value of studying long-time horizons to identify more subtle institutional change (see Capoccia, 2015; Capoccia & Kelemen, 2007; Fioretos, 2011; Fioretos et al., 2016; Krasner, 1984; Pierson, 2000; Sewell, 2005). In the present study, historical institutionalism is first deployed to evaluate whether legal mandates created a path-dependent structure that fundamentally impacted the adoption or non-adoption of a green monetary policy strategy. The concept of path dependency posits that once a decision is made in a particular direction, that course of action tends to be perpetuated over time due to "increasing returns" and "positive feedback," even if the chosen trajectory becomes inefficient (Fioretos, 2011, p. 377; see also Mahoney, 2000; Pierson, 2000). The awareness of path-dependent processes thus illuminates why institutions remain stable over an extended period, making it difficult for competing arrangements to supplant existing ones.

Central banks display features of path dependency while being bound to a limited set of powers delegated by governments to them. Those powers are stated in treaties and other legal documents, typically named mandates. While some mandates are limited to price and often financial stability, others allow a broader interpretation of the central bank's mission by including support for other macroeconomic variables or government policies, normally as a secondary objective. Either way, central bank actions and commitments must be clearly justified on the grounds of their previously set objectives, which legally constrain their policy decisions. This "lock-in" effect or institutional "stickiness" in the context of central banks aims to protect central bank powers and control their objectives (Pierson, 2000, p. 253; Thelen & Steinmo, 1992, p. 15). Specifically, it enables central banks to carry out their functions independently from political preferences and prevents them from interfering in matters that are under the responsibility of elected officials. Following this path-dependent logic, one could envisage limits to a central banking approach to environmental policy as follows: the most narrow mandates centred on price and financial stability would deprioritise green policy, whereas the broader mandates, which include the explicit support for economic variables—such as employment and production—or government policies, would benefit from increased policy space to adopt measures that contribute to green growth. This premise is based on scientific research that emphasises the implications of climate change on production, employment, and growth (e.g., Batten, 2018; Kahn et al., 2019;

Kruse et al., 2017; NGFS, 2020). In this line of reasoning, more vigorous actions would be expected from central banks whose mandates assign equal weighting to different macroeconomic goals, the so-called dual mandates. However, given the climate pledges announced by some central banks, the mandates of which do not explicitly instruct to support the real economy, the results reveal some surprising findings.

To understand the unexpected outcomes, Section 5 examines green monetary policy developments in two central banks with narrow mandates. What is observed across the two cases is that the environmental emergency did not yet imply the immediate breakdown of policy frameworks nor the creation of brand-new and durable arrangements, as suggested by the traditional accounts of critical junctures whereby "[j]unctures are 'critical' because they place institutional arrangements on paths or trajectories, which are then very difficult to alter" (Pierson, 2011, p. 135). Instead, evidence shows operational limits and backtracking of the green measures adopted due to policy incompatibilities. This scenario of policy change held within institution-specific constraints gave rise to a gradual pattern of institutional change, as conceptualised by scholars within historical institutionalism. Therefore, an analysis is made of the monetary policy options selected by these two central banks to address environmental issues in light of four main types of incremental change (see Fioretos et al., 2016; Mahoney & Thelen, 2009; Streeck & Thelen, 2005; Thelen & Conran, 2016): (a) layering or establishment of new rules atop or in tandem with existing ones—for instance, through amendments, revisions, or additions; (b) displacement or outright replacement of existing rules by new ones; (c) conversion or adaptation of extant rules towards new objectives (pre-existing rules remain but are reinterpreted); and (d) drift or the altered impact of established rules due to their deliberate non-adaptation to the evolving environment.

This study draws on the controlled comparative case study method to examine the interlinkages between environmental goals, central bank mandates, and monetary policy decisions. The method involves investigating a purposively selected number of central banks to gain a deeper understanding of their monetary policymaking (Gerring & Cojocaru, 2016). The multiple-case analysis comprises the green monetary policy strategies and legal mandates of the 10 largest AE and the 10 largest EMDE from January 2010 to January 2024. The countries were selected based on the World Bank's GDP estimates for 2020 and 2021 (The World Bank, n.d.), whereas the economic group (AE and EMDE) follows the IMF country classification (IMF, 2022). The starting year of the research period was chosen based on the first identified monetary policy tool to support environmental businesses, notably, the Bank of Japan's Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth (Growth-Supporting Funding Facility). It consisted of a favourable credit line for investments in areas with growth potential, including "environment and energy business" and "business for securing and developing natural resources" (BOJ, 2010, p. 26). The cut-off date was decided upon more practical grounds related to the duration of the research. From the AE, the units of analysis are the monetary authorities of Australia, Canada, the euro area (EA), Japan, Norway, Sweden, Switzerland, the Republic of Korea, the UK, and the US. From the EMDE, the examination includes the monetary authorities of Brazil, China, India, Indonesia, Mexico, Poland, Russia, Saudi Arabia, Thailand, and Turkey. The decision to conduct medium-N research involving systemically important economies from two leading economic groups was considered beneficial to the whole study. First, the international standing of these countries is not only economic but also political. While all seven members of the G7 are represented in the research sample, 15 out of the 20 central banks were G20 members at the beginning of the study (Council of the European Union, 2021; G20 Italy, 2021). Given that climate action and sustainable finance have been policy priorities for both groups, the strategies adopted by these dominant economies will likely shape practices worldwide. Second, a combination of AE and EMDE central banks can better represent the evolution of green monetary policies globally. Third, the confidence in the findings of a medium-N study is claimed to be greater than that of a single or a few case studies (Lieberson, 1991). Following Slater and Ziblatt (2013, p. 134), the "transferability" of an argument to other concrete situations is higher when explained in dozens of other cases.

All empirical data are publicly provided by central banks on their websites. This material has been complemented with information issued by other relevant organisations, extant literature, newspaper clippings, and two semi-structured interviews with monetary policy experts. In reading central bank mandates, the following premises have been considered: First, it is recognised that natural hazards and the transition to a low-carbon economy affect output prospects, production, and employment, as documented in the macroeconomic literature on climate change. Second, wider objectives, such as the economic and financial welfare of the country, provide central banks with greater discretion to implement new or redirect existing monetary policy tools towards green segments—whereas welfare entails dimensions such as environmental protection, economic welfare concerns consumption, and the environmental resources that enable that consumption (Reinsdorf & Quiros-Romero, 2020). Third, economic growth as a result of price stability is not considered a primary central bank objective per se, which remains to keep inflation low and constant aiming to foster economic growth. For example, the Reserve Bank of India Act states that "the primary objective of the monetary policy is to maintain price stability while keeping in mind the objective of growth" (Reserve Bank of India Act 1934, 2022). In this and other similar cases, this study assumes that maintaining stable prices makes it easier for political authorities to implement policies that promote green growth.

According to the observed results, the following four monetary policy instruments have accounted for environmental considerations: asset purchase programmes, collateral, credit operations, and foreign exchange investments. Yet, each instrument has been differently adjusted with green parameters, resulting in varying effects to promote green investments. To harmonise the multiple ways whereby the same policy instrument can be deployed to advance environmental goals and provide a clearer picture of each central bank's involvement in environmental matters, the study introduces a GMPI. The GMPI was inspired by the Green Macroprudential Index developed by D'Orazio and Popoyan (2019), although it follows a distinct categorisation to fit the purpose of this research. Under the GMPI framework, each monetary policy decision with an environmental component has been qualitatively evaluated and graded on a scale of 0 to 5 according to one of the following six categories: *not observed*, if no measure has been adopted or announced (GMPI = 0); *under consideration*, for announced measures without an implementation date (GMPI = 1); *on the agenda*, for formally committed decisions with a specific timeline of implementation (GMPI = 2); *facultative*, for established green arrangements with no binding force (GMPI = 3); *risk control*, for enduring measures that add green elements into existing policy tools to primarily protect central bank assets and operations from climate-related financial risks (GMPI = 4); *targeted*, for policy instruments exclusively created to promote environmental projects (GMPI = 5). The GMPI for each central bank results from the sum of the scores given to each policy measure implemented or announced up to January 2024. The final scores attempt to reconcile the quantity with the strength of the measures adopted by each central bank to facilitate the selection of two units of analysis for more detailed research. After assessing and assigning a score to each monetary policy decision that accounts for environmental aspects, it was concluded that central banks with a total score above 12 were the most actively engaged in greening their monetary policy frameworks. Central banks with scores between 7 and 13 revealed a moderate level of involvement in green policymaking, primarily driven by risk management concerns. Central banks with scores between 1 and 6 proved a superficial approach to environmental factors. Central banks with an index score of 0 did not publicly consider the adoption of environmental considerations in their monetary policy decisions.

It is important to note that the GMPI scores are designed to offer a qualitative account of the level of central bank engagement in environmental issues through their monetary policy operations. Therefore, three relevant clarifications are necessary: First, the GMPI scores are not intended to measure the overall level of "greenness" of each central bank. A low score does not necessarily mean that these banks have not advanced an environmental strategy in other business areas, such as banking supervision, financial regulation, non-monetary policy portfolios, and corporate activities. Second, the GMPI scores do not aim to quantify the economic impact of the measures adopted or rank the best-implemented policies. Such an analysis would require a quantitative or econometric study, the scope of which goes beyond this research. Third, the study does not address the extent to which central banks put the announced measures into practice or the unlikely scenario in which they implement measures that have not been communicated. Although this study acknowledges the possibility of "cheap talk," the primary focus of the analysis is to comprehend why and how central banks started considering environmental factors in their decision-making, irrespective of their practical implementation. Supplementary File 1 contains additional information about the research methodology, including the search strategy, classification of monetary policy instruments, GMPI categories, and interview quotes. Finally, the empirical section provides an overview of the consistency of central bank green monetary policy arrangements with the breadth of their mandates using a typical and deviant case study selection approach. A typical or "expected" case confirms a stable and predictable relationship between central bank mandates and green monetary policy outcomes (Rohlfing, 2012, p. 114). A deviant or "anomalous" case does not hold such an anticipated relationship, suggesting that mandates do not clearly explain the adoption of or resistance to green monetary policy strategies (Rohlfing, 2012, p. 114).

4. Empirical Findings of the Cross-Case Analysis of 20 Central Banks

The empirical data points to the following results regarding the classification of central bank mandates and the evolution of green monetary policy decisions between January 2010 and January 2024 (see Table 1 for a summary overview and Supplementary File 2 for detailed information per central bank): Three out of the 10 AE central banks are not explicitly instructed to support variables from the real economy or government policies (the BOJ, the Bank of Korea, and the Swiss National Bank). Two AE central banks present features of dual mandates (the Reserve Bank of Australia and the Federal Reserve System), whereas five AE central banks are directed to contribute to economic policies or promote economic welfare, at least as a secondary objective (the Bank of Canada, the BOE, the ECB, the Norges Bank, and the Riksbank). Six of the 10 EMDE central banks entail narrow policy mandates focused on price or currency stability (the People's Bank of China [PBC], the Reserve Bank of India, Bank Indonesia, the Banco de México, the Bank of Russia, and the Bank of Thailand). One EMDE central bank entails economic growth along with price and financial stability (the Saudi Central Bank). And, three EMDE central banks operate with hierarchical mandates (the Central Bank of Brazil, the National Bank of Poland, and the Central Bank of the Republic of Turkey).

As Figure 1 (in Supplementary File 3) illustrates, the period between 2010 and 2019 witnessed the first monetary policy instruments geared towards green investments. Eight of the 11 measures adopted during this time were implemented in the AE—Japan, Switzerland (with two main policy measures), Norway, the EA, Korea, Sweden, and the UK—and three in the EMDE—India, China, and Indonesia. The steady moves up to 2020 contrast with the increased number of measures adopted in 2021, which continued through 2022, albeit to a lesser extent. The boldest AE moves came from the BOE, the BOJ, the Riksbank, and the ECB (see Figure 2 in Supplementary File 3). All four central banks published climate roadmaps under the argument that acting on climate change falls within their primary, secondary, or both mandates (BOE, 2023; BOJ, 2021a; European Central Bank, 2021; Sveriges Riksbank, 2020c). From the EMDE, the high GMPI score for the PBC reflects changes in the bank's monetary policy remit to promote the greening of the Chinese economy and financial system. Consequently, the bank launched two green lending facilities (The People's Bank of China, 2022). The third green credit line launched in 2021 came from the BOJ (BOJ, 2021c). Surprisingly, both central banks hold what this study classifies as a narrow mandate. The year 2021 was marked by a number of historical events that contributed to an intensifying engagement of central banks in the environmental emergency, as highlighted in various central bank publications. Prominent among them is the UN COP26, which brought together ministers of finance and central bank senior officials to catalyse green finance (BOE, 2020; United Nations Framework Convention on Climate Change, 2021b). On this occasion, 16 out of the 20 central banks in this study published a pledge or strategy on climate change and supported the NGFS Glasgow Declaration (NGFS, 2021c). In addition, 146 of the 192 Paris Agreement signatories presented new or revised plans to reduce greenhouse gas emissions by mid-century, while the G7 and G20 simultaneously elevated climate change action as one of their top priorities (Bank of Canada, 2022; United Nations Framework Convention on Climate Change, 2021a).

Considering the monetary policy tools created or adjusted with green parameters (see Figure 3 in Supplementary File 3), asset purchase programmes represent the main instrument of intervention in the AE (28% out of the total number of green monetary policy measures adopted across AE and EMDE), followed by foreign exchange operations (21%). In the EMDE, green considerations have typically resorted to the selection of investments or counterparties in foreign exchange investments (21%), followed by credit operations (10%). The incorporation of environmental considerations into asset purchase programmes was not explored in this study's EMDE central banks. This finding is plausibly linked to the limited EMDE green bond market and central bank involvement in domestic asset purchases. Regarding the forthcoming green monetary policy measures (see Figure 4 in Supplementary File 3), six central banks intend to undertake new or additional green adjustments. From the AE, the ECB, the Bank of Korea, and the Riksbank proposed fine-tuning their collateral frameworks towards green segments. The Bank of Korea further mentioned the prospect of adjusting the current Financial Intermediated Lending Support Facility in favour of green investments. The BOE has been considering including climate risks in the assessment of counterparties for lending operations, while the Bank of Canada—of which there were no records of previous green monetary policy decisions—has been examining options to incorporate climate elements into its market operations. Although not included in Figure 4 (in Supplementary File 3), due to its rather speculative nature, the ECB does not rule out the possibility of establishing green lending, once data becomes more robust and monetary policy expansionary (Elderson, 2023; Schnabel, 2023). From the EMDE, the Bank of Thailand announced a potential credit facility to support small and medium enterprises in the green transition.

The GMPI scores offer additional insights into the green monetary policy event. As shown in Table 1, three of the top five central banks most visibly engaged in environmental-targeted decisions are located in Europe—the BOE, the ECB, and the Riksbank—and two in Asia—the PBC and the BOJ. As for the remaining

Table 1. Cross-case comparison using a typical and deviant case study selection approach, as of January 2024.

Unit of analysis	Economic group	Scope of the mandate	GMPI	Case study type
UK	AE	Broad (secondary)	22	Typical
EA	AE	Broad (secondary)	20	Typical
China	EMDE	Narrow	16	Deviant
Sweden	AE	Broad (secondary)	15	Typical (Deviant before Jan. 2023)
Japan	AE	Narrow	14	Deviant
Thailand	EMDE	Narrow	11	Typical
Brazil	EMDE	Broad (secondary)	9	Typical
Korea	AE	Narrow	9	Typical
Switzerland	AE	Narrow	7	Typical
Norway	AE	Broad (secondary)	4	Deviant
Australia	AE	Broad (dual)	3	Deviant
India	EMDE	Narrow	3	Typical
Indonesia	EMDE	Narrow	3	Typical
Mexico	EMDE	Narrow	3	Typical
Poland	EMDE	Broad (secondary)	3	Deviant
Canada	AE	Broad (secondary)	1	Deviant
Russia	EMDE	Narrow	0	Typical
Saudi Arabia	EMDE	Broad (dual)	0	Deviant
Turkey	EMDE	Broad (secondary)	0	Deviant
US	AE	Broad (dual)	0	Deviant

Source: Author's own work.

central banks in this study, and notably the 11 monetary authorities with scores below 7, there is a clear reluctance towards greening monetary policy despite some holding institutional conditions more conducive to green-based instruments. This holds especially true for the central banks of Australia, Saudi Arabia, and the US, the mandates of which include coequal monetary and economic objectives. Most strikingly, the multiple-case analysis suggests that there is no clear linkage between formal objectives and green monetary policy outcomes since central banks with similar mandates have responded differently to environmental pressures. It is reasonable to conclude that the role of central bank mandates has not been particularly strong in explaining monetary policy decisions in the environmental field, undermining this study's hypothesis whereby central bank mandates create a path dependency which significantly shaped the development of green monetary policy measures. Due to length constraints, this contribution cannot undertake an individual case study analysis of what motivated central banks with narrow mandates to advance an environmental agenda and held back central banks with wider objectives. Instead, the following section examines the formation and institutional design of green monetary policy measures at the BOJ and the Riksbank, the two most climate-responsive AE central banks with an originally narrow mandate. The value of comparing two central banks that adopted environmental standards in their monetary policymaking derives from offering a range of possible variations on how monetary policy frameworks have effectively supported the green transition, the findings of which can be cautiously generalised to predict green monetary policy developments in other central banks with narrow mandates.

5. The case study of Japan and Sweden

According to this study's definition of a narrow mandate, the Bank of Japan Act lacks explanatory elements for the bank's strategy on climate change (BOJ, 2021a; Bank of Japan Act, 1997). Yet, the BOJ holds the fourth position in the GMPI (14), just after the UK, the ECB, and the Riksbank; the three of which with GMPI scores of 22, 20, and 15, respectively, by virtue of their secondary mandates. From this perspective, the BOJ represents not only a deviant choice but also an extreme one in that it shows the maximum "deviantness" vis-à-vis other AE central banks with narrow mandates (Seawright & Gerring, 2008, p. 302). In pursuing its green agenda, the BOJ implemented a new credit line with the explicit objective of supporting the country's efforts in mitigating climate change (BOJ, 2021e). To date, the BOJ and the PBC are the only two units of analysis that have introduced lending programmes specifically designed to support achieving carbon neutrality. Paradoxically, both central banks are instructed to safeguard the stability of prices which is, in theory, a very focused mandate. It is one thing to manage climate-related risks and quite another to enact policies that target the root cause of those risks. Moreover, the BOJ was the first central bank in this study to implement a monetary policy instrument with an environmental scope, the Growth-Supporting Funding Facility, in 2010. This policy experience may have influenced how the bank later responded to the environmental crisis. Against this background, the BOJ represents an interesting case study to explore how the bank is attempting to accomplish its environmental strategy within the constraints of its narrow mandate.

The Riksbank holds the third-highest GMPI score among the AE central banks, ranking after the UK and the ECB. Although the three banks feature multiple monetary and economic objectives, which provide greater flexibility to adopt unconventional policies "in the interest of macroeconomic stabilisation and crisis management," the Riksbank is still an unexpected case that merits further investigation (Begg, 2013, p. 58; see also Meyer, 2001). The bank adopted a new act in January 2023 that explicitly accounts for production and employment as a secondary objective. However, the Riksbank's sustainability strategy was set in 2020, prior to the newly expanded mandate (Sveriges Riksbank, 2020b). The Riksbank and the BOJ were thus able to adopt environmental criteria and goals despite the theoretically limited mandates and heterogeneous approaches. Moreover, the new mandate made the Riksbank's contribution "to Sweden's climate transition clearer" (Sveriges Riksbank, 2023a, p. 26). According to the bank, "for all measures taken by the Riksbank, there must be support in law, which also applies to sustainability measures" (Sveriges Riksbank, 2023a, p. 27). This recent modification in the legal text pulled the former deviant central bank towards a typical one, opening a new field of explanation for how a deviant case resolved problems related to the lack of legal conditions to support green public policies by expanding the scope of its mandate. Yet, an overhaul of the mandate can be a difficult and radical option to implement in other contexts.

The BOJ and Riksbank's new environmental strategies and changed policies provide very certain and unique evidence that the green turn was effectively possible in both banks, notwithstanding their commitment to price stability. However, the policy responses to climate change did not imply neglecting the banks' primary goals or disrupting operating procedures—quite the contrary. The interaction of new green finance ideas and interests with the central banks' main goals and formal structures created a model of bounded green monetary policy whereby past institutional arrangements offered opportunities for policy innovation but set boundaries for the type of innovation possible. Reflecting on the BOJ case, the bank's most impressive climate-targeted instrument established in 2021, the Climate Response Financing Operations displaced the multipurpose Growth-Supporting Funding Facility launched in 2010 to counteract an economic recession

(BOJ, 2010, 2021b, 2021e; Kuroda, 2021a). Yet, the measure is temporary—the BOJ's climate financing facility is scheduled until March 2031 (BOJ, 2021d)—conditional on monetary policy needs, and designed in ways that seek to minimise the bank's involvement in the selection of companies to protect the market neutrality principle (BOJ, 2021b, 2023). The transition between the two tools was itself incremental insofar as they overlapped for some months: the first disbursement of the Climate Response Financing Operations was planned in December 2021, whereas the last disbursement of the Growth-Supporting Funding Facility was scheduled for June 2022 (BOJ, 2021b, 2021d). The inclusion of Japan Climate Transition Bonds in the BOJ market operations has been inhibited by the small issuance of these assets (Interview 1a).

The Riksbank preferred risk protection tools over more exclusive or targeted ones, in line with the bank's pre-existing instruments. Specifically, the large-scale asset purchases initiated in 2015 and reinforced during the pandemic to stimulate economic growth were adjusted in ways that emphasised green investments (Interview 2a). However, security purchases were discontinued in 2023 due to a restrictive monetary policy, meaning that the environmental support through asset purchases was also transient (Sveriges Riksbank, 2024). When it comes to the incorporation of green criteria into foreign currency operations, both banks have made them subordinate to other fundamental decisions concerning the risk and return profile of the banks' portfolios (BOJ, 2021a; Sveriges Riksbank, 2023b). Against this background, the BOJ and the Riksbank lend stronger support to a gradual pattern of change in central bank goals and operations linked to their support for the green transition. Empirical evidence also suggests that the two cases cannot be understood through one pattern of incremental adaptation only. Instead, there is a process of layering of environmental criteria on core policies and displacement of pre-established structures. Most notably, new environmental factors were carefully added to existing foreign exchange activities and asset purchase programmes along with other risk management metrics. For its part, the BOJ Climate Response Financing Operations fits well within the displacement type of change as it replaced the preceding Growth-Supporting Funding Facility. This observable result is crucial in the analysis as it implies a clear scenario of policy change rather than a reinterpretation or deliberate non-adaptation of existing policy tools to the surrounding context, as the proponents of conversion and drift mode of institutional change maintain (Hacker et al., 2015). The historical analysis further shows that environmental criteria can be weakened and even halted in the interest of monetary stability, revealing the limited contribution of monetary policy to environmental targets due to conflicting monetary and environmental objectives.

Another central observation of this contribution is that previous nonconventional instruments seen as temporary measures to ensure market liquidity during economic downturns—namely, the BOJ's Growth-Supporting Funding Facility and the Riksbank's expansion of its balance sheet—became necessary and salient parts of the momentary policy toolkits to pursue climate goals. In other words, the green policy measures adopted were built on and benefitted from the functioning, security, and "positive feedback" of an older monetary policy structure without completely altering its purpose or execution (Mahoney, 2000, p. 523). Arguably, adding new green elements to tools that have been approved and tested in response to previous crises is easier than creating entirely new ones. Drawing on the notions of path dependency, new instruments can impose uncertain returns and significant economic costs if current assumptions about climate change risks are proven wrong and the measures adopted turn out to be inefficacious. Therefore, it is reasonable to think that central banks preferred to channel responses to new environmental goals through piecemeal changes in established frameworks, as they enabled a relatively immediate action on climate change, albeit cautiously. This incremental type of response could be somehow expected since the environmental crisis is a new and evolving event, monetary policy's ability to protect nature is limited, its effects are uncertain (Interview 1b), and governments are the chief levers in driving green economic growth. Borrowing from Moschella and Tsingou (2013), in the context of divided governance, change is more likely to happen gradually. Moreover, relying on earlier policies and practices lessens public opposition and political contestation as the newly created elements can be placed and understood within the banks' existing arrangements (Fioretos, 2011). As Weir (1992, p. 194) puts it: "the way a policy is packaged plays an important role in maintaining the diffuse support or acceptance necessary to protect it from challenge." This may hold particularly true in a domain surrounded by doubts as to whether central banks have a legal basis to pursue environmental goals. Consequently, some institutional constraints may have been accepted and even valued in the process of greening monetary policy. This result is consistent with previous findings about the prevalence of incremental reforms within financial institutions (e.g., Fioretos, 2011; Moschella & Tsingou, 2013).

Considering the factors leading to the rise of green monetary policy measures, the historical review of the BOJ and the Riksbank suggests a combination of two main drivers: the insufficient public policy responses to growing environmental risks and the influence of international agencies, especially the NGFS, in building and promoting alternative green finance solutions. The BOJ's groundbreaking lending facilities established in 2010 and 2021 echo a concerted effort with the Japanese government to achieve specific economic goals. Notably, the Growth-Supporting Funding Facility sought to revert a cycle of economic stagnation by substantiating a list of activities with growth potential, including the environment, as defined in the 2009 New Growth Strategy (BOJ, 2010; Prime Minister's Office of Japan, 2009). The Climate Response Financing Operations launched in 2021 replaced the longstanding Growth-Supporting Funding Facility to support "Japan's actions to address climate change," as per the national Green Growth Strategy to achieve carbon neutrality by 2050 (BOJ, 2021e, p. 20, 2021b; see also Kuroda, 2021a; The Government of Japan, 2021). As the BOJ former governor elucidated:

> …[T]ransforming the [carbon-growth] model into a decarbonised one in less than three decades is a challenging task…[it] will require not only a large amount of capital and R&D investments over a long period but also the financing of those investments. Against this background, the Bank has recently decided to introduce a new operation to provide funds to financial institutions on favourable terms against various investments or loans they make to address climate change. I hope this new operation will serve as a catalyst to boost private sector efforts to address climate change. (Kuroda, 2021b, Section 2)

The availability and attractiveness of new green finance ideas were crucial to the bank's climate strategy design (BOJ, 2021a). Particular emphasis has been placed on the recommendations of the G20 and Task Force on Climate-Related Financial Disclosures (TCFD), which the Japanese government and the BOJ have been advocating since the country held the G20 presidency in 2019—"Energy Transitions" and TCFD guidelines were among the Group's main agenda topics (BOJ, n.d.; G20 Japan, 2019; Kuroda, 2019; Ministry of Finance Japan, 2019). Following the growing number of acute climate events in Japan, the bank decided to join the NGFS in November 2019 to "enhance its understanding" of and contribute to the international debate on climate change (BOJ, 2019, Interview 1c-d). Favourable credit lines against TCFD disclosure requirements and inclusion of environmental criteria in foreign exchange investments and asset purchases were among the policy options proposed by the NGFS, which the bank came to implement (Interview 1d; NGFS, 2021a).

When it comes to the Riksbank, it is not so much how the country defined its environmental goals that determined the Riksbank's sustainability strategy. After all, Sweden contributes less than 0.1% to global CO2 emissions, whereas Japan has been among the 10 most emitting countries (Climate Watch, n.d.; Friedrich et al., 2023; Interview 2b). The historical account of the Riksbank brings to the fore the importance of investigating international politics and the work of specialised organisations to understand policy change. Evidence shows that the NGFS warning about climate change financial risks and the techniques that can be deployed to minimise those risks are particularly imprinted on the bank's sustainability discourse and policy choices (e.g., Brattström & Gajic, 2022; Breman, 2020, 2021; Finansinspektionen & Sveriges Riksbank, 2021; Interview 2c). Accordingly, the bank has grounded its sustainability strategy on the legal principle of managing public money in a prudent and efficient manner, as required by Chapter 9 of the previous Riksbank Act 1988 (Sveriges Riksbank, 2020a; The Sveriges Riksbank Act 1988, 2015, Chapter 9, Article 1(a)). The new strategy further aimed to avoid undermining the effects of green public policies through the bank's activities and compensate for the lack of effective global carbon-reduction measures to fight climate change (Breman, 2020; Sveriges Riksbank, 2020b, 2021). A key observation from this analysis is that the Riksbank maximised the wider scope afforded by Chapter 9 of its older act to develop a monetary policy response to climate change. This is an indication of how the interpretation of mandates can drive policy innovation when there is a strong commitment towards specific causes.

As even this brief review of the Japanese and Swedish cases illustrates, the greening of monetary policy frameworks has been a challenging process. For one thing, institutional change is evident in that green considerations gathered momentum and remained significant in assessing investments, even if temporarily and constrained by other monetary policy criteria. For another, green considerations cannot be entirely sustained to safeguard the banks' overarching goals, which remain subject to keeping "long-term inflation expectations…firmly anchored around the inflation target" (Sveriges Riksbank, 2023b, p. 30). Therefore, the measures adopted are time-limited and can be weakened or suspended while in force. Three other elements significantly influenced policy results: First, pre-existing nonstandard monetary policy tools created strategic opportunities that both banks exploited to pursue environmental goals. Second, the green shift is also a narrative about policy learning and acceptance of new sustainable finance ideas, with the NGFS laying the groundwork for possible green monetary policy solutions. Third, despite the emergence of innovative ideas and interests, extant structures and primary objectives proved instrumental in shaping monetary policy outcomes, suggesting that history influenced central bank institutional developments in the environmental field.

6. Conclusion

This article reviews and examines the green monetary policy strategies and formal objectives of 20 major central banks. Evidence shows that monetary authorities have increasingly formulated and implemented monetary policy measures in ways that directly support the low-carbon transition, even if the effectiveness of such measures is yet to be fully estimated and understood. The multiple-case analysis further reveals the following expected and counter-intuitive findings: First, as expected, the most climate-responsive central banks appear to have a secondary mandate that supports unconventional green monetary policy measures. However, and second, climate strategies have proven hard to implement by central banks with dual mandates which, theoretically, would have more leeway to pursue environmental objectives. Third, the greening of monetary policy has also occurred in contexts where institutional conditions appear at odds with such developments, in the so-called narrow mandates. This is relevant evidence showing that historical institutionalism explains green monetary policy developments to a certain degree but not entirely, thereby weakening this study's research hypothesis: Central bank mandates create a path dependency which significantly shaped the development of green monetary policy measures. To enhance the understanding of the medium-N research, the study examines two central banks that did not conform with the hypothesised relationship between the scope of the mandate and the environmental strategy adopted.

The BOJ and the Sveriges Riksbank elucidate two contexts where the green policy turn was possible, notwithstanding their originally narrow mandates. Spurred by a growing concern with climate risks and the imperative need to accelerate the green transition, both banks were able to set in motion new investment and policy strategies that offered incentives towards a Paris-aligned economy—whether central banks should be tasked with providing this incentive in the first place appears to be still a matter of debate. However, the environmental emergency did not fundamentally change the banks' mission and aims. Evidence shows that historical legacies assisted in explaining the green monetary policy options adopted. Notably, both central banks sought institutional solutions for the environmental problem within existing arrangements, which limited what they could implement and do for the environment. Legal, legitimate, and technical considerations account for piecemeal changes in monetary policy toolkits, namely layering and displacement forms of change. Furthermore, environmental criteria can be "delayered" and the climate-targeted instruments suspended whenever monetary and environmental ends are not compatible. Enduring solutions would require an expanded and legitimate monetary policy toolkit that reconciles multiple and intersecting monetary policy goals. For now, the usefulness of attempting to "green" monetary policy seems to rest on setting an example and encouraging the market to enhance their transition plans. The within-case examination further demonstrates that the adoption of environmental standards was not solely determined by a functionalist explanation related to the desire to keep prices stable or protect the financial position of central banks. In addition to risk management purposes, environmental considerations emerged as a response to addressing a collective action problem, serving the needs of governments to stimulate green growth. This appears particularly evident in contexts where the environmental topic is institutionalised in a broad range of economic and social domains. In Sweden, the national government not only implemented a determined Climate Policy Framework but also effectively amended the statutes of the bank in ways that more explicitly support climate action (Government Offices of Sweden, 2021). The BOJ continued on the same legal grounds throughout the research period. The bank's climate strategy resulted from a longstanding tradition of government support, which involves offering preferential loans for certain economic activities.

To strengthen the validity of these findings and significantly contribute to theory development, further comparative analysis is needed to corroborate the institutional dynamics discussed in this contribution or capture new ones. For instance, it would be relevant to explore whether the changing environmental problem and the growing availability of data will drive more significant and long-lasting changes in future monetary policy decisions, or if such changes will prove to be ineffective or institutionally impossible to implement. It would also be worth conducting additional central bank case studies in other regions of the world to identify the incentives and hindrances encountered, as well as whether those banks adopted or failed to adopt environmental factors in their monetary policymaking. Other potential areas for future research include investigating the mechanisms through which informal organisations and ideational change shaped central bank green policy preferences. As the evidence came to demonstrate, during a time of increasing environmental concerns, the creation of the NGFS succeeded in influencing some of the largest central banks to rethink their role in the green transition and scale up green finance. However, it is not yet clear why central banks with dual mandates did not undertake any green adjustment in their monetary policy frameworks, despite the growing consensus over climate risks, their holding more favourable institutional conditions to promote green segments, and being part of the NGFS, "a coalition of the committed" (Elderson, 2021). To address this topic, the application of qualitative comparative analysis can provide a differentiated research design to identify the sufficient conditions that lead to green monetary policy outcomes. I hope this study expands the historical-comparative literature with novel evidence about the inception and structure of unconventional central bank monetary policies and proposes a framework that stimulates further research on green monetary policy issues at a global scale.

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Conflict of Interests

The author is currently on unpaid leave from one of the central banks in this study. The bank is neither of the two case study central banks nor is it sponsoring this study, which the author has undertaken as an independent researcher at the University of Luxembourg.

Data Availability

Research data can be found in the Supplementary File 2.

Supplementary Material

Supplementary material for this article is available online in the format provided by the author (unedited).

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ARTICLE

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Monetary-Fiscal Interactions and the Problem of Outdated Commitments: Eurozone Crisis Versus Covid-19

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Abstract

Post-crisis accounts of economic governance in Europe have often analysed the monetary policy decisions of the supranational European Central Bank and the fiscal policy coordination of the intergovernmental Council and Eurogroup separately. This is unfortunate since both policy fields are closely linked and increasingly interdependent. We put forward a theory of monetary-fiscal interactions in the Economic and Monetary Union based on the notion of de-commitment and re-commitment. In juxtaposition to the grand theories of neo-functionalism and liberal intergovernmentalism, we argue that EU institutions serve not only to tie the member states to policy commitments but also to untie them from previous policy commitments that have become outdated and harmful. The European Central Bank's main contribution to safeguarding the Eurozone in 2012 and 2020 has not been to enforce but to relax the monetary financing prohibition of the Treaty, and the Council's main contribution in 2020 was not to double down on the no bail-out clause but to re-commit to risk-sharing and burden-sharing through the NextGenerationEU programme. We argue and show that economic governance in Europe has progressed through three stages of commitment. Whereas monetary-fiscal interactions followed a commitment logic during the first decade of the Economic and Monetary Union (the "old normal"), the defining feature of the second decade has been de-commitment (the "new normal"). In the Covid-19 crisis, economic governance finally entered a phase of re-commitment (taking the Economic and Monetary Union "back to the future"). The analysis has implications for our understanding of the purpose and power of supranational institutions in overcoming the problem of outdated commitments post-crisis.

Keywords

Economic and Monetary Union; economic governance; Eurogroup; European Central Bank; European Council; Eurozone; monetary-fiscal interactions

1. Introduction

For a few long months during the fateful spring of 2020, the Covid-19 economic crisis showed every sign of turning into a "Eurozone crisis 2.0" (Elliott, 2020; Schneider & Syrovatka, 2020). Whereas the European Central Bank (ECB) was left to do much of the heavy lifting at first, its fiscal counterparts in the Eurogroup and the European Council found themselves gridlocked over how to mobilize a collective fiscal response. Accordingly, the early stages of the pandemic brought back painful memories of the bitter divisions that had characterized the Eurozone crisis a decade earlier. In this article, we argue that the monetary and fiscal policy responses to both crises are reflective of the same underlying logic of "de-commitment" and "re-commitment." While the sources and outcomes of the two crises were undeniably different, they have been marked by a strikingly similar decision-making dynamic between member state principals and supranational agents. In particular, the confluence of strong supranational agency and substantial intergovernmental conflict during both crises poses a challenge to key tenets of major European integration theories. In neo-functionalist accounts, a strong supranational agency resolves intergovernmental conflict through the upgrading of common interest. Liberal intergovernmentalism, in turn, predicts that member-state conflict limits the scope for supranational agency.

In contrast to both, we argue that strong supranational agency can enable intergovernmental conflict in the first place: The ability to offload the consequences of unresolved conflicts on a supranational agent allows member state principals to pursue their diverging national interests without jeopardizing their common interest in maintaining the union. We submit that this dynamic is reflective of the problem of principal loss, contrary to the classic problem of agency loss identified in the principal-agent literature. We draw on the case of monetary-fiscal interactions in Europe's Economic and Monetary Union (EMU) to illustrate these claims. In light of (a) strong but problematic Treaty commitments to not bail out member states nor engage in debt monetization, (b) the ECB's power to effectively deliver bail-outs and debt monetization during times of crisis, and (c) a deeply divided Council, we posit that EMU represents a powerful case of de-commitment and principal loss. By tracing the dynamics of commitment, de-commitment, and re-commitment in different crisis episodes and by exploring the interactions between agency loss and principal loss, the analysis carries broader implications for our understanding of the purpose and pitfalls of supranational agency in regional integration.

The remainder of the article is organized as follows. Section 2 provides a brief review of the literature on supranational agency, focusing on the credible commitment argument. We then explain what we see as the problem of de-commitment in the EU and discuss the costs, benefits, and interdependencies of different commitment strategies, deriving observable implications for principals and agents. In Sections 3 and 4, we illustrate our theoretical argument by contrasting de-commitment and re-commitment episodes during the Eurozone and Covid-19 crises. Section 5 concludes by drawing lessons from our case studies and discussing potential generalizations of our findings beyond the case of EMU.

2. Commitment, Re-Commitment, and De-Commitment in the EU

The literature on delegation to supranational agents posits that EU institutions exist because they resolve the commitment problems of the member states (Franchino, 2007; Pollack, 2003). While early work on delegation was dominated by an "information account" that stressed the expertise of supranational institutions (Haas, 1964; Majone, 1993), credible commitment has gradually emerged as the overriding logic of both intergovernmentalist (Moravcsik, 1998) and neo-functionalist (Sandholtz & Stone Sweet, 2012) theories of European integration. According to this "commitment account," the temptation to defect from agreements hinders EU member states from realizing joint gains from deeper integration. To escape their collective predicament, member states delegate the authority to propose, legislate, implement, interpret, and enforce EU policies to independent, integration-minded agents like the European Commission, the Court of Justice (CJEU), or the ECB. By empowering these agents to ensure member state compliance, the principals empower themselves to adopt collectively superior, yet defection-prone, EU policies.

In this account, the functional demand for supranational commitment increases with intergovernmental conflict and domestic politicization (Moravcsik, 1998, pp. 73–76; Pollack, 2003, p. 30). Intergovernmental conflict amplifies commitment problems by favouring narrow and incomplete lowest common denominator agreements (Jones et al., 2016, 2021) that leave ample scope for *de facto* defection (breaking the contract in spirit, if not in the letter). Domestic politicization likewise increases commitment problems since EU policies that are controversial in the domestic arena are susceptible to defection and non-compliance. Moreover, intergovernmental conflict and politicization are positively related (Hooghe & Marks, 2019): high levels of conflict increase the stakes domestic actors have in the conflict and the attention they pay to it, while high levels of politicization constrain governments' scope for compromise, further aggravating conflicts. Supranational commitment can break this dynamic. By authorizing EU institutions to honour commitments on behalf of the member states, conflicts are removed from the domestic and intergovernmental arenas and shifted to the realm of supranational policy-making.

However, the functional demand for supranational commitment does not automatically create its own supply. Ceding commitment power to EU agents is costly for member state principals precisely because these agents may use their powers to enforce compliance with policies of distributive importance and political salience. These costs are compounded by the risk of agency loss: EU institutions may abuse their delegated powers to radicalize the interpretation and enforcement of policy commitments to strengthen their autonomy and standing. The delegation literature routinely assumes that EU institutions have a general preference for "greater competences for the EU as a whole and a specific preference for greater competences for themselves" (Pollack, 2003, p. 384). The Commission's and the CJEU's "single-minded" pursuit of the four freedoms of the internal market is a prominent example (Höpner & Schäfer, 2012; Scharpf, 1999, p. 62).

Yet, even if a supranational agent is eventually created, commitment problems may persist. When the environment changes and a crisis looms, a firm commitment to a previously successful policy can turn into an obstacle to adjustment and crisis management (Elster, 1989, p. 198; Schelling, 1963, p. 39). If "the 'goodness of fit' between [EU] policy and the relevant policy environment" (Scharpf, 1988, p. 257) deteriorates below some critical threshold, the collective interest in guarding against unilateral defection can give way to an overriding interest in overcoming the outdated and harmful policy. The problem with commitment strategies, then, is not only to render them credible ex-ante, as highlighted in the extant literature, but also to de-commission them ex-post if unforeseen circumstances create an acute need for flexibility (Genschel & Tesche, 2020; Lohmann, 2003).

Policy-makers have two (not mutually exclusive) options to dispose of an outdated common policy: re-commitment and de-commitment. Re-commitment is the straightforward option. It amounts to member state principals renegotiating the formal terms of their policy cooperation to create new institutions or adapt the mandates of existing ones. The precondition is that they agree on the obsolescence of the old policy and the contours of a new policy to replace it. The alternative to formal re-commitment is, paradoxically, supranational agency, that is, the original solution to problems of commitment. By empowering EU institutions to enforce commitments, the member states also implicitly empower them to relax commitments by reinterpreting outdated rules in more accommodating ways, providing national governments with wiggle room to deal with unforeseen circumstances. The CJEU, for example, can commit member states to strict standards of free movement and access to social benefits in the internal market. Yet, as a recent string of court cases has shown, it can also relax this commitment when the real or perceived dysfunctionalities of a firm tie to free movement and access to benefits become politicized in the member states (Blauberger et al., 2018). The CJEU can enact this kind of de-commitment because it has the power to (re-)interpret the rules and bind member states to its (re-)interpretations. Purely advisory institutions, such as the European Defence Agency, can neither commit member states to nor de-commit them from, any particular policy.

Intergovernmental re-commitment represents the "clean" solution to the problem of outdated commitments: The member states take collective responsibility for abandoning old agreements and establishing new ones. However, supranational de-commitment is often the politically more convenient route, as it spares governments the political cost of engaging in distributive conflicts and coping with the domestic politicization that formal re-commitment might trigger. As such, supranational de-commitment allows member state governments to "have their cake and eat it, too": They can refuse political concessions in intergovernmental bargaining and still maintain the functional viability of the EU; they can stage show fights in Brussels without risking disintegration; they can "agree to disagree" without blocking necessary policy adjustment. In extremis, the availability of de-commitment incentivizes a collective flight into irresponsibility, with the joint-decision trap (Scharpf, 2006) turning from a common predicament into a shelter from the political cost of reaching compromise.

While de-commitment may appear favourable from the perspective of the member states, it is a mixed blessing from the perspective of supranational agents. On the one hand, it offers agents ample opportunity for self-aggrandizement: as trouble-shooters of last resort, EU institutions can gain extraordinary "emergency powers" to shape policy during times of crisis (Fontan, 2013; Kreuder-Sonnen & White, 2022; Kreuder-Sonnen & Zangl, 2015; White, 2015). On the other hand, however, supranational de-commitment jeopardizes the legitimacy of EU institutions as impartial, non-majoritarian agents, forcing them to decide on potentially divisive policy issues. The risk is particularly acute when the problem of outdated commitments is severe: if the gap between (old) policy commitments and (new) policy requirements is large, supranational agents cannot bridge it without resolutely bending the rules, stretching their mandates, or visibly creating winners and losers. This leaves them vulnerable to legal challenges and political contestation (Braun et al., 2022, 2024). Contrary to baseline assumptions in the delegation literature, supranational institutions have good reasons to dodge the opportunities for self-empowerment and mission expansion offered by de-commitment (Bickerton et al., 2015; Diessner, 2024; Mabbett & Schelkle, 2019). Instead, we expect them to try and avoid situations in which they are left to their own devices in resolving intractable policy problems on the basis of unworkable mandates, deserted by their member state principals who have fled into collective blame avoidance (Schillemans & Busuioc, 2015; Sobol, 2016). We refer to this type of situation as "principal loss," in contrast to the traditional preoccupation with agency loss.

In sum, our argument entails five sets of observable implications which relate to the main features and purposes, the likely effects on principals and agents, and the main risks associated with commitment, re-commitment, and de-commitment, respectively. These are summarized in Table 1.

Table 1. Commitment, re-commitment, and de-commitment in the EU.

	Commitment	Re-commitment	De-commitment
Main feature	Creation of formal rules and supranational institutions through intergovernmental agreement	Re-contracting of existing formal rules and supranational institutions through intergovernmental negotiations	Reinterpretation or relaxation of existing formal rules by supranational institutions exercising agency
Main purpose	Facilitate integration by resolving commitment problems	Prevent disintegration when existing commitments become dysfunctional	Prevent disintegration when existing commitments become dysfunctional and intergovernmental negotiations are blocked
Effect on principals	Enables member states to reap joint gains from integration	Enables member states to preserve joint gains from integration	Enables member states to avoid the political cost of re-commitment
Effect on agents	Enhances the power of EU institutions	Ambiguous: can enhance, reduce, or leave unchanged the power of EU institutions	Enhances the power of EU institutions, but can threaten their legitimacy
Main risk	Agency loss: EU institutions shirk their responsibility and exploit their power to further integration beyond member states' collective ideal point	Joint-decision trap: Re-commitment blocked by a vicious cycle of intergovernmental conflict and domestic politicization	Principal loss: Member states shirk their responsibility and shift the blame for revising outdated policy commitments on EU institutions

3. A "New Normal": De-Commitment During and After the Eurozone Crisis

The following two sections contrast the EU's monetary and fiscal policy responses to two crises which had different causes and consequences but, as we will demonstrate, were marked by a common decision-making dynamic. Our case studies of monetary-fiscal interactions serve as a "plausibility probe" for the distinction between commitment, de-commitment, and re-commitment in the EU, that is, they aim to explore the theorized categories to demonstrate their empirical relevance (also referred to as "illustrative" case studies in international relations and related disciplines; Akbik & Diessner, 2024; Eckstein, 1975; Gerring, 2004; Levy, 2008, pp. 6–7). In particular, the case studies seek to illustrate: How the problem of outdated commitments manifested itself during each crisis; how member state governments initially failed to achieve re-commitment, resulting in principal loss; how supranational agents had to deliver de-commitment instead; and how these issues were overcome in the Covid-19 crisis by means of intergovernmental re-commitment.

3.1. Outdated Commitments During the Eurozone Crisis

The institutional arrangement codified in the Maastricht Treaty combined a commitment to monetary integration with a commitment to national liability in fiscal and other economic policies. On the one hand, the Treaty invested the ECB with far-reaching political independence (Treaty on the Functioning of the European Union [TFEU], Art. 130) and a narrow mandate prioritizing price stability (TFEU, Art. 127). On the other hand, it discarded European fiscal solidarity in favour of containing moral hazard and preserving national responsibility. The monetary financing prohibition (TFEU, Art. 123) sought to foreclose a monetary bail-out of member states via the ECB, while the no-bail-out rule (TFEU, Art. 125) sought to foreclose a fiscal bail-out by other member states or EU institutions. In addition, the convergence criteria (TFEU, Art. 140) and the Stability and Growth Pact (SGP; TFEU, Art. 121, 126, protocol No. 12) were meant to incentivize fiscal discipline (Brunnermeier et al., 2016, p. 99; Heipertz & Verdun, 2010; Schelkle, 2017, p. 138). These policy commitments were thought to pre-empt the emergence of a fiscal crisis in the EU in the first place.

Yet, when the Eurozone crisis broke nevertheless on the heels of the global financial crisis of 2008, the Treaty commitment to fiscal self-sufficiency turned into a liability, as it impeded the provision of fiscal guarantees that would reassure financial markets of member states' solvency. Given that the default of any one member state would likely trigger defaults in others, the viability of the European project as a whole was soon called into question (De Grauwe, 2013; Frieden & Walter, 2017, p. 385; Schelkle, 2017). As such, the EU's crisis management capacity depended critically on its ability to overcome key provisions of the Maastricht Treaty through intergovernmental re-commitment or supranational de-commitment.

3.2. Insufficient Intergovernmental Re-Commitment During the Eurozone Crisis

Even in its most fraught moments, the Eurozone crisis revealed a collective interest of member states in preserving the single currency. No government seriously considered a unilateral exit from or a multilateral break-up of the monetary union—with the notable exception of parts of the Tsipras and Merkel administrations in 2015. This stance was backed by popular majorities supporting the euro (Aslett & Caporaso, 2016; Schimmelfennig, 2014). However, the crisis also underscored the urgent need for joint decision-making: if the fiscal troubles of one or several member states could throw the entire bloc into disarray, something fundamental was amiss with the arrangements agreed upon in Maastricht.

The formal way to overcome the increasingly harmful restrictions on monetary and fiscal risk-sharing would have been to renegotiate the relevant terms of the (now Lisbon) Treaty itself. This was blocked, however, by the fact that the crisis pitted member states into camps of debtor countries (including Greece, Ireland, Italy, Portugal, Spain, and Cyprus) and creditor countries (including Austria, Finland, Germany, and the Netherlands; Frieden & Walter, 2017; Genschel & Jachtenfuchs, 2018; Hall, 2012; Walter et al., 2020). While debtors hoped for a suspension and renegotiation of the monetary and fiscal no-bail-out rules (by pushing for financial assistance, debt relief, or debt mutualization in the form of Eurobonds), creditors doubled down on them (by pushing for stricter enforcement of fiscal consolidation). Domestic politicization spurred the intergovernmental conflict. In creditor countries, a narrative of "Northern saints" versus "Southern sinners" took hold (Matthijs & McNamara, 2015, p. 230), while the debtors' counter-narrative pointed to the overt complicity of creditor banks in bringing the crisis about (Varoufakis, 2017, pp. 23, 306). The hardly reconcilable positions of both camps prevented effective re-commitment. The creditors insisted that Arts. 123 and 125 of the Treaty survived the crisis formally unscathed and the disciplinarian regime of the SGP was beefed up through the Six Pack, Two Pack, and Fiscal Compact, at least on paper.

However, the question of monetary and fiscal risk-sharing could not be dodged if an accidental break-up of the Eurozone was to be avoided. Member states did come to agree on a financial assistance package for Greece in May 2010, a temporary European Financial Stability Facility in June 2010, and a permanent European Stability Mechanism (ESM) with a capacity of €500 billion in October 2012 (Gocaj & Meunier, 2013). Yet, the activation of each of these measures was conditional on committing to stringent and largely pro-cyclical structural adjustment programmes monitored by the infamous Troika of institutions that included not only the ECB and the European Commission but also the IMF (Henning, 2017). At the same time, creditor countries and the ECB rejected proposals for the ESM to be granted a banking license (Ban & Seabrooke, 2017, p. 12; Henning, 2017, p. 168). These limitations undermined the credibility of the Mechanism as a lender of last resort, while fiscal consolidation and structural reform conditions aggravated rather than alleviated debt burdens in crisis-hit member states. As a result, intergovernmental re-commitment fell short of resolving the problem of outdated commitments inherent in the Maastricht framework and even exacerbated it at times.

3.3. Supranational De-Commitment During the Eurozone Crisis

The shortfall in intergovernmental re-commitment created the demand for de-commitment via supranational agency. Pressure mounted on the ECB to provide risk-sharing through the monetary backdoor, as member states could not agree on providing it through the fiscal front door (Schelkle, 2014). The central bank gave in to this pressure eventually, albeit reluctantly. The governments of France, Portugal, and Italy had called on ECB President Jean-Claude Trichet already in 2010 to unfreeze financial markets by purchasing bonds of distressed member states on a large scale. Trichet pushed back, arguing that fiscal policy was a national responsibility under the Treaties and that the ECB had no mandate to protect members from the consequences of their fiscal actions (Barber, 2010). As such, the ECB refused to de-commit member states from Treaty rules which only they had the authority to revise and adapt.

Yet, cognizant of the growing risks to the single currency, the ECB did not withhold financial assistance altogether. Rather, it tried to use the promise of assistance to nudge governments towards re-commitment on risk-sharing. Prominent examples include the central bank relaxing collateral rules for bonds only after member states had adopted the first Greek rescue package (ECB, 2010), premising its first bond-buying scheme on a prior intergovernmental agreement on the European Financial Stability Facility (Henning, 2016, p. 180), or sending letters to the governments of Italy and Spain to extract reform promises as an informal quid pro quo for a continuation of bond purchases (Beukers, 2013). These moves, reminiscent of a "game of chicken" between the Eurozone's monetary and fiscal authorities (Mabbett & Schelkle, 2019), failed, however, to calm financial markets and put an end to the crisis. On the contrary, the ECB's implicit and explicit conditionality raised doubts about its willingness to stand behind embattled debtors.

Consequently, when the crisis deteriorated further during the first half of 2012, the central bank needed to up the ante. It did so by announcing its famed Outright Monetary Transactions Programme (OMT), a bond-buying scheme that pledged unlimited support to member states receiving ESM assistance. The ECB thus effectively removed the lending cap on the ESM which member states had failed to remove by intergovernmental agreement (Schelkle, 2017, p. 216). While most agree that the ECB's announcement of OMT ended the acute phase of the crisis (Chang & Leblond, 2015; De Grauwe & Ji, 2015), it did so by bending, if not breaking, EU rules: The central bank effectively assumed the role of lender of last resort for governments de facto which it had not been assigned *de jure* (Buiter, 1999; Lombardi & Moschella, 2015; cf. Bateman & van 't Klooster, 2024). As such, it saved the euro but put its own legitimacy on the line.

The ECB sought to protect itself against the legal and political risks that come with supranational de-commitment in a number of ways. One key strategy consisted of securing the "implicit backing" of important member states (Brunnermeier et al., 2016, p. 95). Governments could not endorse OMT outright without fueling the intergovernmental conflicts that had blocked formal re-commitment. However, they could at least abstain from publicly crying foul: the programme would hardly have convinced the markets had it not been for the German government's "deafening silence" which was interpreted as tacit consent (Schelkle, 2017, pp. 215–216). Another strategy was informality. The central bank announced the OMT programme through a press release without publishing the accompanying legal act, hoping (in vain) that this would pre-empt judicial scrutiny (Zilioli, 2016). Lastly, the ECB once again sought to condition its actions on intergovernmental re-commitment, this time in the form of a European banking union with joint supervision and resolution of systemically relevant banks (Véron, 2015).

However, the ECB's hedging efforts did not eliminate the risk of principal loss altogether. Once OMT started to reassure financial markets, member states began to renege on their promises of re-commitment. Although EU governments had formally agreed on direct bank recapitalizations in June 2012, Germany, Finland, and the Netherlands withdrew their support by the end of the year. When the recapitalization instrument was finally adopted in late 2014, it became subject to strict conditionality which complicated its activation and significantly reduced its value as a risk-sharing device (Howarth & Quaglia, 2016, pp. 173–174). In the same vein, creditor countries blocked the introduction of a European deposit insurance scheme to complete the banking union (Donnelly, 2018). As a result, the ECB remained "the only game town" in terms of financial crisis management until the Covid-19 crisis broke out in 2020, despite lacking a clear Treaty mandate (Macchiarelli et al., 2020).

In sum, the case of the Eurozone crisis deviates from the classic commitment account of European integration in three important respects. First, the pivotal role of the ECB in crisis management did not derive from its power to commit but its power to de-commit from key provisions of the Maastricht Treaty. Second, the main problem of supranational agency in the crisis was principal loss, not agency loss. In fact, member state governments made relatively little effort to prevent the ECB from pushing the boundaries of its mandate. Rather, it was the supranational central bank itself that tried, but failed, to restrain its agency. Third, de-commitment left the ECB more powerful but also more vulnerable. The central bank gained de facto powers as a policy authority of last resort. It also gained *de jure* powers through the banking union. Yet, it became exposed to ever-growing demands involving it in conflictual political decision-making, which strained its legitimacy (Diessner, 2023; Torres, 2013).

4. "Back to the Future": De-Commitment and Re-Commitment During the Covid-19 Crisis

When the Covid-19 pandemic gathered pace in the spring of 2020, it soon became apparent that the recession caused by the "Great Lockdown" would be more severe than even the Great Recession triggered by the financial crisis of 2008. In the EU, member states' capacity to assume or guarantee the debts of their private sectors during successive lockdowns differed starkly. Italy, one of the countries initially hit hardest by the pandemic, had a public debt-to-GDP ratio of 130% when its economy ground to a halt in the first half of 2020. Hence, calls for intergovernmental re-commitment grew louder once again, including in the form of debt mutualization to finance pandemic-related public expenditures.

4.1. Outdated Commitments During the COVID-19 Crisis

That Europe's fiscal rules represented an outdated commitment had been revealed much before the pandemic. One of the original concerns motivating the SGP was that excessive deficits of the member states would put pressure on the ECB to monetize them. However, the founding parents of the SGP turned a blind eye to the possibility that their commitment would cut both ways and lead to a persistent under-utilization of fiscal policy, which, in turn, would force the ECB to engage in quantitative easing to stimulate demand (Diessner & Lisi, 2020; Tesche, 2023). As the Covid-19 crisis intensified, the Commission proposed to trigger the "general escape clause" of the SGP which had been introduced as part of the Six Pack. The activation of the clause de-committed member states from the rules that constrain fiscal policy in normal times (Genschel & Jachtenfuchs, 2021, p. 360). However, this alone was not enough to prod governments into fiscal action. Member states like Italy or Spain were still inhibited by high debt-to-GDP ratios at the outset of the pandemic and were faced with financial market pressures that threatened to render an adequate national fiscal response to the recession impossible.

4.2. Initial Lack of Intergovernmental Re-Commitment During the Covid-19 Crisis

In light of the escalating crisis, the Eurogroup and European Council convened a series of virtual meetings and summits in March and April 2020. The preference constellation within both intergovernmental fora resembled that of the Eurozone crisis, at least initially. As a result, finance ministers failed to agree on a collective fiscal response during their first two calls on March 10 and March 16. By March 24, with most member states now under partial or total lockdown, ministers finally explored the possibility of Enhanced Conditions Credit Lines provided by the ESM. Dutch finance minister Hoekstra led the opposition against involving the ESM on the grounds that it only be invoked as "a measure of last resort" (Brunsden et al., 2020).

When the heads of state or government gathered for a crunch video summit two days later, two options for intergovernmental re-commitment were laid out on the virtual negotiation table. Germany's preferred option was to use the ESM's credit lines to lower the funding costs of those member states affected most severely by the pandemic. However, the capacity of the ESM was deemed insufficient, while beefing it up would have required a lengthy and uncertain renegotiation of the ESM Treaty (Claeys & Wolff, 2020). Moreover, the prospect of an ESM credit line was politically fraught for some member states, most notably Italy, after the ill-fated experience with Troika-administered structural adjustment programmes during the Eurozone crisis. The other and even more controversial option was the creation of Eurobonds, under the new label of "Coronabonds." One day before the summit, France, Italy, and Spain, together with Portugal, Ireland, Greece, Slovenia, Luxembourg, and Belgium addressed a letter to Charles Michel, the Council president, calling for a common debt instrument to minimize roll-over risks and finance investments in health care and other infrastructure (Dombey et al., 2020). The position was supported by ECB President Christine Lagarde, who was growing wary of the spectre of principal loss. However, a German-led coalition including the Netherlands, Austria, and Finland rejected the proposal outright, reopening the rifts between Northern creditors and Southern debtors that had been a hallmark of the Eurozone crisis (Matthijs & McNamara, 2015). The Dutch government went further still by demanding that the Commission launch an investigation into the lack of fiscal space in some member states, enraging Southern governments. The summit ended without tangible results: Italy threatened to block the final declaration, which eventually contained "no word on either" of the two options for intergovernmental re-commitment (Eder, 2020).

This dynamic recurred over the coming weeks, providing ample evidence of the joint-decision trap and its overwhelming tendency to produce the lowest common denominator agreements. An acrimonious three-day Eurogroup video call between April 7 and 9 concluded with a hard-fought but macroeconomically insignificant compromise on ESM credit lines worth €250 billion (Genschel & Jachtenfuchs, 2021; Howarth & Quaglia, 2021). On April 23, governments agreed on the compromise but disagreed fundamentally over whether fiscal support to the hardest-hit member states should continue to come only in the form of loans or also in the form of grants. In the end, the Commission was tasked with formulating a proposal for a common recovery fund, after the idea had been sent back and forth between governments without progress. At this point, it seemed as if the fiscal (non-)response to the crisis would be predominantly national once again, with governments betting on the ECB to provide the necessary fiscal space while preserving the stability of the Eurozone as a whole. The stage appeared set for the Covid-19 crisis to escalate into a Eurozone crisis 2.0 (Elliott, 2020; Schneider & Syrovatka, 2020).

4.3. Supranational De-Commitment During the Covid-19 Crisis

The underwhelming intergovernmental response to the crisis fired the parting shot for a repetition of the game of chicken dynamics that had characterized the interactions between governments and the ECB a decade prior (Henning, 2016; cf. Mabbett & Schelkle, 2019). A first set of monetary policy measures, announced on March 12, included longer-term refinancing operations and a relatively small increase of €120 billion in the ECB's asset purchase programme. Both failed to impress the markets. The announcement was preceded by a plea for re-commitment by Lagarde (2020), who urged governments to "take timely and targeted actions" to achieve "an ambitious and coordinated fiscal policy response." During the Q&A after the ECB press conference, the president also dropped the thinly veiled threat that the central bank was "not here to close spreads" given that "there are other actors to actually deal with those issues" (Arnold & Stubbington, 2020). While the signal was aimed at the finance ministers in the Eurogroup, financial markets interpreted it as a retreat from OMT: unless there was re-commitment by the member states, there would be no de-commitment by the ECB. The yields on Southern member states' debt spiked rapidly in response.

As a result, Lagarde's own "whatever-it-takes" moment came sooner than she had hoped (EU, 2019): On March 18, the ECB announced a Pandemic Emergency Purchase Programme of €750 billion (ECB, 2020). The announcement calmed financial markets instantly. In the accompanying legal act, which was published in full the week after, the ECB also de-committed from the issue and issuer limits that had restricted its ability to conduct asset purchases flexibly (Decision (EU) 2020/440 of the European Central Bank, 2020) but that were seen as legal safeguards against the supranational central bank straying into the realm of monetary financing. Thus, despite its beneficial effects, the Pandemic Emergency Purchase Programme forced the ECB to stretch the limits of its mandate once more and is likely to land the central bank in court again.

4.4. *Intergovernmental Re-Commitment During the Covid-19 Crisis*

Despite this apparent continuity on the surface, deep-seated change had been brewing underneath, culminating in an intergovernmental agreement on the NextGenerationEU programme. In a nutshell, the programme established a large-scale temporary recovery fund that would be financed through joint debt of long maturity, collateralized through the EU budget, and disbursed to member state governments in the form of grants and loans. The agreement caught even seasoned EU observers by surprise, not least because it was precipitated by another major upset for both national governments and supranational institutions. In a move reminiscent of the darkest days of the Eurozone crisis, the German constitutional court delivered a shock ruling on May 5, declaring an earlier decision by the CJEU ultra vires on the grounds that it had not adequately assessed the proportionality of the ECB's asset purchases, and deeming the German government's and parliament's oversight of the ECB's and Bundesbank's unconventional monetary policy-making insufficient (Diessner, 2022; van 't Klooster & de Boer, 2020). Through its ruling, the court appeared to double down on Treaty commitments to fiscal self-sufficiency and frugality at a time when loosening them was of paramount importance to dealing with the macroeconomic shock caused by the pandemic.

In hindsight, however, the episode marked an unexpected turning point that facilitated re-commitment. Two weeks later, and after German chancellor Angela Merkel had stressed that the ruling "should 'spur' more Eurozone integration" ("German ECB ruling," 2020), she and French President Emmanuel Macron unveiled a recovery fund proposal worth €500 billion in grants on May 18. It was followed by a slightly less ambitious but equally unprecedented proposal by the Commission on May 27. The two announcements had a forceful impact on financial markets, "closing the spread" between Northern and Southern member states' borrowing costs further. Yet, the ECB deemed it necessary to announce an extension of the Pandemic Emergency Purchase Programme to the tune of €600 billion on June 4. The move was questioned by veteran member of the European Parliament Sven Giegold in terms of whether it took the pressure off member states to agree on the recovery fund (European Parliament, 2020), but governments did eventually come around to deciding on the Commission proposal after two highly adversarial summits on June 19 and July 17 to 21. However, despite rightly having been hailed as a breakthrough, doubts persist over the long-term impact of NextGenerationEU on European economic governance (Howarth & Quaglia, 2021). In particular, it remains unclear whether the programme signals a lasting re-commitment or a temporary deviation from the Treaty commitment to balancing the EU budget. As such, the ECB will likely have to stand ready to act as a de-commitment agent again in the future.

5. Discussion and Conclusion

This article has sought to develop a commitment, de-commitment, and re-commitment account of economic governance in the EU, illustrated by the interplay between monetary policy-making by the ECB and fiscal policy-making by member state governments during the Eurozone and Covid-19 crises. We have argued that the independent agency of EU institutions can serve not only to tie member states to previous policy commitments but also to untie them from commitments that have become untenable. Our argument implies that the interactions between supranational agents and intergovernmental decision-makers are more ambiguous than conventional theories suggest. In particular, supranational agents do not only unblock the joint-decision trap and lay the ground for intergovernmental agreement, as stressed in the extant literature (Falkner, 2011; Scharpf, 2006) but can also facilitate non-decision and incentivize a collective flight into the joint-decision trap. When old policy commitments clash with new policy requirements, and when a renegotiation of those commitments is deadlocked by intergovernmental conflict, the lowest common denominator solution for member states can be to "agree to disagree" and shirk responsibility. EU institutions then turn into "garbage trucks of integration" (Genschel & Jachtenfuchs, 2016, p. 54), keeping the EU afloat by reinterpreting or disposing of harmful but non-negotiable policy commitments.

What, then, do the Eurozone crisis and the Covid-19 pandemic tell us about the role of member states and supranational institutions in the management of joint commitments? We highlight five lessons and discuss their generalizability to other areas of EU policy and/or to other polities beyond the EU. First, there are two types of commitment problems: the problem of making commitments credible ex-ante and the problem of dispensing with outdated commitments ex-post. As our case studies show, the second problem can be just as vexing as the first. The problem presents itself not only in the EU when member states delegate the enforcement of commitments to supranational institutions but more generally in settings in which majoritarian actors rely on third-party implementation and enforcement of their joint agreements.

Second, the straightforward approach to adjusting outdated commitments to changed circumstances is for the originators of these commitments to jointly agree on their reform. In the context of the EU, this means that member states agree to adapt EU laws that govern their interactions in a given policy area. However, as both case studies show, this strategy of re-commitment is vulnerable to deadlock. As long as a sufficient number of member states prefer sticking to old commitments—however dysfunctional—rather than reforming them, re-commitment is blocked by the joint-decision trap.

Third, when re-commitment is blocked by intergovernmental disagreement but problem pressure is severe, supranational agents can step into the breach and loosen outdated commitments through reinterpretation and/or lax enforcement. Both during the Eurozone crisis and during the Covid-19 pandemic, the willingness of the supranational ECB to do whatever it took was central to crisis management. Importantly, however, this kind of de-commitment power presupposes a high degree of commitment power, that is, supranational agents must hold independent sway over the commitments at stake. In the EU, both the ECB and the CJEU plausibly wield such power, while the Commission can be hypothesized to wield it in selected policy areas only (state aid control in the realm of competition policy being one plausible candidate).

Fourth, de-commitment is a mixed blessing for supranational agents at best. On the one hand, it can allow the agent to increase its powers and status by proving its mettle as a problem-solver of last resort. On the other hand, de-commitment threatens both the legal basis and the political legitimacy of the agent, forcing it out of the technocratic comfort zone. As a result, we should expect agents to be reluctant to embark on de-commitment on their own. Instead, they will seek to reanimate their political principals wherever possible. As both crises have shown, the ECB has sought to extract at least symbolic promises of re-commitment from member state governments at every turn, in exchange for lending them support via de-commitment.

Lastly, the interaction between intergovernmental re-commitment and supranational de-commitment is ambiguous. What is clear is that de-commitment presupposes a decision-making deadlock over re-commitment. As long as member states can agree on how to adjust their joint commitments to new policy challenges, this will be the preferred strategy of adjustment not only for the member states but also for their supranational agents. What is less clear is how the availability of supranational de-commitment affects the intergovernmental conflict over re-commitment. One option, as we have argued, is that de-commitment aggravates the conflict. It allows member state governments to insist on their maximalist positions because it reduces the functional costs of non-agreement. As long as supranational agents take it upon themselves to make unworkable commitments work, their member state principals have little incentive to adjust these commitments formally. This form of principal loss was in evidence during and after the Eurozone crisis. The other option, however, is that de-commitment helps mitigate the conflict. This was in evidence during the Covid-19 pandemic. By taking immediate problem pressure off the member states between March and June 2020, the ECB afforded national governments the necessary breathing space to address deep-seated conflicts over re-commitment.

Given the combination of a deadlock-prone system of intergovernmental decision-making and powerful supranational institutions in the EU, we expect de-commitment to be a more persistent feature of European governance than has been acknowledged in the extant literature. Subjecting this prediction to empirical scrutiny is not straightforward, however, since EU institutions have few reasons to reveal their de-commitment strategies which not only call their legitimacy into question but can also reduce the incentives for member states to re-commit. As our case studies have shown, the ECB's crisis policies turned both its mandate and the meaning of the fiscal rules enshrined in the Treaty on their head. Yet, for legal and political reasons, the central bank had to insist that its interventions were covered by its statutes and in line with the Treaties, as confirmed by the CJEU. The latter suggests that supranational de-commitment may well reach beyond the confines of macroeconomic governance and into the sphere of EU jurisprudence as well.

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Unpacking Legal Accountability: The Case of the European Central Bank

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Abstract

Although the term "legal accountability" increasingly appears in scholarly discourse surrounding the European Central Bank (ECB), it is under-theorised. This article explores three different dimensions of legal accountability, which are often confused. Accountability *to* law refers to accountability to legal rules and standards. Accountability *through* law refers to achieving routes of administrative and political accountability through legal institutions. Accountability *of* law implies the accountability of legal institutions themselves to the wider public (and other courts) for their decisions. We argue that these dimensions are deeply connected in the sense that either improvements or failures along one dimension are easily carried to the others. We demonstrate the argument by applying our concept of legal accountability to ECB activity, comparing judicial review in the context of monetary policy with the Single Supervisory Mechanism. These cases suggest a possible vicious rather than virtuous circle of legal accountability, i.e., a tendency for either unclear legal standards or lack of accountability of courts themselves to undermine accountability for ECB activity as a whole.

Keywords

accountability; banking supervision; European Central Bank; judicial review; monetary policy

1. Introduction

There is by now widespread literature on the accountability of the European Central Bank (ECB; Losada, 2016). More recently, however, a legal dimension has been added to this literature, where accountability emerged as an anchor concept in legal debates concerning the Bank and its mandate (Bobić, 2024; Dawson, 2023; Goldoni, 2016; Markakis, 2020). In doing so, they connect the involvement of courts and legal rules with a wider institutional context, in which courts seem to complement other institutions in their accountability and policy-making practices.

At the same time, while accountability is heavily theorized and debated (Bovens, 2007; Bovens et al., 2010), "legal accountability" is not (except Oliver, 1991). What is implied by it? What do we do when we add "legal" to the conceptual apparatus of accountability? The starting point of this article is that these questions are not obvious and that there is in fact tension and confusion running through legal accountability as a term (one which translates into difficulties in practically holding the ECB to legal account).

In this article, we will therefore explore three different usages of legal accountability, which are often confused in scholarly discourse (Section 2). Accountability *to* law refers to developing accountability to legal rules and standards. Accountability *through* law refers to achieving other routes of (administrative and political accountability) through legal rules or institutions. Finally, accountability *of* law implies the need for legal institutions themselves to be accountable for the decisions they make to the wider public (and other courts).

As we will argue in this article, improving legal accountability more broadly may require developing complementary relations between these different varieties. The disagreement surrounding controversial litigation involving the ECB, concerning its Public Sector Purchase Programme (PSPP) programme, is a case in point. It revolved around the question of whether the attempt to tie the ECB to prior legal standards (accountability *to* law) improved or eroded either the political accountability of the ECB (accountability *through* law) or the credibility and quality of judicial dialogue (accountability *of* law). There is therefore a close relationship between the different elements of legal accountability. Deficiencies in one of its dimensions can easily, under certain conditions, be "passed on" to other dimensions too, just as improvements in one dimension can also help accountability in its other meanings.

In a final step, we will apply these categories to ECB activity, drawing a contrast between the judicial review of ECB action in monetary policy (Section 3) and in the Single Supervisory Mechanism (SSM; Section 4). The ECB has significantly different tasks in these two areas: in monetary policy, it steers the exclusive competence of the EU based on an exceptionally high level of discretion granted by the EU treaties. In the SSM, its work is shared with national supervisory authorities, to ensure prudential management of the banking sector. In addition, as will become evident in the analysis, the CJEU uses virtually the same standard of review in the two areas, which means that we will be able to see how divergences within accountability *through* and *of* law of the two different areas affect accountability *to* law—one may expect that the three categories of legal accountability will interact differently in the two fields. As we will argue, judicial review of monetary policy shows deficiencies along all three categories, with limited evidence that legal standards meaningfully structure ECB activity; that judicial intervention caused any improvement of political accountability; or that judicial dialogue contributed to the accountability of legal institutions themselves. A lack of accountability along one channel (e.g., accountability *to* law) also weakens the other two forms of accountability. On the contrary, in the SSM we can observe a flexible approach to judicial review, where the ECB acts as the principal supervisor but depends on national competent authorities to be able to supervise meaningfully. Specifically, here accountability *to* law takes centre stage, however, to the potential detriment of accountability *of* law (given the dominance of EU courts in judicial review to the exclusion of national courts). As we argue in the conclusion (Section 5), the contrast between the two fields offers meaningful lessons on how the "legal accountability" of the ECB's activity can be realised.

2. What Is Legal Accountability and What Is it Trying to Achieve?

As already discussed, there are by now several definitions and conceptual frameworks of accountability, both within and outside the EU context. One cannot say the same for legal accountability. This might be because many lawyers consider legal accountability of limited conceptual use. Lawyers work with other concepts—such as legitimacy or the rule of law—to orient the debate about the role of legal institutions (Arnull & Wincott, 2013; see also Bressman, 2003). Legitimacy and the rule of law are both concepts with a wide range of meanings contingent upon different constitutional traditions (Buchanan, 2002; Møller & Skaaning, 2012), transforming them at the EU level into concepts with contested meaning (Magen, 2016). At the same time, it is not clear that legitimacy, the rule of law, and accountability are aiming at the same things. Legitimacy, for example, seems a thick normative concept. Accountability, however, is much narrower, referring to a process of "holding decision-makers to account," which seems but one element of legitimacy in a broader normative sense. Accountability and the rule of law also seem to have different goals—as we will discuss, legal accountability may not per se involve courts and is not exhausted by the concern for arbitrariness that animates the rule of law debate. Legal accountability is, simply speaking, something else.

Part of the problem is that legal accountability often means different things to different strands of scholarship. One understanding of legal accountability—the one most closely associated with the rule of law—is accountability *to* law. Therefore, when key pieces of legislation, such as the recent Digital Services Act, talk of holding states and digital providers to account, they are referring to a particular type of legal accountability understood as the need for actors to explain why and how they followed the applicable rules (Regulation (EU) 2022/2065 of the European Parliament and of the Council of 19 October 2022, 2022, recitals 34, 39, 60). This type of accountability is also relatively easy to fit within more general accountability frameworks. Bovens, for example, defines accountability in terms of a relationship between an actor and a forum, the latter of which can demand justifications and seek correction for misconduct (Bovens, 2007).

Accordingly, applying the Bovens framework to accountability *to* law, an actor who may or may not have breached established legal standards is held to account by a court or other rule-applying body (the forum). The judicial process then explores the "fit" of the actor's conduct to the relevant legal regime. Many notions of legal accountability thus follow this idea: Legal accountability is about tying the actions of public officials and other powerful actors to legal standards (typically through courts) and subject to a specific standard of review. This latter point is particularly present within legal discourse, where accountability *to* law also includes a significant debate about *how* courts should exercise this function. For example, when are courts entitled to review the full extent of the officials' conduct and when should they confine their review to the search for a manifest error, based on the wide discretion granted to the official (Goldmann, 2014; Türk, 2010)? It is questionable, however, whether this is the only meaningful understanding of legal accountability. It suggests a fixed (substantive) legal standard, with which an actor must comply, or under which (where granted a wider margin of discretion) the actor must legally justify their action. Not all forms of legal accountability, however, fit this description. In addition, although the standard of review is important, an important facet of legal accountability concerns how courts monitor other accountability processes and who monitors them in turn. In other words, there is more to accountability than simply observing a linear relationship between a court and a reviewed actor.

Another type of legal accountability is accountability *through* law. The idea here is not to tie actors to a given rule but instead to use the law to establish an administrative or political process, or to force actors to take principles or interests into account that they would not consider otherwise. The key difference in this second category is that the goal of legal accountability is not to "follow the rules." Instead, the goal is to use the law to better and further political or other forms of accountability. In simple terms, accountability duties in this category may be defined by law (indeed their legal character is vital) but are not exhausted by law or even necessarily take place before courts. To give some examples, individuals might use courts to ensure that officials conduct environmental impact assessments or provide journalists with official documents. They might alternatively rely on legal rules to encourage institutions or companies to answer questions before parliament or submit to an independent audit. Here, legal accountability is not being used to test the fit of an action to a fixed normative standard; but rather to access or improve other processes of account-giving. These processes may involve rules but these rules either structure or accompany other, non-legal, benchmarks for success—e.g., was an official programme value for money, did it meet the needs of stakeholder X, or was it just from a distributive point of view?

A final variety of legal accountability is what we can term accountability *of* law. This relates to the two above categories in one important sense: If courts are important either to securing adherence to legal rules or to guaranteeing other forms of accountability, they also have to be accountable themselves. Courts must therefore answer for how they reached their decisions to the public, to political branches of government (to varying degrees, but certainly without endangering their independence), and to other courts. This final variety of legal accountability is tied to, but separable from, the other two categories: it might involve either accountability *to* law (i.e., did this court plausibly interpret the relevant rules?) or accountability *through* law (i.e., constitutional provisions might establish certain forms of accountability for courts, such as judicial councils, transparency, or other obligations). When we talk of "legal accountability," it is important, therefore, to understand what type of legal accountability we are dealing with.

Finally, it is worth reflecting on the relationship between the different varieties of legal accountability. They are of course linked in a manner that allows them to complement and reinforce each other. This also, however, means that deficiencies in one can easily lead to deficiencies in the others. To give some examples, accountability *to* law is important partly because it allows the duties of political actors to be defined and clarified. This process is also important for accountability *through* law. This follows from a well-defined strand in accountability literature (not without its critics), which holds that meaningful political accountability requires precise and well-defined mandates that political principals can use to hold agents to account (Elgie, 2002; Majone, 2001). We might also imagine spillovers the other way around. In technical and complex fields, legal assessments over whether actors complied with rules may require expert help. For example, accountability *to* law may require an input of processes determined by accountability *through* law (e.g., where law structures accountability assessments but does not define their content). Equally, one might expect courts to perform judicial review more accurately and diligently if they are subject to external review by other courts (i.e., accountability *to* law benefits from accountability *of* law). Finally, the earlier discussion on standards of judicial review also relates to the inter-twining of the categories. A loose standard of review may or may not be appropriate depending on whether it is operating in combination with robust forms of political or administrative accountability, just as a strict standard may be better justified if the court developing that standard is appropriately overseen by other judicial bodies (that, e.g., can limit over-reach).

In these examples, the categories are working together—accountability *through* law allows accountability *to* law (and vice versa), with accountability *of* law keeping legal actors themselves honest. As we will see when moving to the ECB example, this virtuous circle cannot be taken for granted. It can as easily become vicious, with the inability to operationalize one form of legal accountability inhibiting the others. A lack of accountability *to* law can deprive accountability forums of the necessary leverage and clarity to hold officials answerable (thus frustrating accountability *through* law), just as a lack of accountability *of* law can create greater scope for error and inconsistency or overreach in legal decision-making (undermining accountability *to* law). There is thus an inter-twining of the different forms of legal accountability that allows them both to rise and to fall together.

3. Legal Accountability in Monetary Policy

These three categories are, in our view, of use for understanding the legal accountability of the ECB. This is so in the sense that the EU's economic and monetary policy chapter establishes all three forms of legal accountability. In terms of accountability *to* law, the ECB is established under a mandate and is, therefore, obliged to account for why its actions fit that mandate. This obligation explains a whole host of ECB communication activities, be they direct—i.e., the preambles that introduce Bank decisions announcing new programmes—or indirect—such as academic articles of Bank officials explaining why particular activities would fall within the Bank's mandate (Ioannidis & Zilioli, 2022). As we will go on to discuss, in practice, such accountability is highly difficult to realise. In legal terms, however, the ECB is subject to the "normal" scheme of EU judicial review, with the possibility of challenging its acts with reference to either general principles of EU law or those relating directly to treaty obligations for the ECB.

The EU treaties also, however, establish accountability *through* law for the ECB. In simple terms, the law demands that the ECB enter into other processes of account-giving. Some of these are financial: provisions of EU law place auditing obligations on the ECB, establishing accountability to both the European Anti-Fraud Office (OLAF; European Central Bank, 2004) and the European Court of Auditors (European Central Bank, 2019). Others are political: Art. 284(3) TFEU establishes a general obligation to give account to the European Parliament; an obligation that has been concretised in the form of the monetary and supervisory dialogues between MEPs, the ECB president, and the president of the SSM's supervisory board. In these examples, law is used to establish processes of administrative, financial, and political accountability, but without guaranteeing any particular outcome of these processes. Importantly, the law not only establishes but also limits political and financial accountability. The EU treaties demand that the Bank do "not take instructions" from others, whereas the CJEU's case law (for example, *Commission v ECB*, 2003) recognises that OLAF's anti-corruption activities should respect the Bank's operational independence thus rendering many more demanding forms of accountability *through* law impossible.

Finally, accountability *of* law is important for understanding the legal accountability of the ECB. One of the consequences of the ECB's independence is that it has few interlocutors with real powers to sanction its activities. The CJEU is therefore arguably the only institution (bar an existential collective decision of the member states) able to veto its operational decisions. Reflecting our notion of an intertwining of different forms of accountability, this thus places a heightened obligation on the CJEU itself to be accountable for how it scrutinises ECB activity—i.e., for how it applies legal standards to the ECB, explains its decisions, and ensures other forms of account-giving. The dialogue that takes place with national courts under the preliminary reference procedure provides one form of accountability in this regard.

While different forms of legal accountability complement and reinforce each other, they also might conflict, or foreclose each other. This latter scenario seems to be the experience of legal accountability in the field of monetary policy and may explain at least some of the scholarly debate regarding the interaction between courts and the ECB in recent years. Let us therefore assess how the different forms of legal accountability in monetary policy relate. The central debate here concerns the mandate of the ECB. As is well known, the Bank's mandate distinguishes between a primary mandate centered on price stability and a secondary one of supporting the Union's general economic policies. Significant confusion and disagreement permeate the debate concerning the boundaries of both mandates. A significant part of this confusion relates to the rapid evolution of the ECB's tasks from the establishment of its mandate to today (where it is called upon to solve a range of challenges from tackling inflationary challenges through unconventional instruments to "greening" its financial assets).

In respect of the price stability mandate, the most significant controversy has concerned the various quantitative easing programmes of the Bank. In *Gauweiler*, the CJEU was called upon to assess the compatibility of the Outright Monetary Transactions (OMT) programme with both the price stability mandate and other substantive rules contained in the TFEU, most notably the prohibition on monetary financing of Art. 123(1) TFEU. While the judgment triggered a significant academic debate, it also elaborated a number of substantive legal standards that fit accountability *to* law well. The CJEU provided particular limits on how quantitative easing (QE) programmes may be designed, which bind the ECB and may be relied upon by other actors. Without being exhaustive, these included the notion that bond-buying should not lessen the impetus of member states to follow a sound budgetary policy (*Peter Gauweiler and Others v Deutscher Bundestag*, 2015, para. 115), and that bond purchases on the secondary market should not "have an effect equivalent to that of a direct purchase of government bonds from public authorities and bodies of the Member States" (*Peter Gauweiler and Others v Deutscher Bundestag*, 2015, para. 107).

The concrete limits set by the Court may lose pertinence as the ECB moves away from bond buying towards investment in green policies (on the legal aspects of the ECB's turn to greening its policies see van t' Klooster & de Boer, 2023) and novel questions concerning its accountability arise. For example, what obligations in stating reasons and assessing the proportionality of its decisions await the ECB when it makes monetary policy based on green policies? What remains from the post-crisis litigation is a deferential standard of review that grants the ECB a wide margin of discretion. As such, this standard of review weakens accountability *to* law. The analysis of other facets of legal accountability is therefore useful for getting the full picture of the ECB's legal accountability.

What is important about these standards is not simply their legal effects but their ability to further other forms of accountability. To begin with accountability *through* law, by defining and elaborating treaty provisions, the CJEU in theory provided political actors with tools to better hold the Bank to its mandate. One can observe this by contrasting monetary and supervisory policy, as indicated by studies examining the attitudes of MEPs to scrutinizing the ECB—the level of scrutiny by MEPs is often linked to perceptions regarding the necessary degree of ECB independence across the two fields (which is often perceived as higher in the monetary than supervisory fields; Akbik, 2022, p. 28). By delineating the Bank's mandate (i.e., ensuring accountability *to* law), the CJEU also potentially furthered accountability *through* law.

Another effect of the *Gauweiler* standards is that, by elaborating legal criteria on the ECB's mandate, the CJEU also established a set of standards against which *its own conduct* could be judged. As all EU lawyers know, the CJEU's power depends on its position in a larger system of judicial cooperation, where its interpretations of EU law can orient the activity of national courts. By establishing legal standards for the Bank (accountability *to* law), the CJEU also therefore allows for accountability *of* law, by providing a basis through which its own review of the ECB can be judged in the future, structuring the dialogue between the CJEU and other courts (on this, see Bobić, 2023). This speaks to a further point raised in legal literature—dialogue over "repeat" cases in a multi-level system presents an opportunity for courts mutually to discuss, clarify, and refine legal norms, improving their institutional legitimacy in the process.

So far, so good. Our analysis so far suggests an ability for the different categories of legal accountability to complement each other. The difficulty of course is that the entwinement of these categories also allows them to work against each other, as we can see if we move further down the QE saga. Having adopted a series of criteria in *Gauweiler*, the problem for the CJEU was that the Bank was not finished. Through its PSPP and later Pandemic Emergency Purchase (PEPP) programmes, the ECB adopted forms of QE that significantly relaxed many of the limits observed in the original OMT. This is most pronounced in PEPP, where the tying of bond distribution to the ECB's capital key and conditionality principles was outright abandoned (Bobić & Dawson, 2020). This of course placed the CJEU in a bind: would it insist upon rigorously upholding the *Gauweiler* standards or rather defer to the ECB's assessment of what was "necessary" to fulfil the price stability mandate and the "equivalent effect" standard used to interpret Art. 123(1) TFEU?

The key to the disagreement between the CJEU and the German Federal Constitutional Court (FCC) with reference to these questions, in our view, may be read as a disagreement regarding the proper relationship between the different categories of legal accountability. Looking at the CJEU's judgment, one may conclude that the three categories of legal accountability were all met in *Weiss*. From the perspective of accountability *to* law, the CJEU demanded that the ECB be treated as an institution with significant discretion to make complex decisions (*Weiss*, 2018, para. 73). This assessment was influenced by its own reading of the Bank's mandate, which gives the Bank considerable discretion to assess what is necessary to meet the requirements of price stability. Therefore, because the CJEU found that the ECB did not commit a manifest error of assessment, we may conclude that for that court, accountability *to* law was complied with. This influenced the way the CJEU approached what we refer to as accountability *through* and *of* law. The simple fact of what Mendes (2023) has termed the Bank's "constitutive powers" meant that the CJEU did not consider it necessary to insist on other forms of legal accountability. For example, if the Bank is exercising, through QE, its exclusive competence, and if it is operationally independent when doing so, this cannot be subject to challenge from national courts—as the Court reminded through its highly unusual press release following the FCC's *ultra vires* ruling (CJEU, 2020).

Reading the FCC judgment from the perspective of our three forms of legal accountability shows that accountability *to*, *through*, and *of* law required something else entirely for that court (Bundesverfassungsgericht, 2020). The first category required the ECB to follow the criteria set down in

Gauweiler. In its reference to PSPP, the FCC was therefore unrelentingly detailed in examining the *Gauweiler* criteria, using them to assess later ECB activity (Bundesverfassungsgericht, 2017, para. 79). Like the CJEU, this first disagreement influences how the FCC sees the other two categories. In its view, there is a strong link between accountability *to* law and accountability *through* law. For the FCC, the ECB was an exception to the democratic principle and an institution acting in a blurred area, with a significant capacity to limit fiscal policy competences, otherwise reserved for national parliaments (Bundesverfassungsgericht, 2020, para. 144). Accountability *through* law therefore required not significant discretion but a strict reading of the Bank's mandate, and consequently a more thorough proportionality assessment than the one conducted by the CJEU in *Weiss*.

Here, the FCC also draws a connection between accountability *to* law and accountability *of* law: meeting the latter requires a degree of consistency in the CJEU's approach. It was this lack of consistency, i.e., the inability fully to apply the *Gauweiler* criteria and operationalise the proportionality principle, which rendered the CJEU's approach "incomprehensible" (Bundesverfassungsgericht, 2020, para. 116). The ultimate finding of *ultra vires* therefore stems from the FCC's view that the proper complementarity between the different categories of legal accountability—and particularly between the delineation of competences and the necessary intensity of proportionality review—had not been observed. Rather, in its view, the categories are working against each other. Because the CJEU does not take the *Gauweiler* criteria seriously (accountability *to* law), the functions and democratic principles of the Bundestag are usurped (accountability *through* law), which implies that the CJEU has acted beyond its constitutional boundaries (accountability *of* law). The FCC's critique of the PSPP is therefore one precisely of whether the ECB's monetary policy is legally accountable.

Monetary policy is of course a curious beast. We might simply write the PSPP episode off as the culmination of a long-standing judicial standoff, with the ECB as the collateral victim (e.g., Grimm, 2020). Additionally, we might question the general utility of judicial review in a complex technical field such as monetary policy—i.e., perhaps avoiding substantive economic judgment to the highest degree possible is the judicial approach most consistent with the ECB's mandate. Just as many domestic courts refuse to review monetary decisions, there may be reasons for modesty in terms of what courts can realistically contribute to accountability in the monetary field.

Regardless of the deadlock between the two courts, it is unclear, however, whether legal accountability in monetary policy is working along any of the three categories. While scholars disagree on the merits of the FCC's critique, the one point where there is wide(r) agreement is that one root of the conflict is the low standard of proportionality review demanded by the CJEU in its *Weiss* judgment (Dawson & Bobić, 2019; Nicolaides & Kool, 2021; Petersen & Chatziathanasiou, 2021). The ability of the Bank to massively ramp up the ambition of its QE programmes, all the while justifying them by the monetary transmission mechanism, suggests that accountability *to* law does not seem an exacting limit to its activities. As once remarked regarding the role of the Court's Art. 114 TFEU jurisprudence, the Court's QE criteria have been received more as a "drafting guide" that can be interspersed in ECB decisions by its legal service than a set of serious constraints (Weatherill, 2011). Accountability *to* law seems limited.

The same, however, applies vis-a-vis the other two categories. The FCC's intervention may have indirectly "nudged" the Bank to provide more information on how it balances fiscal and monetary considerations. It is unclear, however, whether judicial intervention has significantly influenced the ECB's other accountability practices. The accountability framework of the Bank—a well-known combination of hearings, press conferences, and limited document access—is a largely self-imposed set of obligations, with limited indications that judicial intervention has opened up new channels of political or administrative accountability.

Some elements of judicial intervention may even have further limited accountability *through* and *to* law. An example is "black-out" periods. According to *Weiss*, an important element in the CJEU accepting the conformity of the PSPP programme with the prohibition of monetary financing was the use by the Bank of such periods (*Weiss*, 2018, para. 116). These "black-outs" made it more difficult for investors to be sure that bonds issued by governments would be purchased by the ECB by creating a mandatory black-out period, during which the Bank would not purchase bonds sold on secondary markets. By creating investor uncertainty, the equivalence between primary and secondary purchases (held by the CJEU to be a violation of Art. 123(1) TFEU in *Gauweiler*) could be avoided.

Such periods also, however, establish problems in terms of accountability *through* and *to* law: In terms of accountability *through* law, black-out periods are by definition intransparent—precisely in order to create investor uncertainty they also establish uncertainty for political actors in terms of their ability to follow and understand patterns of ECB purchases. In terms of accountability *to* law, they create problems for judicial review for the same reasons. The FCC thus complained repeatedly in its PSPP decision that the very ability of black-out periods to establish sufficient investor uncertainty was something courts themselves should be able to review (Bundesverfassungsgericht, 2020, pp. 187–191). As the FCC put it: "*ex post* disclosure of the relevant information is a prerequisite for conducting an effective judicial review of whether the purchases circumvent the prohibition of monetary financing" (Bundesverfassungsgericht, 2020, p. 189). The ill-tempered back and forth between the CJEU and FCC thus suggests that a lack of confidence in accountability *to* law can establish problems in terms of accountability *through* and *of* law as well.

In this sense, the virtuous circle has become a vicious circle: opportunities for political contestation of the ECB's activities are limited as a result of its discretion, endorsed by the CJEU. At the same time, national courts are increasingly losing confidence in the ability of the EU's legal system to place meaningful boundaries on what the ECB can or cannot do (with the "greening" of the Bank's mandate opening up new frontiers in this debate). This returns us to an earlier point: If legal accountability fails in one of its pillars, it is more likely to fail in the others. Turning next to the Bank's supervisory mandate can allow us to better test and refine this argument.

4. Legal Accountability in Supervisory Policy

The ECB's position in the supervisory arm is a result of a rather different legal setup than that accorded to it for the conduct of monetary policy. The ECB here cannot exercise its supervisory powers without cooperation with national supervisory authorities, and this has direct consequences for the three types of legal accountability. More interesting still is how the EU courts interpreted the SSM legal framework, with the effect that legal accountability on paper and in practice do not entirely overlap. To explore these intricacies, a brief description of the SSM system is in order.

Banking supervision is the first pillar of the Banking Union, created by the SSM Regulation (Regulation (EU) 2013/1024 of the Council of 15 October 2013, 2013). The SSM Regulation was based on the competence for harmonising prudential supervision in Art. 127(6) TFEU. The basic organisation of the SSM is that the ECB supervises significant entities, whereas national competent authorities supervise less significant entities. The final decision on the significant character of an entity lies with the ECB. Crucially, the ECB has the power to take on the supervision of an entity having hitherto been classified as less significant and vice versa. Of relevance is also that Joint Supervisory Teams, comprised of members of the ECB and the relevant national supervisory authority, exercise the daily monitoring of significant entities.

In carrying out their respective tasks under the SSM Regulation, the relationship between the ECB and competent national authorities should be based on cooperation in good faith and continuous exchange of relevant information. Under the SSM Regulation, these institutions share and divide supervisory and other tasks; however, they also share the applicable law: national supervisory authorities apply EU and national law, as does the ECB. For example, under Art. 4(3) of the SSM Regulation, the ECB applies all relevant Union law. However, given that all relevant Union law is also comprised of national law implementing directives and exercising the options offered therein, the ECB applies that national law. In addition, when necessary for the exercise of its supervisory tasks, the ECB will issue instructions to competent national authorities to make use of relevant powers under national law.

The ECB's need to apply and take into account national law is particularly manifest in areas where it has exclusive competence to exercise supervisory tasks regardless of whether the bank in question is significant or less significant. The first such situation is issuing and withdrawing operating authorisations to credit institutions: here the ECB depends entirely on the national law regulating the procedure and requirements for granting and withdrawing authorisations. The competent national authority drafts the decision proposing to the ECB to grant the authorisation.

On paper, then, accountability *to* law is of a twofold character: legal rules and standards are sourced in both EU and national law and intuitively the review of this behaviour would pertain to EU and national courts, respectively. These courts, in enforcing accountability *through* law, would be called on to ensure that the superior position of the ECB vis-à-vis national supervisors is respected, i.e., national courts would ensure the accountability of national supervisors to the ECB, horizontally. Such constellations of political accountability between the ECB and national supervisors have not yet appeared before courts, but this is not inconceivable. Concerning accountability *through* law of the ECB itself, for example, it is accountable to the Parliament and Council, whereas national parliaments are entitled to issue reasoned opinions concerning the annual report of the ECB and can demand responses in writing. Here the diagnosis is similar to monetary policy: It has not yet become clear that the judicial review of the ECB's supervisory activity spilled over into its political accountability arrangements. Finally, accountability *to* law appears simple in this exercise: Both levels of the judiciary are to maintain coherent standards of judicial review in this area against the standards of the SSM Regulation. No contestation from the national level comparable to the one we have seen in the monetary field took place.

Despite what might have been expected, the enmeshment of EU and national law in banking supervision brought about innovations in judicial review. In the standard division of tasks between EU and national courts, EU courts are competent to interpret (and possibly invalidate) EU law, while national courts do the same with respect to national law. Yet, what happens when the ECB makes a decision that is based on the preparatory act of the national competent authority? To complicate matters further, what if that national preparatory act is in parallel subject to judicial review on the national level, or further still, survived judicial review on the national level and is considered to be final? A simple, albeit counterintuitive, conclusion given by the CJEU answered all these questions simultaneously: the National Preparatory Act is in fact an EU act. EU courts are exclusively competent to interpret and possibly invalidate such acts, while national courts are prevented from doing so (*Silvio Berlusconi and Finanziaria d'investimento Fininvest SpA (Fininvest) v Banca d'Italia and Istituto per la Vigilanza Sulle Assicurazioni (IVASS)*, 2018).

In *Berlusconi*, the central issue was the status of national preparatory acts based on which the ECB refused to approve the purchase of a controlling share, based on its powers under the SSM Regulation. The decision to oppose or not oppose an acquisition of a qualifying holding is not possible without the use of national law following Art. 4(3) of the SSM Regulation. More specifically, the requirements attached to such acquisitions are regulated by national law and any such acquisition should be notified to the national competent authority. The national competent authority then forwards the notification to the ECB and prepares a proposal for a decision to oppose the acquisition or not.

Based on the recommendation of the national supervisor, the ECB decided to oppose the acquisition of a controlling share in a bank by Silvio Berlusconi. He was, prior to this attempt, found guilty of tax fraud and did not meet the reputation requirement required under Italian law for such purchases. In turn, this cast serious doubts about the sound and prudent management of the bank in the future.

Berlusconi challenged the national and ECB's decisions everywhere he could and the final procedure is central to our analysis of accountability *to* and *of* law, in particular regarding the nature and relationship between decisions and procedures before the Bank of Italy and the ECB. The case reached the CJEU by way of a preliminary reference. First, the Italian Council of State asked whether Art. 263 TFEU, which regulates direct actions against EU acts before EU courts, may be used to challenge procedures, preparatory acts, and non-binding proposals of national competent authorities in the area of prudential supervision.

The advocate general found that to determine the jurisdiction to review national preparatory acts one needs to look to the location of the final decision-making power. Given that in the context of the acquisition of qualifying holdings the final decision lies with the ECB, the advocate general concluded that the jurisdiction for review of such decisions accordingly "must lie with the General Court and the Court of Justice" (CJEU, 2018, para. 105). According to the advocate general, this includes the power to review the decision of the ECB as well as the national preparatory act, the proper place for this review is the annulment action against the ECB decision before the General Court.

The CJEU broadly followed the advocate general. Yet, the reasoning for establishing the exclusive jurisdiction of EU courts was grounded in the exclusive power of the ECB to decide on the acquisition of qualifying holdings, thereby the exclusive power of EU courts to review its actions ensures effective judicial protection of the persons concerned (*Silvio Berlusconi and Finanziaria d'investimento Fininvest SpA (Fininvest) v Banca d'Italia and Istituto per la Vigilanza Sulle Assicurazioni (IVASS)*, 2018, para. 44). As a consequence, Art. 263 TFEU prevents national courts from conducting judicial review of such acts. This renders the cooperation mechanism between the EU and national authorities effective, preventing the risk of divergent assessments by EU and national courts. The necessary consequence of this finding is then also the inability to use any national remedy that would hinder this.

The consequence is that accountability *to* law is now a decision for EU courts, regardless of the fact that the SSM Regulation includes national law in the relevant legal framework. While EU courts conduct reviews based on national law in the SSM, it remains unclear whether they treat that law as a question of law or fact, as is the case with national law in other areas of EU law, such as trademarks (for a discussion, see CJEU, 2024, pp. 38–51). The latter solution is problematic insofar as it pertains to the parties to the case, rather than the courts conducting judicial review, to *know the law*. This finding seems to be corroborated by a recent judgment of the CJEU, which stated how it reviews the General Court's interpretation of national law in the SSM: it will sanction either distortions of the wording of national law or manifestly wrong interpretations, based on the documents in the case file (*Anglo Austrian AAB v ECB*, 2024, para. 86). Furthermore, through the exclusion of national courts, EU courts lose an important interlocutor that ensures accountability *of* law. Lastly, this organisation of accountability *through* law in the SSM places a strong focus on the ECB holding national supervisors to account, but without significant findings as to the parallel accountability obligations for the ECB.

The clear division of jurisdiction between EU and national courts in this area, coupled with the explicit prohibition for national courts to review national preparatory acts where the final word pertains to an EU institution, constitutes an innovation in the case law of the CJEU (Brito Bastos, 2019). It is also an example of the spillover from accountability *to* law (which now takes place exclusively at the EU level) to accountability *of* law. By taking over this task, EU courts are reducing the burden on the national judiciary, but are also making it more difficult to access such review, due to the notoriously high bar for non-privileged applicants to access direct actions before EU courts. That places EU courts in a position where their decisions are unquestionable, be it through the preliminary reference procedure or by reviewing the decisions of national supervisors. In other words, an OMT/PSPP-like litigation is hardly imaginable in the context of the SSM, with serious consequences for accountability *of* law. Unlike in monetary policy, where the ECB's independence is the main driver of accountability structures, here the ECB's privileged position stems from its exclusive powers in the SSM (Dermine & Eliantonio, 2019). Yet, the exclusion of national courts from participating in the broader review of supervisory decisions and preparatory acts removes one point of (indirect) control of EU courts. In other words, here a change in accountability *of* law may produce issues in the coherence and correctness of how EU courts ensure accountability *to* law.

That also results in an unclear situation for national supervisory authorities: mistakes that they commit in this process as a matter of national law seem to be under the scrutiny of EU courts, resulting in no accountability *to* national law, despite it being a relevant source of law in banking supervision. The CJEU placed great emphasis on the specific cooperation mechanism that underlies the SSM as a manifestation of sincere cooperation from Art. 4(3) TEU. This, however, comes at the expense of the jurisdiction of national courts reviewing acts of national institutions applying (also) national law. This is not without relevance also for accountability *through* law: lack of judicial review puts stress on political or other types of accountability procedures in store for national supervisors. However, national supervisors may not take their account-giving obligations as seriously if they know that there is no genuine legal scrutiny or a legal process. Thus, accountability *through* law may also be diminished, in a context where no meaningful legal process in the context of accountability *to* law ultimately takes place.

Still, it may be said that the obligation of the ECB to apply national law under the SSM Regulation and the general obligation of cooperation and assistance with national competent authorities, allow EU courts to review the duty of care applied by the ECB in exercising its discretion. One might also intuitively say that because the ECB's tasks in supervisory policy are more technical than monetary policy, and its mandate is sourced in secondary rather than primary law, the CJEU might exercise more stringent review. However, the CJEU recently decided that in the SSM, judicial review should be limited to a review of a manifest error, based on the Bank's broad discretion (*ECB v Crédit Lyonnais*, 2023, paras. 55, 57, 72).

From the perspective of legal accountability as presented in this article, we can therefore see the three facets of legal accountability interacting differently than in monetary policy. Despite the ECB's more technical role in the SSM, accountability *to* law suffers from two defects: First, by reviewing the ECB's interpretation and application of national law only at the EU level and with a limited reach (focusing only on distortions of the text), there is a risk that accountability *to* law will remain of limited character. Second, by maintaining a deferential approach and reinforcing the ECB's wide discretion also in this area, EU courts themselves do not compensate for the lack of review at the national level. These deficiencies spill over further into the accountability *of* law. Barring national courts from the review of national preparatory acts means that they have been excluded from participating in the enforcement of accountability *of* law, as they no longer stand as institutions questioning the standards of the CJEU, who instead remain alone at the top.

5. Conclusions

We have thus seen how the three varieties of legal accountability operate and interrelate in the ECB's exercise of monetary policy and the SSM. A lesson that results from both areas we analysed is that the line between the virtuous and the vicious circle connecting the three types of legal accountability is extremely thin. In other words, the equilibrium between them is difficult to achieve but easy to upset, thanks to the legal framework within which the ECB operates in both fields. In particular, ECB's independence in the monetary field and its exclusive powers in the SSM have reduced the role of its accountability *to* law, witnessed in the deference shown to it by the CJEU (most recently, *ECB v Crédit Lyonnais*, 2023).

The differences we observe between the two fields are most clearly visible in accountability *through* law, which in our view influences the role of the other two forms of legal accountability. In monetary policy, the CJEU and the FCC significantly differ in their understanding of what legal accountability *through* law demands: for the FCC, deficiencies in this variety of legal accountability should have resulted in a more stringent standard of review under accountability *to* law. For the CJEU, the ECB's monetary policy mandate decreased the need for accountability *to* and *through* law. Accountability *of* law seems to be the dominant method of legal accountability in monetary policy, based on the interactions between the CJEU and the FCC. In the SSM, by contrast, accountability *through* law produced the opposite effect: accountability *of* law was almost entirely deprived of its useful effect, given the exclusion of national courts from reviewing a significant amount of SSM decisions. CJEU is thus seemingly left without any meaningful interlocutor, an interaction that usually improves the standard of review and accountability *to* law more generally. A comparison between monetary policy and the SSM therefore demonstrates the usefulness of the three forms of legal accountability as an analytical tool.

In sum, is layering legal accountability in three varieties, as we did in this contribution, a useful conceptual exercise for better understanding the role that legal accountability plays and should play? One of the great criticisms directed to courts in the European Monetary Union (EMU) context is that they should generally not review central bank decisions due to their apparent lack of expertise in the field and because central banking inherently demands high levels of discretion (Goldmann, 2014). In this view, legal accountability is of little to no use in this field and focus should be placed on political and other forms of accountability. We consider that the nuanced view of legal accountability as presented here allows us to move away from that criticism: the three varieties of legal accountability place different demands on the ECB, constrain the courts themselves, and ensure that other types of accountability deliver satisfactory results. A nuanced understanding of legal accountability also helps us identify accountability problems more precisely, by seeing how a change in one variety improves or hinders another. By distinguishing different elements of legal accountability, we finally hope to offer a conceptual framework of use to understand the role of law in the accountability practices of other institutions and policy areas.

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Conflict of Interests

The authors declare no conflict of interests.

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Hybrid Governance Structures and Monetary Policy: The Legal and Institutional Position of National Central Banks in the Eurosystem

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Abstract

National central banks (NCBs) are an integral part of the European System of Central Banks (ESCB)—a highly integrated system which comprises the ECB and NCBs, and is in charge of monetary policy in the Union. Various (primary) EU law provisions partly Europeanize NCBs, while also preserving their national embeddedness. This article explores the evolving legal and institutional position of the NCBs in the ESCB and the Eurosystem. The NCBs' hybrid status has proven fertile ground for tensions and has given rise to both centrifugal and centripetal forces in the Eurosystem. The discussion begins with the legal and institutional position of NCBs as established in Maastricht. The focus then shifts to centrifugal forces in the Eurosystem. NCBs can be confronted with conflicting loyalties and duties, which can compromise the singleness and effectiveness of monetary policy. We then turn to consider the emergence of centripetal forces in light of the recent case law of the EU Courts, which, together with the ECB's actions, has brought about a Europeanization of various aspects of the NCBs' organization and powers. The penultimate section considers the implications of the NCBs' institutional repositioning for their independence and accountability. Centripetal pressures can contribute to reinforcing the NCBs' independence vis-à-vis domestic political authorities and to reducing opportunities for accountability at the national level, which are only partly made up for at the EU level. The concluding section considers whether the developments adumbrated above consecrate a highly Europeanized, agent-like vision of NCBs.

Keywords

accountability; central bank governors; European System of Central Banks; Eurosystem; hybridity; independence; monetary policy; national central banks

1. Introduction

Monetary policy in the eurozone is managed by the Eurosystem, a complex, hybrid administrative framework which brings together an EU institution, the ECB, and its national counterparts, the national central banks (NCBs). Partly "borrowed" by the EU, the NCBs are tasked with implementing the monetary policy set at the EU level. Institutionally, they are represented within the ECB's Governing Council and the General Council. EU law also places certain requirements on member states regarding NCBs, most notably that of independence. Next to their contribution to the Eurosystem, NCBs also retain an existence of their own. Most emblematically, NCBs remain free to perform other functions than those they assume under EU law, unless "these interfere with the objectives and tasks of the ESCB" (Article 14.4 of Protocol No. 4 on the statute of the European System of Central Banks and of the European Central Bank, hereafter referred to as the ESCB/ECB Statute). Other administrative templates, such as a fully integrated system based on a single supranational central bank supported by decentralized agents, could have been favored when the EMU was negotiated in Maastricht. However, due to political reasons, the complex multi-level template we have, partly Europeanizing NCBs while preserving their national embeddedness, proved the most workable compromise to the EU and the member states, thereby securing the singleness and effectiveness of the eurozone's monetary policy on the one hand, while preserving national diversity on the other.

Under this founding "federal" compromise, the precise status of NCBs remains somewhat unresolved. NCBs enjoy a dual, hybrid status in the Eurosystem. On the one hand, they constitute sub-units in an integrated European administrative system managed by the ECB, which they find themselves subordinated to as regards monetary policy (see also Hellwig, 2024). On the other hand, they remain part of broader national institutional systems and are subject to specific national constraints. The mantra faithfully repeated in the case law surveyed below is that NCBs and their governors are *national* authorities but that they act within the framework of the *European* System of Central Banks. This article will investigate that hybridity, thereby shedding light on the evolving institutional position of NCBs under the EMU constellation. In doing so, it aims to enhance the understanding of the role and status of NCBs in the Eurosystem, an important, but sometimes overlooked issue in the realm of EMU studies.

After a brief return to the role and position of NCBs under the Maastricht compromise and an exposition of their hybridity, this article will show that this hybridity, and the multiple affiliations which underlie it, have proven fertile ground for tensions and centrifugal forces within the EMU. Using the *Weiss* saga as an example, it will be argued that the NCBs' very hybridity inserts them in different systems of values and priorities, and confronts them with conflicting loyalties and duties, which in turn could compromise the singleness and effectiveness of the Union's monetary policy. This article will then examine how against the backdrop of competing claims of authority from the national level, and the risks that those entail, centripetal forces have recently emerged within the Eurosystem, which have contributed to further displacing NCBs and bringing them, following a centripetal dynamic, closer to the EU level. In that context, this article will closely examine the recent line of cases before the Court of Justice of the European Union (CJEU) regarding NCBs (*Banka Slovenije*, 2022; *Commission v. Slovenia*, 2020; *LR Ģenerālprokuratūras*, 2021; *Rimšēvičs and ECB v. Republic of Latvia*, 2019), which consecrates, so we argue, a Europeanized, agent-like vision of NCBs. This article will also consider the actions of the ECB itself. Using the case of Emergency Liquidity Assistance (ELA) as an example, it will assess its impact on the ECB's relationships with NCBs and show how the ECB has contributed to Europeanizing certain of the NCBs' retained powers. Finally, this article will seek to uncover the implications of the NCBs' recent institutional repositioning for their independence and accountability. It will be argued that the centripetal pressures the NCBs are currently subject to contribute to further reinforcing their independence vis-à-vis domestic political branches and reduce opportunities for accountability at the national level, which are only partly made up for at the EU level.

2. The Institutional Position of the NCBs Under the Maastricht Compromise

Together with the ECB, the NCBs form part of the ESCB, which dates back to the Treaty of Maastricht (1992; see Articles 8 and 106 of the Treaty establishing the European Community, 2002). The NCBs of the member states whose currency is the euro constitute, together with the ECB, the Eurosystem (TFEU, 2016, Articles 282(1); ESCB/ECB Statute, 2016, Article 1). The Eurosystem conducts the monetary policy of the euro area (TFEU, 2016, Articles 282(1), 3(1)(c)). Given that "those Member States whose currency is not the euro, and their central banks, shall retain their powers in monetary matters" (TFEU, 2016, Article 282(4)) and "are excluded from rights and obligations within the ESCB" (TFEU, 2016, Article 139(3)), our principal focus in this section shall be on the Eurosystem and the NCBs of the euro area member states.

In accordance with Articles 127(1) and 282(2) TFEU (2016):

> The primary objective of the [ESCB]...shall be to maintain price stability. Without prejudice to the objective of price stability, the ESCB shall support the general economic policies in the Union with a view to contributing to the achievement of the objectives of the Union as laid down in Article 3 [TEU].

Both the ECB, following Articles 282(3) TFEU (2016) and 9.1 of the ESCB/ECB Statute (2016), and the NCBs, in accordance with their respective national legal basis, have legal personality (Amtenbrink, 2018, p. 929; Langner, 2020, pp. 392–394). It should also be noted that the NCBs are "the sole subscribers to and holders of the capital of the ECB" (ESCB/ECB Statute, 2016, Article 28.2). Their shares "may not be transferred, pledged or attached" (ESCB/ECB Statute, 2016, Article 28.4).

"The ESCB shall be governed by the decision-making bodies of the [ECB], which shall be the Governing Council and the Executive Board" (TFEU, 2016, Articles 129(1), 282(2); ESCB/ECB Statute, 2016, Articles 8, 9(3)). The NCBs play an important role in ECB decision-making. Most notably, "[t]he Governing Council of the [ECB] shall comprise the members of the Executive Board of the [ECB] and the Governors of the [NCBs] of the Member States whose currency is the euro" (TFEU, 2016, Article 283(1); ESCB/ECB Statute, 2016, Article 10; see Amtenbrink, 2018, pp. 933–934 on the voting arrangements in the Governing Council; Hellwig, 2024 for the implications of the hybrid role of NCB governors for the politics of the Governing Council). NCBs also participate in committees and working groups (Fromage, 2022).

The tasks conferred upon the ESCB are implemented either by the ECB itself or through the NCBs (ESCB/ECB Statute, 2016, Article 9.2). These tasks primarily are:

> —To define and implement the monetary policy of the Union,
>
> —to conduct foreign-exchange operations [...],

> —to hold and manage the official foreign reserves of the Member States,
>
> —to promote the smooth operation of payment systems. (TFEU, 2016, Article 127(2))

Further, "[t]he ESCB shall contribute to the smooth conduct of policies pursued by the competent authorities relating to the prudential supervision of credit institutions and the stability of the financial system" (TFEU, 2016, Article 127(5)). The ECB also has "the exclusive right to authorise the issue of euro banknotes," and "the [ECB] and the [NCBs] may issue such notes" (TFEU, 2016, Article 128(1); ESCB/ECB Statute, 2016, Article 16).

It is further provided in Articles 130 TFEU (2016) and 7 of the ESCB/ECB Statute (2016) that:

> When exercising the powers and carrying out the tasks and duties conferred upon them by the Treaties and the [ESCB/ECB Statute], neither the [ECB], nor a [NCB], nor any member of their decision-making bodies shall seek or take instructions from Union institutions, bodies, offices or agencies, from any government of a Member State or from any other body. The Union institutions, bodies, offices or agencies and the governments of the Member States undertake to respect this principle and not to seek to influence the members of the decision-making bodies of the [ECB] or of the [NCBs] in the performance of their tasks.

"Each Member State shall ensure that its national legislation including the statutes of its [NCB] is compatible with the Treaties and the [ESCB/ECB Statute]" (TFEU, 2016, Article 131; ESCB/ECB Statute, 2016, Article 14).

"The Executive Board [of the ECB] shall implement monetary policy in accordance with the guidelines and decisions laid down by the Governing Council" and "give the necessary instructions to [NCBs]" (ESCB/ECB Statute, 2016, Article 12.1). "To the extent deemed possible and appropriate [...], the ECB shall have recourse to the [NCBs] to carry out operations which form part of the tasks of the ESCB" (ESCB/ECB Statute, 2016, Article 12.1). The ESCB/ECB Statute explicitly states that NCBs "are an integral part of the ESCB" and that they "shall act in accordance with the guidelines and instructions of the ECB" (ESCB/ECB Statute, 2016, Article 14.3). Furthermore, "[t]he Governing Council shall take the necessary steps to ensure compliance with the guidelines and instructions of the ECB, and shall require that any necessary information be given to it" (ESCB/ECB Statute, 2016, Article 14.3). In this connection, Amtenbrink (2018) argues that the ESCB constitutes a two-tier system, but that the power for conducting monetary policy is not equally shared by the central and decentralized levels. The ECB constitutes the policy-making arm of the system, whereas the NCBs are mainly charged with the execution of monetary policy decisions. "The ESCB thus includes features both of a centralized and a decentralized system, whereby the emphasis lies on the former" (Amtenbrink, 2018, pp. 930–931).

The NCBs may also "perform functions other than those specified in [the ESCB/ECB Statute] unless the Governing Council finds...that these interfere with the objectives and tasks of the ESCB" (ESCB/ECB Statute, 2016, Article 14.4). Such functions, which may for example include the provision of ELA, supervisory tasks on the financial markets, or the resolution of credit institutions, "shall be performed on the responsibility and liability of [NCBs] and shall not be regarded as being part of the functions of the ESCB" (ESCB/ECB Statute, 2016, Article 14.4; see further Hellwig, 2024, pp. 10–22).

Last, a number of rules or prohibitions laid down in the Treaties that are addressed to the ECB are also addressed to the NCBs. Notable examples are Articles 123 TFEU (2016) and 21 of the ESCB/ECB Statute (2016) on the prohibition of monetary financing and Article 124 TFEU (2016) on the prohibition of granting privileged access to financial institutions.

Langner (2020, p. 388) notes that "[t]he [ESCB] and the Eurosystem respectively is quite a unique legal structure which is historically unprecedented." This unique structure:

> Reflects a typical European Union compromise. While it was clear that the Member States would have to give up their sovereignty with regard to their competences in the field of monetary policy, they were ultimately not too eager to give up their freedom with regard to the organizational structures of their existing [NCBs]. Many of the latter were institutions with very long histories and traditions; all were held in high esteem in the institutional environment of the Member States. (Langner, 2020, p. 388)

In this respect, Van der Sluis (2022, p. 26) further observes that when establishing the EMU:

> The choice could have been made to construct a new, regional set of decentralized branches of the ECB, in order to assert the supranational character of the euro. Instead, the choice was made to partially 'Europeanize' the NCBs through law, while maintaining their national embeddedness.

The result was, as Langner (2020, p. 389) notes:

> A two-layered structure with the [ECB] as on the one hand hierarchically superior central body designated to order the NCBs to execute the monetary policy it defines, but on the other hand maintaining the legal personality and structure of the NCBs on the second layer. That means that the ESCB does not represent a single authority (…), but rather it is a very complex network among the ECB and the NCBs—a system as the Treaties put it. This implies that on both the national and the supranational EU levels, independent institutions exist which hold or keep a certain measure of organizational independence and competences.

Under this founding "federal" compromise, the precise status of NCBs remains somewhat unresolved. NCBs enjoy a dual, composite status and affiliation, belonging both to the national and the European sphere at the same time. This article mobilizes the concept of "hybridity" to analyse the peculiar position and status of NCBs in the Eurosystem. Initially developed in the field of biology, hybridity refers to a state of mixture and fusion, synthesis and co-mingling, and in-betweenness, which necessarily resists fixity and absolute categorization (Camilleri & Kapsali, 2020, pp. 1–2). In social sciences, hybridity has been used to describe phenomena or institutions combining features from different ideal-types (Pieterse, 2001). In EU studies, the concept of hybridity has recently been deployed to study the Union's international identity (Drieskens et al., 2024), the notion of statehood in its close neighborhood (Faust & Franke, 2024), or specific governance arrangements in the fields of ECB banking supervision, external border management, and trade (Coman-Kund, 2024). "'Hybrid EU governance', and, more specifically, 'hybrid' executive power or administration, highlights in particular situations in which the tasks and powers of EU and national actors are increasingly entangled, often in obscure ways and under complex and hard-to-decipher legal frameworks" (Coman-Kund, 2024, p. 272).

As will be further explored in this article, the hybridity of NCBs, as both European and national institutions, is multifaceted. Their hybridity has a functional dimension, as NCBs crucially contribute to the Eurosystem's monetary policy by executing and implementing ECB decisions, but may at the same time retain other country-specific functions not provided for by the ESCB/ECB Statute. Hybridity is also institutional, as NCBs constitute the sub-units of an integrated European administrative system managed by the ECB, which they find themselves hierarchically subordinated to, while remaining simultaneously part of broader national institutional systems and subject to country-specific (legal) constraints and loyalties. Institutional hybridity also has a personal dimension, and NCB governors, as heads of national institutions and constitutive members of the ECB's Governing Council, impersonate this dual affiliation. It has for example been noted that:

> As a member of the ESCB, the Deutsche Bundesbank is not only a German institution but also a European institution; as a member of the ECB's Governing Council, its president is not only a German official but also a European official. (Hellwig, 2024, p. 6)

Finally, hybridity is also financial: while both NCBs and the ECB enjoy their own respective financial resources, NCBs remain the ultimate shareholders of the ECB and may directly or indirectly face consequences if the ECB bears losses.

As in-between, hybrid institutions, with an unresolved status, the position of NCBs in the Eurosystem and under the EMU constellation is subject to evolutions and dynamics which the rest of this article explores. As a result of a certain number of factors, NCBs can indeed oscillate between their two constitutive poles and are subject to forces which either keep them attached to the national pole (centrifugal forces) or draw them closer to the supranational pole (centripetal forces).

3. Hybridity as a Source of Tension: The Case of *Weiss*

Hybridity, and the compromise between unity and diversity it embodies, has proven fertile ground for tensions and centrifugal forces within the EMU, because of the multiple affiliations it implies, and the different legal and institutional systems NCBs are attached to. Some of these tensions have so far remained hypothetical. Think, for example, of the recent wave of ECB losses, and the discussion it has prompted around a (still theoretical) scenario of ECB recapitalization (see, e.g., Buiter, 2024). The hybrid financial architecture of the ECB, and the fact that NCBs are its shareholders, could seriously complicate such a scenario, and be conducive to conflicting dynamics within the Eurosystem, both between NCBs and the ECB, and among the NCBs themselves. Other tensions, however, have already started materializing. This was illustrated most vividly by the second *Weiss* judgment of the *Bundesverfassungsgericht* (2020), following the earlier "warning shots" which were fired by the same court in its second *Gauweiler* (Bundesverfassungsgericht, 2016) ruling.

It will be recalled that the constitutional complaints concerned the Public Sector Asset Purchase Program (PSPP), which involved the purchase of public sector securities by the Eurosystem. The complainants argued that the program violated the prohibition of monetary financing (TFEU, 2016, Article 123) and the principle of conferral. They further sought to argue that there was a violation of the constitutional identity enshrined in the Basic Law to the extent that the program infringed the budgetary powers of the *Bundestag* (Bundesverfassungsgericht, 2020, para. 1). In a much-criticised judgment, the *Bundesverfassungsgericht* ruled that the constitutional complaints were well-founded:

> To the extent that they challenge[d] the omission on the part of the Federal Government and the *Bundestag* to take suitable steps to ensure that the ECB, by means of purchasing securities under the PSPP, [did] not exceed its monetary policy competence and encroach upon the economic policy competence of the Member States. (Bundesverfassungsgericht, 2020, para. 97)

The PSPP decision by the ECB, as amended by subsequent decisions, neither assessed nor substantiated that the contested measures satisfied the principle of proportionality. Consequently, the impugned ECB decisions constituted "a qualified, i.e. manifest and structurally significant, exceeding of the competences assigned to the ECB" (Bundesverfassungsgericht, 2020, para. 116). The different view of the CJEU set out in its *Weiss* (2018) judgment did not merit, according to the *Bundesverfassungsgericht*, a different conclusion, "given that on this point, the judgment [was] simply not comprehensible so that, to this extent, the judgment was rendered *ultra vires*" and hence was not binding upon the *Bundesverfassungsgericht* (Bundesverfassungsgericht, 2020, para. 116).

The salient point for present purposes is that, following the *Bundesverfassungsgericht*'s judgment in *Weiss* (Bundesverfassungsgericht, 2020), the constitutional organs of Germany had a duty, on the basis of their responsibility with regard to European integration (*Integrationsverantwortung*), to take active steps against the PSPP (Bundesverfassungsgericht, 2020, paras. 229ff.). Furthermore, the court ruled that an:

> *Ultra vires* [EU] act is not to be applied in Germany and has no binding effect in relation to German constitutional organs, administrative authorities and courts. These organs, courts and authorities may participate neither in the development nor in the implementation, execution or operationalisation of *ultra vires* acts. (Bundesverfassungsgericht, 2020, para. 234)

Following a transitional period allowing for the necessary coordination with the ECB, the *Bundesbank* "could no longer participate in the implementation and execution" of the PSPP decisions, "neither by carrying out any further purchases of bonds nor by contributing to another increase of the monthly purchase volume," unless it was demonstrated by the ECB in a comprehensible and substantiated manner that the monetary policy objectives pursued were proportionate to the economic and fiscal policy effects resulting from the program (Bundesverfassungsgericht, 2020, para. 235). The *Bundesbank* would otherwise also be required to "ensure that the bonds already purchased under the PSPP and held in its portfolio [were] sold, based on a—possibly long-term—strategy coordinated with the ESCB" (Bundesverfassungsgericht, 2020, para. 235).

The *Weiss* saga has shed light on the conflicting demands on the *Bundesbank* from the EU and the German legal orders, i.e., on the one hand, it being required to implement the PSPP which was given the green light by the CJEU, and, on the other hand, being requested to end its participation in the program if certain conditions were not met, as the relevant ECB acts (and the Court's ruling) were said to be *ultra vires*. "The judgment emphasized the national embeddedness of the NCBs. Despite their firm integration in the Eurosystem, they are first and foremost creatures of national law" (Van der Sluis, 2022, p. 26). Langner (2020, pp. 402–403), in this respect, notes that:

> The NCBs in the end remain national entities as part of the national governing structures, which employ national competences even if executing tasks of the ESCB. As a further consequence, all national law remains fully applicable to them, as long as it does not contradict European law..... In addition, they are

> in principle subject to controls by the national courts of auditors or parliamentary inquiry commissions. However, such control institutions have to accept the restrictions of their work stemming from the independence of the NCBs when carrying out tasks and duties conferred on them by the Treaties or the Statute of the ESCB.

Even though a compromise was ultimately found in this instance, such that the conflict is now dormant, this episode tellingly illustrates the tensions that pervade the Eurosystem, which can to a large extent be traced back to the hybridity model described above. What is more, it is not inconceivable that future ECB acts (and CJEU judgments) could be found by the *Bundesverfassungsgericht* to be *ultra vires*. This would inevitably compromise the highly integrated nature of the ESCB, especially insofar as the *Bundesbank* is concerned.

4. Hybridity as an Opportunity for Additional Centralization

Next to the tensions and centrifugal forces which the hybridity model entails, an opposite, centripetal trend has been at play, especially over the past decade, which has contributed to further Europeanizing NCBs and displacing them from the national legal orders by bringing them closer to the ECB and the EU legal order. In this case, hybridity, and the ambiguities it entails, can, following a neofunctional logic, create an opportunity for additional centralization.

4.1. Centripetal Trends in the Case Law of the CJEU

This section considers four recent cases in the Court of Justice, all decided by the Grand Chamber between 2019 and 2022, which contribute to further Europeanizing NCBs and uprooting them from their original national habitat. In each case, the Court was confronted with a particular type of legal tension produced by the hybrid nature of the NCB concerned and its dual belonging. As we shall see, it systematically favored the centripetal option, thereby reinforcing the Europeanness of NCBs.

The first case is the well-known *Rimšēvičs and ECB v. Republic of Latvia* (2019) case. As previously explored by, among others, Dermine and Eliantonio (2019), the case concerned the validity of a decision by the Latvian anti-corruption office to temporarily prohibit the Governor of the Central Bank of Latvia, Rimšēvičs, from performing his duties, due to ongoing criminal prosecutions and various charges pending against him. The decision was contested by both Rimšēvičs and the ECB itself, who argued that there were no indications of a serious misconduct, and that Rimšēvičs' removal thereby undermined the principle of central bank independence. The applicants based their action on Article 14.2 of the ESCB/ECB Statute (2016), which had never been previously activated. According to that provision, decisions relieving governors of NCBs from office "may be referred to the Court of Justice by the Governor concerned or the Governing Council on grounds of infringement of these Treaties or of any rule of law relating to their application" (ESCB/ECB Statute, 2016).

As also discussed elsewhere (see Dermine & Eliantonio, 2019), the Court's assessment of the nature of this atypical remedy and the effects of the judgment delivered in this context were central and ground-breaking. Basically, the Court was asked to choose between two possible options: Did that remedy constitute an infringement procedure of some sort, leading to a merely declaratory judgement, to be followed by national authorities (following Articles 258–260 TFEU)? Or did it amount to a specific type of annulment action, which could produce cassatory effects (following the logic of Article 263 TFEU)? (see also Dermine & Eliantonio, 2019, p. 247). Unlike Advocate General Kokott (CJEU, 2018, paras. 36–68), the Court unexpectedly favored the second approach. Having found that Latvia had failed to establish that the decision to relieve Rimšēvičs from office was based on sufficient indications that he had engaged in serious misconduct (*Rimšēvičs and ECB v. Republic of Latvia*, 2019, paras. 88–96), the Court annulled the contested decision by the Latvian anti-corruption office (*Rimšēvičs and ECB v. Republic of Latvia*, 2019, para. 97). The Court's decision to classify the remedy provided for by Article 14.2 as an action for annulment relied on both a literal and a purposive reading of that provision. As also discussed elsewhere (see Dermine & Eliantonio, 2019), the Court indeed found objective similarities with Article 263 TFEU (length of the appeal period, nature of the pleas, and identity of potential applicants). More fundamentally, the Court deemed this derogation from the general distribution of powers between national and EU courts justified given the "particular institutional context in which the ESCB operates" (*Rimšēvičs and ECB v. Republic of Latvia*, 2019, para. 69). The Court held that:

> The ESCB represents a novel legal construct in EU law which brings together national institutions, namely the national central banks, and an EU institution, namely the ECB, and causes them to cooperate closely with each other, and within which a different structure and a less marked distinction between the EU legal order and national legal orders prevails. (*Rimšēvičs and ECB v. Republic of Latvia*, 2019, para. 69).

Further, building upon the hybrid status of the governors of NCBs in the ESCB (*Rimšēvičs and ECB v. Republic of Latvia*, 2019, paras. 70–71) and the centrality of the principle of independence in the ESCB's operations (*Rimšēvičs and ECB v. Republic of Latvia*, 2019, paras. 72–73), the Court ruled that only an action for annulment "is capable of addressing the concerns which led to the creation of that legal remedy" (*Rimšēvičs and ECB v. Republic of Latvia*, 2019, para. 74). Although the Court did not explicitly say so, the logical consequence of such a finding is that its competence to examine the compatibility of national removal decisions with EU law is exclusive and not shared with national courts (see also Dougan, 2022, pp. 1316–1317). *Rimšēvičs and ECB v. Republic of Latvia* (2019) constitutes the first instance of an EU Court directly annulling an act of *national* law and extracting it from the domestic legal order concerned. This outcome was very much conditioned by the specificity of the remedy provided for by Article 14.2 of the ESCB/ECB Statute (2016), the type of decisions it covered, and the peculiar features of the Eurosystem and monetary policy as an EU competence (see also Hinarejos, 2019; Tridimas & Lonardo, 2020). However, it arguably has a bit of a revolutionary flavor, in that it goes beyond the principled separation of legal orders which normally underpins the EU legal space and beyond the general distribution of powers between EU and national courts flowing from it (Sarmiento, 2019). As the judgment consecrates the Court's (exclusive) jurisdiction to examine the legality of national removal decisions, and eventually annul them, *Rimšēvičs and ECB v. Republic of Latvia* (2019) further Europeanizes NCBs and the status of NCB governors.

The second case is *Commission v. Slovenia* (2020), which concerned an infringement action launched against Slovenia for having breached the inviolability of ECB archives, as protected by Articles 343 TFEU (2016) and 39 of the ESCB/ECB Statute (2016) and 2 and 22 of Protocol No. 7 on the privileges and immunities of the EU (2016; see Butler, 2021). At stake was a criminal investigation conducted by the Slovenian authorities, in the context of which they searched the premises of the Slovenian central bank and unilaterally seized, without regard to their content and the tasks they related to, documents in the governor's possession.

The case required the Court to determine the scope of the concept of "ECB archives," which the principle of inviolability protects, and whether or not it could cover documents in the possession of a NCB. Relying upon a functional interpretation of privileges and immunities and their objective of avoiding any interference with the functioning and independence of the EU (*Commission v. Slovenia*, 2020, para. 73), the multi-layered structure of the Eurosystem, the integral part NCBs form in such construct, and the hybrid status of NCBs and their governors in that context (*Commission v. Slovenia*, 2020, paras. 79–83), the Court went on to favor a broad understanding of "ECB archives," as covering all documents connected to the performance of the tasks of the Eurosystem, whether held by the ECB directly or by NCBs, such that documents held by NCBs were also protected by the principle of inviolability, unless they were not linked to the performance of tasks of the Eurosystem (*Commission v. Slovenia*, 2020, paras. 84–85).

The third case, *LR Ģenerālprokuratūras* (2021), stands as the aftermath of the *Rimšēvičs and ECB v. Republic of Latvia* (2019) case. Following the annulment by the Court of Justice of the temporary removal of the governor of the Latvian Central Bank, the criminal investigation was continued, and AB, the governor, was subsequently charged with bribery, corruption, and money laundering. The district court of Riga, which was conducting the criminal proceedings, felt hesitant as to whether AB should enjoy immunity under Protocol No. 7 (2016), as a former governor of a NCB, and, therefore, a former member of the ECB's Governing Council, and thus referred questions to the Court of Justice for a preliminary ruling. The Court first clearly established that, in spite of their particularities as national authorities, who are "not subject to an EU institution" (*LR Ģenerālprokuratūras*, 2021, para. 44), NCB governors assume a "dual professional role resulting in a hybrid status" and act on behalf of an EU institution, namely the ECB, in the performance of their duties as members of the Governing Council (*LR Ģenerālprokuratūras*, 2021, para. 45). Taking into account the need to safeguard the performance of the ECB's tasks and its independence (*LR Ģenerālprokuratūras*, 2021, paras. 45–46), the Court found it purely logical that NCB governors should enjoy the immunity from legal proceedings provided for in Article 11(a) of Protocol No. 7 (2016) for acts performed by them in their official capacity as members of an ECB organ (*LR Ģenerālprokuratūras*, 2021, para. 50). The Court also made clear that immunities under Protocol No. 7 have a functional (*LR Ģenerālprokuratūras*, 2021, para. 57) and therefore relative character (*LR Ģenerālprokuratūras*, 2021, paras. 74, 95), hence the immunity of NCB governors can only cover acts performed in an official capacity as members of the Governing Council and only includes a very limited proportion of the criminal acts they could possibly commit. Acts of fraud, corruption, or money laundering, such as those at stake in this case, could not be considered acts carried out in an official capacity (*LR Ģenerālprokuratūras*, 2021, paras. 67–68). It was for the national authorities to determine whether the act at stake was carried out in the governor's official capacity and, depending on the outcome of the assessment, to either continue the proceedings or request a waiver from the ECB, which would then decide in the light of the interests of the EU (*LR Ģenerālprokuratūras*, 2021, paras. 73–74). The Court also emphasized the importance of sincere cooperation between national and EU authorities in this context, which for example required that national authorities consult with the ECB anytime the application of the immunities to NCB governors raised doubts or questions (*LR Ģenerālprokuratūras*, 2021, para. 73). Finally, the Court stressed that the proper functioning of the EU's system of privileges and immunities in the context of the Eurosystem, respect for the respective competences and responsibilities of national authorities and the ECB in that context, and strict adherence to the principles of sincere cooperation and independence would be ensured by the Court under the various remedies provided for by the treaties (*LR Ģenerālprokuratūras*, 2021, paras. 75, 96).

The *Banka Slovenije* (2022) case (see Martinelli, 2023) concerned Slovenian legislation passed in the aftermath of the financial crisis, which had enabled its central bank, acting as resolution authority (which at the time was still a purely national competence), to cancel certain financial instruments of banks likely to become insolvent and threaten the financial system as a whole. Following a ruling by the Slovenian Constitutional Court, the Slovenian legislator adopted a new law laying down rules for the effective judicial protection and financial compensation of these former holders of instruments cancelled by the Central Bank of Slovenia. This law set up two separate, alternative liability regimes. The first was a fault-based liability regime: liability could only be incurred if the non-necessity of the cancellation or its incompatibility with the "no creditor worse off" principle could be established and, in any case, only if the central bank failed to establish that it had acted with due diligence. The second was an objective liability regime which enabled natural persons whose annual income was below a threshold defined by that legislation to be automatically compensated up to 80% of the value of the cancelled instrument, with an upper threshold of €20,000. The Slovenian legislator decided that the funding of this compensation scheme would fall upon the central bank itself. Three different sources of funding were foreseen, by order of priority: (a) the allocation to special reserves of all the profits made by the Slovenian Central Bank as of 2019; (b) 50% of its general reserves, if the special reserves were insufficient; and (c) a loan with interest from the Slovenian authorities. The new law was challenged before the Slovenian Constitutional Court and a reference for a preliminary ruling was made to the CJEU. The questions essentially revolved around the Slovenian scheme's compliance with, on the one hand, the prohibition of monetary financing (TFEU, 2016, Article 123(1)) and, on the other, the independence of central banks (as protected by TFEU, 2016, Article 130 and ESCB/ECB Statute, 2016, Article 7).

The Court highlighted that the implementation of reorganization and resolution measures for credit institutions was not included among the tasks to be carried out through the ESCB (*Banka Slovenije*, 2022, para. 47). This task constituted a "retained" function which the Slovenian authorities had decided to confer upon their central bank (*Banka Slovenije*, 2022, para. 51). The Court, recalling its now classic characterizations of the Eurosystem as a "novel legal construct in EU law" and of NCBs as enjoying a "hybrid status" (*Banka Slovenije*, 2022, para. 52), ruled that retained functions of NCBs are, in accordance with Article 14.4 of the ESCB/ECB Statute (2016), to be performed under those NCBs' responsibility and liability, as regulated by national laws (*Banka Slovenije*, 2022, paras. 53–55). Though it fell on the member states to define the conditions under which their NCB could incur liability in the context of the performance of its retained functions, member states remained bound by EU law in exercising that power, notably by rules and principles such as those enshrined in Articles 123 and 130 TFEU (2016, paras. 56–58). Article 123(1) TFEU (2016) did not rule out, *per se* and as a matter of principle, the incurring of liability by a NCB by reason of the exercise of a retained function conferred on it by national law (*Banka Slovenije*, 2022, para. 68). Not only would this run counter to the letter of the treaties and the diversity of national practices they intend to preserve (*Banka Slovenije*, 2022, paras. 69–70), but it would also overlook the fact that such liability is in principle the consequence of the actions of the said NCB, and not the assumption of a pre-existing obligation incumbent on the other public authorities vis-à-vis third parties (*Banka Slovenije*, 2022, para. 71). As a consequence, it was only in the light of the conditions under which such liability could be incurred that a breach of Article 123(1) TFEU (2016) could be established. In that regard, the Court ruled that the objective liability regime established by the Slovenian authorities entailed:

> An obligation on the part of the national central bank concerned to compensate certain former holders of financial instruments cancelled by it solely on account of that cancellation, even if it is established

> that that central bank had fully complied with the relevant rules in that regard, in particular by acting with due care. (*Banka Slovenije*, 2022, para. 82)

Such a regime placed on the NCB's shoulders the financial consequences of a political choice made by the legislature and not of its own actions and choices made in the performance of one of its functions (*Banka Slovenije*, 2022, para. 84), thus leading "it to be responsible, in place of the other public authorities of the Member State concerned, for the financing of public sector obligations under the national legislation of that Member State" (*Banka Slovenije*, 2022, para. 85), in a way that contravened the prohibition of monetary financing (*Banka Slovenije*, 2022, para. 90). In contrast, the Court considered, thereby not following the conclusions of Advocate General Kokott (CJEU, 2022, paras. 95–100), that a fault-based liability regime, structured around compliance with the duty of care, did not *per se* violate Article 123 TFEU (2016, para. 75). The Court however required that such regimes be structured around infringements of the duty of care of a serious nature, a clarification deemed necessary considering the "high degree of complexity and urgency" characterizing the implementation of reorganization measures (*Banka Slovenije*, 2022, para. 75).

Furthermore, the Court, rather unsurprisingly, followed the Opinion of Advocate General Kokott (CJEU, 2022) and ruled that the financing of the Slovenian scheme violated Articles 130 TFEU (2016) and 7 of the ESCB/ECB Statute (2016; *Banka Slovenije*, 2022, para. 106). Although the hybridity of NCBs could allow a differentiated application of the principle of independence, depending on the function at stake (Eurosystem or retained; *Banka Slovenije*, 2022, para. 95), national rules organizing the exercise of retained functions could not place a NCB in a situation which undermines its ability to carry out independently a Eurosystem task (*Banka Slovenije*, 2022, para. 97). At stake in this case was the financial dimension of central bank independence (see Baez Seara, 2023) and more specifically the role that NCBs' reserves play in the implementation of the EU's monetary policy (*Banka Slovenije*, 2022, paras. 98–100). In that regard, the Court considered that the impugned scheme not only deprived the Slovenian Central Bank of a substantial part of its financial means of action (profits and general reserves) but also placed it in a situation of dependence on the political authorities of Slovenia, as it could end up having to negotiate a loan with those authorities, thereby exposing the bank to potential political pressure, which the principle of independence sought to shield it from (*Banka Slovenije*, 2022, paras. 101–104). The Court however made it clear that the position would have been different, had Slovenia ensured that the central bank would have had the funds necessary to pay the compensation, while retaining its ability to carry out its tasks falling within the scope of the ESCB effectively and completely independently (*Banka Slovenije*, 2022, para. 105).

All four cases concerned complex legal questions which the multi-levelness of the Eurosystem, the hybridity of NCBs, and their dual institutional belonging produced. More fundamentally, they also embody the type of tensions and competing forces NCBs are currently subject to, between the clear centripetal dynamics supported by the EU and the ECB, and resistance mounted in the "periphery," through various attempts to keep NCBs within the national remit. Interestingly, in all four cases, these tensions were solved in favor of the center. EU rules were interpreted broadly, as encompassing NCBs, thereby contributing to expanding supranational control and oversight on NCBs but also the protection accorded to them and their governors by EU law. The legal ambiguities stemming from the hybridity model and the NCBs' dual belonging were thus consistently solved in favor of the supranational pole, at the expense of the state pole, thereby reinforcing the NCBs' Europeanness. The justification supporting such centripetal dynamics, and the Europeanized, agent-like vision of NCBs underlying it, is consistent in all four cases: the Eurosystem as a “novel legal construct,” closely intertwining the ECB with NCBs, the NCBs’ hybridity, the dual professional role of NCB governors, the principle of central bank independence underpinning the Eurosystem, and the effectiveness of the EU’s monetary policy. The judicial outcomes reached in *Commission v. Slovenia* (2020) and *LR Ģenerālprokuratūras* (2021) appear fairly logical and in line with the functional approach favored by the Court in EMU-related cases. Although groundbreaking and, to many, surprising, the Court’s findings in *Rimšēvičs and ECB v. Republic of Latvia* (2019) are also substantiated. Altogether, these rulings certainly contribute to further Europeanizing NCBs and introducing a greater degree of uniformity insofar as their status and organizational modalities are concerned. With *Banka Slovenije* (2022), the Court has made clear, in the name of a rather rigid reading of the principle of central bank independence and of the prohibition enshrined in Article 123 TFEU (2016), that NCBs exercising retained functions can—unlike other public authorities—only incur liability under highly restrictive conditions and that the mobilization of NCB financial resources in the context of the performance of these functions—to the extent that it is likely to affect the implementation of the EU’s monetary policy—is *per se* off-limits. This indirectly limits, in a substantial manner, the member states’ ability to confer additional (non-monetary) tasks upon their NCB and thereby contributes to further uprooting them from their original national habitat.

4.2. Centripetal Forces and the Actions of the ECB: The Case of ELA

The previous section showed how the legal and institutional hybridity of NCBs as dual bodies, both European and national, and the ambiguities flowing from it, enabled the Court of Justice, in a recent line of cases, to further Europeanize NCBs, following a centripetal dynamic. This section considers how the actions of the ECB itself have also contributed to such a dynamic and how the expansive use by the ECB of its prerogatives has led to a *de facto* contraction of the NCBs’ domain of retained powers and therefore to their further Europeanization.

The most telling example of this phenomenon is that of ELA. The provision of ELA to banks facing liquidity issues has historically been considered, in the Eurosystem, as a function retained by NCBs, in accordance with Article 14.4 of the ESCB/ECB Statute (2016). Responsibility for the provision of ELA lies at the national level, with each individual NCB. However, we have seen in the aftermath of the Great Financial Crisis a slow but clear trend towards the centralization and progressive Europeanization of ELA provision. First, at the height of the crisis, the ECB repeatedly threatened states, such as Greece or Ireland, to use its power to limit or prohibit national ELA provision under Article 14.4 of the ESCB/ECB Statute (2016) and pressured them to adopt a certain economic policy. Second, ELA is the subject of increasingly detailed rules set by the ECB which govern all its main aspects (solvency criteria, maturities, volumes, collateral and guarantees, and penalty interest rates; see ECB, 2017) and signal a clear will of the ECB to frame, control, and harmonize the provision of ELA across the eurozone. Finally, and perhaps most tellingly, the ECB has explicitly called, through its former President Mario Draghi, for example, for the full centralization of ELA within the ECB (Draghi, 2018). Although the ECB considers that such transfer of ELA powers to the ECB is currently not feasible *de lege lata*, other commentators consider that the ECB already has the power, under the current treaty framework, to supplant NCBs and directly provide ELA itself. In any event, one might wonder, in light of the policy context and the heavy regulation which frames the provision of ELA, how “national” it remains and how “Europeanized” it has become.

5. The Institutional Repositioning of the NCBs and Its Impact on Their Accountability

As necessary as the CJEU judgments previously examined (in Section 4.1) may have been for safeguarding the highly integrated nature and proper functioning of the ESCB against threats to the NCBs' independence at the national level, a lurking concern is that the centripetal pressures which NCBs are currently subject to contribute to further reinforcing their independence vis-à-vis domestic political branches and may hence reduce opportunities for accountability at the national level, which are only partly made up for at EU level. The more the NCBs are detached from their national (institutional) context, the more integrated the ESCB is rendered, and the more important it is that the ECB be accountable for the activities of the ESCB, which comprises the ECB and the NCBs, at Union level. However, it is well-known that the accountability framework of the ECB is lacking in various regards (see generally on the accountability of the ECB, among many others, Amtenbrink & Markakis, 2022; De Boer & Van 't Klooster, 2020; Hellwig, 2024; Markakis & Fromage, 2023; Monnet, 2024; Tucker, 2018). What is more, there is no formal framework for scrutiny of the ECB's monetary policy by national parliaments.

More specifically, the NCBs are also subject to scrutiny by the respective national parliaments. The respective powers of national parliaments vis-à-vis their central banks and their level of scrutiny can vary from one member state to another. For example, Högenauer and Howarth (2019, pp. 582–583) look at the formal and informal mechanisms of parliamentary scrutiny of NCBs in Germany, France, and Belgium. They find "substantial differences" in both the *ex ante* powers of control and the *ex post* scrutiny powers vis-à-vis NCBs. The actual levels of scrutiny, namely the parliamentary practice of plenary debates, committee hearings or debates, and (written or oral) questions, can also differ from one member state to another, with the proportion of activities that can be defined as "scrutinizing the central bank" being very small in some cases, even if a generous definition is adopted that includes any document that requests information or MP comments on a central bank activity (Högenauer & Howarth, 2019, pp. 583–585). Notwithstanding these very interesting findings, it should not be forgotten that:

> National parliaments and governments can hardly make their respective NCB governor personally responsible for a decision which has been collectively taken by the Executive Board of the ECB and the other NCB governors participating in the Governing Council and—considering the rotation system—possibly even without a voting right of the NCB governor concerned. (Amtenbrink, 2018, p. 937)

Furthermore, it should be stressed that the anxieties voiced by the *Bundesverfassungsgericht* with respect to *ultra vires* review of ECB acts in its second *Weiss* (Bundesverfassungsgericht, 2020) judgment, which was examined above in Section 3, were partially prompted by its assessment that "the ECB *and the national central banks* are independent institutions (…), which means that they operate on the basis of a diminished level of democratic legitimation" (Bundesverfassungsgericht, 2020, para. 143, emphasis added). It was therefore imperative, according to the *Bundesverfassungsgericht*, that the mandate of the ESCB be subject to strict limitations and that adherence to the limits of the ECB's competence be subject to full judicial review (Bundesverfassungsgericht, 2020, para. 143). To be absolutely sure, the judgment of the German court was problematic and unsatisfactory, from the perspective of both EU law and German constitutional law (see further, among others, Amtenbrink & Repasi, 2020; Bobić & Dawson, 2020; Dermine, 2020). It does serve, however, to illustrate that the institutional features of the ESCB and the increasing detachment of the NCBs from their national context, as interpreted and perhaps partly prompted by the CJEU in its case law, may lead to "pushback" from national courts and other authorities. Strengthening the ECB's accountability at the EU level could be helpful in this regard, and "a debate in the [European] parliament might also keep the discussion of the legitimacy of monetary policy from being sent back to the national constitutional courts" (Monnet, 2024, p. 153). The *Weiss* saga, together with the *Gauweiler* rulings, is also indicative of the attempt by at least one national court to set legal limits to the actions of the ESCB, which can be policed, according to that court's jurisprudence, within the confines of *ultra vires* or identity review.

6. Conclusion: The NCBs' Status 30 Years After Maastricht

The NCBs' status under the Maastricht compromise remains fundamentally unresolved. As national Europeanized authorities (Fromage, 2022, p. 322), belonging both to their historical national habitat and to the highly supranationalized ESCB, they constitute inherently hybrid institutions. This multi-faceted hybridity features functional, institutional, and financial dimensions. As this article has shown, this hybridity or in-betweenness is conducive to opposing forces. On the one hand, as national systems might seek to keep NCBs embedded in their domestic framework, hybridity can constitute a source of tension and a risk for the effectiveness and singleness of the EU's monetary policy. On the other hand, hybridity also provides ample scope for further centralization and supranational control and for the reinforcement of the NCBs' Europeanness. The NCBs' institutional features and actions "are strongly influenced by European integration" (Fromage, 2022, p. 322) and they and their governors can be "conflicted between their European and their national responsibilities and interests" (Hellwig, 2024, p. 4).

This article has shed light on the *centrifugal* and *centripetal* forces to which the NCBs are subject, as a result of developments in the case law of a prominent national constitutional court, i.e. the *Bundesverfassungsgericht*, on the one hand, and developments in the CJEU's case law and the ECB's practices, on the other hand. More specifically, actions by national institutions, such as rulings by constitutional courts providing alternative legal interpretations centering on the national affiliation and loyalty of NCBs and challenging the authority of the CJEU's judgments, can give rise to centrifugal forces. However, as this article has shown, centripetal pressures have flown from both the CJEU's case law regarding NCBs and the actions of the ECB itself. Be it with regard to the status of NCB governors, the privileges and immunities NCBs should enjoy, the performance of retained functions, or their financial independence, this centripetal dynamic has, over the past decade, impacted the NCBs' position within the EU polity and their relationship with the ECB in the context of the Eurosystem and has contributed, in the view of the current authors, to a highly Europeanized, agent-like vision of NCBs. Although not definitive—as the pendulum might swing back in the future, in response to other developments—such repositioning of the NCBs carries with it a number of important legal and institutional implications. Notably, it can further reinforce the independence of NCBs vis-à-vis domestic authorities and reduce opportunities for accountability at the national level. Considering the various well-known limitations to the ECB's accountability, the loss of opportunities to hold NCBs to account at the national level due to their further Europeanization may not have been compensated by robust accountability controls at the EU level.

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Conflict of Interests

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ARTICLE

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Defining Price Stability: Public Accountability of the European Central Bank's Goal Independence

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Abstract

The persistent undershooting of its self-defined target to achieve inflation "below but near two percent" prompted the European Central Bank (ECB) to launch a review of its monetary policy strategy and adopt a symmetric inflation target. In this article, I examine the politics of accountability underlying the ECB's re-definition of its price stability objective through a comparison with the strategy review of the Federal Reserve, which went further than the ECB by setting an average inflation target that intentionally seeks to pursue periods of above-target inflation to compensate for periods of below-target inflation. Drawing on a reputational perspective on public accountability, I elaborate two arguments. First, the ECB decided to engage in a strategy review and revise its inflation target to restore its performative and technical reputation in the face of its persistent undershooting of its inflation target in the decade after the great financial and euro crisis. Second, the presence of a stronger "deflationary bloc" in the region constrained the ECB in adopting an average inflation target and its associated make-up strategy without tarnishing its socio-political reputation.

Keywords

central banks; inflation; reputation; strategy review

1. Introduction

Over the past 10 years, researchers have highlighted that central banks have increasingly expanded their power across various sectors of the political economy, raising questions about their legitimacy and public accountability (Gabor & Ban, 2016; Jones & Matthijs, 2019). In monetary policymaking, the expansion of these powers resulted mainly in central banks reassessing the boundaries of the *instrument* independence—the adoption of non-conventional expansive measures like quantitative easing (QE) in particular. In this article, I examine the public accountability of their definition of the price stability target, which can be seen as an underexplored case of central banks (re)setting the parameters of their *goal* independence.

For many central banks, the goals of the mandate are not clearly defined. Even though the Maastricht Treaty made the attainment of price stability the primary objective of monetary policy, it did not include a definition of "price stability" and relegated the matter to the European Central Bank (ECB). The Treaty thus gave the ECB the autonomy to determine the quantitative benchmarks for price stability. In 1998, the ECB defined price stability as consumer price inflation below two percent (excluding deflation) and changed its inflation target five years later to "below but near two percent" as part of a review of its monetary policy strategy. The persistent undershooting of its target even in the face of extraordinarily expansionary measures since 2015 prompted the ECB to launch a new strategy review. The new strategy, published in July 2021, re-defined the ECB's two percent inflation target as symmetric in the sense that it would consider positive and negative deviations of inflation from the two percent target as equally undesirable. By pledging to fight below-target inflation just as actively as above-target inflation, the ECB aimed to eliminate a potentially deflationary bias in its policy: It committed to undertake "forceful or persistent monetary policy measures to avoid negative deviations from the inflation target becoming entrenched" even if it would lead to "a transitory period in which inflation is moderately above target" (ECB, 2021b). One year earlier, the Federal Reserve (Fed) had also completed a review of its monetary policy strategy and revised its price stability target in an even more radical way: The Fed introduced an average inflation target, which seeks to compensate for periods of below-target inflation by allowing for periods of above-target inflation—usually defined as a "make-up strategy" (Arbogast et al., 2023).

The ability of central banks to set their own inflation target sits uneasily with what many believe to be a basic premise of their political independence, i.e., that they should only have the autonomy to determine which measures are appropriate to achieve their mandated goals ("instrument independence") but should not have the freedom to set these goals ("goal independence"). According to Ben Bernanke, former Fed chair, instrument independence is "vital for economic stability" whereas goal independence is "difficult to justify in a democratic society": Indeed, "the goals of monetary policy should be established by the political authorities" (Bernanke, 2010). These goals are often not clearly defined, however, as the revisions of the ECB's and the Fed's inflation targets illustrate. If a variety of inflation targets are consistent with public perceptions of price stability, how do central bankers decide which inflation target is optimal? Some targets facilitate a more expansionary monetary policy than others. In contrast to the Fed's more accommodative average inflation target, the ECB's symmetric inflation target does not *deliberately* aim for inflation overshoots, which remain a *possibility* rather than a *necessity*. Moreover, it can make a big difference if the inflation target is two percent instead of three or four percent, as discussions about the appropriate monetary policy response to the post-pandemic inflation surge reveal: In response to what they see as unduly restrictive measures to bring inflation back to their two percent target, critics have recently denounced the two percent target for what it basically is: a "made up number" based on "an arbitrary choice" (Karabell, 2023; Rochon, 2024).

Given the unavoidable arbitrariness involved in the setting of an inflation target and the potentially significant monetary policy implications, which factors shape the preferences of central bankers as key decision-makers in the process? And how do they justify decisions regarding the inflation target and remain accountable to the public? To address these questions, I developed an analytical framework rooted in the public administration literature on bureaucratic reputation (Busuioc & Lodge, 2016; Carpenter, 2010; Carpenter & Krauser, 2012; Maor, 2015). Extending Carpenter's (2010) framework (see also Blondeel et al., 2024), I distinguish four relevant dimensions of reputational concerns—legal-procedural, performative, technical, and socio-political—and argue that central banks' preferences regarding the optimal inflation target are mostly driven by their desire to uphold their performative, technical, and socio-political reputation. Concerns about their legal-procedural reputation are indeterminate, given that decisions to set or revise a target typically lie in their hands. In the absence of clear instructions from the political authorities, the desire to enhance their performative and technical reputation is a key driver of these decisions. If more inflation targets can be seen as consistent with this desire, central bankers can be expected to set a target most favourable to their socio-political reputation.

I elaborate these arguments through an examination of the ECB's motivation to initiate a strategy review and its decision to adopt a symmetrical two percent inflation target instead of a Fed-like average inflation target. First, I demonstrate that the ECB decided to engage in a strategy review and revise its inflation target to restore its performative and technical reputation in the face of their persistent undershooting of their inflation target in the decade after the great financial crisis and euro crisis. A thematic content analysis of 256 speeches delivered by members of the ECB Executive Board from January 2015 to July 2021 reveals how ECB executives struggled with understanding the origins and implications of (too) low inflation. As I will show, ECB executives worried about credibility problems related both to their ability to control inflation and their capacity to develop a convincing theory of inflation. They raised three dominant themes in their speeches: To account for the persistent undershooting of the inflation target, they consistently engaged with two theoretical/structural explanations, (a) the fall in the "neutral" real rate and (b) the flattening of the Phillips curve relationship between inflation and labour market slack; while both assumptions sought to shift some of the blame for too low inflation, ECB executives were still concerned about the potential consequences, in particular (c) the risk of downward de-anchoring of inflation expectations among market participants undermining their credibility. The ECB's motivation to revise its target was predominantly shaped by these technocratic considerations and was not driven by concerns about its socio-political reputation, given the absence of clear instructions to initiate a strategy review from its socio-political principals.

Second, the presence of a strong "deflationary bloc" in the eurozone constrained the ECB in adopting an average inflation target and its associated make-up strategy without undermining its socio-political reputation. Drawing on Feygin (2021), I define a deflationary bloc as a political coalition that seeks to shield a variety of creditor interests (households with high net savings, banks, and export-oriented manufacturing firms) from some of the side effects of an expansionist macroeconomic regime, especially higher (wage) inflation and lower real interest rates. While a politically influential deflationary bloc exists in both the eurozone and the US, it is arguably stronger in the former region than in the latter (Howarth & Rommerskirchen, 2017). Legislative hearings are the central venue through which central bankers can assess the existing socio-political preferences for either a more expansionary or more restrictive monetary policy. Even if the US Congress has more authority over the US central bank than the European Parliament (EP) has over the ECB—with some scholars even calling the Fed's independence a "myth" (Binder & Spindel, 2017)—the quarterly Monetary Dialogues between the EP's Committee on Economic and Monetary Affairs and the ECB president have become the main accountability channel for the ECB over the last two decades and the principle mechanism to enhance its democratic legitimacy (Collignon & Diessner, 2016; Diessner, 2022). A content analysis of transcripts of legislative hearings of the ECB president and the Fed chair indicates that members of the US House of Representatives (USHR) were considerably more dovish than MEPs, where hawkish legislators usually outnumber dovish legislators. I interpret these results as suggesting that the ECB could less easily adopt an explicit make-up strategy as required for an average inflation target than the Fed without tarnishing its socio-political reputation.

The article proceeds as follows. In Section 2, I make a case for a reputational perspective on the public accountability of central banks. In Section 3, I examine the key drivers of the ECB's decision to initiate a strategy review to revise its inflation target. In Section 4 I explain why the ECB did not opt for an average inflation target. In the last section, I offer some concluding reflections and discuss the main implications of my findings for our understanding of the ECB's accountability practices and its response to the post-pandemic inflation surge.

2. Public Accountability of Central Banks: A Reputational Account

Since monetary policy was delegated to politically independent central banks, their public accountability is typically examined through the lens of principal-agent theory (Chang, 2020; Fontan & Howarth, 2021; Högenauer & Howarth, 2016; Tesche, 2023). This theory distinguishes ex-ante and ex-post control mechanisms principals—*in casu* democratically elected politicians—that have to hold central banks (their agent) accountable. A key ex-ante control mechanism is the stipulation of the central bank's mandate—i.e., a clear definition of its monetary policy goals. As the revisions of the ECB's and the Fed's price stability targets show, central banks usually have considerable autonomy to interpret the terms of the mandate—e.g., by defining what is meant by "price stability" (or also in the case of the Fed, "maximum employment"). A key ex-post mechanism to avoid any abuse of this goal independence is the formal (for the Fed) or informal (for the ECB) commitment of monetary policy decision-makers to participate in legislative hearings (for a recent comparison of these ex-ante and ex-post control mechanisms for the ECB and the Fed, see Chang, 2020).

Central bankers' decisions about the optimal inflation target do not necessarily and automatically reflect their principals' preferences, however. What if central banks do not receive clear instructions regarding the target from their principals? For non-majoritarian institutions like central banks, reputation management is a key driver of the organization's behaviour and accountability practices (Busuioc & Lodge, 2016; Carpenter, 2010; Carpenter & Krauser, 2012; Maor, 2015). Reputation can be seen as a "valuable political asset" that is used to "generate public support, to achieve delegated autonomy and discretion from politicians" as well as "to protect the agency from political attack" (Carpenter, 2002, p. 491; see also Maor, 2015). Public accountability is hence about sustaining one's reputation vis-à-vis different audiences by gaining reputational benefits or—even more importantly—avoiding reputational costs. A key implication is that the accountability practice of an independent public organization's is determined not only by the formal structure of delegation—i.e., its mandate and available control mechanisms—but is also shaped by its reputation: "Actual [accountability] practice is about advancing one's standing in the eyes of one's audience(s) and about being seen as a reputable actor, that is, conveying the impression of performing competently one's (accountability) roles" (Busuioc & Lodge, 2016, p. 248; see also Carpenter, 2010; Carpenter & Krauser, 2012; Maor, 2015).

Scholars of central banking have usefully applied these insights to understand central bankers' monetary policy (non-)decisions and communication strategies (e.g., Blondeel et al., 2024; Cerdeira & Rimkutė, 2024; Johnson et al., 2019; Moschella, 2024 Müller & Braun, 2021; Thiemann, 2019). Central bankers are strongly attached to their self-perceived (and public) image as politically neutral policymakers sticking as closely as possible to their institutional mandate to maintain price stability and low inflation. They also perceive themselves as belonging to a transnational epistemic community of technocratic policy experts with shared economic ideas and theories (Johnson et al., 2019; Marcussen, 2009; McNamara, 1998). A key theoretical assumption underpinning their independence—and publicly endorsed by central bankers—is that there is a trade-off between unemployment and inflation only in the short term. Because, in the long term, unemployment always returns to its "natural" level, central banks should always prioritize lowering inflation (if above their two percent target) over lowering unemployment. Together with their political independence, this conservative position is seen as key to maintaining central banks' credibility to anchor inflation expectations and achieve price stability. In short, as Moschella (2024) forcefully argues in her recent book, "having a reputation for being inflation-averse and politically neutral institutions [has] been the trademark of successful central banks since the 1980s and a crucial channel through which to sustain broad support for central banks' policy and independence" (p. 3).

The aftermath of the great financial crisis produced a deflationary context that compromised their reputation as conservative and non-political institutions (Jones & Matthijs, 2019; Moschella, 2024; Tesche, 2023; van 't Klooster & Fontan, 2020). Firstly, central banks engaged in prolonged monetary accommodation to *actively increase* inflation in ways that clashed with their reputation as inflation-averse institutions. Secondly, central banks had to take unconventional expansionary measures to mitigate deflationary pressures—especially their large-scale purchases of government bonds and other financial assets. These measures blurred the lines between monetary and fiscal policy and had more direct distributive effects, tarnishing their reputation as politically neutral institutions as a result. Central banks had to attend to a broader variety of audiences to mitigate these reputational costs. While central banks usually try to legitimize their actions before financial market actors and a professional community of monetary experts, they had to manage their reputation also in front of *political audiences*—including their political principals (especially legislators) and the general public. Moschella (2024) hence interprets the Fed's and the ECB's strategy reviews as "a reaction to the increased public contestation of their policies by signalling an increased amount of attention given to employment over price stability" and "to new, social goals, including the pursuit of inclusive growth (in the United States) and climate change (in Europe)" (p. 34).

The revision of the ECB's and the Fed's respective inflation targets was widely seen as a new commitment to tolerate higher levels of inflation than both central banks had tolerated in the past. As such, it constitutes an important test case to assess the explanatory leverage of a reputational account of central banks and their accountability practices. Adapting Carpenter's (2010) framework (as in Blondeel et al., 2024), I distinguish four relevant dimensions of reputational concerns that have shaped both the motivation to engage in a strategy review and its outcome: (a) performative reputation, which results from their perceived ability to achieve their mandated goals; (b) technical reputation, which ensues from their ability to offer a theoretical rationalization of their policies and advance macroeconomic knowledge through in-house research; (c) legal-procedural reputation, which follows from their perceived compliance with their legal mandate and procedures attached to it; and (d) socio-political reputation, which emanates from their perceived commitment to contributing to widely shared socio-political goals and responding to public opinion.

Distinguishing these reputational dimensions, I develop two arguments to account for the revisions of the ECB's price stability definition and its deviation from the Fed's. First, the ECB decided to engage in a strategy review and revise its inflation target to restore its performative and technical reputation in the face of a persistent undershooting of its inflation target in the decade after the great financial crisis. The fact that inflation remained too low entailed reputational risks because it raised fundamental questions about the effectiveness of monetary policy and its theoretical foundations. A revision of the inflation target was seen as necessary to address these questions, but the eventual outcome of the revision was far from radical: It reflected technocratic deliberations and ideas that had been lingering since 2015 as Executive Board members had to grapple with persistently undershooting their inflation target. Second, the introduction of an average inflation target—and the explicit make-up strategy it entailed—risked causing intolerable damage to the ECB's socio-political reputation: A lower level of socio-political support for expansionary monetary conditions constrained the ECB in opting for a more explicit commitment to actively facilitate above-target inflation to compensate for prolonged periods of below-target inflation.

3. Why Did the ECB Revise Its Inflation Target?

The pre-crisis monetary policy strategy of central banks in the advanced economies was based on relatively simple theoretical foundations. First, macroeconomic variables such as GDP, unemployment, and interest rates are variables that are amenable to policy in the short-run, but which tend to their "natural" values in the long-run. The economy's steady state is described by a combination of the natural rate of unemployment or NAIRU (u^*), the neutral interest rate (r^*), the level of potential output (y^*), and the central bank's inflation target (π^*). Below-target inflation ($\pi < \pi^*$) is seen as an indication that there is a negative output gap ($y > y^*$) and cyclical (i.e., demand-driven) unemployment—also called "labour market slack" ($u > u^*$). Expansionary monetary policy must then bring real rates below the natural rate ($r < r^*$) to support aggregate demand in the economy, eliminate cyclical unemployment, and close the output gap. Conversely, when inflation is above target ($\pi > \pi^*$), the output gap is positive ($y > y^*$), and/or labour markets are "too tight" ($u < u^*$), a restrictive monetary policy steering real interest above the natural rate ($r > r^*$) is needed. Second, these stars—which are "unobservable" concepts whose values can only be estimated and derived from macroeconomic models—are largely determined by the supply side of the economy. While there might be a short-term trade-off between unemployment and inflation that the central bank can exploit (i.e., a negatively sloped Phillips curve), this trade-off evaporates in the long run (i.e., the Phillips curve becomes vertical). According to the postulate of the long-term neutrality of money, monetary policy cannot reduce the natural rate of unemployment and/or lift potential output.

In the aftermath of the great financial crisis, central banks in the advanced economies faced similar macroeconomic developments that challenged these theoretical foundations and their practical implications for monetary policy. On the one hand, a consensus both among academic macroeconomists and central bankers emerged that several structural factors had suppressed the natural rate of interest (i^*) and that the great financial crisis further deepened this long-term trend. Estimates of the neutral interest rate suggested that it had fallen to close to zero in the US and even below zero in the eurozone. This posed a problem for the monetary policy stance of central banks, whose conventional instrument—adjusting the short-term policy rate—ran into the zero lower bound (ZLB). To achieve their inflation target, central banks had to resort to unconventional support measures with potentially stronger negative side-effects—e.g., large-scale asset purchases or QE. Second, inflation—both headline and core—remained subdued and below their two percent target even in the face of an exceptionally accommodative monetary stance. This was most commonly framed as a flattening of the Phillips curve, implying a significantly weaker correlation between labour market slack and the inflation rate and hence questioning the central transmission mechanism through which central banks control inflation. Both the fall in the neutral rate and the flattening of the Phillips curve made central bankers seem less potent to raise inflation and fuelled the risk of a downward de-anchoring of inflation expectations.

The weakening of the theoretical foundations of monetary policymaking and the persistent undershooting of their inflation target threatened to undermine the Fed's and the ECB's technical and performative reputation. In the case of the Fed, a recent co-authored study demonstrated that its strategy review was mostly driven by the need to come to terms with the falling neutral rate, the flattening of the Phillips curve, and the intrinsic fallibility of estimates regarding the unobservable stars on which monetary policy decisions were supposed to be based (Arbogast et al., 2023). These challenges called for a more aggressive expansionist monetary policy committing to keep rates "lower for longer" in order to avoid a downward de-anchoring of inflation expectations. The introduction of a flexible average inflation target had to offer an antidote to the ZLB and the risk of a downward de-anchoring of inflation expectations.

A thematic content analysis of speeches delivered by members of the ECB Executive Board from January 2015 (the month when the ECB announced its expanded asset purchase program) to July 2021 (the month when its new monetary policy strategy was published) reveals that the ECB's strategy review was driven by similar concerns. The empirical analysis proceeded in three phases. First, I selected 161 speeches in which ECB Executive Board members engaged with the problem of too-low inflation out of a total corpus of 256 speeches on monetary policy (see Supplementary File 1 for the list of speeches). After a close reading of the speeches, I performed a preliminary thematic content analysis (Braun & Clarke, 2006; Dusi & Stevens, 2023) to identify patterns of meaning and central ideas, using them to develop a deeper understanding of how central bankers experience and represent a specific phenomenon—*in casu* the persistence of low inflation. Based on this preliminary exercise, I identified two themes ECB Executive Board members recurrently engaged with to understand the problem of low inflation: (a) the fall in the natural neutral interest rate (and the associated ZLB) and (b) the weakening of the Phillips curve relationship between unemployment (labour market slack) and inflation. Two additional themes underscored the need to provide more aggressive monetary policy expansion: (c) the need to avoid a downward de-anchoring of inflation expectations and (d) the need to avoid cyclical drags from becoming structural—also known as "hysteresis effects" (see next section for a discussion).

In a subsequent phase, I selected all segments of the 161 speeches in which Executive Board members engaged with these four themes. Especially the first three themes were prominently discussed throughout the years preceding the initiation of the strategy review. Figures 1 and 2 represent two measures of the relative frequency these themes occurred in the entire corpus of 256 speeches on monetary policy. Figure 1 shows the share of space (in word count) devoted to these three themes in the corpus of speeches: In 2019 almost 10 percent of the entire corpus of speeches was devoted to these three themes. The importance of the three themes as a topic of engagement for ECB executives becomes even clearer in Figure 2, which displays the share of speeches in which one of the themes was addressed at least once—a share ranging between 40 and 60 percent of speeches delivered annually from 2015 to 2020 (see Supplementary File 1 for disclosure of all selected fragments). Only during the pandemic years 2020–2021 did the themes move a

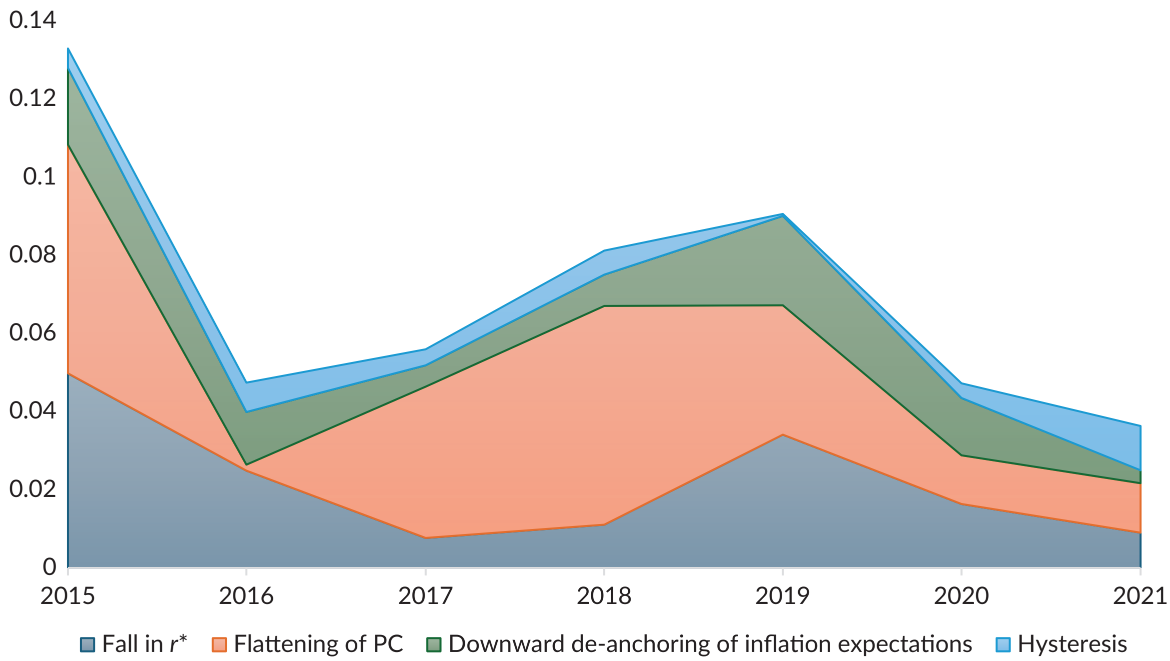

Figure 1. Thematic word count share in ECB speeches, based on the data in Supplementary File 1. Note: PC = Phillips curve.

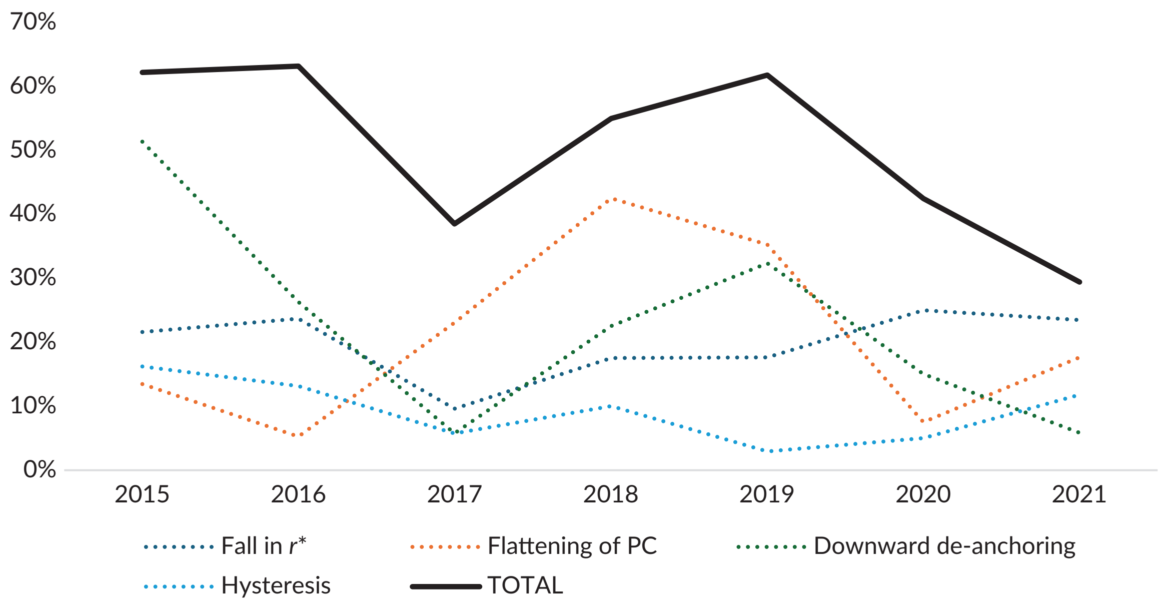

Figure 2. Share of ECB speeches addressing four predominant themes of low inflation, based on the data in Supplementary File 1.

bit more to the background as the strategy review was already taking place and ECB executives spent relatively more time discussing the macroeconomic effects of the pandemic and the ECB's policy responses.

These findings indicate that the decision to initiate a strategy review was mostly driven by the assumed fall in the neutral rate and the flattening of the Phillips curve and the challenges they posed for the performative and technical reputation of monetary policymakers. Already since 2015, ECB executives repeatedly emphasized that the ECB's mandate "should be interpreted as a symmetric mandate," implying that "too low inflation, or even deflation, for a prolonged period of time cannot be seen as consistent with price stability" (Praet, SF1/24/09/2015; see also Praet, SF1/15/11/2015; Draghi, SF1/06/02/2016). They argued that the fall in the neutral rate and the flattening of the Phillips curve—exogenous developments that were supposed to be beyond the control of their monetary policy and not necessarily something which they could be blamed for—had made it more difficult to achieve their inflation target. They posed "a two-pronged challenge to their mandates," as one ECB official put it: "a situation where…more stimulus is needed than in the past to deliver their domestic mandates," because of the weakening of the relationship between labour market slack and inflation, but where "their ability to deliver that stimulus is more constrained," due to the ZLB (Mersch, SF1/12/10/2016). There was also a common understanding that the persistent undershooting of inflation could "cause households and firms to revise down their inflation expectations," thereby further "lowering the equilibrium nominal interest rate" and "requiring a lower interest rate to create monetary stimulus" (Coueré, SF1/28/10/2016).

The fall in the neutral rate was not only considered repeatedly as a cause of low inflation but also as a justification for the adoption of unconventional monetary measures like QE, which were contested more in the eurozone than in the US (Section 4). The ECB began its largest and most controversial asset purchase program—the Public Sector Purchase Program—in March 2015, more than seven years after the Fed's first QE program. In response to critiques that the ECB's expansionary monetary policies were "hurting savers" or "contributing to excesses in assets valuations," ECB executives lamented the "attribut[ion of] responsibility of the low interest rate environment to central bank policies," arguing that "the case is exactly the opposite: Central banks are only reacting and trying to correct a situation that they did not create" (Constancio, SF1/25/08/2015; Draghi, SF1/02/05/2016, SF1/25/10/2016; Praet, SF1/14/11/2016). Structural developments such as the slowdown in population and productivity growth, the ageing of societies and resulting savings-investment imbalances, and the deleveraging of private sector balance sheets were mostly blamed for the low-interest-rate environment. During the first years of the Public Sector Purchase Program, the ECB president recurrently emphasized that "central banks have to take [the fall in the natural rate] into account and cut their policy rates to commensurately lower levels" and that "even when monetary policy approaches [the ZLB], central banks can still stimulate the economy" via "forward guidance" and "asset purchases" (Draghi, SF1/25/10/2016, SF1/14/05/2015, SF1/02/05/2016).

The perceived flattening of the Phillips curve raised questions about the effectiveness of these measures. The Phillips curve was—and still is—seen as "the traditional linchpin of the transmission mechanism that gave central banks control of inflation" (Constancio, SF1/29/08/2016): "A negatively sloped Phillips curve—in the inflation/unemployment space—is a precondition for central banks to exercise monetary control in the first place," implying that "the inflation process becomes impervious to monetary policy interventions" when "the slope of the Phillips curve approaches zero" (Praet, SF1/16/04/2015, SF1/07/04/2016). Initially, the predominant response among ECB executives was that conventional measures of unemployment underestimated the amount of remaining labour market slack in the eurozone. The "stars" underlying the New-Keynesian understanding of the Phillips curve are "unobservable" concepts whose values can only be guessed through intrinsically fallible model estimations. Hence, the easiest explanation of the flattening of the Phillips curve—one posing the least theoretical and practical problems—was that below-target inflation was evidence that the output gap was greater than previously thought: Estimates "associated with a continuation of positive trend growth, implying a wider output gap" were "the ones that produce better inflation forecasts"; the Phillips curve was seen as "alive and well in the euro area" (Constancio, SF1/29/04/2015; Praet, SF1/23/02/2017). When inflationary pressures remained subdued even in the face of falling levels of unemployment and underemployment, ECB executives began to ponder more structural interpretations of the flattening of the Phillips curve like globalization (Draghi, SF1/26/02/2018, SF1/19/06/2018; Cœuré, SF1/17/06/2018, SF1/28/11/2019), the rise of the services (Cœuré, SF1/16/05/2019), firms absorbing rising wage costs by squeezing their profit margins (Draghi, SF1/27/03/2019; Lane, SF1/16/09/2019; Mersch, 11/11/2019; Schnabel SF1/27/02/2020, SF1/11/09/2021), and even the secular decline in workers' bargaining power (Cœuré, SF1/18/12/2019; Schnabel, SF1/26/02/2021).

Most worrying for the ECB's credibility was that a prolonged period of below-target inflation could cause a downward de-anchoring of inflation expectations. This concern was highlighted in the first years of the ECB's QE program to justify a more radical policy response because:

> [It] triggered suggestions that perhaps central banks are unable to fully control the trend in inflation—either because they lack the appropriate tools, or because inflation in any one economy is driven to a large extent by global factors outside their control. (Draghi, SF1/20/11/2015)

If "second round effects set in and people start to expect lower inflation in the future," ECB executives worried that "real interest rates [would] rise—that is, interest rates adjusted for inflation," and "[effectively neutralize] any easing of nominal credit conditions" (Praet, SF1/23/04/2015, SF1/10/09/2015, SF1/04/04/2016; Draghi, SF1/14/05/2015, SF1/05/11/2015, SF1/02/06/2016). The importance of managing inflation expectations also gave rise to discussions about the risks of "extending the policy horizon" regarding the "medium term" orientation in the ECB's pursuit of price stability: If the ECB were to "capitulate to 'inexorable disinflationary forces' or invoke long periods of transition for inflation to come down," it would "in fact only perpetuate disinflation" (Draghi, SF1/04/02/2016). Even though the medium-term orientation "provides the necessary flexibility to combat excessive volatility in output and inflation in responding to shocks," the definition of a policy horizon required a difficult balance: It "should be short enough for the public to be able to assess the performance of the central bank in delivering its inflation goal" but not be too long to obstruct accountability (Praet, SF1/02/07/2019; Cœuré, SF1/18/12/2019; Lagarde, SF1/30/09/2020; Schnabel, SF1/27/02/2020).

These themes not only posed challenges to the ECB's performative reputation but also to its technical reputation. ECB executives repeatedly stressed the need to advance research on the origins of low inflation and the implications for monetary policy and make "no doubt that the ECB is committed to ensuring that our monetary policy is built on frontier-level and robust theoretical and empirical analysis" (Lane, SF1/02/09/2019; Draghi, SF1/11/09/2019). They agreed that central bankers "need more than just good inflation forecasts" and also "*need to understand the inflation process* in order to better assess the role of monetary policy" (Constancio, SF1/05/11/2015, emphasis added). To preserve the ECB's technical reputation as a producer of "frontier-level and robust theoretical and empirical analysis," the ECB published more theoretical and empirical studies on a variety of themes related to the persistence of low inflation and the low-rate environment in its Working Paper Series (Figure 3). The ECB also commissioned and published 12 occasional papers—providing comprehensive "state of the art" literature overviews covering various topics, ranging from monetary policy tools and economic analysis to global developments such as climate

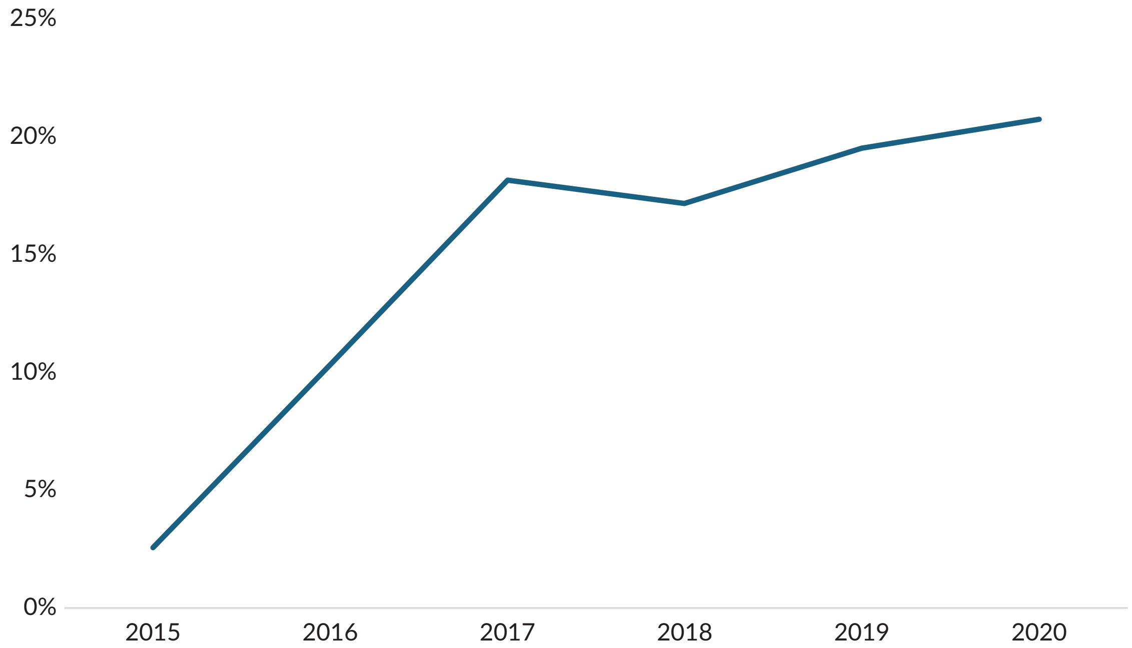

Figure 3. Share of studies on low inflation/interest rates in the ECB Working Paper Series, based on data from ECB (2024).

change—the contents of which fed into the Governing Council's discussions on the strategy review: 12 of the 18 occasional papers discussed themes related to the subdued inflation and interest rate environment. These studies solidified an expert consensus that an upward revision of the ECB's "below-but-near" two percent inflation target was the most appropriate way to redress the risk of downward de-anchoring inflation expectations in the face of the perceived fall in the neutral rate and the flattening of the Phillips curve.

These observations all suggest that the ECB's decision to engage in a strategy review and revise its price stability objective was primarily driven by a desire to restore its performative and technical reputation in the face of persistently undershooting its inflation target, which threatened to undermine its credibility in maintaining price stability. The most important revisions—i.e., the explicit symmetry of the new two percent target and a new-found leniency towards a transitory period in which inflation is moderately above target—were actively considered and discussed by ECB executives before the launch of the review. Already in 2014 Draghi had signalled "a symmetric attitude to inflation" during a press conference; ever since, he and other Executive Board members have repeatedly underlined the symmetry of the ECB's inflation target and the necessity of "the central bank being credible on both sides—being just as committed to fighting too low inflation as too high inflation" (Draghi, SF1/02/06/2016, SF1/11/10/2019; Praet, SF1/24/09/2015; Lane, SF1/16/09/2019). Draghi also "emphasized on a number of occasions [that] our medium-term orientation implies that inflation can *deviate from our aim in both directions*, so long as the path of inflation converges back towards that focal point over the medium-term policy horizon" (Draghi, SF1/11/10/2019, emphasis added).

In sum, the ECB's new inflation target reflected a technocratic consensus that had already been reached before the start of the strategy review. This has major relevance for our understanding of the ECB's public accountability with respect to the setting of its price stability target: The ECB's motivation to revise its target was predominantly driven by technocratic concerns about its performative and technical reputation and was hence not imposed by its socio-political principals. Concerns about its socio-political reputation played a relatively subordinate role, given the absence of clear instructions to initiate a strategy review from the EP. In fact, MEPs barely discussed the need for a more symmetrical inflation target during the Monetary Dialogues with the ECB president before Christine Lagarde officially announced the start of the strategy review during the December 2019 meeting. Before the announcement, I found only two queries—both from the social-democratic MEP Jonás Fernández (Fernández, SF2/20/11/2017, SF2/23/11/2019)—regarding the symmetry of the ECB's "below but near two percent" inflation target during the period of investigation (2016–2021). In response, Mario Draghi reiterated what he already had explicated in public speeches, i.e., that the ECB's inflation target is symmetric insofar as it "would react with the same determination, the same strength…and the same commitment whether we are above or below our inflation aim" (Draghi, SF2/23/11/2019).

4. Why Did the ECB Not Adopt an Average Inflation Target?

Even if the strategy review was mostly driven by the perceived need to come to grips with the fall in the neutral rate and the flattening of the Phillips curve, the question remains why the ECB's Governing Council did not opt for an average inflation target as the Fed did. To provide input for the discussion of the announced monetary policy strategy review during the December 2019 Monetary Dialogue, the EP's Committee on Economic and Monetary Affairs requested several expert studies that argued in favour of such a target (Cohen-Setton et al., 2019; Whelan, 2019). When the Fed's new monetary policy was announced in August 2020 and the ECB's strategy review was ongoing, ECB executives said they would examine "the usefulness of [a make-up strategy]" (Lagarde, SF1/30/09/2020; Schnabel, SF1/12/10/2020), with some acknowledging the "very strong analytical case" for it (Lane, SF1/29/04/2021). The Occasional Paper providing scientific input into the work stream on the price stability objective—*The ECB's Price Stability Framework: Past Experience, and Current and Future Challenges*—devoted an entire chapter on the effectiveness of average inflation targeting and its associated make-up strategies (ECB, 2021c, pp. 75–97). In the months before the new monetary policy strategy was announced, some national central bank governors (e.g., Olli Rehn of the Finish central bank) in the eurozone explicitly called for such an approach (Arnold, 2021).

Why did the ECB eventually opt out? One possible explanation is that most members of the ECB Governing Council considered an average inflation target to be incompatible with the ECB's single mandate. ECB monetary policymakers were less concerned about hysteresis effects and less willing to consider the benefits of very tight labour markets than their US colleagues, who have a dual mandate to achieve price stability and maximum employment. Negative hysteresis refers to long-lasting damages to the economy's potential output due to a persistent negative output gap ($y > y^*$), e.g., because demotivated unemployed workers detach from the active labour force or because firms decide to invest less in maintenance and upgrading of capital goods. Positive hysteresis refers to the long-lasting benefits arising from a sustained positive output gap ($y > y^*$): Very tight labour markets ($u < u^*$) can cause detached workers to be drawn back into the labour market while pushing firms to invest in labour-saving and productivity-enhancing technologies that help suppress inflation in the longer-term. Fed governors have been more outspoken on the risks of negative hysteresis and the benefits of actively chasing a high-pressure economy and hot labour markets (Arbogast et al., 2023) than ECB executives have (Figure 4). In fact, during the period of investigation, there was only *one* instance of an ECB executive making a case for a high-pressure economy and a more assertive expansionary policy that "should not accept hysteresis as a reality which imposes new supply constraints, but rather explicitly set out to test those constraints" (Panetta, SF1/02/03/2021).

Did the reluctance of ECB executives to consider positive hysteresis maybe result from the ECB's distinctive mandate? In one of the few discussions of positive hysteresis, Cœuré (SF1/19/05/2017) maintained that "monetary policy cannot 'run the economy hot' as insurance against labour market risks," arguing that this "would be neither desirable in view of our primary mandate." In contrast, the Fed's dual mandate to preserve price stability and maximum employment offered a procedural-legal justification to facilitate hot labour markets as long as it did not create excessive inflation. This argument should not be overstated, however. Just like the ECB's, the Fed's review was driven and shaped mostly by a desire to avoid the ZLB and a downward de-anchoring of inflation expectations; openness to consider and pursue the benefits of a high-pressure economy and hot labour markets played a subordinate role (Arbogast et al., 2023). Furthermore, one could argue that maximum employment is also a secondary goal of the ECB, which "without prejudice to the objective of price stability" is bounded by the Treaty on the Functioning of the European Union (TFEU) to "support the general economic policies in the EU" (Article 127)—including "full employment and social progress" (Article 3). To preserve their procedural-legal reputation, ECB executives might have felt some pressure to adopt a Fed-like average inflation target: Given that the ECB undershot the two percent inflation target considerably more than the Fed and hence faced an even higher risk of downward de-anchoring inflation expectations, a case could have been made for a stronger legal-procedural commitment to facilitate above-target inflation as part of a more assertive "outcome-based" forward guidance strategy. In any case, nothing in the TFEU or the Statute of the ECB precluded the adoption of a Fed-like average inflation target.

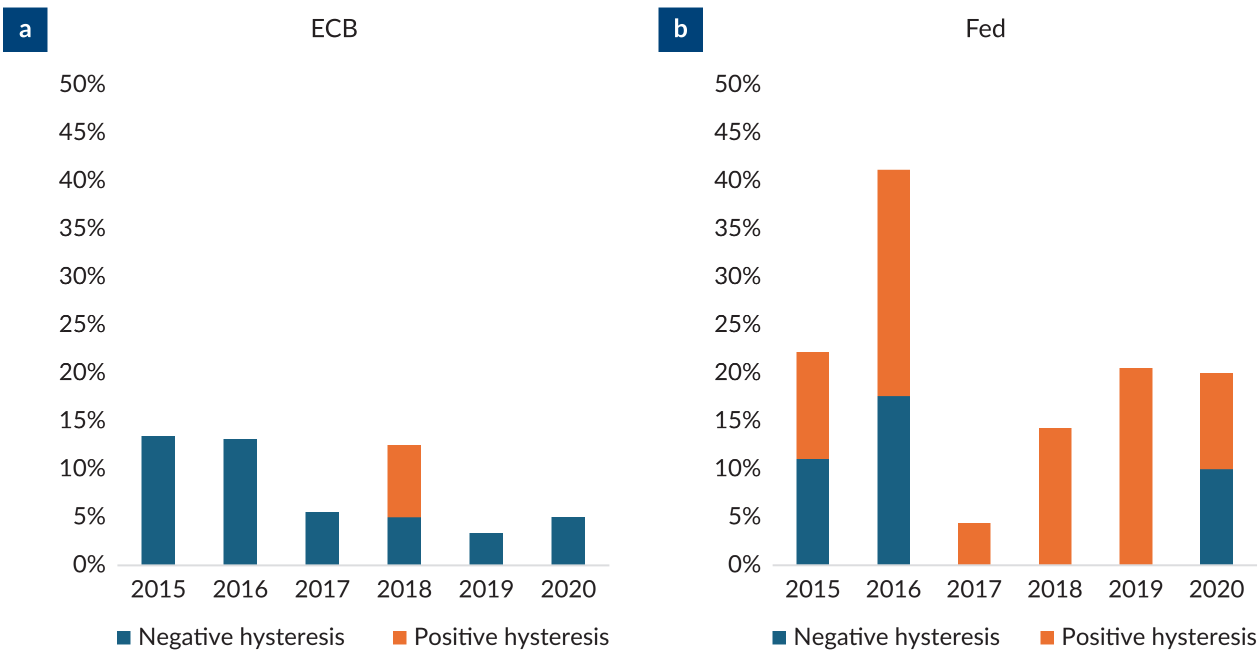

Figure 4. Share of ECB and Fed speeches addressing negative and positive hysteresis, based on the data in Supplementary File 1 and Arbogast et al. (2023).

Risks to the ECB's socio-political reputation were arguably more important than risks to its legal-procedural reputation, given that the socio-political environment in the region is more inflation-averse and less conducive to a make-up strategy than in the US. It is well-known that the ECB's expansionary policies—and its QE policies in particular—were highly unpopular in some of the most powerful member states. In Germany, a large group of conservative politicians and citizens submitted various plaintiffs against the ECB's asset purchase programs at the German Federal Constitutional Court. At a structural level, prolonged expansionary monetary conditions and large-scale asset purchase programs are less compatible with the requirements of the export-led growth model of the Northern eurozone countries than with those of the debt-led growth of Anglo-Saxon countries (Reisenbichler, 2019; Van Doorslaer & Vermeiren, 2021; Vermeiren, 2019). Large-scale purchases of sovereign bonds also pose more pressing questions about ECB executives' socio-political reputation. In the absence of a fiscal union with a single safe asset, the distributive politics of QE have a key international dimension in the sense that QE might involve implicit fiscal transfers between eurozone governments (Vermeiren, 2019). In the years preceding and during the strategy reviews, expansionary monetary policy received less cross-partisan support in the eurozone than in the US. Former President Trump's repeated attacks on the Fed's rate hikes during his administration fostered bipartisan support for a more expansionary monetary policy: US legislators frequently blamed the Fed for ignoring and at worst exacerbating, racial disparities (see below).

Legislative hearings are the prime venue through which central bankers can assess the monetary policy preferences of their socio-political principals. To assess the degree of socio-political support for a more expansionary or restrictive monetary policy, Figure 5 compares the extent to which members of the USHR and MEPs have been either dovish or hawkish in their hearings of the governors of the Fed and the ECB: the Monetary Policy and State of the Economy hearings before the Committee on Financial Services in the USHR and the Monetary Dialogues in the EP. For every hearing from 2016 to 2021, I selected queries where a member of the USHR or an MEP signalled an unambiguous preference for a more expansionary (+) or more restrictive (–) monetary policy (see Supplementary File 2 for an overview of the selected query segments). The annual data in Figure 5 are attained by subtracting the number of hawkish questioners from the number of dovish questioners and subsequently dividing it by the total number of questioners either during the two biannual Monetary Policy and State of the Economy hearings of the Fed or the four quarterly Monetary Dialogue hearings of the ECB: A positive (negative) number implies an overall preference for a more expansionary (restrictive) monetary policy. Figure 5 shows that members of the USHR were considerably more dovish than members of the EP, where hawkish legislators usually outnumber dovish legislators; the pandemic, which required extraordinary monetary and fiscal support, is the only period when the two groups kept each other in balance.

In the EP, conservative MEPs—typically affiliated with party groups such as the European People's Party, the European Conservatives and Reformists, and Identity and Democracy—criticized the ECB's low rates for hollowing out middle-class savings, creating distortions in financial markets and fuelling asset price inflation, especially in housing markets (Langen, SF2/26/09/2016; Annemans, SF2/24/09/2018; Gerhold, SF2/28/01/2019; Meuthen, SF2/06/02/2020). Even progressive MEPs were sometimes critical of these side effects, attacking the climate impact of the ECB's corporate bond purchase program (Giegold, SF2/24/09/2018; Jakeliūnas, SF2/23/09/2019; see also Blondeel et al., 2024; Massoc, 2024). Republican members of the USHR complained relatively more about how the regulatory burden on community-based financial institutions, inherited from the Obama administration, had supposedly strangled the US economy and hence neutralized the positive effects of these conditions (Rothfus, SF2/10/02/2016). While some

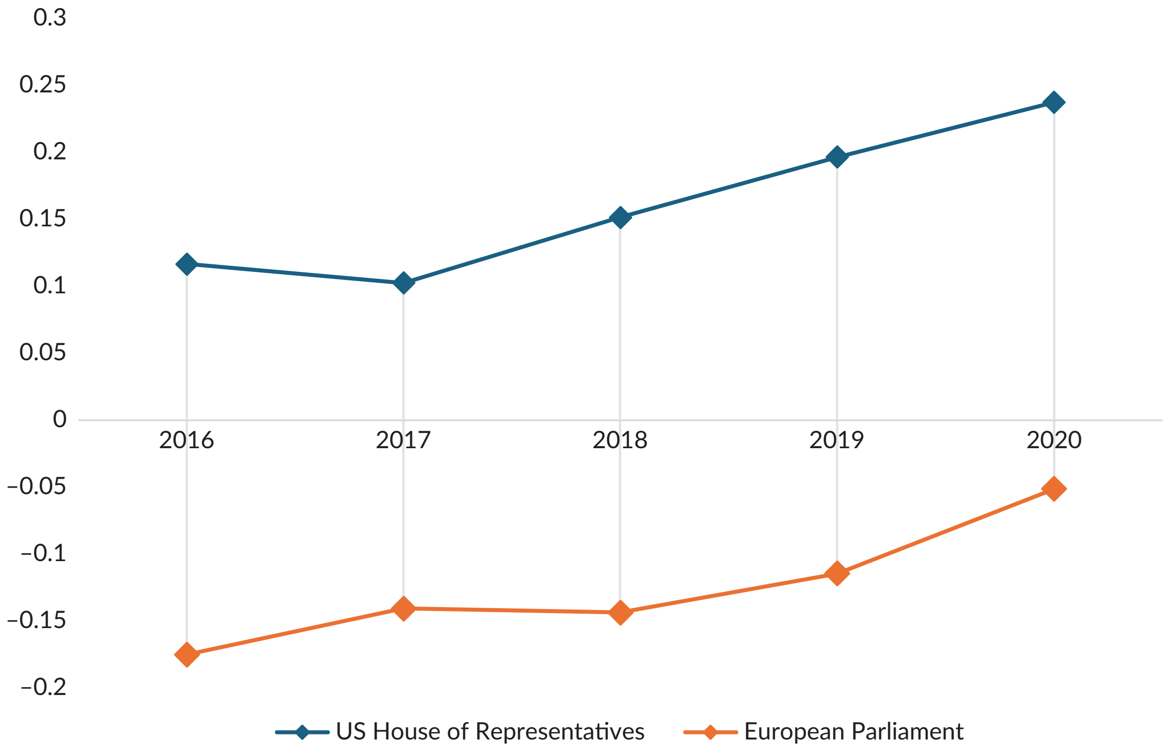

Figure 5. Degree of dovishness (+) or hawkishness (–) of members of the USHR and MEPs, based on the data in Supplementary File 2.

Republicans also criticized QE for exacerbating inequality by eroding savings and fuelling asset prices (Pearce, SF1/22/06/2016; Ross, SF2/15/02/2017), there was more widespread acknowledgement that expansionary monetary policies had supported wages and employment (Pearce, SF2/22/06/2016; Williams, SF2/27/02/2019; McHenry, SF2/10/07/2019; Stivers, SF2/10/07/2019). By 2019, there was a cross-partisan consensus, as one Republican representative put it, that the expansion was "now reaching groups that hadn't been reached in the first few years," making it "so important that we keep the expansion going to the maximum extent we can" (Gooden, SF2/10/07/2019). In this context, a new commitment to facilitate tight labour markets could enhance the Fed's reputation as a promotor of inclusive growth and full employment.

The Listen Events organized by the Fed and the ECB reveal a close correspondence between how legislators deliberated on these issues and how they resonated among the general public. During 14 "FED listens" events held in 2019 throughout the US, Fed governors met with community groups to hear about how monetary policy decisions affected peoples' daily lives and livelihoods. One of these events specifically focused on "the sustainability and trade-offs of a hot economy" and discussed Fed research showing that less advantaged groups—African Americans, Latino/as, and workers with less than a college education—disproportionately suffer from weak labour markets and benefit from strong labour markets (Aaronson et al., 2019). Respondents to the surveys organized through the ECB Listens Portal signalled more concerns about the effects of expansionary monetary policies. Whereas around 35 percent of respondents acknowledged both risks, inflation alone was mentioned by one-quarter of respondents compared to deflation alone by less than 10 percent. At least half of the respondents were critical of the ECB's low-interest rate policy, referring especially to its impact on savings and asset (especially housing) price inflation. Among those who thought that the ECB should go beyond a narrow approach to inflation, environmental protection rather than employment was the most frequently recurring theme (ECB, 2021a). Progressive civil society organizations had a correspondingly divergent focus in their advocacy work, with organizations like the Economic Policy Institute and Employ America pushing for tighter labour markets in the US and others like Greenpeace and Positive Money pushing for a greener monetary policy in Europe (Blondeel et al., 2024).

In sum, the ECB could less easily than the Fed opt for a more accommodative make-up strategy embedded in an average inflation target without tarnishing its socio-political reputation. A safer route to restore its socio-political reputation in the eyes of its more progressive audiences was a new commitment to green its monetary policy (Blondeel et al., 2024; Jabko & Kupzok, 2024; Massoc, 2024), which faced less contestation by conservative MEPs than the notion of more aggressive expansionary policies explicitly aimed at temporarily raising inflation above two percent.

5. Conclusion

In this article, I developed two arguments. First, the desire to restore its performative and technical reputation in the face of a persistent undershooting of its inflation target was the central reason for the ECB to engage in a strategy review and revise its inflation target. This was largely a technocratic process of sense-making: Central bankers struggled to understand the origins and implications of the perceived fall in the neutral interest rate and flattening of the Phillips curve. Yet it also involved elements of blame-shifting: It allowed them to attribute the persistence of low inflation to structural developments beyond their control. Second, the outcome of the strategy review has been shaped by the presence of a stronger deflationary bloc in the region, which constrained the ECB in adopting an average inflation target and associated make-up strategy without tarnishing its socio-political reputation. That is not to say that the socio-political context ultimately determined the outcome of the strategy review. Without any explicit new mandate imposed by their socio-political principals, central bankers usually seek to adopt policies that support their performative, technical, and/or legal-procedural reputation. But if different policy options suit this purpose, they can be expected to opt for the one most likely to support (or least likely to harm) their socio-political reputation.

What are the implications of these findings for the ECB's public accountability? On the one hand, the desire to uphold its socio-political reputation inhibited the ECB from adopting an intentional make-up strategy, which would have been less legitimate in the face of a relatively inflation-averse EP. However, I have also shown that concerns about its performative and technical reputation were the predominant drivers of its decision to engage in a revision of the ECB's inflation target as well as that the outcome of the revision—i.e., the explication of the symmetry—reflected a technocratic consensus that been reached in the Executive Board already before the start of the strategy review. MEPs failed to engage in a thorough discussion of the costs and benefits of various "reasonable" inflation targets during the 2019–2021 Monetary Dialogues. The EP's role in preserving the accountability of the ECB's strategy review and its outcome was hence rather limited: The Monetary Dialogues mainly functioned as an instrument of ex-post legitimation rather than as a forum for collective learning or coalition building (see Massoc, 2024, for a useful conceptualization of accountability relationships between the EP and the ECB).

The lacklustre engagement of the EP with the revision of the ECB's inflation target and the absence of a more comprehensive debate regarding the pros and cons of alternative targets is deplorable from a public accountability perspective. Different targets imply different levels of monetary policy accommodation and can hence have important distributional effects. Higher inflation targets facilitating a more expansionary monetary policy benefit low-skilled workers who are most dependent on tight labour markets and sectors more reliant on low real interest rates. They can also help lower the funding costs of governments and reduce their real debt burden. Lower targets requiring a more restrictive monetary policy especially benefit banks and savers. The surge in inflation in the wake of the pandemic and energy crisis revealed these distributional effects as the ECB sharply raised interest rates to bring inflation back to its two percent target, with critics accusing the ECB of increasing unemployment in the region, reducing investment in much-needed green technologies, and putting more pressure to pursue austerity and lower fiscal deficits (for an overview, see Van Doorslaer & Vermeiren, 2022). Adopting a higher inflation target of three percent—as some prominent experts have argued (Blanchard, 2022; Krugman, 2023) could have mitigated these effects by requiring a less restrictive monetary policy stance. To enhance the public accountability of subsequent reviews of the ECB's monetary policy strategy, MEPs ought to engage in a more proactive discussion of the effects of differential inflation targets instead of using the Monetary Dialogues merely as an information-gathering opportunity and relegating all important deliberations and decisions about the goal of price stability to the ECB.

A shortcoming of the present study is that I only looked at speeches of members of the ECB Executive Board and the Monetary Dialogues between the EP and the ECB president even though decisions about the monetary policy strategy are made by the ECB Governing Council, which also includes governors of the national central banks. Recent research has shown the importance of national-level parliamentary control mechanisms for the accountability of the ECB (Fontan & Howarth, 2021; Högenauer & Howarth, 2019) and the close association between the position of national central bank governors and domestic socio-political considerations (Moschella & Diodati, 2020). Subsequent studies could tease out potential divergences in the positions of national central bank governors regarding (past and future) revisions of the inflation target of the ECB and examine whether divergences can be traced back to divergences in domestic socio-political preferences as revealed in national-level parliamentary hearings.

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The author declares no conflict of interests.

Supplementary Material
Supplementary material for this article is available online in the format provided by the author (unedited).

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ARTICLE

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Revisiting ECB's Technocratic Legitimacy: No Longer Fit-for-Purpose?

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Abstract

This article revisits the technocratic model of legitimacy that the European Central Bank (ECB) has enjoyed since its early period, by exploring the Monetary Policy Strategy statements that constitute the "comprehensive framework" guiding the Bank's operational decisions. We examine whether the operational framework and the interpretation of the ECB's legal mandate, which are included in these statements, are aligned with this model. We find that the ECB's early monetary policy statements (1998 and 2003) appear to be aligned with this model, due to the presence of strictly defined performance criteria and an interpretation of the ECB's mandate that was limited to pursuing price stability as a single objective. Our analysis of the ECB's 2021 monetary policy strategy highlights its incompatibility with the technocratic model as a result of significant changes that enabled wide policy discretion and a re-interpretation of the ECB's mandate, which revealed a largely vague and broad mandate. We argue that the ECB's model of technocratic legitimacy is untenable in a democratic polity, given the extent and type of choices that the Governing Council is required to make in the current policy setting. Finally, we suggest that only a strengthening of the (hitherto diminished) input dimension of the ECB's legitimacy could address this legitimacy gap.

Keywords

European Central Bank; legal mandate; legitimacy; monetary policy strategy; unconventional monetary policies

1. Introduction

The issue of the legitimacy of the European Central Bank (ECB) has preoccupied scholarly work since the early days of the institution in the 1990s. Initially, academic contributions had concentrated on the particular issue of the Bank's democratic accountability before the discussion shifted to the more generic issue of the legitimacy of the new institution (Buiter, 1999; de Haan, 1997; de Haan & Eijffinger, 2000; Elgie, 1998). Majone (1998, 2005) moved on to outline the regulatory legitimacy model of the ECB, which Dyson (2000) depicted as "technocratic." After the eruption of the financial and the eurozone crises, academic interest in ECB's legitimacy revived as the Bank's policy response involved the engagement with unconventional monetary policy measures and the adoption of new functions that sparked controversy and multiple legal challenges (Buiter & Rahbari, 2012; Eijffinger & Hoogduin, 2018; Fontan & Howarth, 2021; Högenauer & Howarth, 2019; Mabbet & Schelkle, 2019; Scicluna, 2018; Sinn, 2018). Against this backdrop, scholars documented that the technocratic model of the ECB's legitimacy came under stress and proceeded to the examination of the ECB's response to this challenge (Collignon & Diessner, 2016; Diessner, 2022; Heldt & Müller, 2022; Moschella et al., 2020; Schmidt, 2016, 2020; Tesche, 2019; Torres, 2013).

Despite the increased scholarly interest in the issue of the post-crisis legitimacy of the ECB, there is no academic consensus regarding the direction of the ECB's legitimisation strategy and the sustainability of the technocratic model in the aftermath of the multiple consecutive crises. Our work contributes to this discussion by examining the alignment of the ECB's operational framework, namely the Monetary Policy Strategy (MPS), which underwent a comprehensive revision in 2021, with the technocratic model of the ECB's legitimacy and by exploring its implications for the Bank's legitimisation strategy. In this context, we pay also specific attention to how the ECB has interpreted its (enshrined in EU primary law) mandate in its MPSs and to the extent to which this interpretation appears to be aligned with this model of legitimacy.

Our focus on the MPS is due to the overarching role of this document in the decision-making system of the ECB. According to the first Monetary Bulletin of the Bank: "[a] monetary policy strategy is therefore a coherent and structured description of how monetary policy decisions will be made [...]" (ECB, 1999, p. 43). The ECB made clear from its early days that "[t]he strategy will guide the single monetary policy of the Eurosystem" (ECB, 1999, p. 39). The Bank confirmed the overarching role of the strategy in its discussion of the latest MPS review. While the ECB underlined that the strategy is "...bound by its mandate conferred by the Treaty on European Union and the Treaty on the Functioning of the European Union" (ECB, 2021a), the Bank stressed that "...it is the ECB's monetary policy strategy that *defines how* the Governing Council implements this mandate [...]"(ECB, 2021d, p. 4, emphasis added, see also Section 3.2). The strategy thereby also reveals how the Governing Council *understands* the ECB's legal mandate. The statement on the MPS of the Federal Reserve of the United States plays a similar role (Federal Reserve, 2024). Rather than evaluating the ECB's model of legitimacy through an examination of the justifications behind particular monetary policy decisions or programmes, which can be disproportionately influenced by temporary needs and conjunctural factors, we opt for a broader analysis of the "systematic framework for the conduct of monetary policy" set out by the MPS's statements (ECB, 2002c, p. 63).

Our findings show that the early MPSs of 1998 and 2003 were broadly aligned with the ECB's technocratic legitimacy as they contained provisions which limited the discretion of ECB policymakers. With the 2021 revision of the MPS, key new provisions have enhanced the discretion of the ECB officials, thereby revealing significant incompatibilities between the ECB's operational framework and its model of technocratic legitimacy. In parallel, we find that there is an evolution of the ECB's interpretation of its legal mandate over time. In its early MPSs (1998 and 2003), the ECB had conceived its mandate as a clear and narrow mandate, limited to the primary objective of price stability. We argue that this interpretation appeared to go hand in hand with its technocratic model of legitimacy. The re-interpretation of the ECB's mandate in its 2021 MPS to address various challenges (such as climate change) revealed a much broader and less clear mandate. It is argued that, given this mandate, the technocratic legitimisation strategy of the ECB, combined with its limited input legitimacy, is untenable. There has been revealed therefore a legitimisation gap in the ECB's function. We conclude by showing that because of the extent and type of choices that the Governing Council is required to make, the ECB's input legitimacy must be strengthened in a democratic polity.

Considering the structure of this article, Section 2 identifies the basic elements of ECB's technocratic model of legitimacy. Section 3 delves into the ECB's early MPSs (1998 and 2003), examining whether the operational framework included in these strategies and the ECB's interpretation of its mandate therein appear to be aligned with the technocratic model. Section 4 repeats the exercise for the revised 2021 policy strategy. Section 5 concludes.

2. ECB's Technocratic Legitimacy

The ECB engaged briefly with the issue of its legitimacy in one of its Monthly Bulletins. The Bank adopted the distinction between the input and output dimensions of legitimacy that was widely accepted in political science at the time (Lord & Beetham, 2001; Scharpf, 1997, 1999):

> Typically, legitimacy is conceptualised as comprising two principal elements: first, public policy decisions are legitimate if they are, directly or indirectly, the expression of the will of the people [...]. This is often referred to as "input legitimacy" or "legitimacy by procedure". Second, decisions can be considered legitimate if they meet the justified expectations and needs of the people...a notion which is also referred to as "output legitimacy" or "legitimacy by result." (ECB, 2002a, p. 46)

The ECB stressed that its function relied on both dimensions. The Bank underlined that it enjoyed input legitimacy as its creation and the transfer of the competency for monetary policy to the supranational level was a sovereign decision of the peoples of Europe, who expressed their will via their elected representatives. Apart from the aforementioned singular event, the ECB noticed that the political process leading to the appointment of ECB officials by national governments was a further—continuous—manifestation of input legitimacy. Additionally, the ECB pointed out that the successful performance of the tasks entrusted to it imbued the Bank with output legitimacy as the institution enjoyed the confidence of the citizens.

The legitimacy model of the ECB that emerged in scholarly work differed from the above portrayal of a balanced legitimisation strategy. A limited number of authors emphasised the "input" or "procedural" dimension of the ECB's legitimacy (Moravcsik, 2002). Instead, academic analysis concentrated on the output or substantive aspect of the Bank's legitimacy. Majone (1998) noticed that this type of legitimation hinged on the existence of "accountability by results" and proceeded to define the conditions that would make this accountability applicable: A clear specification of the Bank's policy objectives and an objectively measured evaluation of the Bank's decisions limiting the discretion of ECB policymakers. Majone underlined that accountability by results was highly relevant for the ECB as the Bank had a single overriding objective, namely price stability, and its performance could be measured unambiguously against the rod of inflation, while the policy area of monetary policy belonged to the category of efficiency-oriented policies that sought to increase the aggregate welfare of the society. Majone insisted that this type of legitimation could never be used for redistributive policies aimed at improving the welfare of particular groups. In later work, Majone pinpointed a further element, "distinctive institutional competence," which went beyond accountability by results and referred to an evaluation of whether any other alternative institutional arrangement could compete in terms of effectiveness (Majone, 2005, p. 38, 2014, p. 1217). Dyson (2000, pp. 216–219) called this type of legitimacy "technocratic" arguing that the technocratic character of legitimacy was linked to the conceptualisation of price stability as a eurozone public good requiring protection and the identification of the ECB as "guardian" (or trustee) of the public interest. Other idiosyncratic elements of the technocratic legitimacy model of the ECB were the portrayal of monetary policy as a policy field of exceedingly technical complexity that needed to be left to experts and the acknowledgement of the sector-specific requirement of credibility: monetary policy decisions had to appear credible to the markets in order to be effective (Dyson, 2000, pp. 238–239). That depiction of the ECB's legitimacy was in line with what Beetham and Lord (1998, pp. 16–22) called the "technocratic model" of legitimacy, that is a model emphasising the significance of governmental performance, praising the importance of scientific knowledge and professional expertise in decision-making, and acknowledging the appropriateness of depoliticised policymaking as a way of avoiding the distortive effects of electoral politics. Overall, the technocratic model was imbalanced as it relied primarily on output legitimacy, but this does not mean that procedural legitimacy was totally absent. Limited procedural legitimacy taking the form of democratically enacted statutes specifying the legal authority and the objectives of the Bank was also part of the model but played a complementary role (Majone, 1997, 1998).

3. The MPSs of 1998 and 2003

This section examines the MPSs of 1998 and 2003. The analysis begins (in Section 3.1) with the examination of the operational framework included in the strategies and proceeds to evaluate their compatibility with the ECB's model of technocratic legitimacy. It argues that both strategies were compatible with the ECB's model of technocratic legitimacy that prioritises legitimacy by results. What follows (in Section 3.2) is the analysis and assessment of the ECB's interpretation of its legal mandate in these MPSs. It is argued that this interpretation is linked to the ECB's vision of its mandate as a clear and narrow mandate of price stability. This vision can be considered as going hand in hand with the ECB's model of technocratic legitimacy.

3.1. The Early Operational Framework: Aligned With ECB's Technocratic Legitimacy

The ECB adopted its first MPS in October 1998. The ultimate purpose of this document was to guide individual monetary policy decisions in a policy environment marked by strategic uncertainty and the complexity of the monetary policy transmission process (ECB, 1999, pp. 43–45; Gaspar et al., 2002, pp. 80–81). In this context, the MPS had two functions: First, the strategy structured the internal decision-making process of the Governing Council ensuring that the latter reached policy decisions based on available data and the right type of analysis. Second, the strategy provided a consistent and coherent framework for the presentation of policy decisions (and the economic logic behind them) to the public, thereby serving as an instrument of communication with a wider audience.

3.1.1. Operational Elements

The central element included in the MPS was the quantitative definition of the ECB's primary objective, namely price stability. The ECB defined price stability "as a year-on-year increase in the Harmonised Index of Consumer Prices (HICP) for the euro area of below 2%" (ECB, 1998). This definition narrowed down the decision-making path of the Governing Council as it clearly set an upper bound of acceptable inflation and at the same time prescribed prolonged declines in the level of the HICP (that is, deflation) as being incompatible with the definition of price stability (ECB, 1999, pp. 45–50; Gaspar et al., 2002, pp. 80–81).

In parallel, the MPS underlined the medium-term orientation of the Bank's monetary policy, thereby acknowledging the existence of short-term volatility in prices and the presence of long time lags in the transmission of monetary policy actions to the level of prices (ECB, 1999, pp. 45–50; Gaspar et al., 2002, pp. 80–81). This meant that the MPS discouraged ECB policymakers from making decisions based on short-term price developments but urged them to engage in an assessment of future risks to price stability (forward-looking assessment) as their decisions would affect prices with considerable time lags.

Another important element was the so-called two-pillar analytical framework, which guided the aforementioned assessment of price instability risks (Galí, 2002, pp. 49–61). The first pillar assigned a prominent role to money as it directed ECB policymakers to consider the price stability risks arising from monetary growth. The MPS announced the setting of a reference value for the growth of the monetary aggregate (M3), which was later set at 4.5% per annum. Any prolonged or significant deviation from the reference value would indicate increased price instability risks. The second pillar urged decision-makers to make use of a broader set of indicators including inter alia wages, the exchange rate, asset prices, cost and price indices, and business and consumer surveys. The analysis under this pillar would take the form of macroeconomic forecasts and projections.

The 2003 revision of the MPS left the original strategy largely unchanged. The quantitative definition of price stability remained but a clarification was added to indicate that inflation needed to be "below, but close to, 2%" (ECB, 2003, p. 79). This addition was deemed to be necessary to provide the ECB's policymakers with a greater margin to avoid deflation. Also, there was a modest (but detectable) attempt to place more emphasis on the second analytical pillar (economic analysis) at the expense of the first (Holm-Hadulla et al., 2021, p. 31). Therefore, the review of the level of the M3 reference value on an annual basis was discontinued as the ECB wanted to stress the medium-term nature of the assessment. The rest of the elements of the 1998 MPS remained unaltered.

3.1.2. Compatibility of the Early MPSs With ECB's Technocratic Legitimacy

The main elements that were included in the ECB's MPSs of 1998 and 2003 were compatible with the ECB's model of technocratic legitimacy. The early versions of the ECB's operational framework referred to a single monetary policy objective, price stability, while other policy objectives linked to the secondary mandate of the ECB were not operationalised (see Section 3.2). From the point of view of legitimacy, the absence of other policy objectives in the MPS documents highlighted the depiction of ECB's monetary policy as an efficiency-oriented policy seeking to increase the aggregate welfare of the society. By dealing strictly with the control of inflation, the ECB appeared to avoid any engagement with distributional issues. This, in turn, made it easier for the ECB to portray its activity as one that brought gains to every section of European societies without favouring particular groups, thereby shunning the politicisation of its policy decisions. Also, the institutional choice to overlook other policy objectives in the MPS boosted the image of the ECB as the sole "guardian" of one common public interest: the protection of price stability.

The early strategies facilitated the function of "accountability by results" à la Majone. The quantitative definition of price stability was in line with the requirements for a clear specification of the ECB's policy objectives and the objectively measured evaluation of the Governing Council's policy decisions, thereby establishing a policy framework that restricted the discretion of ECB policymakers. In contrast, the medium-term orientation of the monetary policy that was included in the two MPSs appeared to enhance the discretion of the ECB officials. In reality, this provision was compatible with another idiosyncratic aspect of the ECB's technocratic legitimacy: the credibility of policy decisions in the eyes of the financial markets. Given the time lags in the transmission mechanism of monetary policy, ECB policymakers had to be able to respond to fluctuations of inflation in a forward-looking and non-mechanistic manner to maintain the confidence of market actors. Therefore, the MPS enabled them to be less responsive to short-term developments without stretching their policy discretion.

The two-pillar analytical framework confirmed the image of monetary policy as a policy field of extreme technical complexity and corroborated the distinctive institutional competence of the ECB. The analytical framework underlined that policy decisions were underpinned by highly technical economic analyses. However, the presence of two pillars representing "different views of the world" regarding the causes of inflation and the detection of price stability risks made the whole exercise of cross-checking cumbersome. When the 2003 revision of the MPS took place, the first pillar was already considered redundant by most economists (Galí, 2002, p. 69). Its retention was linked to its symbolic value. A strong link between money and inflation pointed towards the superior expertise of central bank officials on the issue, highlighting the distinctive institutional competence of ECB decision-makers. Indeed, before the era of independent central banking, finance ministry officials had been closely involved in monetary policy decisions, so central bankers could not claim a monopoly of expertise on monetary matters.

3.2. ECB's Early Interpretation of Its Mandate and the Vision of It as Clear and Narrow

The ECB has defined its objectives in its MPSs, thereby interpreting in reality its (enshrined in EU primary law) mandate. The ECB justified this practice in its 2021 MPS (with reference to its definition of the price stability objective), by writing that "[s]ince the Treaty does not provide a precise definition of what is meant by price stability, *it is the ECB's monetary policy strategy that defines how the Governing Council implements this mandate* […]" (ECB, 2021d, p. 4, emphasis added). This shows the crucial role of MPSs in the ECB's specification of its mandate, even more so since the EU's political institutions cannot have any decisive say on this specification due to the high degree of independence that the ECB has enjoyed since the Maastricht Treaty (see also Section 3.2.2 about this).

3.2.1. ECB's Interpretation of Its Mandate in Its Early MPSs: Focusing on a Single Objective

In its early MPSs, namely in 1998 and 2003, the ECB focused merely on one objective—the "primary objective" of price stability (see Smits, 2022, p. 6) that was enshrined in the first sentence of Article 105.1 of the Treaty establishing the European Community (TEC; 1997). This objective is now enshrined in the first sentence of Article 127.1 of the Treaty on the Functioning of the European Union (TFEU; 2016). The ECB's focus merely on this objective was particularly clear in the following phrase of the 1998 MPS of the ECB: "As *mandated* by the Treaty establishing the European Community, the maintenance of price stability will be the *primary objective* of the ESCB [European System of Central Banks]. Therefore, the ESCB's monetary policy strategy will focus *strictly* on this objective" (ECB, 1998, p. 1, emphasis added; see also ECB, 2003, p. 80). As a consequence, the ECB left unmentioned in its early MPSs its binding secondary mandate. This secondary mandate, being enshrined in Article 105.1 second sentence TEC (now Article 127.1 second sentence TFEU), required the ECB to "support the general economic policies in the Community with a view to contributing to the achievement of the objectives of the Community as laid down in Article 2" (provided this is done "[w]ithout prejudice to the objective of price stability").

The ECB justified elsewhere, in this early period, the non-recognition of "secondary objectives" (or mandate) by resorting mainly to two kinds of arguments: A legal argument—the "Treaty has not given the ECB direct responsibility for any additional objectives other than price stability," since the phrase "secondary objectives" was absent from the Treaty (ECB, 2002b, p. 2); and an economic argument—maintaining price stability is the "best contribution of monetary policy" to the support of the general economic policies in the long run, especially to growth and employment (ECB, 2002b, pp. 2–3, 5).

The ECB defined the price stability objective in its early MPSs based on a quantitative definition (see Section 3.1.). This quantification was considered to serve a *purpose*: "establish a solid anchor for inflation expectations and set a benchmark which the public could use to hold the ECB accountable" (Issing, 2004; see also ECB, 2003, p. 80). The quantified definition of price stability was, therefore, considered to enhance further the clarity of the ECB's mandate (see Issing, 2001). This clarity is put into question by scholars arguing that "the goal formulated in 2003 ('an inflation rate below but close to 2%') left the central point undetermined [...]" (Angeloni & Gros, 2021).

3.2.2. ECB's Vision of Its Mandate as a Clear and Narrow Mandate

The ECB's interpretation of its legal mandate was linked to the ECB's portrayal of it as a clear and narrow mandate. The ECB's vision of its mandate as *a clear* mandate (see, for instance, Issing, 1998) was justified by reference to the (ECB's) focus on a single objective: price stability. This clarity was directly linked with the ECB's independence that was enshrined in Article 108 TEC (now Article 130 TFEU). According to the ECB's Bulletin in January 1999, which explained the ECB's 1998 MPS (following, therefore, its interpretation of the mandate), "[t]he Treaty states that *the primary objective of the ESCB shall be to maintain price stability* [...]. In order to fulfil this clearly defined mandate, the Treaty accords the ESCB...a considerable degree of institutional independence [...]" (ECB, 1999, p. 39, emphasis in the original). In other words, the delegation of monetary policy by political authorities to an independent ECB was considered to serve the purpose of ensuring the *clearly defined* mandate of price stability. Besides, as has been argued in the literature, the rationale behind granting a high degree of independence to the ECB lies in the pursuit of price stability (see Smits, 1997, p. 184; see also Ioannidis, 2020, p. 374; Zilioli & Selmayr, 2007, p. 361).

Regarding the ECB's vision of its mandate as a *narrow* mandate, this was also justified by reference to the (ECB's) focus on a single objective (price stability) and was undergirded by the assumption, endorsed by ECB officials during the ECB's early period, that ensuring price stability would be beneficial in the long run for society (see Hämäläinen, 2001, 2002). Since it would be beneficial for society, the inference that can be drawn is that the conduct of monetary policy under the price stability objective was not supposed to have a redistributive impact (see also Section 3.1.2). The delegation of monetary policy to an independent ECB that would be focused on the objective of price stability was considered to serve "the interest of the public at large" (Issing, 1998). The narrow vision of ECB's mandate was also related, according to the literature, to considerations of respect for the EU principle of conferral (Treaty on European Union, 2016, Article 5), thereby respecting that it is the national political authorities which have the competence for conducting economic policies (to be coordinated within the Union) and which can make therefore distributional choices. As Tuori explains:

> [The n]*arrow mandate of the ECB excluding political value judgments* was an integral part of the distinction between ECB monetary policy and Member State economic policies, the borderline between national and EU competences. The independence of the ECB had the counterpart that the Treaty enumerated the tasks allocated to the ECB—tasks that were directly linked to monetary policy and excluded political value judgments and explicit distributional functions. (Tuori, 2022, p. 266, emphasis in the original; see also Dawson et al., 2019, p. 77)

The ECB's vision of its mandate as a clear and narrow mandate can be considered to go hand in hand with the ECB's technocratic model of legitimacy insofar as the ECB was focused on a single objective (price stability) that was supposed to be specific and narrow (in the sense described above) and to allow, therefore, limited discretion (see Section 3.1 about this technocratic model). By contrast, a report of the European Parliament questioned, in 1998, the narrowness of the mandate assigned to the ECB and its limited implications, by arguing emphatically that "[b]y leaving it to the ECB to define price stability, the Treaty also gives it power *over economic policy*" (European Parliament, 1998, p. 3, emphasis added). In addition, Article 105.2 TEC (now Article 127.2 TFEU) had left to the European System of Central Banks (ESCB)—and therefore to the ECB, since "[t]he ESCB shall be governed by the decision-making bodies of the ECB [...]" according to Article 107.3 TEC (now Article 129.1 TFEU; see also *Gauweiler and Others v Deutscher Bundestag*, 2015, para. 38)—to "define and implement the monetary policy of the Community." This was considered to give the ESCB, and therefore the ECB, "[f]ree hand in formulating and implementing monetary policy" (Smits, 1997, p. 197). So, doubts were raised from early on about whether EU primary law left to the ECB wider discretion than the one assumed.

4. The MPS of 2021

This section examines the 2021 MPS of the ECB. In Section 4.1, we analyse and assess the revised operational framework of the ECB. We find that this framework is incompatible with the ECB's technocratic model of legitimacy. In Section 4.2, we analyse the re-interpretation of the ECB's legal mandate in its 2021 MPS. We argue that the ECB's mandate, given this re-interpretation, proves to be neither clear nor narrow, which has serious implications for the tenability of the ECB's technocratic model of legitimacy. Methodologically, Section 4.1 partially relies on the analysis of data taken through the method of elite interviewing. Four in-person semi-structured interviews were conducted with members of the Governing Council of the ECB and members of the Monetary Policy Committee (which is the main preparatory body of the Governing Council). Interviewees were provided with full anonymity and confidentiality. The list of interviews can be found in the Supplementary File.

4.1. ECB's Revised Operational Framework: Incompatible With the Technocratic Model of Legitimacy?

The ECB revised its MPS in 2021. The functions of the revised strategy remained the same as those of the previous strategies: The structuring of the decision-making process and the use of the document as an instrument of communication with the public (ECB, 2021c, p. 75). The ECB invoked various reasons for the strategy review ranging from the consecutive shocks hitting the euro area (global financial crisis, sovereign debt crisis, and pandemic) to the changing international economic environment (globalisation, digitalisation, and evolving financial structures), and even climate change, arguably the most important challenge that humanity faces. However, the principal reason behind the revision was the need to incorporate in the policymaking framework of the ECB the tools to address the zero-lower bound (ZLB) constraint (Interviewee 05). The ZLB constraint emerges when central banks are unable to reduce interest rates below zero because agents can avoid negative nominal rates by holding money rather than interest-bearing assets (Gerlach & Lewis, 2014). The fact that the Federal Reserve proceeded to a strategy review in 2020 with a similar consideration in mind provided further impetus to the Governing Council of the ECB to launch its own revision (Interviewees 03 and 05).

4.1.1. Operational Elements

A comparative examination of the MPS of 2021 with the early MPSs of 1998 and 2003 reveals significant changes. ECB's primary objective remained quantified, but the Bank shifted from indicating an acceptable range of HICP increase to setting a particular target. According to the ECB: "price stability is best maintained by aiming for two percent inflation over the medium term" (ECB, 2021a). In so doing, the ECB fully embraced the inflation-targeting policy regime, thereby abandoning the ambivalence between monetary targeting and inflation targeting that marked the earlier strategies (see Galí, 2002, pp. 41–72; Svensson, 1999). In parallel, the ECB underlined that the 2% target would be symmetric with "both negative and positive deviations of inflation from the target to be equally undesirable" (ECB, 2021a). From the perspective of communication, the term was employed to denounce the perceived asymmetry of the ECB's policy framework which was believed to have contributed to a lowering of inflation expectations (ECB, 2021b, pp. 11–12). From the aspect of decision-making, the term symmetric was used to justify the activation of unconventional monetary policy instruments as negative deviations from the inflation target required forceful and persistent measures (ECB, 2021a, 2021c, pp. 82–83).

The MPS of 2021 confirmed the medium-term orientation of the monetary policy, providing the ECB with policy flexibility to tolerate lengthy deviations from the targeted inflation (ECB, 2021c, pp. 80–81). Most importantly, though, the MPS adopted a new interpretation of the medium-term orientation that enabled "the Governing Council in its monetary policy decisions to cater for *other considerations* relevant to the pursuit of price stability" (ECB, 2021a, emphasis added). The significance of this addition to the strategy can hardly be overstated. In its Economic Bulletin that commented on the revised strategy, the Bank made clear that the term "other considerations" refers to other policy objectives beyond price stability (ECB, 2021c, pp. 84–86). The Bank named balanced economic growth, full employment, financial stability, and climate change objectives as considerations that should be taken into account when formulating its monetary policy. In other words, the ECB introduced for the first time other policy objectives beyond price stability in its operational framework. Given the existence of multiple policy objectives, the ECB anticipated the emergence of temporary trade-offs and considered the medium-term orientation as an adequately flexible mechanism to deal with them (ECB, 2021c, p. 81).

Another new element in the MPS of 2021 was the reference to the Bank's monetary policy instruments. The ECB discerned interest rates as its primary monetary instrument but made sure to list the rest of the instruments in its toolkit (forward guidance, asset purchases, and long-term refinancing operations) linking them with the lower bound limitation of the interest rates. The MPS enabled the Governing Council to consider new instruments if needed.

The formal incorporation of unconventional monetary policy instruments in the policy strategy of the ECB brought about further significant changes to the operational framework of the Bank. The ECB recognised that the use of unconventional monetary policy instruments, particularly asset purchases, could have significant unintended side effects on real economy and the financial system (Altavilla et al., 2021, pp. 24–32). Even the ECB itself could be adversely affected by those measures as the expansion of its balance sheet could ultimately lead the bank to incur losses. As a result, a proportionality assessment became "an integral part" of monetary policy decision-making guiding the Governing Council members to evaluate the benefits and side effects of their decisions including their interaction over time (ECB, 2021c, p. 81). The two-pillar analytical framework that used to underpin the evaluation of price stability risks under the previous strategies was replaced by an "integrated analytical framework" that relied on economic analysis to identify economic developments (rather than price stability risks) affecting the multiple objectives of the Bank (ECB, 2021a, 2021c, pp. 86–87). The monetary analysis shifted its focus to the detection of financial stability risks (arising primarily from asset purchases) and the assessment of the state of monetary policy transmission. The cross-checking of the information derived from the economic analysis was discontinued (Holm-Hadulla et al., 2021, pp. 44–52).

4.1.2. Compatibility of the Revised Strategy With ECB's Technocratic Legitimacy

A few of the above (Section 4.1.1) elements appear to be aligned with the technocratic model of ECB's legitimacy. The new quantification of the price stability objective and the concomitant full endorsement of inflation targeting did not seem to be problematic in this respect as they established a policy framework that restricted the discretion of the Bank's policymakers (other central banks, such as the Federal Reserve and the Bank of Japan, are also using point target objectives; see ECB, 2021b, p. 54). The symmetry of the target was not questionable either, as it reflected the need to anchor inflation at higher levels within a context of low inflation expectations (at the time of the revision) without unduly increasing the discretion of the ECB officials. The use of the negative deviation from the symmetric target as a trigger of unconventional monetary policy measures was a more dubious element as no specific benchmark was set for the activation of unconventional monetary policies, while the Bank's commitment to tolerate "moderately above target" inflation, when these measures were activated, did not provide more clarity (see also Section 4.2).

Other key elements of the revised MPS seem to be sharply incompatible with the technocratic legitimacy model. The new reading on the medium-term orientation created significant strain. By introducing a mechanism for the accommodation of other considerations, the ECB's objectives essentially multiplied, and their specificity decreased while the absence of any new relevant performance criteria in the MPS impeded an objective measurement of the ECB's decisions in relation to those policies. The emergence of trade-offs among multiple policy objectives exacerbated the discretion of the ECB's policymakers, thereby inflicting a significant blow to accountability by results. In parallel, the new understanding of the medium-term orientation contrasted with the distinctive institutional competence of the ECB, as the Bank became involved in policy fields where governments and other policy experts played the primary role.

The proportionality assessment was another important element of the revised MPS that appeared to clash with the logic of the technocratic model of legitimacy. By acknowledging the existence of significant unintended side effects that needed to be taken into account before the adoption of policy decisions, monetary policy's portrayal as an efficiency-oriented policy, focused on the increase of aggregate societal welfare, showed signs of erosion. More importantly, the proportionality assessment exposed the distributional aspect of ECB's policymaking in the era of unconventional monetary policy instruments, thereby underlining the inadequacy of the technocratic model which precluded this strategy of legitimation for policies with redistributive aspects.

In sum, this section has shown that key innovations of the revised MPS of 2021 were found to be incompatible with the ECB's model of technocratic legitimacy, highlighting the particular model's limitations in legitimising the modern operational framework of the ECB.

4.2. ECB's Re-Interpretation of Its Mandate: Neither a Narrow nor a Clear Mandate?

While the ECB's legal mandate has remained largely unchanged since the Maastricht Treaty and the ECB stated in its 2021 MPS that "[t]he strategy review takes the ECB's mandate as given" (ECB, 2021d, p. 4), it has in fact re-interpreted significantly its mandate. In this section, we find that this re-interpretation was mainly twofold: Firstly, it consisted of the ECB's re-definition of its primary objective of price stability (Section 4.2.1). Secondly, it consisted of the recognition of its secondary mandate as a legal basis for the ECB's monetary policy (Section 4.2.2). This re-interpretation reveals a mandate that is neither narrow nor clear, as a result of which a technocratic model of legitimacy proves to be visibly untenable for the ECB (Section 4.2.3).

4.2.1. Re-Defining the Primary Objective

The ECB re-defined the price stability objective, which is enshrined in the first sentence of Article 127.1 TFEU, benefitting from the fact that EU primary law left this objective largely undefined (see Section 3.2). Regarding the ECB's redefinition of its objective, two main elements indicate a shift from the early MPSs of the ECB.

Firstly, whereas the previous inflation goals were focused mainly on guarding against high inflation, "potentially implying that 2% was a ceiling rather than a target" (Höflmayr, 2021, p. 3), the "symmetric target" of 2%, that was adopted in 2021 MPS (see Section 4.1), seems to pay equal attention to guarding against high inflation and deflation (see Höflmayr, 2021; Tooze, 2020, p. 20). At the same time, there remains a lack of clarity since there is no specified "range around the inflation target" (Höflmayr, 2021, p. 3), the result being that there is "*no clue* [as] to what deviation the ECB is willing to tolerate" (Angeloni & Gros, 2021, emphasis added). This lack of clarity becomes more visible by the phrase that there can be tolerated "a transitory period in which inflation is *moderately* above target" (ECB, 2021d, p. 10, emphasis added), given that it is unclear what "moderately'' means.

Secondly, and most importantly, multiple considerations are deemed relevant to the ECB's primary objective of price stability, given the phrase in ECB's 2021 MPS: "other considerations relevant to the pursuit of price stability" (ECB, 2021d, pp. 8, 11; see Section 4.1). These considerations include primarily financial stability and climate change considerations (ECB, 2021d, pp. 11–13). Regarding financial stability, whereas neither the previous MPSs nor the Maastricht Treaty referred to it as relevant to the price stability objective (see Lastra &

Alexander, 2020, p. 12), the 2021 MPS conceived it as a “precondition for price stability and vice versa,” while it also stressed that the ECB will “avoid the misperception that monetary policy is responsible for guaranteeing financial stability” (ECB, 2021d, p. 12). In a similar way, the paper of members of the ECB legal services (that informed the Governing Council’s deliberations on the review of the MPS) suggested that financial stability “could be a means necessary to achieve the primary objective of maintaining price stability, in accordance with Article 127(1) TFEU” but, at the same time, they stressed that “Article 127(1) TFEU could not be used to circumvent the *only contributory competence* entrusted to the ECB by the lex specialis of Article 127(5) TFEU by indirectly transferring direct responsibility for financial stability to the ECB” (Ioannidis et al., 2021, p. 20, emphasis added). Hence, the 2021 MPS recognised financial stability as part of the ECB’s mandate, even though not officially as an ECB’s “objective.” Besides, this recognition was also seen earlier at a judicial level in the reference of Advocate General Cruz Villalón (2015, para. 215) to the “…mandate of maintaining price stability and achieving financial stability (Articles 127(1) TFEU and 282 TFEU) […]” in his Opinion in *Gauweiler and Others v Deutscher Bundestag* (see also Adamski, 2023, p. 156). However, pursuing financial stability as part of the ECB’s mandate renders it more unclear since, as had been recognised by an ECB’s executive board member, “the notion of financial stability is nebulous and much more difficult to capture than price stability” and “the pursuit of financial stability often involves choices with stronger distributional implications” (Mersch, 2018, pp. 2, 6).

Regarding climate change considerations, whereas they were absent from the ECB’s previous MPSs, the ECB included these considerations in its 2021 MPS (ECB, 2021d, pp. 11, 13) and presented also a roadmap of how it planned to incorporate them into its policy framework in four years (ECB, 2021e). The ECB regarded these considerations as falling within its primary mandate, “since physical and transition risks related to climate change have implications for both price and financial stability, and affect the value and the risk profile of the assets held on the Eurosystem’s balance sheet” (ECB, 2021d, p. 13; see also Lagarde, 2020). At the same time, these considerations are also regarded as part of its secondary mandate (ECB, 2021d, p. 11, 2021e), given that the environment’s protection is among the objectives mentioned in Article 3 of the Treaty on European Union and that there is an EU policy on climate change that set out the objective of climate neutrality in the Union (Regulation (EU) 2021/1119 of the European Parliament and of the Council of 30 June 2021, 2021). Both mandates can be identified also in the discourse of ECB policymakers on this issue (e.g., Schnabel, 2021; see Deyris, 2023, p. 719) and in the ECB’s action (ECB, 2022; see also Decision (EU) 2022/1613 of the European Central Bank of 9 September 2022, 2022). The inclusion of climate change considerations in the ECB’s policy framework as part of the ECB’s mandate has raised a debate on the range of decisions the ECB is called upon to take and their potential (re)distributive implications (see for instance Dietz, 2022; Steinbach, 2022).

The ECB leaves also open the possibility of other considerations being relevant to the price stability objective, which is more clearly elaborated in the paper of members of the ECB legal services. They argued that within the primary mandate fall not only measures “directly pursuing the primary objective” (aiming at achieving the inflation target) but also “measures that are *instrumental* to pursuing price stability” (Ioannidis et al., 2021, p. 9, emphasis added). They justified not only the former category by reference to the reasoning of the Court of Justice of the European Union (CJEU; *Weiss and Others*, 2018, paras. 54, 57) but also the latter category by arguing that “[m]easures which aim at preserving the transmission mechanism have been explicitly recognised by the CJEU as pertaining to the primary objective and thus falling within the ECB’s mandate” (Ioannidis et al., 2021, p. 10; see also *Gauweiler and Others v Deutscher Bundestag*, 2015, para. 50). They concluded that:

> There could be other measures which foster the preconditions necessary to pursue the price stability objective....[M]onetary policy strategy, or specific monetary policy measures, having the ultimate objective of maintaining price stability may therefore take into account other considerations. These might include, for example, full employment, a high level of protection and improvement of the quality of the environment, or financial stability, where these are a means necessary for pursuing price stability in accordance with Article 127(1) TFEU and the ECB's decision and reasoning complies with the applicable procedural and substantive safeguards [...]. (Ioannidis et al., 2021, p. 10)

Based on the above analysis, it seems that the ECB's primary mandate is linked with multiple considerations that are largely left to be determined by the ECB itself (such as financial stability). So, although the ECB's primary mandate is presented as "well understood and well defined" (Zilioli, 2023, p. 7), its clarity and narrowness are put into question.

4.2.2. The (Hesitant and Nebulous) Recognition of the Secondary Mandate

The 2021 MPS recognised the ECB's secondary mandate (albeit without using this term), which is enshrined in the second sentence of Article 127.1 TFEU, by writing that:

> The Treaty specifically requires the Eurosystem to support the general economic policies in the European Union with a view to contributing to the achievement of the Union's objectives as laid down in Article 3 of the Treaty on European Union. (ECB, 2021d, p. 11)

This recognition stands in contrast with the earlier MPSs (see Section 3.2) and with the discourse of ECB officials until 2020, which had neglected this mandate (see van 't Klooster & de Boer, 2023, p. 733). However, this recognition is hesitant and nebulous, since the analysis of the secondary mandate is included within the section of the 2021 MPS entitled "[o]ther considerations relevant to the pursuit of price stability" (ECB, 2021d, p. 11). In addition, the 2021 MPS is not entirely clear as to whether this mandate can be actively pursued independently of the price stability objective, by writing that "when adjusting its monetary policy instruments, the Governing Council will—provided that two configurations of the instrument set are equally conducive and not prejudicial to price stability—choose the configuration that best supports the general economic policies of the Union [...]" (ECB, 2021d, p. 11). By contrast, the line of interpretation suggested by members of the ECB legal services is clearer: "[p]rovided the secondary objective is not in conflict with the primary objective, pursuing the former is *not subject to the condition of actively pursuing the latter at the same time*" (Ioannidis et al., 2021, p. 16, emphasis added).

The ECB is not clear in its 2021 MPS on how it is going to pursue its secondary mandate (Höflmayr, 2021, p. 7). Besides, EU primary law has left this mandate largely undefined, being "blank on guidance on how these secondary objectives should be ranked and attained" as argued in the literature (Claeys et al., 2021). For instance, it is rather unclear how the ECB's secondary objectives would be prioritized given the various policies in the EU, what will happen in cases of conflicts between these objectives (see Claeys et al., 2021; Dietz, 2022, p. 426; Steinbach, 2022, p. 348), and what "support" to the general economic policies in the Union means. As a result of this, the picture of a mandate that proves to be neither really clear nor narrow is reinforced.

4.2.3. Implications for ECB's Model of Legitimacy

The ECB’s re-interpretation of its mandate in its 2021 MPS reveals a mandate that is *neither clear nor narrow*. Multiple considerations are necessary to be taken into account by the ECB as part of its mandate, which is related to the existence of new challenges (e.g., climate change) but also to the fact that most elements of the ECB’s legal mandate have remained largely undefined in EU primary law—such as, what is price stability. This leaves significant discretion to the ECB in the definition of its mandate, in combination with Article 127.2 TFEU (see Section 3.2). In addition, the pursuit of the ECB’s objectives is operationalised via multiple instruments in a much less clear and more complex than originally presented decision-making process, entailing a range of decisions with much wider implications than what the initial paradigm indicated (see Section 4.1). The existence of wide implications in the ECB’s monetary policy had been already brought to the fore in the judgment of the German Federal Constitutional Court on the Public Sector Purchase Programme (PSPP) and in the literature (see, for instance, van ’t Klooster & Fontan, 2020 about the ECB’s unconventional measures; especially for their environmental effects see Dafermos et al., 2020). The abovementioned judgment stressed the considerable economic and social policy effects of the ECB’s PSPP programme, arguing that the ECB violated the (enshrined in EU primary law) principle of proportionality and, subsequently, exceeded “the monetary policy mandate of the ECB deriving from Art. 127(1) first sentence TFEU” (German Federal Constitutional Court, 2020, paras. 176–177).

The ECB’s largely vague mandate, seen in combination with the ECB’s insulation from political authorities due to its independence, leaves the ECB largely unconstrained (see also van ’t Klooster & Monnet, 2024). At the same time, the review by the CJEU of the ECB’s specification of its mandate, specifically of its primary objective, has been limited to the benchmark of a “manifest error of assessment” (*Weiss and Others*, 2018, para. 56)—invoking, inter alia, the “general and abstract manner” in which the primary objective was defined by “the authors of the Treaties” (*Weiss and Others*, 2018, para. 55)—thereby allowing broad discretion to the ECB (Ioannidis, 2020, p. 370; see also Ioannidis et al., 2021, p. 8). Hence, as argued in the literature, “all the constraints on the monetary policy mandate of the ECB have been gradually and profoundly relinquished” (Adamski, 2023, p. 156; see also Menéndez, 2022, p. 647). This overall picture leads to the conclusion that the limits of the ECB’s technocratic model of legitimacy have been visibly reached, given the very wide discretion that the ECB enjoys in the specification of a largely vague mandate.

5. Conclusion

In this article, we have focused on the 2021 revision of the ECB’s MPS, which constitutes the ECB’s operational framework. Our analysis revealed important incompatibilities with the ECB’s model of technocratic legitimacy which relies primarily on policy performance and less so on democratic procedures. We have also shown how the ECB engaged in a process of reinterpreting its own legal mandate that ended up exposing the latter as broad and vague rather than clear and narrow, in contrast to the original ECB’s early vision of its mandate. These findings indicate that a technocratic model of legitimacy is visibly untenable, thereby raising the question of the extent to which the diminished input legitimacy that the ECB has enjoyed since the Maastricht Treaty is suitable for the ECB’s current policy setting and the nature of its current activities, which differ substantially from those in the early days of the Bank.

While our research has shown that the ECB's early operational framework and reading of the Bank's legal mandate were aligned with the model of technocratic legitimacy, we are not suggesting that that model was unproblematic in the past. Indeed, scholarly work has unveiled how ECB's monetary policy decisions before the financial crisis of 2007–2009 differed widely from the technocratic archetype of depoliticised decision-making devoted to the increase of the aggregate welfare and deprived of distributional effects as they were shown to favour particular growth models, thereby benefiting some member states at the expense of others (Hall, 2014), and actively support financialisation in the euro area, thereby increasing the vulnerability of the European financial institutions in the pre-crisis period (Lapavitsas, 2013). However, the post-crisis decisions of the ECB's technocratic elite have indeed received considerably more scrutiny and criticism given that the Governing Council engaged with unconventional monetary policies, which exposed monetary policymaking as a redistributive and politicised activity (Adam & Tzamourani, 2016; Buiter & Rahbari, 2012; Eijffinger & Hoogduin, 2018; Sinn, 2018). The revision of the MPS in 2021 was the ECB's way of acknowledging the increased complexity of the monetary policymaking exercise and a concomitant attempt to restructure its internal decision-making structure in a way that would not undermine the technocratic legitimacy model that the ECB relies upon. By concentrating on the internal inconsistencies between this model and the revised MPS of 2021 our work has highlighted the need for a new model to legitimise the decisions of the Governing Council.

The new model shall rely on the strengthening of democratic procedures in the monetary policymaking of the ECB since the long overdue enhancement of the ECB's input legitimacy appears to be more pressing given the disjuncture of the ECB's 2021 MPS with the output-oriented technocratic model that was unpacked in this article. The ECB's (diminished) input legitimacy has been limited mainly in the initial ratification of the Treaty (that set the ECB's mandate and status) by the democratic procedures of the member states, in the appointment of the ECB's executive board members by the European Council and in the appointment of governors of National Central Banks (that participate in the ECB's Governing Council) by national political authorities. Obviously, these channels do not allow the representation of popular interests in the decision-making structures of the ECB as they were established in an era when the mantra was the insulation of central bank officials from societal pressures and the democratic process. Although it is beyond the scope of this article to provide detailed institutional proposals on revamping the framework for the provision of input legitimacy to the ECB, the suggested direction of this revamping requires the important decisions of monetary policymaking to be made by the Union's democratic political institutions in which the (different) socio-economic interests within European societies are represented. For example, the MPS would need to be approved by the European Parliament and the Council and be regularly revised (e.g., every five years), while the ECB would be tasked to propose the MPS in a role similar to that of the European Commission in the ordinary legislative procedure. This unavoidably requires a Treaty reform since the EU's political institutions cannot have a decisive say on monetary policymaking under the current legal framework, which attributes a high degree of independence to the ECB (see TFEU, Article 130).

An alternative way of boosting the legitimacy of the ECB seems to be linked with the so-called "throughput" legitimacy (Schmidt, 2013, 2020). Some scholars even suggested that the latter could function as a method of regaining the Bank's technocratic legitimacy (Heldt & Müller, 2022; up to an extent Tesche, 2023), while others perceive it as a substitute for input or output legitimacy. Our findings suggest that the challenge to the model of technocratic legitimacy is much more severe than is usually admitted. Therefore, any remedies seeking to bring minor improvements to the transparency or the accountability of the ECB are not sufficient insofar as they do not address the issue of the fundamental change in the ECB's policy environment that we identified in this contribution.

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Supplementary Material

Supplementary material for this article is available online in the format provided by the authors (unedited).

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ARTICLE

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Oversight, Accountability, or Influence? Understanding the Use of Monetary Dialogues in the European Parliament

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Abstract

The Monetary Dialogue (MD) between the European Central Bank (ECB) and the European Parliament (EP) has received ample research that has offered an insightful discussion on the effectiveness of the dialogue as a forum for ECB accountability. However, most of the literature has focused on what the ECB is held accountable for or how the ECB engages in the dialogues. Key questions remain, however, regarding the goals and actions of the individual members of the European Parliament (MEPs) that this article seeks to address. First, we develop a theoretical framework that moves beyond a general concept of "accountability" and differentiates between accountability, oversight, and influence. By defining the concepts more precisely, our aim is to distinguish types of engagement and offer a comparative perspective to broaden the discussion of accountability forums. Second, our article contributes to a growing subset of literature on the MD that shifts the focus from what the ECB gets from the dialogues to how MEPs utilize the MD. To achieve this, we analyze and code MEP questions during the quarterly MD and investigate the impact that member state, national party, and EP political group affiliation have on the character of the questions asked by MEPs over time.

Keywords

accountability; European Central Bank; European Parliament; Monetary Dialogues; oversight

1. Introduction

Scholarship on the interaction between the European Parliament (EP) and the European Central Bank (ECB) within the framework of the Monetary Dialogue (MD) is well-developed and offers an insightful discussion of the effectiveness of the dialogue as a forum for ECB accountability. However, most of the literature has focused on the MD from an institutional perspective, examining what the ECB is held accountable for (Claeys et al., 2014; Fromage & Ibrido, 2018; Magnette, 2000), or how the ECB engages in, and what it communicates during, the dialogues (Collignon & Diessner, 2016; Fraccaroli et al., 2022a). These avenues of research provide a wealth of information on the ECB's use of the MDs and recommendations for how to strengthen the EP as an accountability forum. Yet, key questions remain, particularly as regards the individual engagement in the MDs. Because of the general focus on the institutions, the behavior of members of the European Parliament (MEPs) within the context of the MDs has received less attention, though notable exceptions include Ferrara et al. (2022, 2024), Fraccaroli et al. (2022b), and Massoc (2022).

To address this lacuna, we employ a theoretical framework that moves beyond a general notion of "accountability" to offer a comparative perspective and broaden the discussion of accountability forums. Second, our article contributes to a growing subset of literature on the MD that shifts the focus from what the ECB gets from the dialogues to how MEPs utilize the MD. To understand the effectiveness of the MD, it is important to understand not just the mechanics of the forum, but the intentions of those holding the ECB to account. To accomplish this, we utilize an expanded conceptual framework that distinguishes between oversight ("what" questions), accountability ("why" questions), and influence ("should" questions). Our goal is to explore what MEPs seek from the MD and the extent to which the MDs are seen as a forum for oversight versus a venue through which they can pursue accountability and even policy influence.

To explore these questions, we analyze and code MEP questions during the quarterly MD from 2005–2024 to create a new dataset with individual MEP questions coded using the conceptual typology above to gain new insights into the ways the MD is used by MEPs to pursue a variety of goals. We anticipate that the character of MEP engagement in the MD will vary according to member state characteristics (net-contributor, eurozone membership), the national party affiliation of MEPs (participation in government or opposition and economic policy preferences), EP political group membership (mainstream or extreme political group), and over time (institutionalization of the MD process). Our findings largely support our expectations and highlight the importance of a more nuanced understanding of the type of questions asked by MEPs. Overall, our results largely align with recent research on political voice in the MD (Ferrara et al., 2022, 2024; Fraccaroli et al., 2022b; Massoc, 2022), while offering a more refined conceptual framework.

The remainder of the article is divided as follows. The next section provides an overview of the evolution of the MD as a forum of ECB accountability, followed by a brief literature review. The fourth section outlines the theoretical and conceptual framework distinguishing between accountability, oversight, and influence. The fifth section discusses the methodology, data, and initial empirical results of our research. The final section offers a brief conclusion and suggests some next steps.

2. The Evolution of the MD

The institutional arrangements for ECB accountability were first outlined in the Maastricht Treaty and again in the Treaty on the Functioning of the European Union (TFEU, 2012). Article 284(3) of the TFEU obliges the ECB to present an annual report on the past and current year's monetary policy to the Council, EP, and Commission. In addition, the ECB president must appear before the EP and Council to discuss the annual report and answer questions (TFEU, 2012). Early analysis of the accountability mechanisms pointed to the ambiguity inherent in the treaty language and the limited role of the EP (Amtenbrink & van Duin, 2009; De Haan, 1997). However, the EP created opportunities for more oversight than was delegated in the treaties, including the structure that became the MD, by modifying its Rules of Procedure. Rule 39 called for the ECB president to present themselves to make a statement and answer MEP questions four times a year (EP, 1998, see currently Rule 135 of EP, 2023). Despite limited formal legal obligations, with few exceptions, the president of the ECB has attended the quarterly hearing since 1999 (Amtenbrink & van Duin, 2009).

The basic format of the MD has remained largely the same over the years. The MD is held within the Economic and Monetary Affairs Committee (ECON). Within the period under analysis, during each MD the ECB president gives opening remarks followed by questions and answers with committee members. Most dialogues last two hours with alternating MEP questions (1–3 minutes) followed by short responses from the ECB president, though this pattern was partially revised in 2022 to provide a more dynamic engagement between the actors. Members of the committee are assisted in their role by panels of central banking experts that submit briefs in advance and answer MEP questions. In 2006, the MD was restructured to focus discussion around two key topics on which MEPs were to concentrate questions. Since 2002, MEPs have also been able to submit written questions, and while others have studied these (Navarro & Kelbel, 2022), our focus is limited to oral questions in the context of the MDs.

3. MD: More Than Checking the Box?

Scholarship on the accountability framework between the EP and the ECB is robust. Early discussions revolved around the balance between central bank independence and democratic norms of accountability (Braun, 2017; Buiter, 1999; Dawson et al., 2019 De Haan, 1997). These early analyses raised concerns that the EP relied on output legitimacy in monetary policy (i.e., low inflation) as a form of accountability. Justifications and explanations were not necessary if the ECB was meeting its mandate (Buiter, 1999; De Haan, 1997). Other early work suggested that the ECB–EP relationship reflected "accountable independence" (Magnette, 2000). MEPs did not need to constrain the ECB to hold it to account. Rather the EP relies on communication with the ECB to "scrutinize it from the outside" (Magnette, 2000, p. 333).

However, for "accountable independence" to ensure democratic legitimacy, the forum for dialogue must be effective at asking the "right" questions and the ECB must be transparent in its communications (Amtenbrink & van Duin, 2009; Eijffinger, 2004; Fromage & Ibrido, 2018). With the institutionalization of the MD, scholarship pivoted to these questions. Efficacy is examined both as an outcome of the questions asked by MEPs and the answers provided by the ECB (Akbik, 2022). Scholars have shown that MEP questions during the MD are often unrelated to the ECB's mandate (Amtenbrink & van Duin, 2009; Claeys et al., 2014), reflect the political or economic climate (Ferrara et al., 2022; Fraccaroli et al., 2020), and vary in scope from one ECB president to the next (Collignon & Diessner, 2016). Many scholars studying the topic have focused on how the ECB participates in the MD, suggesting that the MD is only as effective as the ECB's willingness to openly engage with MEPs (Collignon & Diessner, 2016; Fraccaroli et al., 2022a). For example, Amtenbrink and van Duin (2009) show that when the Economic and Financial Affairs Council (ECOFIN) changed the format of the MD to focus on two specific topics, the comments from the ECB did not necessarily follow suit and often ignored one or both topics in opening statements. These scholars often center the discussion on how to make the ECB more accountable and strengthen the overall framework of the MD.

A smaller, more recent subset of the literature examines MEP motivations for how they engage in the MD. This research has found that economic and labor market conditions (Ferrara et al., 2022) and partisanship (Fraccaroli et al., 2022b; Massoc, 2022) impact MEPs' attitudes toward the ECB and its policy actions. In addition, work by Ferrara et al. (2024) shows that MEP views are not static and adapt when provided with new information. Our research contributes to this growing literature. Instead of examining the attitudes of MEPs, we examine the motivations for engaging at different levels in the MD. Rather than focusing on the stance of MEPs towards the ECB, we examine the ways in which MEPs may use the opportunity to ask questions during the MD to accomplish their goals. Although the MD is formally an oversight and accountability forum, we believe it may also provide an opportunity for MEPs to try to influence policy outcomes. Given the EP's long history of working to informally expand its institutional influence on EU policy through broad interpretation of its often-minimal formal powers (Kreppel, 2002; Roos, 2017), there is good reason to expect MEPs to attempt to use the MD to similar effect.

This broader understanding of the function of parliamentary questions as a political tool for members of a legislature is well-established, with analyses generally focusing on two broad uses. The first is the democratic nature of parliamentary questions as tools of oversight and accountability. Formal Q&A allows parliamentarians to gather information and hold the executive to account for policy decisions (Jensen et al., 2013; Maricut-Akbik, 2020b; Martin, 2013). Drawing from principal–agent literature, legislators delegate power to executive agencies; however, the bureaucracy may not share their policy preferences and benefits from information asymmetries. The principal (legislator) therefore establishes mechanisms to hold the agent (bureaucracy) to account, such as through Q&A (McCubbin & Schwartz, 1984; Saalfeld, 2000; Strøm, 2000). Often, the more politically salient the issue, the more likely there is to be a higher degree of accountability measures in place (Koop, 2011). As a mechanism of accountability, the response is as important as the question, and claims made by executives must be analyzed along with follow-up by the legislature to determine if accountability efforts are successful (Maricut-Akbik, 2020b).

A second strand of the literature focuses on Q&A as a signaling mechanism. Here, question time is less about democratic accountability and more about political posturing. Legislatures are not monoliths, and political parties, or individual MEPs, may have alternative rationales for parliamentary questions beyond a strict oversight function (Martin, 2013; Otjes & Louwerse, 2017; Proksch & Slapin, 2010). Question time can thus act as a forum for legislators to voice policy preferences and serve as a platform to signal their interests to the executive branch, party elite, fellow members of parliament, and/or voters. Questions can be a particularly valuable tool of interest representation for opposition legislators and for parties with "issue ownership" (Bevan et al., 2023; Martin, 2013; Otjes & Louwerse, 2017). Interest is broadly conceived to encompass both the political interest of the parliamentarian and of third parties, whether that be constituents or interest groups. As a mechanism for representation of interest, the question matters as much or more than the response (Martin, 2013; Navarro & Kelbel, 2022).

Both approaches have been applied to analyses of the use of questions within the EP, though without achieving a general consensus. Some scholars have argued that EP questions are more effective as a tool of accountability than as a mechanism for signaling (Bressanelli et al., 2023; Proksch & Slapin, 2010). If EP elections are second-order (Marsh, 1998), then questions are less likely to be a tool for re-election (Raunio, 1996), and more likely to serve as tools of control, offering opportunity to check the executive (Maricut-Akbik, 2020a; Navarro & Kelbel, 2022). However, others have suggested that MEPs use questions to politicize key agenda topics and signal their political positions. European parties can work to overcome voter disconnect by steering deliberation towards topics relevant to the party (Guinaudeau & Costa, 2022), and individual MEPs may use questions to increase their reputation and build a political image among their electorate (Raunio, 1996; Sozzi, 2016). Finally, there is also research that understands questions by MEPs as tools used by national opposition parties to hold their governments to account, both through gathering information and by highlighting shortfalls in national implementation (Jensen et al., 2013; Proksch & Slapin, 2010). Our research adds to this growing body of literature on the role of parliamentary questions in the EP by analyzing what MEPs seek to achieve through MD questions.

4. MD: A Tool of Oversight, Accountability, or Influence?

The structure of the MD offers the EP a limited array of possible approaches towards engagement with the ECB. The independence of the ECB necessarily constrains the ability of the EP (and other EU institutions) to directly participate in ECB decision-making. However, the MD does offer a unique venue for MEPs to directly interact with the president of the ECB, and through these discussions not only engage in inter-institutional oversight, but also potentially exert influence in the realm of monetary policy and ECB decision-making more broadly. The role of the MD as a tool of ECB oversight has been researched at length, often with an implicit assumption that accountability occurs along a spectrum; however, many analyses do not clearly differentiate between levels or types of accountability efforts (Amtenbrink & van Duin, 2009). There are, however, some important recent exceptions that provide useful guidelines that can be adapted for the purposes of this research (Akbik, 2022; Dawson et al., 2019). Our contribution to the existing research on the MD utilizes these existing distinctions between oversight- and accountability-type questions, while adding a third category of "influence" that is separate from requests to change conduct and can be more politically motivated. Our article also shifts the focus to individual MEP behavior.

Our focus is on identifying the characteristics that may shape MEP decisions about *what type of question to ask*. In other words, we are not attempting to evaluate the quality of the MD as a mechanism of ECB oversight or measure the extent to which MEPs are effective in their oversight or influence efforts. Instead, we are interested in the individual-level attributes that shape the character of MEP questions. To explore these questions, we classify three types of MEP engagement through questions posed during the MD: oversight, accountability, and influence. In our analysis we utilize part of the classification scheme employed by Akbik (2022) and explicitly differentiate between the concepts of oversight and accountability. In addition, we include the possibility that the MEPs use MD questions to signal their policy priorities and concerns with the goal of influencing the ECB (or other actors) in the same way that the EP has proven effective in influencing the actions of other institutional actors through questions and own-initiative reports (Guinaudeau & Costa, 2022; Kreppel & Webb, 2019; Webb & Kreppel, 2020). Indeed, the potential policy influence of the MD on ECB policy was noted by former ECB president Draghi in 2016 when he stated that the ECB draws "substantial and substantive benefit from this exchange [hearing]" and the hearings "are one of the contributors to our monetary policy decisions. There is no question about that" (Fraccaroli et al., 2022b, p. 4).

Previous scholarship on the MD has often used some variation of either Fearon's (1999) or Bovens' (2007) definition of accountability when a concept definition is provided. Fearon (1999, p. 55) argued that A is accountable to B if A must act on behalf of B *and* B has the power to sanction or reward A for its activities on their behalf. Bovens (2007, p. 450), in contrast, does not frame accountability within strict principal–agent terms with A acting on behalf of B, but rather as a relationship where an actor must explain and justify actions to a forum, the forum can ask questions, and the actor *may* face consequences. The framework we utilize follows Bovens and differentiates between the "what" and "why" aspects of questions, understanding that MEPs may have different rationales for asking *what* actions were taken versus *why* certain actions were taken over others. Within the context of the EP, Akbik (2022, pp. 55–61) has developed one of the most comprehensive categorizations of MEP questions. We build on Akbik's differentiation between "what" and "why" questions, but our focus diverges in critical ways. While Akbik's goal is an assessment of the overall effectiveness of the MD and the unit of analysis is the forum itself, our research is focused on intentions rather than efficacy, and our unit of analysis is the individual MEP. We begin from a belief that until we understand what the MEPs seek from parliamentary questions, we cannot fully assess if they are effective. An additional difference between the two approaches is that Akbik's classification is determined by both questions and answers. However, we are focused exclusively on the questions asked by the MEPs since we are interested in intention (not effect).

Thus, in this analysis *oversight* is understood as a neutral form of EP engagement during the MDs. MEP questions that simply ask the ECB to report on *what* it has been doing, or what it will or might be doing in the future, even if in reference to a specific topic or perceived problem, are considered examples of oversight. In these cases, there is no effort to hold the ECB to account because it is not being asked to explain or justify its choices, but merely to state what these choices have been or will be. While it is often the case that the ECB president includes in their response a justification for past or future decisions, this is not explicitly requested by the MEP in these cases. Oversight questions ask for facts, not explanations or justifications.

In contrast, MEP questions that explicitly ask the ECB president to explain and/or justify actions taken (or not taken) by the ECB represent an effort by the EP to hold the ECB to account. In this sense, MEP questions that go beyond asking "what" to demanding an explanation of "*why*" the ECB has (or has not) taken specific actions are examples of efforts to impose *accountability* on the ECB through the use of questions during the MDs. Despite the fact that MEPs lack any tools for imposing sanctions on the ECB, accountability questions can force the ECB president to publicly justify decisions and actions, improving transparency and the accountability of the ECB as a whole.

Finally, our third category goes beyond the standard expectations that the MDs are tools of oversight and/or accountability to determine if the EP is also attempting to utilize these exchanges as an opportunity to influence ECB policy decisions, or publicly encourage action by other actors (such as member state governments). Efforts to *influence* the ECB would be evident in MEP questions that do not ask "what" or "why," but rather provide suggestions of what the ECB (or other actors) *should do*. When an MEP is trying to influence actors other than the ECB it is generally through questions that encourage the ECB president to endorse the MEP's perspective regarding actions that should be pursued by others. Examples of the three types of MEP questions are provided in Appendix 1 in the Supplementary File.

In our analysis these three types of MEP questions are treated as distinct categories of engagement rather than different points on an ordinal scale. While accountability questions might be interpreted as a stronger form of oversight, influence questions would not easily fit within a one-dimensional oversight axis. Both oversight and accountability questions are ex-post-facto, asking for information or justifications regarding past actions. In contrast, influence questions are ex-ante efforts to shape future decisions and actions. The goals of the MEPs are thus substantively different for influence questions. Moreover, our original premise is that there is a qualitative difference between oversight and accountability and that these two concepts should be understood as distinct goals rather than two levels of the same objective. This classification of MEP questions reflects our primary interest in understanding the factors that explain MEP choices when constructing their questions.

The specific topics that are the focus of each MD are determined in advance by the Economic Affairs Committee (ECON) coordinators (two per meeting), though the ECB president may bring in additional topics during their initial statement. However, within the broad constraints of these topical foci, the decision of which strategy of engagement to employ during the question portion of the MD is up to each MEP. We believe that this strategic decision is informed by characteristics of the individual MEP. More specifically, in line with existing literature on MEP behavior, we predict that the use MEPs make of the opportunity afforded by the MD will reflect attributes associated with their member state (Cencig & Sabani, 2017), national party (Jensen et al., 2013), and European political group (Hix et al., 2005). Thus, we anticipate significant variations in the character of questions used by MEPs both within and across the different MD meetings. Our hypotheses and subsequent analysis focus on the MEP characteristics that impact the likelihood of them asking each type of question during the MD. Because of the relatively narrow policy focus of the MD, we concentrate on member state variables reflecting monetary policy and relative economic strength more generally as these attributes are likely to shape MEP interests whatever their partisan affiliation. In addition, we examine the political and partisan attributes of MEPs that previous research on the use of questions by legislators has highlighted as significant. More specifically, ideology and government/opposition status (Bevan et al., 2023; Brack & Costa, 2019; Proksch & Slapin, 2010). For each type of attribute, we have developed a set of hypotheses to examine the likelihood of the various types of questions. While there are unquestionably other attributes that could be examined and questions that could be asked, this analysis represents an initial exploration of the predicted relationships drawing from both principal–agent and signaling theoretical frameworks. Additional avenues of research that remain to be explored are discussed in the conclusions.

In terms of country-level factors, given the focus of the MD and the participation of the ECB president, it is natural to expect that MEPs from countries in the eurozone, and subject to ECB monetary policy decisions, will behave differently than MEPs from member states outside of the eurozone. More specifically, we predict that eurozone MEPs are more likely to ask accountability questions than non-eurozone MEPs (H1a). This expectation reflects the principal–agent aspect of parliamentary questions more generally. MEPs that represent member states that have fully delegated monetary policy to the ECB will be especially interested in holding the ECB to account for its policy decisions and MD questions provide the only opportunity they have to do so. Given the higher stakes for eurozone countries, their MEPs may also be more inclined to ask influence-type questions, particularly if they are from parties in opposition domestically—see H2b presented below).

We also expect member state status as a net-contributor to the EU budget to have an impact on the character of MEP engagement. Net-contributor status serves as a proxy for the overall economic status of member states in the EU and is not time-delimited as some other measures would be (bailout recipients, “frugal four,” etc.). Net-contributor and beneficiary status have been shown to be a cleavage in EU decision-making

(Zimmer et al., 2005), and economic crises have only exacerbated the tensions. Indeed, studies have shown that wealthier (often net-contributor) countries are less in favor of EU economic governance and the provision of additional support for beneficiaries through loose monetary policy (Kuhn & Stoeckel, 2014). Thus, we expect that net-contributors are likely to focus more on accountability questions (H1c) in an effort to ensure the ECB is effectively utilizing monetary policy in the promotion of the EU's overall economic well-being. Moreover, as with MEPs from eurozone states, we expect that those from net-contributing states will be more likely to ask influence-type questions to ensure policies benefit the EU as a whole rather than net beneficiaries narrowly (H1d). For both eurozone MEPs and those from net-contributor states, the use of influence-type questions can be understood as a form of signaling policy preferences to the ECB, supplemental to accountability-type questions asked within a principal–agent framework.

Given the dual partisan frameworks within which MEPs operate (Hix, 2002), we examine both national- and EU-level party attributes. Beginning at the national political party level we hypothesize that not just the political ideology, but, more specifically, the economic ideology of the national party influences the type of questions asked given the specificity of the topics addressed within the MD. We expect that national parties with more conservative economic ideologies (smaller role of government in economic activity, privatization, austerity) are more likely to ask oversight-type questions (and less likely to use accountability questions) because their policies more closely align with the ECB's historical alignment with the German model of central banking focused on price stability and mitigating moral hazard (Brunnermeier et al., 2016; H2a). In other words, the MEPs from more economically conservative national parties are effectively principals whose interests/policy preferences closely align with their agent (the ECB), and thus have less need to employ active accountability efforts. Despite the extraordinary measures taken by the ECB during economic crises in the 2010s and 2020s, its overall mission has continued to prioritize its primary mandate (Claeys & Leandro, 2016). As a result, we expect this relationship to be significant during the period of our analysis, but also test a control for quantitative easing (QE; discussed in the empirical analysis).

We also anticipate that some MEPs will use their questions during the MD to try to influence policy outcomes because, as noted above, questions can serve as a form of signaling, as well as a tool of oversight. Efforts to influence outcomes through questions and other indirect forms of engagement are more likely to be practiced by those who lack direct mechanisms of influence. In terms of economic and monetary policy in the EU, this would apply to all MEPs to some degree; however, those from national parties in opposition are even further estranged from power. Thus, we expect that national party participation in government will affect the type of questions asked (Bevan et al., 2023; Proksch & Slapin, 2010), and hypothesize that MEPs whose national party is in opposition are more likely to ask influence-type questions (H2b). These MEPs may view the MD as an opportunity to not only impact ECB actions, but to potentially influence domestic politics by putting pressure on their national government or simply by publicizing their policy preferences.

Our expectations regarding both member state attributes and national party affiliation focused on characteristics related to economic policy, reflecting the focus of the MD; however, when considering the impact of EP political group affiliation, we focus on support for the EU more broadly. In particular, in line with existing research, we expect that MEP questions during the MD will reflect their general position on European integration (Cheysson & Fraccaroli, 2019; Fraccaroli et al., 2022b). Thus, we hypothesize that questions from MEPs representing the ideological extremes (left and right), which tend to be more Euroskeptic in general, are likely to be more antagonistic toward the decisions of the ECB given their general opposition to the euro and to EU integration more broadly (Carrieri & Vittori, 2021; Rathgeb & Hopkin, 2023). This should manifest in a higher rate of accountability-type questions because Euroskeptic MEPs are likely to question the decisions of any EU institution, including the ECB, due to their being inherently supranational in character (H3a). In contrast, mainstream parties that generally support the EU, integration, and the euro should focus more on standard oversight-type questions (H3b) given their higher support for (monetary) integration in general.

Finally, we expect that experience with the MD and the gradual institutionalization of these meetings will result in changes in MEP use of the MD over time. As MEP engagement in the MD has become more professionalized and resources allocated to support the MEPs, such as expert reports, have increased, we are more likely to see higher levels of accountability, rather than oversight, questions, reflecting the greater confidence of MEPs within this policy realm and the context of the MD (H4). Our expectations are tested empirically in the next section. The final section summarizes our findings and presents some additional avenues of possible future exploration.

5. Evaluating the Role of the MD

Although there is the possibility for MEPs to submit written questions to the ECB, these do not provide the same type of public forum or opportunity for direct exchange. These differences are likely to affect MEP strategy and the type of questions asked; as a result, in this analysis we focus only on oral questions made during the quarterly MDs. The full texts of the MDs analyzed here were downloaded from the EP's website (EP, 2024) and the data was managed with the Quirkos cloud-based qualitative data management interface. Within the Quirkos environment, all MEP interventions were identified and then subsequently coded for member state, EP political group, MD date, and type of intervention (oversight, accountability, influence, or information). Only the text identified by the speaker as a question for the ECB president was coded, though the framing prior to the question often clarified the character of the question and was used to aid in the interpretation of the question type. Each MEP intervention included between one and three questions, and each question within a single intervention was identified and coded individually within the dataset—resulting in a higher number of questions than interventions. Within a single intervention, MEPs might ask several types of questions, but each individual question was coded as only one type (mutually exclusive classifications).

While in most cases it was straight-forward to code MEP questions using the broad framing of distinguishing between questions that asked *what* is being done (oversight), *why/why not* something is (not) being done (accountability), and *what about* doing something else (influence), there were cases that were less obvious. Four independent coders and one author participated in the coding process. To ensure a common understanding of the coding rubric, two MDs were randomly selected from two different EP legislative terms (each including an average of 20 interventions) for preliminary coding by all coders. Results were compared and discussed to refine the rubric allowing for greater confidence in a shared interpretation of coding categories. An additional MD was then coded by all coders to again check for disagreements. At this stage, there was almost 93% intercoder agreement (up from approximately 76% during the initial round of coding). As this level of intercoder agreement is in line with existing standards (Lombard et al., 2002), coding moved forward for all MDs—with two coders assigned to each MD. The overall level of intercoder agreement remained above 90% for the full dataset and one of the authors served as the tiebreaker when there was a disagreement. Although the percentage of agreement is not an ideal measure of intercoder reliability due to the possibility of agreement by chance, this concern is reduced in this case because there are four possible outcomes with a significant number of questions within each category (Lombard et al., 2002).

The dataset includes MDs from the 6th through the 9th legislature (March 2005–February 2024), encompassing 1,234 MEP interventions and a total of 2,258 questions (clarificatory questions, as well as those repeating what had just been said, were not included). Oversight questions accounted for 50% of all questions, while accountability questions and influence-type questions accounted for approximately 26% and 18% respectively. In addition to our three categories of interest, there was a small group of questions (less than 6%) that asked informational questions on topics unrelated to the EU or the roles and powers of the ECB. As these are not substantively related to our analysis, they are not included. A table with the distribution of questions by member state, political group, and type is provided in Appendix 2 in the Supplementary File.

While Quirkos provides a useful collaborative tool for the initial coding of MD questions, it is ill-suited to the integration of additional information or the statistical analysis of the data. As a result, the coded information from Quirkos was exported to permit the inclusion of additional variables. For member state variables, we included dichotomous measures for whether or not the MEP belonged to a eurozone country and whether that country was a net-contributor to the EU budget. This information was collected on a year-by-year basis using information from the Commission website (European Commission, 2024). For national political party variables, we used the Chapel Hill Expert Survey (CHES) on Europe (Jolly et al., 2022) to measure the economic ideology of national political parties. The survey codes national parties in Europe on a continuous scale between 0–10 with 0 representing the extreme left and 10 representing the extreme right. National parties are coded based on their economic position on topics such as taxation, welfare state, privatization, and regulation. CHES data is available through 2019. All MD questions after 2019 were assigned the economic ideology code for 2019. In addition, no data was available for Luxembourg and Malta before 2014, independent MEPs, and some MEPs from smaller groups in various member states. These gaps reduced the overall dataset to 2,008 questions. Data for the government/opposition status of national parties was taken from Nordsieck (2024), which provides data for more than 1,250 political parties, parliamentary elections, and governments in Europe since 1945. Finally, we also included a linear variable for year of the MD, with 2005 coded as year 1. This information is used to test hypotheses 1–4 employing logistic analysis given the dichotomous character of the dependent variables, with results reported in Table 1. This approach allows us to statistically evaluate the impact that our variables of interest have on the likelihood that an MEP asks each type of question. An additional model was run without Germany, which was an outlier in terms of the number of questions asked, accounting for almost 21% of the total (Appendix 3 in the Supplementary File). Its exclusion did not substantively change the outcome for member state variables. Finally, to provide a control for variations in ECB policymaking, we included a proxy for quantitative easing using eurozone balance sheets. Unfortunately, this measure is highly correlated with year (0.89) and cannot be included in the primary analysis. Because of this high level of correlation, this variable behaved similarly and did not have an impact on the significance of the CHES variable or the analysis more generally; results are provided in Appendix 4 in the Supplementary File.

Our initial expectation was that countries within the eurozone would be more likely to ask accountability questions due to the greater relevance of ECB action for them (H1a). While eurozone countries are

Table 1. Influences on question types of MEPs during MDs (2005–2024).

	Oversight		Accountability		Influence	
	Logit coefficient	Odds ratio	Logit coefficient	Odds ratio	Logit coefficient	Odds ratio
Eurozone	−0.287** (−0.132)	0.751** (−0.0992)	0.132 (−0.16)	1.141 (−0.182)	0.371* (−0.19)	1.450* (−0.275)
Net-contributor	−0.119 (−0.094)	0.888 (−0.0835)	−0.0907 (−0.108)	0.913 (−0.0987)	0.295** (−0.122)	1.343** (−0.164)
CHES Econ	0.0853*** (−0.0235)	1.089*** (−0.0256)	−0.0586** (−0.0255)	0.943** (−0.0241)	−0.148*** (−0.03)	0.863*** (−0.0259)
Opposition	−0.139 (−0.0954)	0.871 (−0.0831)	0.124 (−0.114)	1.132 (−0.129)	0.225* (−0.126)	1.252* (−0.157)
Mainstream only	0.703*** (−0.12)	2.019*** (−0.242)	−1.120*** (−0.127)	0.326*** (−0.0415)	0.326** (−0.158)	1.385** (−0.219)
Extreme only	−0.649*** (−0.128)	0.522*** (−0.067)	1.163*** (−0.129)	3.200*** (−0.414)	−0.586*** (−0.177)	0.556*** (−0.0984)
Year	−0.0244*** (−0.0088)	0.976*** (−0.0086)	0.0226** (−0.0101)	1.023** (−0.0103)	0.00748 (−0.0114)	1.008 (−0.0115)
Constant	−0.422* (−0.222)	0.656* (−0.146)	−1.266*** (−0.233)	0.282*** (−0.0657)	−1.472*** (−0.286)	0.230*** (−0.0658)
Observations	2,008	2,008	2,008	2,008	2,008	2,008

Notes: Standard errors in parentheses; *** $p < 0.01$; ** $p < 0.05$; * $p < 0.1$; mainstream parties include the EPP and the various incarnations of the socialists (PES and S&D) and the liberal group (ALDE and Renew); extreme parties include the far-left groups (GUE-NGL and The Left) and far-right groups (EFD, EFFD, UEN, IND, ECR, ID); the Greens and "non-inscrit" are not included in either category; all models are run with either the "mainstream" or the "extreme" variable included due to high correlation, but both are presented for completeness.

approximately 25% less likely than non-eurozone countries to ask oversight questions, they are not significantly *more* likely to ask accountability questions. The relationship is in the expected direction but is not significant. However, as predicted, eurozone countries are more likely to ask influence questions (H1b). If we instead look at status as net-contributor to the EU budget, we predicted that MEPs from these member states would also focus more on accountability questions to ensure effective use of their resources (H1c). In this case, we find even less support for our hypothesis: The impact of net-contributor status is both in the wrong direction and not significant. However, as predicted (H1d), we find a strong and positive relationship with influence-type questions. These results suggest that while MEPs representing eurozone and net-contributor countries do not request greater accountability from the ECB than other MEPs, they do focus less on neutral oversight of the ECB and instead use the MD forum as an opportunity to try to guide policy decisions. MEPs from eurozone and net-contributor countries are 1.45 and 1.34 times more likely to ask influence-type questions respectively, suggesting a focus on shaping ECB policy rather than just holding it to account.

Shifting to national party characteristics of the MEPs, we find some support for both hypotheses H2a and H2b. As predicted, MEPs with high CHES scores on economic policy (more conservative) are less likely to ask accountability questions (declining nearly 6% per 1-point increase in CHES score) and more likely to ask oversight questions (almost 9% per 1-point increase; H2a). An unanticipated finding suggests that high CHES scores are also associated with fewer influence questions. Though not predicted, these results provide additional insight into the impact of the economic stance of MEP national parties. Including eurozone balance sheets as a measure of changes in the character of ECB policy does not alter this relationship (Appendix 4 in the Supplementary File). These findings suggest that the policy preferences of domestic parties are reflected in the behavior of MEPs at the EU level, and that perceived policy congruence leads to more neutral behavior when posing questions in the MD. An additional measure of the importance of national party characteristics is demonstrated by the impact of an MEP's domestic political party being in opposition. As predicted, national party opposition status does significantly impact the likelihood of MEPs asking influence-type questions. Indeed, MEPs from opposition parties are over 25% more likely to ask influence-type questions regardless of their other characteristics (H2b). These questions may be efforts to shape ECB policy directly, or they may be aimed at signaling their policy preferences to the public and/or national political actors.

We also find support for our hypotheses when we shift our analysis to focus on EP political group membership. MEPs from the political groups encompassing the center-right, center, and center-left were classified as mainstream, while the parties of the far-left and far-right were classified as extreme (for details see Table 1). As predicted, mainstream MEPs were more than twice as likely to ask oversight questions, while MEPs from extreme groups were more than three times as likely to ask accountability-type questions. This reflects the frequently antagonistic stance taken by representatives of the extreme political groups (particularly those on the right) during the MD. Because these groups are fundamentally Euroskeptic, they largely oppose the ECB on principle as a tool of integration and use the MD as a public forum for sharing this position. An unanticipated outcome of the analysis is that MEPs from mainstream political groups are significantly more likely to ask influence-type questions than other MEPs (controlling for national party participation in government). This could potentially reflect a desire for the ECB to do more by those MEPs from political groups that generally support increased integration.

Our final expectation was that the character of MEP questions would change over time, reflecting increasing professionalization of the MEPs involved and the institutionalization of the meetings. More specifically, we predicted that MEP questions, controlling for the other variables discussed, would shift toward accountability and away from oversight over time (H4). This is indeed what we find with the likelihood of an MEP question focusing on oversight decreasing by roughly 2.4% per year and the likelihood of an accountability-type question increasing by a similar amount. The generalized shift toward accountability may also reflect a response to the expanded role of the ECB during and since the euro crisis.

6. Conclusions and Next Steps

While not all of our initial hypotheses were supported by the empirical analysis, this research does suggest that MEPs use the MD in different ways—across member states and national parties, between political groups and over time. From these findings, it is clear that national- and EU-level political party affiliation play a significant role in determining the types of questions asked. It also highlights that at least some MEPs see the dialogues not only as a forum of oversight/accountability, but as an opportunity for policy signaling and potential influence. MEPs from mainstream political groups and economically conservative national parties were more likely to ask oversight questions, while those from extreme political groups in the EP were more likely to ask accountability questions. Furthermore, MEPs from national parties left out of domestic policymaking, as well as those from eurozone and net-contributor member states, are more likely to ask influence-type questions, though potentially with different audiences in mind. We also found a general trend suggesting that the EP is increasingly focused on accountability and not just oversight of the ECB, though over half of all questions fell into the oversight category. Overall, our results underscore the importance of disaggregating the types of questions asked in the MD more generally and support our expectation that a more nuanced analysis of questions would reveal that MEPs ask different types of questions based on their member state and partisan characteristics.

Though clearly demonstrating the importance of this type of analysis, the current research also leaves much undone. Most obviously the dataset can be extended to also cover the initial period of MD during the 5th legislature (1999–2004). The early years of the MD were less structured, with a great deal of back and forth between the ECB president and MEPs, making it difficult to compare to the later periods, but these early years may offer important insights into the evolution of the use of MDs by MEPs. Given the results of our analysis, future research could also disaggregate influence questions by coding for their "target"—ECB, EU, or domestic governments. This would provide a more nuanced assessment of who MEPs are signaling or attempting to influence with their questions. It is not always clear that MEPs seeking influence are targeting the ECB, but rather may use the MD as a platform to signal constituents, call out national government parties, or encourage expanded action in certain economic areas by the EU. Finally, future research could also examine the extent to which questions during the MD have changed to reflect the changing (expanding) role of the ECB following the eurozone crisis. New dialogues have been established to discuss the ECB's expanded supervisory role of national banks (Banking Dialogue). Yet the ECB's use of unconventional monetary policy expanded the scope of the central bank's toolbox, and questions remain of whether MEPs are addressing these roles. Future research can help determine if the evolving use of accountability questions over time reflects not only greater professionalization, but a concern over the expanded scope of the ECB and a need to serve as a democratic forum to counter the entrenched central bank independence.

Despite the additional work to be done, our findings underscore the importance of examining the MDs from the perspective of individual MEPs, in addition to considering the EP's role in legitimizing and providing a forum of accountability for the ECB. The EP has a long history of increasing its policy influence through the strategic interpretation and use of consultative and oversight powers. Our analysis suggests that some within the EP may see the MDs as an opportunity to have a greater role in the realm of monetary policy as it has been increasingly broadly defined within the EU context. Both accountability- and influence-type questions, which account for nearly half of all questions asked, provide MEPs with an opportunity to try to shape ECB and possibly even EU policy either through questioning past decisions or suggesting future policies.

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Conflict of Interests

The authors declare no conflict of interests.

Supplementary Material

Supplementary material for this article is available online in the format provided by the authors (unedited).

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ARTICLE

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The End Justifies the Means? The Impact of the ECB's Unconventional Monetary Policy on Citizens' Trust

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Abstract

Since 2010, the European Central Bank (ECB) has established a range of unconventional monetary policies in the context of several crises, including cheap and long-term refinancing operations and several forms of asset purchases. This ECB action has been legally and politically challenged, raising the question as to how the public has perceived the ECB's mandate widening. This article assesses the legitimacy of the ECB's unconventional monetary policy through the lens of public trust using Eurobarometer data from 1999 to 2023. This approach follows the theoretical argument that the legitimacy of non-elected independent public institutions derives from the citizens' trust in the fulfilment of the institutions' tasks. Through panel regression analysis, this article first finds that trust in the ECB is commonly pooled with trust in other EU institutions, which makes a singular assessment of public support of the ECB and its policies difficult. Second, macroeconomic factors, which are partially influenced by ECB policies, but which are mostly dependent on national decision-making, are the key factors influencing citizens' trust in EU institutions, including the ECB. Thus, citizens' trust in the ECB or the lack thereof is not determined by the ECB's use of contested unconventional monetary policy, but rather by the macroeconomic performance of their respective national economy.

Keywords

Eurobarometer; European Central Bank; output-legitimacy; public trust; unconventional monetary policy

1. Introduction

With the beginning of the financial and sovereign debt crisis in the euro area, the European Central Bank (ECB) established a range of unconventional monetary policy (UMP) tools including several rounds of very cheap and long-term refinancing operations (LTROs) and large-scale bond purchases in the secondary market (quantitative easing [QE]), leading to a balance sheet stretch of additional €4 trillion between 2010 and 2023 (with a peak in 2021 of about €6 trillion due to Covid-19 responses by the ECB). In 2010, the ECB began to purchase bonds of highly indebted euro area governments through its Securities Market Programme (SMP). In the following years, the ECB engaged in QE through several programmes of bond purchases to safeguard price and financial stability (Amtenbrink, 2019, p. 168).

With the introduction of bond purchases and very low interest-bearing refinancing operations, the ECB ventured into a new interpretation of its mandate of price stability and included potentially limitless interventions in sovereign debt markets. This new interpretation has been heavily contested by politicians and policy experts and led to two legal cases in front of the European Court of Justice (Chang et al., 2024). Within the governing council of the ECB, the former German Bundesbank President Axel Weber stepped down over the ECB's SMP. Jens Weidmann, Weber's successor called bond purchases "tantamount to financing governments by printing banknotes" (Evans, 2012), indicating that the ECB was overstepping its mandate by engaging in prohibited monetary financing, and by blurring the distinction between monetary policy and financial assistance (Amtenbrink, 2019, p. 172). German media coverage of ECB policy was critical (Hayo & Neuenkirch, 2014), with the popular German tabloid *Bild* running the headline "ECB Writes Blank Check for Debtor States" (Blome, 2012). Indeed, the ECB not only purchased government bonds of highly indebted states, but also supranational bonds of the European Union (EU) and the European Financial Stability Facility and the European Stability Mechanism, which were directly linked to financial assistance to states at default risk such as Greece, Cyprus, Spain, Ireland, and Portugal (Claeys et al., 2015). During the Covid-19 pandemic, the ECB explicitly emphasised the easing impact on government refinancing conditions in defending a new round of QE.

In 2015, the ECB was accused by the heads of the German and Dutch central banks of allowing states to ditch unpopular economic reforms through the lowering of borrowing rates for euro area governments (C. Jones, 2015) and creating moral hazard between QE and governments' dependence on low yields (see also Chang et al., 2024, p. 1). The ECB itself was similarly worried in 2011, stating that:

> [I]f non-standard measures are maintained for too long, however, they may encourage excessive risk-taking by financial market participants, distort incentives and delay the necessary process of balance sheet adjustment by private and public sector entities. This would ultimately undermine price stability over the medium term, with detrimental effects on economic growth. (ECB, 2011, p. 55)

ECB action was contested by politicians and national governments with the then German finance minister Wolfgang Schäuble accusing the ECB of being partially responsible for the success of the rise of the far-right party AfD in German elections (Trauthig, 2016). Trust in the ECB declined during the financial crisis. When asked in the Eurobarometer whether they tend to trust the ECB or not, respondents' overall trust rate fell below 50 percent for the first time since 1999 (see Figure 1).

Next to QE, the purpose of low-interest-bearing LTRO was to encourage credits to the real economy. From the outset, banks profited from these ultra-cheap central bank credits to turn a profit through the purchase of higher-yielding sovereign bonds instead of passing the financing terms to the real economy (Culpepper & Tesche, 2019). In 2020, the ECB used negative rates on its LTROs, incentivising banks to purchase

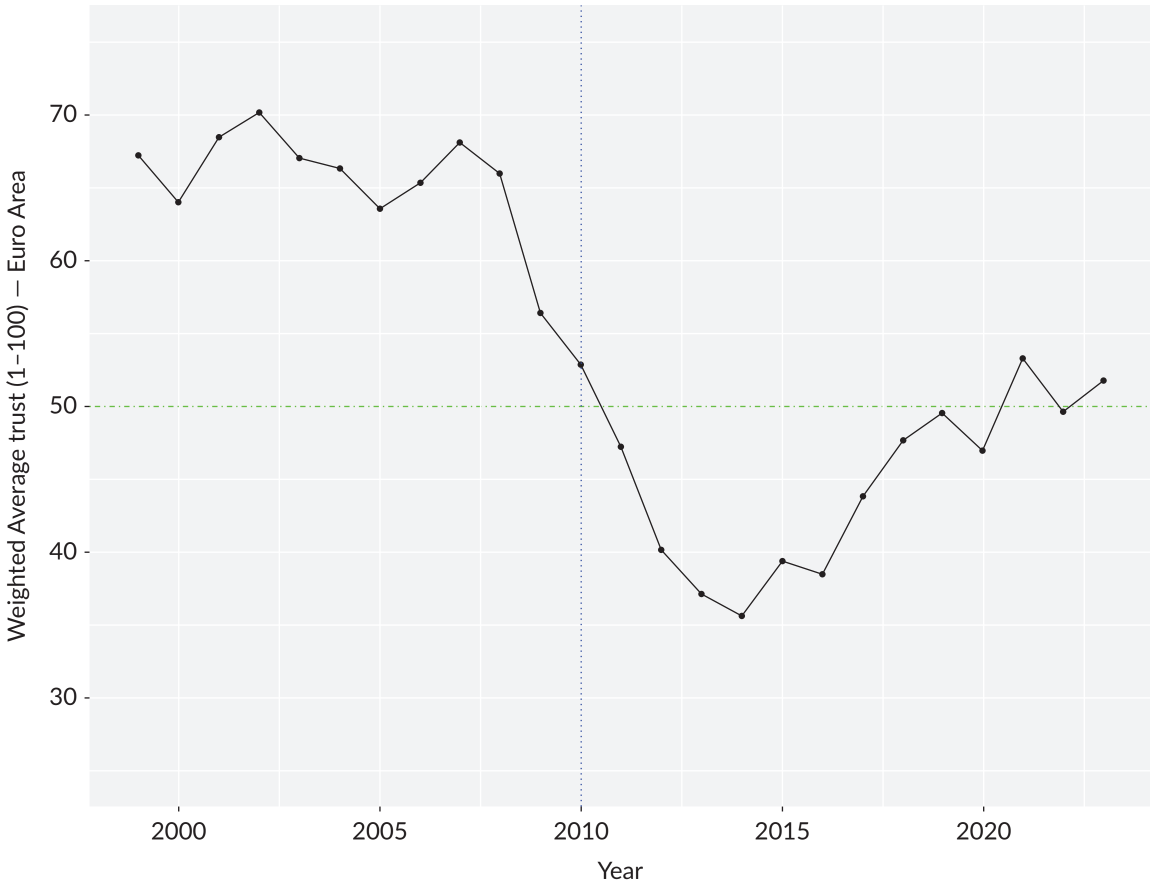

Figure 1. Weighted average trust (in %) in the ECB in the euro area per year.

government bonds at very low (or sometimes negative) yields, increasing the exposure of banks to their countries' public debt (Arnold, 2020), and costing the ECB several billion euros in interest rate loss in the following years. The impact of QE on the economy was also scrutinised more publicly in 2021, with the German Federal Constitutional Court ruling that QE needed to be justified by the ECB as proportionate, otherwise, the Bundesbank was forbidden to further partake in it and even had to sell its purchased bonds, which would have rendered the policy much less effective.

In addition, more recently, the balance sheet stretch was foreseen by experts to bear €700 billion in losses in the upcoming decade, with the highest costs being borne by the taxpayers of euro area countries with previously low bond yields, i.e., Germany and the Netherlands (Gros & Shamsfakhr, 2022; see also De Grauwe & Ji, 2024; Reuters, 2015). Indeed, the Bundesbank ran a large deficit in 2023 (Bundesbank, 2024; Bundesrechnungshof, 2023), which reduced funds for investment in the German budget financed by Bundesbank profits—and thus had and will have a fiscal impact on current and future government expenditure. Most criticism of ECB policy appears to be voiced in Northern euro area states as they fear the potential cost of ECB policies on their taxpayers (cf. Amtenbrink, 2019; Ji & De Grauwe, 2015).

Opposite to the above-mentioned criticisms, policy experts were vocal in defending the ECB's policy as necessary to achieve price and financial stability (Schnabel, 2020; see also Chang et al., 2024, p. 14), pointing out that criticism of the ECB was unwarranted, as inflation risks related to QE did not materialise

(Ashworth, 2020). Initially, some argued that the ECB should even engage in QE to achieve the appropriate level of inflation (Ji & De Grauwe, 2015).

Since its beginning, the ECB's UMP has become a highly politicised issue, particularly in Germany, the Netherlands, and Austria. Yet, after the fall in trust during the financial crisis, overall trust in the ECB has been increasing again since 2014, and it even rose further during the Covid-19 pandemic, despite the ECB's renewed engagement in large-scale UMP (Figure 1). Through ECB action during the Covid-19 pandemic, governments remained able to finance their increased expenditure linked to healthcare and furlough schemes during the pandemic, directly impacting people's lives. Thus, the question arises whether people consider the detailed policy tools used by the ECB or, rather, the outcomes of those policies to be more relevant. In other words, did the ends justify the means of the ECB in achieving its policy objectives? This article thus tackles the research question: Did the ECB's use of UMP influence the people's trust in the ECB?

In the following section, this article discusses the theory of output-oriented legitimacy and presents the hypotheses derived from this literature. The third section presents the methodology and data used in this research. The fourth section provides the results of the country panel regression analysis, the fifth section applies a different periodisation to test for robustness, and the final section concludes the article discussing the results and their implications for ECB policy.

2. ECB Monetary Policy: Legitimacy Through Output

The ECB is the most independent institution in the EU (cf. Kaltenthaler et al., 2010). Its structure is inherently output-oriented and conservative, with its primary objective of price stability enshrined in the Treaty on the Functioning of the European Union. Until July 2021, this objective was interpreted as an inflation rate close but lower than two percent. As of July 2021, this interpretation changed to two percent. The ECB cannot be sanctioned by a political body, apart from cumbersome treaty change or recourse to the highest European and national courts (cf. Fontan & Howarth, 2021), which means that procedures and control mechanisms associated with democratic accountability (associated with input-oriented legitimacy) are comparably weak for the ECB (cf. Amtenbrink, 2019, p. 177; Braun, 2016, p. 1065; Schmidt, 2015, p. 104;). As citizens are by and large exposed to ECB action without means to punish the incumbents of power directly, their trust in the institution's action is crucial to avoid popular resistance and negative sentiment against the ECB, and, by extension, against the EU (cf. Wälti, 2012). Trust in political institutions is a core element of their legitimacy (Kaltenthaler et al., 2010) and the key to their survival (Easton, 1965, pp. 157–161, 220–224; Easton, 1975, pp. 444–445; Kaltenthaler et al., 2010; Risse & Kleine, 2007, p. 78). This element is even more relevant for the ECB, as it must consolidate a "one-size-fits-none" uniform monetary policy with disparate effects across the monetary union (Schmidt, 2015, p. 105). It is therefore relevant that the citizens trust the ECB to ensure the political stability of the Economic and Monetary Union in the long term (cf. Roth et al., 2016, p. 945).

Easton (1975, p. 449) argues that citizens' trust in polities is explained by experience with the output of authorities in the longer term (see also Eichenberg & Dalton, 1993, p. 512), linking the longer-term performance to trust. This argument was evidenced by Foster and Frieden (2021, p. 287) who have found that macroeconomic performance works as a predictor of support for the EU in general, and by C. J. Anderson and Kaltenthaler (1996, p. 193) who argued that this support fluctuates with favourable economic conditions and hardship. Citizens' trust in an institution's ability to effectively achieve favourable economic outputs builds its legitimacy. This notion of support is based on the individuals' (satisfactory) experience with a polity over a longer term (Easton, 1975, p. 449). One would therefore expect that the degree of trust in the ECB has to do with its output performance, which ultimately legitimises ECB policy. Hence, the ECB is much more dependent on the achievement of its treaty-based objectives, to gain and maintain the citizens' trust over the long term and to claim the legitimacy of its actions (see also Ehrmann et al., 2013).

The ECB has justified its decisions on UMP tools with the proper function of the monetary transaction mechanism required for the achievement of its primary objective of price stability. UMP had the purpose of lowering the interest rates which are passed from banks to consumers and companies, which stimulates economic activity and contributes to price stability (through inflation) in a deflationary economy (see also ECB, 2020; Gagnon, 2016). The use of low-interest-bearing refinancing tools and asset purchases also put downward pressure on bond yields, particularly positively influencing rates of periphery states, and thus improving governments' fiscal space (see, e.g., Krishnamurthy et al., 2018). Thus, on the first level, the impact of UMP should be perceivable directly through the national inflation rates and the yields of government bonds. We therefore include price stability and government refinancing rates in the first hypothesis.

Scholars have found that achieving an inflation rate of close to two percent increases people's trust in the ECB (Ehrmann et al., 2013; Fischer & Hahn, 2008), while others did not find an effect of inflation on trust (Bursian & Fürth, 2015). While UMP had the purpose of raising inflation to the target level, an output rationale suggests that people's trust in the ECB is dependent on the achievement of this goal, independent of the policy tools applied. Thus, the use of UMP to achieve price stability should not negatively impact trust if price stability is achieved. In addition, the improvement of the fiscal position of governments could be positively assessed by the citizens, and one can therefore expect that governments' refinancing rates, and thus their fiscal position, increase their citizens' trust in the ECB. Blyth (2016, p. 217) argues that the ECB's policy had the purpose of reducing government debt through lower yields, higher inflation, and smoothing the effect of austerity policies. Wälti (2012, p. 601) found that rising government bond yields reduced trust in the ECB. QE was particularly criticised for its fiscal easing impact, but reversely, the lower yields of government bonds made it easier for indebted states to refinance their debt. Thus, as both inflation and government refinancing rates have direct and indirect financial consequences for citizens of euro area countries (Banque de France, 2017, p. 2), we derive the following hypothesis:

> H1: The deviation from the target level of inflation and the rising of government bond yields decrease citizens' trust in the ECB.

Next to price stability, monetary policy is targeted at the economy as a whole. The effect of central bank policy is therefore, apart from inflation, mostly perceived indirectly through macroeconomic conditions. The ECB's UMP was targeted to increase credit to the real economy and stimulate growth through lower interest rates for economic actors (Banque de France, 2017). Monetary policy thus complemented national economic policies to facilitate growth in times of crisis. Citizens of euro area countries might assess the performance of the ECB not only based on its primary target but through the macroeconomic position and the fiscal burden of their country (Dellmuth & Schlipphak, 2020, p. 934; see also Bursian & Fürth, 2015, p. 1512; Ehrmann et al., 2013, p. 787; Fischer & Hahn, 2008, p. 3), considering the general economic situation when placing (or not placing) their trust on the ECB (Kaltenthaler et al., 2010, p. 1279).

Studies on the impact of exchange rates on public support for joining a currency have shown that the strength of a currency also has an impact on the popular support for monetary integration and on support for the euro as such (Hobolt & Leblond, 2009; see also Hobolt & Leblond, 2014; Roth et al., 2016). Their findings suggest that the exchange rate, particularly with other major currencies, might determine the level of public support. As the macroeconomic position of the euro area can also be assessed through these exchange rates, citizens' trust in the ECB might also be influenced by the euro's exchange rate.

One could therefore expect that trust is higher during economically favourable times and in economically stronger countries. Indeed, Roth et al. (2013) found that at the beginning of the financial crisis, trust in EU institutions particularly dropped in countries facing fiscal difficulty (see also Wälti, 2012). In detail, scholars analysing trust in EU institutions argued that macroeconomic factors, such as the national unemployment rate, fiscal conditions, as well as receiving financial assistance from the EU and the International Monetary Fund in the sovereign debt crisis, negatively impact people's trust in EU institutions (Drakos et al., 2019, p. 1243; Roth et al., 2016, p. 945). We integrate the relationship between the macroeconomic factors and trust in our second hypothesis:

> H2: Citizens' trust in the ECB increases with better macroeconomic performance of their respective country.

However, arguing that individuals gain or lose trust in the ECB based on their country's economic situation presupposes that individuals assess the ECB's performance independently from other EU institutions. This is questionable, even though some research on ECB trust has presumed an ECB-isolated assessment by citizens (e.g., Bergbauer et al., 2020; Bursian & Fürth, 2015; Fischer & Hahn, 2008; Kaltenthaler et al., 2010; Wälti, 2012). However, the clarity of responsibility hypothesis states that the role that economic conditions play in voting behaviour depends on how easy it is for individuals to attribute responsibility for these economic conditions to specific parties or institutions (Powell & Whitten, 1993, pp. 398–404). The easier it is for individuals to attribute responsibility, the more important economic conditions become in predicting party choice (Hobolt et al., 2013, pp. 175–178) and government support (C. D. Anderson, 2009, pp. 40–43; C. J. Anderson, 2000, pp. 161–168; de Blok & van der Burg, 2022, pp. 872–874).

In general, attributing responsibility for policies to the correct political actor or institution is a difficult task for most individuals on the national level. This is especially true for political systems with complex institutional structures and shared responsibilities (C. J. Anderson, 2000, pp. 455–458; Cutler, 2004, pp. 28–36; Léon, 2012, pp. 126–127). Regarding the EU, the less political knowledge individuals have, the more difficulty they have in attributing responsibility for policy outcomes to either their government or the EU (Hobolt & Tilley, 2014, p. 807; Wilson & Hobolt, 2014, pp. 108–110). The distinction between policy-relevant institutions on the EU level might therefore be even more difficult (Tuschhoff, 1999).

This consideration leads to the assumption that individuals rate the EU as one cohesive system, rather than attributing responsibility separately to the ECB and other European institutions (see Figure 2). Thus, instead of expecting that policy output influences citizens' trust in the ECB, one would alternatively expect that financial and macroeconomic output explains citizens' trust in the EU system, as the attribution of responsibility might be more diffused at the EU level. Indeed, scholars have found that trust in other European institutions is strongly associated with trust in the ECB (Dreher, 2024, p. 91; Ehrmann et al., 2013, p. 795; Farvaque et al., 2017, p. 675), suggesting that citizens understand the ECB as part of a construct with other EU institutions, rather than as an isolated institution with its own tasks and output. This leads to our third hypothesis:

H3: Citizens' trust in the ECB correlates with their trust in other EU institutions.

Following H3, we assume that the financial and macroeconomic indicators from the previous hypotheses (H1 and H2) apply mutatis mutandis to trust in EU institutions collectively. Figure 2 summarises our hypotheses graphically.

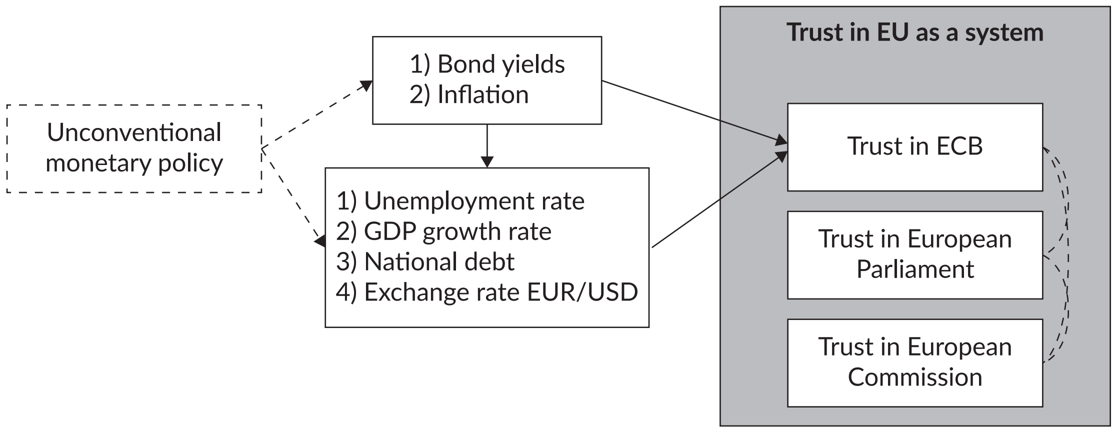

Figure 2. Visualisation of the three hypotheses.

3. Data and Method

For our analysis, we use a merge of 50 bi-annual Eurobarometer surveys from 1999 to 2023. We measure citizens' trust in the ECB in line with previous research by using Eurobarometer variables on institutional trust for the European Parliament (EP), the ECB, and the European Commission (Arnold et al., 2012; Bergbauer et al., 2020; Bursian & Fürth, 2015; Dellmuth & Schlipphak, 2020; Drakos et al., 2019; Farvaque et al., 2017; Fischer & Hahn, 2008; Hwang et al., 2022; Kaltenthaler et al., 2010; Moschella et al., 2020). The wording of the questions was: "And please tell me if you tend to trust or tend not to trust these European institutions." These variables are coded binary (0 = tend not to trust; and 1 = tend to trust). Since our hypotheses focus on the impact of macroeconomic variables on the populations' level of trust in the ECB, we aggregate the individual respondents' trust per country and year into a mean score for each country and year. We multiply this trust score by 100 to gain the percentage of citizens that trust each of the three EU institutions at any given time per country.

Our macroeconomic variables are from the ECB Data Portal and Eurostat. We measure inflation as a change in the Harmonized Index of Consumer Prices and as a deviation from the ECB's two percent target in absolute numbers, thus the deviation is always a positive number. This approach is similar to previous research (e.g., Bursian & Fürth, 2015; Ehrmann et al., 2013). Countries' refinancing capabilities are measured by the interest rates of 10-year government bonds (derived from the ECB's Harmonised long-term interest rates for convergence assessment purposes), as this is the benchmark and thus a useful indicator of how costly it is for a country to access money on financial markets. The unemployment rate is measured as the number of people unemployed as a percentage of the labour force, GDP growth is measured as the percentage change from the previous year's value, and government debt as a percentage of GDP. These measures give a good sense of the performance of national economies and their impact on the population. Some of these measures are used in the media to describe the economic situation and some by the EU to measure compliance with the Maastricht criteria. We also included a measurement for the strength of the euro through its exchange rate with the US Dollar (USD; cf. Hobolt & Leblond, 2009, 2014; Roth et al., 2016), which is a euro area-wide factor. For this measure, a higher number means a higher value of the euro vis-à-vis the USD. All financial and macroeconomic indicators, which were monthly (unemployment rate, 10-year bond yield, inflation, and exchange rate) or quarterly (GDP growth), have been harmonised to average annual values per country. The data was weighted per country and according to the Eurobarometer weight variables. Table 1 lists descriptive statistics for our variables of interest.

For our main analysis, we run country fixed-effects panel regressions (Brüderl & Ludwig, 2015) with robust standard errors which are heteroscedasticity robust to estimate countries' within-variation in trust in the ECB across time. These models are appropriate for our research question because we focus on the impact of the countries' macroeconomic conditions on their population's average trust in the ECB. Hence, our dependent variable is an aggregate from the individual to the country level and the countries serve as our primary units of analysis.

We test hypothesis H1 by measuring the impact of the countries' 10-year bond yield and inflation rate in model 1 (see Table 2). We test hypothesis H2 by calculating the impact of macroeconomic performance (GDP growth, unemployment rate, government debt to GDP levels, and the EUR/USD exchange rate). We first test hypothesis H3 by calculating the impact of an index, combining the average trust in the EP and European Commission. Other scholars solely relied on testing trust in the European Commission (Ehrmann et al., 2013; Farvaque et al., 2017). This index allows us to capture the potential explanatory value of the EU institutions as seen as collective. In a second step, an overall trust index from the three supranational policy-making institutions (Commission, EP, and ECB) is used to assess the impact of financial and macroeconomic factors on trust in general.

Table 1. Summary of panel data.

Variable	N	Mean	Std. Dev.	Min	Pctl. 25	Pctl. 75	Max
Mean Trust in ECB	397	0.59	0.15	0.16	0.48	0.71	0.88
Mean Trust in EP	397	0.6	0.13	0.23	0.5	0.7	0.88
Mean Trust in COM	397	0.59	0.14	0.19	0.49	0.69	0.86
Government debt level	397	73	38	6.2	48	100	207
Deviation from inflation target	397	1.6	2.1	0	0.47	1.9	17
10-Year government bond yield	387	3.1	2.4	−0.51	1.1	4.4	22
GDP growth rate	397	2	3.7	−11	0.69	3.8	23
Unemployment rate	397	8.4	4.2	1.9	5.6	9.7	28
Exchange rate EUR/USD	397	1.2	0.14	0.9	1.1	1.3	1.5
weight variable EB	397	0.94	1.1	0.03	0.15	1.7	3.6

4. Results

Model 1 (Table 2) tests our first hypothesis, which states that citizens attribute trust based solely on the outcome of their country's level of inflation and the refinancing rates for their governments, which the ECB influenced through its (unconventional) monetary policy. This model indicates that off-target inflation is linked to lower trust in the ECB, as each additional percentage over or below the two percent target reduces the average trust in the ECB per country by 1.30 percentage points. At the same time, the refinancing rates for governments linked to benchmark 10-year bonds do not have an impact on trust in the ECB. This finding indicates that citizens are either not aware of their government's refinancing rates, do not see the change in rates as the result of ECB policy in general, or do not find it relevant in their allocation of trust. While only inflation appears statistically significant ($p < 0.01$), the within-adjusted r^2 of model 1 is, with 0.13, rather low. Thus, these two variables explain little variance in citizens' trust in the ECB. So, we can only partially confirm our first hypothesis, that citizens' trust in the ECB is dependent on the ECB's performance. While inflation remains statistically significant throughout our calculations, its effect is comparably weak. We therefore argue that the effect of monetary policy, including UMP, on inflation and refinancing rates only marginally impacted euro area citizens' trust in the ECB.

Model 2 shows that the macroeconomic situation of a country is a stronger factor in explaining citizens' trust in the ECB (Table 2). High levels of the country's unemployment rate and government debt levels, in particular, reduce trust in the ECB. These factors are particularly relevant, as an increase in the unemployment rate by one percentage point reduces trust in the ECB by 1.39 percentage points ($p < 0.05$), and each increase in government debt by one percentage point reduces trust by 0.30 percentage points ($p < 0.001$). These effects are statistically significant. The exchange rate EUR/USD and GDP growth have no impact on trust in this model. At the same time, inflation remains significant with a negative impact on trust of 1.03 percentage points for

Table 2. Fixed-effects panel regression models for trust in the ECB.

	model1		model2		model3	
Predictors	*Estimates*	*CI*	*Estimates*	*CI*	*Estimates*	*CI*
10Y bond yield	2.08	[−0.14; 4.31]	1.51	[−0.01; −3.04]	0.72	[−0.35; 1.80]
Deviation from inflation target	−1.30 **	[−2.25; −0.36]	−1.03 ***	[−1.50; −0.57]	−0.02	[−0.31; 0.28]
Unemployment rate			−1.39 *	[−2.61; −0.18]	0.19	[−0.64; 1.02]
GDP growth rate			0.28	[−0.04; −0.61]	0.12	[−0.19; 0.44]
Government debt level			−0.30 ***	[−0.43; −0.17]	0.05	[−0.05; 0.15]
Exchange Rate EUR/USD			−10.81	[−22.75; −1.13]	5.18	[−1.62; 11.98]
Mean trust in EP and COM (index)					1.05 ***	[0.86; 1.24]
Observations	387		387		387	
Within Adj. R^2	0.13		0.623		0.889	
AIC	3,053.746		2,669.294		2,247.702	

* $p < 0.05$ ** $p < 0.01$ *** $p < 0.001$.

each percent deviation from the ECB's target level ($p < 0.001$). However, the comparable effects indicate that macroeconomic variables, such as unemployment and government debt rates, have a much larger impact on trust in the ECB than inflation does (see Figure 3 for standardised estimates to compare effects strengths).

Since these factors provide insight into how well an economy is performing, it is hardly surprising that they exert the strongest explanatory effect in our models. The effects of government debt and unemployment on trust are much stronger than the effects of inflation. The within-adjusted r^2 of model 2 is 0.62—four times higher than in model 1—indicating a better model fit for explaining which policy outcomes impact citizens' trust in the ECB. Thus, it appears that macroeconomic factors, on which the ECB has only a contributory and indirect impact through its policies, determine citizens' trust in the ECB to a much larger extent than factors which are directly influenced by the ECB's (unconventional) monetary policy, namely inflation and refinancing rates. These results suggest that citizens do not seem to attribute trust based on the impact of policies adopted by the ECB, including UMP. Thus, the results confirm our second hypothesis.

The explanation for this can be found in model 3. When including trust in other supranational EU institutions (EP and Commission), macroeconomic variables lose their significance. This suggests that, after we control for trust in other institutions, there is no leftover variance in trust in the ECB explained by financial or

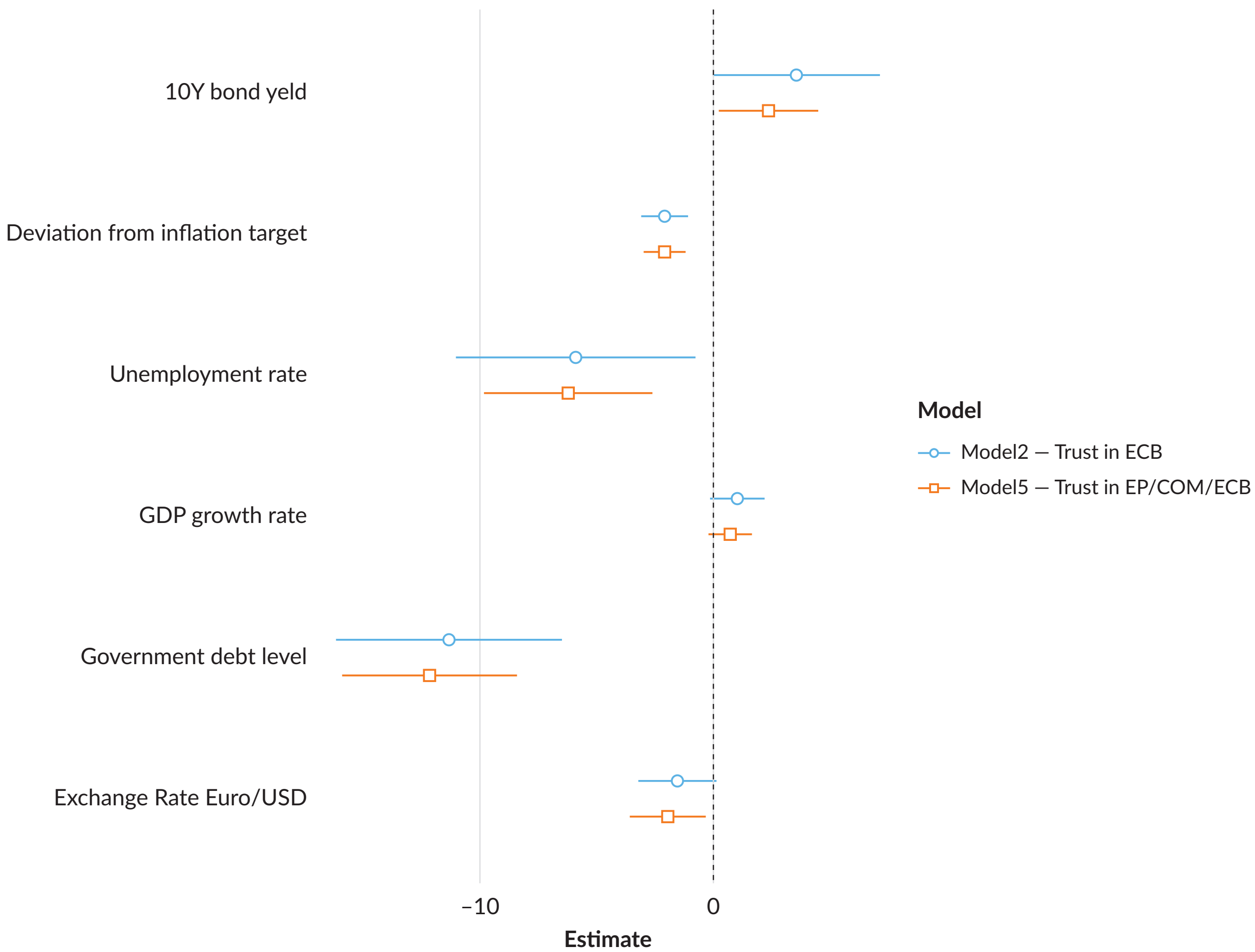

Figure 3. Standardised marginal effects on trust in EU institutions and the ECB.

macroeconomic factors. Thus, we contest claims that euro area citizens distinguish between the ECB and other EU institutions when placing their trust. This confirms our third hypothesis.

Similar to previous studies, our findings suggest that trust in the ECB is strongly correlated with trust in the other EU institutions. The Cramér's V between trust in the ECB and the EP is V = 0.67 across the sample, while trust in the ECB and the European Commission correlates with V = 0.70. This is also demonstrated by how the trust rates for these three institutions have developed in euro area countries over time (Figure 4). While there are country differences in the change of the trust scores, they move similarly within the same country. Trust in the European Commission and the EP correlate even more strongly (V = 0.82), indicating that citizens make little distinction between these institutions—too little to assume that the majority judges the ECB as a single entity because of its performance or range of policies and outside of the pool of other institutions.

Thus, citizens might consider the ECB as part of a cohesive EU system. We, therefore, use an average trust score based on the three trust variables linked to the EP, Commission, and ECB, and re-calculate our models 1 and 2 with this collective EU trust score as the dependent variable (models 4 and 5 respectively). The reason for doing this is that if trust in the ECB is part of trust in the overall EU institutional system, then the impact of ECB policy on financial and macroeconomic factors might impact trust in this collective trust variable rather than trust in the ECB alone.

Figure 4. Average trust (in %) in EU institutions by euro area country per year.

Model 4 confirms that inflation has an impact on the trust in the EU system, while 10-year bond yields are still statistically insignificant (Table 3). Model 5 replicates the results of model 2 with a strong relationship between macroeconomic factors and trust in the collective EU system. Apart from GDP growth, the effect and significance of inflation ($p < 0.05$), bond yields ($p < 0.05$), unemployment rate ($p < 0.01$), and government debt ($p < 0.001$) remain stable, and similar, in the effect size of model 2 (Figure 3). In addition, the exchange rate between the euro and the USD also became statistically significant for the attribution of citizens' trust in the EU system. The surprising finding is that bond yields are positively associated with trust. However, the effect size of the exchange rate and 10-year bond yields are comparably small.

Table 3. Fixed-effects panel regression models for trust in the EU institutions.

	model4		model5	
Predictors	*Estimates*	*CI*	*Estimates*	*CI*
10Y bond yield	1.63	[−0.44; 3.69]	1.00 *	[0.10; 1.91]
Deviation from inflation target	−1.23 *	[−2.26; −0.20]	−0.99 ***	[−1.43; −0.55]
Unemployment rate			−1.46 **	[−2.32; −0.61]
GDP growth rate			0.20	[−0.05; 0.44]
Government debt level			−0.32 ***	[−0.42; −0.22]
Exchange Rate EUR/USD			−13.72 *	[−25.12; −2.32]
Observations	387		387	
Within Adj. R^2	0.096		0.711	
AIC	3,001.037		2,577.269	

* $p < 0.05$ ** $p < 0.01$ *** $p < 0.001$.

The results of model 5 are almost congruent with the findings in model 2, which only included trust in the ECB, illustrating that the determining factors for trust in the ECB and in the collective EU institutional system are strikingly similar. Thus, citizens not only do not distinguish the institutions when placing their trust but also macroeconomic factors, which are not directly or solely dependent on ECB (unconventional) monetary policy, determine, to a larger extent, trust in this collective EU system.

5. The Effect of the Crisis on Data Periodisation

While this study analyses the determinants for citizens' trust in the ECB, it also emphasises that the policies applied by the ECB, in particular, UMP since 2010, are not the main factor for public trust in this institution. To ensure the robustness of the above results, the periods before the introduction of UMP (1999–2009) and after (2010–2023) were analysed separately with the same models. The reason for this periodisation is to not overlook that our variables may have different effects on trust in the ECB before and after UMPs. In the following, we compare models 2 and 5, which were calculated with periodised data (1999 to 2009, 2010 to 2023, and 2008 to 2023), with models 2 and 5 from the main analysis above, which covered the period of 1999 to 2023.

The results of model 2 for the period between 1999 and 2009 are similar regarding the 10-year bond yields and the exchange rate (no statistical significance, see Figure 5). They deviate slightly from the findings of the main analysis regarding inflation, which has no effect on citizens' trust in the ECB, and GDP growth, which positively influences citizens' trust. A significant deviation from the main analysis is the reduced effect strength of the government debt level and the change from the negative effect of the unemployment rate to a positive one in determining citizen's trust in the ECB. Model 5 in this period is slightly different to model 2 and has only government debt as a statistically significant factor, with a similar effect size as in model 2. Thus, models 2 and 5 for the data from 1999 to 2009 provide different results regarding the variables that are significant for explaining trust but underscore that factors directly influenced by the ECB are less statistically relevant than the other macroeconomic factors.

The results of model 2 for the 2010–2023 period also deviate from the main analysis, as only the unemployment rate remains statistically significant for determining the citizens' trust in the ECB. For model 5, the results shift slightly in comparison to model 2, with deviation from the inflation target and government debt levels also becoming statistically significant. The periodisation thus alters the results to a certain degree. The finding indicates that the rise in unemployment only became a relevant factor for reduced trust in the ECB and the EU system in 2010–2023, which is also the time when unemployment rose significantly. Similar to the finding for 1999–2009, the effect size and significance of the variables change to some extent, but the main argument holds, that factors directly influenced by the ECB's (unconventional) monetary policy are not or only very marginally explaining citizens' trust in the ECB.

Thus, even though the finding from this periodisation alters the effect of unemployment rate and government debt levels, the main finding, that trust in the ECB seems not to be linked to direct policy outcomes of ECB action, remains robust, and is even reinforced by the reduced effect of the deviation from the inflation target. The results of the periodisation reject hypothesis 1 and confirm hypothesis 2. The different results in the impact of macroeconomic variables between the periodised and non-periodised data could be explained by the rapidly worsening economic position starting in 2008 and the resulting salience of macroeconomic factors for the citizens in the following period. This would help to explain why unemployment became the main predictor for trust in 2010–2023 (for both the ECB and the EU system), while before it was much less relevant. The much lower within-adjusted $r^2 = 0.35$ for models 2 and 5 for the period 1999–2009 also indicates that trust in that time is much less explained by the financial and macroeconomic variables chosen in this analysis, than in 2010–2023, where the within-adjusted $r^2 = 0.53$ and 0.60 for models 2 and 5 respectively are much higher. This finding indicates that the model is a much better fit for the time after the introduction of UMP.

Given that for both analyses (periodised and non-periodised) the macroeconomic performance is more relevant for determining trust in the ECB and the EU system than the direct impact of ECB monetary policy, a new insight from the periodisation is that the effect of macroeconomic performance on trust in European institutions seems to be strengthened in times of economic crisis. When applying a periodisation based on the rapid worsening of macroeconomic performance (1999–2007 and 2008–2023), the results show that the macroeconomic variables of the unemployment rate and government debt levels are the sole and strongest predictors for trust in the ECB and the EU system in models 2 and 5 for the 2008–2023 period, while neither of them is statistically significant for predicting trust in the ECB or the EU system in the period before 2008. In fact, almost no variable seems to explain the change in trust in the period between 1999 and 2007 (within-adjusted $r^2 = 0.14$ and 0.24), underscoring the explanation that the salience of economic crisis shifts the citizens' focus onto economic aspects to attributing trust, not the introduction of the ECB's UMP (see also Roth et al., 2013).

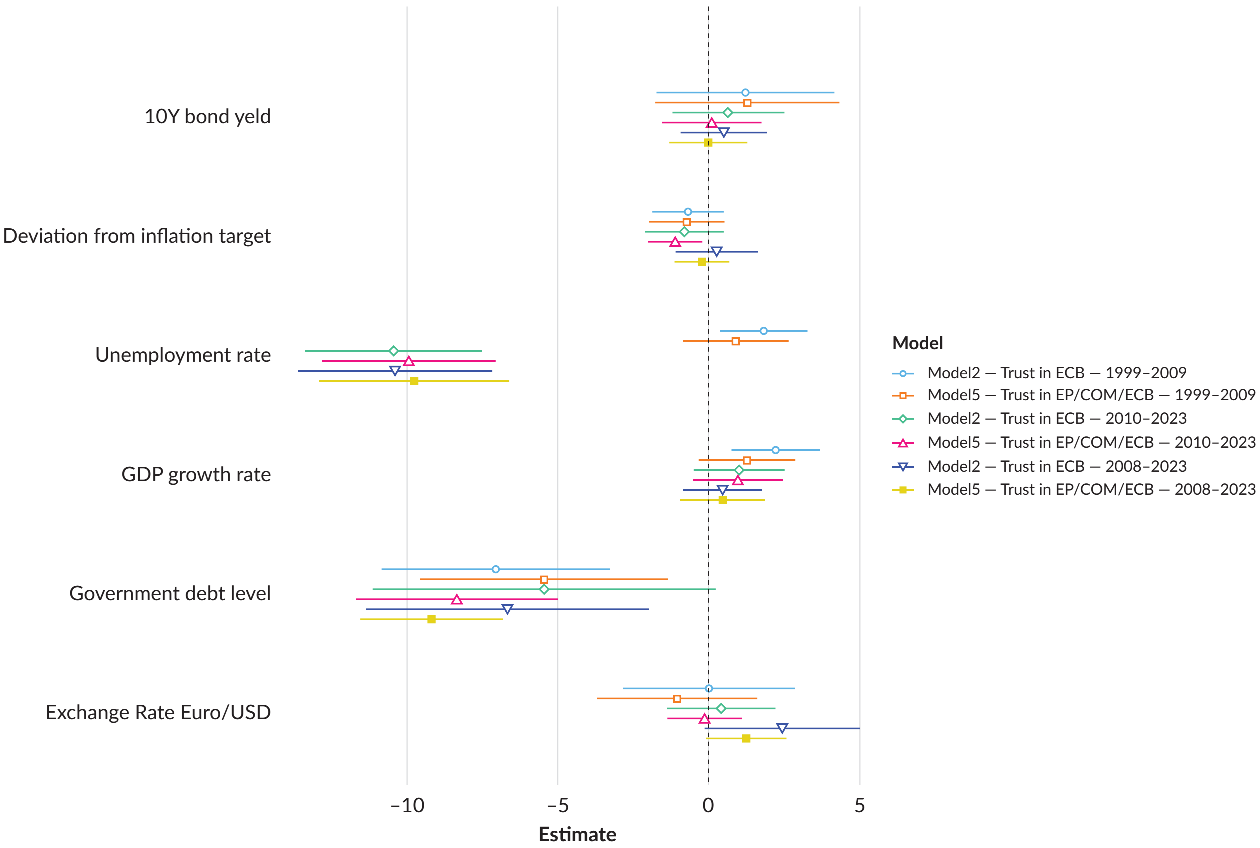

Figure 5. Standardised marginal effects on trust in EU institutions and the ECB by periods.

6. Conclusion

This article answers the question of whether the UMP of the ECB that started with the financial crisis in 2010 influenced citizens' trust in the ECB. We find that citizens do not sufficiently distinguish between the ECB and other EU institutions, or between direct outcomes of (unconventional) monetary policy and overall macroeconomic factors. Hence, we cannot argue that citizens trust or distrust the ECB based on its monetary policy. Instead, the results suggest that in trusting or not trusting the ECB, citizens either do not know what the ECB is doing, or they consider the overall economic situation more relevant than the outcomes of the ECB's (unconventional) monetary policy.

Our findings shed light on citizens' trust and the ECB's use of UMP. First, while UMP impacted inflation and government refinancing rates, these factors were marginal concerning citizens' trust in the ECB, even though they were directly linked to ECB action. Thus, although UMP contributed to achieving the inflation target and thus to the primary objective of the ECB, the change in, or stability of consumer prices was only weakly related to trust. The same goes for government bond yields. This result weakens previous findings by Fischer and Hahn (2008) and Ehrmann et al. (2013) who argued that inflation especially impacts trust in the ECB, as well as findings by Wälti (2012) emphasising the effect of bond yields on trust in the ECB. We could also find no, or only a marginal, effect of the EUR/USD exchange rate on trust. Second, while the ECB's UMP was only weakly related to public trust, macroeconomic factors, which are strongly influenced by national governments' employment, or fiscal policies were significant in determining trust levels in the ECB. This finding is underlined by the congruent effect of the unemployment rate on trust in the collective of EU institutions. The impact of unemployment also illustrates that detailed ECB policy seems to be much less relevant for citizens' trust in the ECB. Thus, our results confirm previous findings by Drakos et al. (2019), Bursian and Fürth (2015), Wälti (2012), and Kaltenthaler et al. (2010), who argue that trust in the ECB is impacted by the overall economic situation, attributing it a shared responsibility in the domestic economic output, rather than as a central bank which is predominantly responsible for price stability.

While UMPs have made high government debt levels fiscally sustainable, and thus support indebted euro area countries, debt levels were together with unemployment rates the strongest negative factor for trust in EU institutions. This finding suggests that citizens tend to be more focused on negative aspects related to high government debt levels, rather than on more positive outcomes of the ECB's monetary policy that keeps the costs of debt levels low, thus indirectly supporting their country. This could be explained by the intermediary effect of the press, politicians, and policymakers, which might emphasise debt-to-GDP levels rather than debt sustainability. Further research could be helpful to shed light on this potential intermediary effect (see also E. Jones, 2009).

The reason why lower bond yields are associated with loss of trust can be attributed to UMP. Citizens in fiscally conservative countries, who have low refinancing rates due to their sound fiscal policy, might see the ECB policy more critically than citizens in countries where government debt levels have been traditionally higher. This could be linked to a fear that the ECB's UMP gives false incentives to not consolidate fiscal leniency. However, the effect is still significantly smaller than the effect of government debt and unemployment, and it even disappears in the analysis of the periodised data.

In line with Tuschhoff (1999), we see that there is an institutional blur at the EU level, as trust in the ECB correlates strongly with trust in other EU institutions. Including the trust in other EU institutions in our calculation also renders the effects of macroeconomic variables insignificant (only in model 3 for 1999–2009 do government debt levels and the EUR/USD exchange rate have small effects). This finding confirms previous arguments by Ehrmann et al. (2013), arguing that people see the ECB as part of "Europe," and contradicts results from Fischer and Hahn (2008, p. 15), who argue that the trust in supranational institutions does not mediate the effect of macroeconomic factors on trust in the ECB. Indeed, citizens tend to see the ECB as part of the EU's economic and institutional system.

While inflation also impacts the euro area citizens' trust in the common institutional structure of the EU, unemployment and government debt levels exerted the strongest influence on the level of trust for the ECB and the EU institutional structure as such. This finding suggests that citizens base their trust predominantly on factors describing the well-being of their national economy, rather than on explicit and detailed policy decisions. Thus, as long as macroeconomic conditions are improving or not deteriorating, citizens seem relatively unconcerned with the specific policies employed by the ECB to achieve or contribute to these conditions. This argument is substantiated by the overall drop in ECB trust in the euro area since 1999, even in countries with less ordoliberal views and which benefitted significantly from QE regarding their fiscal position, such as Italy, Spain, or France. The analysis of the periodised data furthered this argument by emphasising that attention seemed to shift towards macroeconomic aspects when the crisis began in 2008, while economic performance was less relevant for determining citizens' trust in the period before the crisis.

Overall, these findings underscore the relationship between economic performance and citizens' trust in a political system (Easton, 1975; Eichenberg & Dalton, 1993) and are in line with findings by Foster and Frieden (2021) linking support to the EU to macroeconomic output.

So, in what way did the end justify the means when it comes to monetary policy? Considering that citizens' trust in the ECB is influenced by macroeconomic factors to which it only indirectly contributed, one can argue that the ECB's UMP is justified by the output on the macroeconomic level, but also that the ECB is not solely responsible for this "end." Thus, while we argue that neither UMP nor other direct ECB policy outcomes influence citizens' trust, the ECB has considerable room to manoeuvre in choosing specific policy decisions to stimulate growth and achieve price stability. This contributory role did, however, not allow the ECB to stand out as an individual and different policy actor from the pool of other European institutions. If the economy is lopsided, citizens tend to lose trust in the ECB and the EU as a whole. So, while this margin of manoeuvre over the "means" exists, the "end" is not entirely in the ECB's hands, as its trust levels also depend on the performance of national governments. More importantly, citizens tend to pool their trust in EU institutions collectively, not distinguishing between the independent ECB and its monetary policy and other EU institutions. Thus, whatever policy the ECB is employing is less relevant to citizens' trust than the overall economic situation. This poses a challenge for the ECB regarding whether it should or should not communicate its policies and contributions, as, so far, it has not managed to stand out among the other EU institutions in the citizens' eyes.

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Conflict of Interests
The authors declare no conflict of interest.

Data Availability
Eurobarometer data is available from GESIS Leibniz Institute of Social Science: https://www.gesis.org/en/eurobarometer-data-service/data-and-documentation/standard-special-eb

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ARTICLE

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No Way Back? ECB's Forward Guidance and Policy Normalisation

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Abstract

This article (a) analyses forward guidance by the European Central Bank (ECB) and its role in the "normalisation" of the ECB's monetary policy, and (b) assesses whether communication under the new ECB's "meeting-by-meeting and data-dependent" approach has the potential to increase trust in the ECB and to steer financial markets in the intended direction. By communicating its future policy intentions (forward guidance), a central bank can tighten the gears between the short-term policy rate that it controls and the interest rates that influence economic behaviour. The ECB's forward guidance steered financial markets in the desired direction and, in combination with other unconventional policies, probably helped to raise inflation when it was below target. However, forward guidance constrained the central bank's ability to decide to end asset purchases and raise policy rates once inflation had risen above target. Furthermore, the ECB's forward guidance was formulated in terms of inflation forecasts. As these forecasts seriously underestimated inflation, the ECB reacted too late to the inflation hike, undermining trust in the central bank. Trust is important because the inflation expectations of people who trust the central bank tend to be closer to the central bank's inflation target. Communication under its current "meeting-by-meeting and data-dependent" approach can steer financial markets in the intended direction. It may also be easier for the public to digest than forward guidance. However, recent research questions whether it will increase trust in the ECB. The best way to regain trust is probably to bring inflation back to target.

Keywords

central bank communication; European Central Bank; forward guidance; trust

1. Introduction

By combining insights from several strands of research, this article (a) examines forward guidance by the European Central Bank (ECB) and discusses its role in the “normalisation” of the ECB’s monetary policy, and (b) assesses whether communication under the new ECB’s “meeting-by-meeting and data-dependent” approach (de Haan & Hoogduin, 2024) can increase trust in the ECB and steer financial markets in the intended direction.

In the two decades leading up to the global financial crisis, central banks in advanced economies typically implemented monetary policy by steering short-term interest rates in the economy. They raised or lowered money market rates through the use of their instruments if inflation and economic developments so required, i.e., raising interest rates when inflation becomes too high and lowering interest rates when inflation is below target. However, central banks cannot lower their policy rates below a certain level (which may be negative), the so-called effective lower bound (ELB). This lower bound reflects the fact that economic agents will prefer to hold funds in the form of cash rather than deposit them in a bank that charges negative deposit rates (i.e., customers have to pay to deposit their money). Thus, when inflation remained stubbornly below the central banks’ target (most often 2%), they resorted to unconventional monetary policies, such as asset purchase programmes (APPs; often referred to as quantitative easing, or QE) and forward guidance, i.e., communication about future monetary policy (Blinder et al., 2017).

QE aims to stimulate demand by lowering borrowing costs for households and firms and supporting asset prices. The ECB introduced QE much later than most other central banks in major advanced economies. Initially, its unconventional policies during the financial crisis focused mainly on supporting lending via the banking sector. The main reason is that the banking sector plays a fundamental role in the monetary transmission mechanism in the euro area, because non-financial corporations are highly dependent on bank credit. However, after inflation in the euro area fell below 0% and forecasted inflation remained persistently below target, the ECB launched an APP in January 2015 (de Haan & Pattipeilohy, 2022).

Through forward guidance, monetary policy can be effective even if the central bank cannot lower current policy rates any further (Blinder et al., 2008). This can be explained as follows. Longer-term interest rates reflect, among other things, expected future short-term rates. Thus, a reduction in expected future policy rates would reduce longer-term interest rates in the current period, thereby stimulating contemporaneous consumption and investment. In other words, the central bank can achieve lower longer-term interest rates by promising to keep the policy interest rate “lower for longer.” In July 2013, the ECB’s Governing Council announced that interest rates would remain low for an extended period of time. Since then, the wording of the ECB’s forward guidance has been adjusted several times (see Section 3 for details). However, in July 2022, the ECB announced that it would no longer provide forward guidance on interest rate decisions, but would instead follow a “meeting-by-meeting and data-dependent” approach to policy decisions.

In this article, I first analyse how the ECB’s forward guidance interacted with other unconventional policy instruments and how it affected the normalisation of monetary policy, after inflation started to rise. Most of the evidence suggests that the ECB’s forward guidance steered financial markets in the desired direction. It probably also helped, in combination with other unconventional instruments, to (slightly) raise inflation when it was below target. However, the ECB’s forward guidance constrained the central bank’s decision to end asset purchases and raise policy rates once inflation had risen above target. Moreover, the ECB’s forward guidance was formulated in terms of inflation forecasts. As these forecasts seriously underestimated inflation, the ECB reacted too late to the rise of inflation, undermining public trust in the central bank.

Carstens (2023) defines public trust as "society's expectation that public authorities will act predictably in the pursuit of predefined objectives and that they will succeed in their task." As Carstens points out, public trust is important, because if the actions of authorities are trusted, the public "will incorporate them in determining their own behavior." And, as a result:

> It is more likely that the authorities will achieve their objectives. In addition, trust fuels the legitimacy of policies. With trust, the public will be more willing to accept actions that involve short-term costs in exchange for long-term benefits. There is a positive feedback loop in the dynamics of trust. If policies are effective and legitimate, it is easier for the authorities to achieve their objectives, which in turn feeds back into trust, producing a virtuous circle.

Applied to the ECB: If the public trusts the ECB to do what is required to maintain price stability, the central bank's inflation target, rather than current inflation, becomes a key reference for people in making their price and wage decisions, leading to low and stable inflation. Moreover, a high level of public trust in the ECB makes it easier to raise interest rates as part of the normalisation of monetary policy. Ehrmann (2024) points to another reason why trust is important. There is evidence that low public trust in the ECB increases the likelihood that national politicians will put pressure on the central bank to pursue a looser monetary policy, and that they will judge the ECB's policy not from a euro-area perspective, but against the background of their national growth performance.

In the second part of this article, I discuss whether communication under the new "meeting-by-meeting and data-dependent" approach can increase trust in the ECB. Although communication under the new approach may be easier for the public to digest than forward guidance, based on the findings of recent literature I conclude that it is unlikely to increase trust in the ECB. However, just like forward guidance, communication under the ECB's current "meeting-by-meeting and data-dependent" approach could help steering financial markets in the intended direction, although it is not helpful that ECB officials provide (conflicting) hints about future interest rate decisions.

The remainder of the article is organised as follows. Section 2 discusses forward guidance in general and Section 3 analyses the ECB's forward guidance. Section 4 looks at the impact of high inflation on trust in the ECB and discusses whether communication under the ECB's current "meeting-by-meeting and data-dependent" approach might be more successful in increasing trust in the ECB than forward guidance. The section also discusses its potential to steer markets in the desired direction. Section 5 concludes.

2. Forward Guidance

2.1. Rationale of Forward Guidance

Monetary policy works not only through policy instruments but also through expectations about the future course of policy, which influence, among other things, longer-term interest rates. Influencing these expectations can be a particularly powerful tool when the central bank has lowered the policy rate to the

ELB. The central bank can circumvent the ELB constraint by promising to keep policy rates low in the future. This also lowers longer-term interest rates, as they reflect expected future short-term rates (Eggertsson & Woodford, 2003). However, the announced policy of keeping interest rates low in the future, which is optimal under the ELB, is no longer optimal once the ELB is no longer binding. Under these circumstances, the central bank would prefer a higher interest rate, whereas it had promised to keep interest rates low during this period. So, the central bank has an incentive to break its promise. And if financial market participants believe that the central bank will not keep its promise, i.e., that the central bank is not credible, they will not adjust their expectations about future policy rates downwards, so that long-term interest rates do not fall. In other words, forward guidance is most effective if the central bank can convince financial market participants that it will stick to this "low for long" policy and will not change course if circumstances change. However, as will be shown in Section 3.3, if circumstances change quite drastically (as happened during the recent rise in inflation), the cost of sticking to "low for long" can be very high.

For this and other reasons, central banks may therefore be unwilling to commit to a policy stance, like Odysseus who tied himself to the mast to resist the song of the Sirens (Moessner et al., 2017). However, apart from *Odyssean forward guidance*, central banks can also provide *Delphic forward guidance* (Campbell et al., 2012). This means that, similar to the Delphic oracle, central banks provide information, such as expected macroeconomic developments and their likely monetary policy actions, while reserving the right to re-optimize their policies in each future period. As pointed out by Blinder et al. (2008), this type of forward guidance can also affect private sector expectations, since any central bank action that influences interest rate expectations could be a potential monetary policy tool.

There are three types of forward guidance: (a) qualitative (or open-ended) forward guidance, in which the central bank does not provide detailed quantitative information about the intended time frame for its policy intentions; (b) calendar-based (or time-contingent) forward guidance, in which the central bank refers to a clearly specified time horizon for its policy; and (c) threshold-based (or data-based, state-contingent) forward guidance, in which the central bank links future interest rates to specific quantitative economic thresholds. In practice, central banks often use more than one type of forward guidance (Moessner et al., 2017). Note that forward guidance can be applied to different policy instruments. Most commonly, it has been applied to the future path of policy rates, but, as will be discussed in more detail in Section 3.1, the ECB has also provided forward guidance about its asset purchases.

2.2. Criticism of Forward Guidance

The theoretical effects of forward guidance depend crucially on one's assumptions about how expectations about future economic developments are formed. After analysing the effects of forward guidance under different assumptions about expectation formation, Cole (2021, p. 160) concludes that:

> Policymakers should exercise caution when recommending forward guidance policy. If monetary policy is based on a model with the standard rational expectations hypothesis, which assumes agents know the true structure of the model, the results may be misleading relative to a more plausible theory of expectations formation (e.g., adaptive learning). Specifically, during an economic crisis, the predicted effects of forward guidance under the rational expectations assumption are overstated in comparison to adaptive learning.

Moreover, as pointed out by Campbell et al. (2017), announcements that interest rates will remain low for a long time may not only reflect a future accommodative monetary policy but also poor future economic fundamentals. This can lead to different consumption decisions. While optimistic agents will consume more in anticipation of higher future inflation and lower real interest rates, pessimistic agents will consume less in anticipation of lower future inflation and higher real interest rates. These offsetting choices hamper the effectiveness of forward guidance.

Cole et al. (2023) argue that the effect of forward guidance depends on the public's perception of the credibility of policymakers to follow through on their interest rate announcements. Only if a monetary authority is perceived as credible, will its communication of future policy have stimulative effects as the public will incorporate these announcements in their decisions today. Based on their estimates of a small-scale New Keynesian model, the authors find that central bank credibility is similar across many countries (with the notable exception of Japan). However, credibility tends to be lower during the period of low interest rates (2005–2022). This suggests that the effectiveness of forward guidance is time-varying and that forward guidance was less effective when it was most frequently used.

Finally, forward guidance may reduce the quality of information coming from financial markets due to the so-called echo chamber or hall of mirrors effect, i.e., price changes reflect previous central bank communication rather than reflecting the actual views of financial markets (Blinder et al., 2024). As Shin (2017, p. 1) puts it, "the louder the [central bank] talks, the more likely it is to hear its own echo." This leads to the paradoxical situation that central bank forward guidance could drown out valuable market signals. Ehrmann et al. (2019) find that when the central bank provides calendar-based forward guidance over a short time horizon, it increases the sensitivity of government bond prices to surprising economic news. This is paradoxical, because under forward guidance, policy rates are unlikely to change for a significant period of time. In other words, market interest rates should be less sensitive to macroeconomic news.

3. Forward Guidance by the ECB

3.1. Introduction and Development

The ECB has used different types of forward guidance. Initially, the ECB's forward guidance was open-ended, as it did not specify a time frame until which interest rates would remain low or the economic conditions that would trigger an increase in interest rates (Ehrmann et al., 2023). The Governing Council stated that monetary policy would be accommodative "for as long as necessary" (Moessner et al., 2017, p. 693). However, in July 2013 the ECB announced that interest rates would remain at current or lower levels for "an extended period of time" (Draghi, 2013). This statement was used until January 2016 (Coenen et al., 2017). Importantly, the ECB also provided forward guidance on its APPs. For example, in December 2015 it was announced that the principal payments on the securities purchased under the APP would be reinvested as they matured, "for as long as necessary," a case of open-ended forward guidance (Coenen et al., 2017).

Subsequently, the ECB's forward guidance on interest rates became state-dependent (inflation) and time-dependent (horizon). For example, on 10 March 2016, the ECB stated that it "expects the key ECB interest rates to remain at present or lower levels for an extended period of time, and well past the horizon of our net asset purchases" (Draghi, 2016). This statement links the future path of policy rates to the ECB's

APP, which, at that time, was “intended to run until the end of March 2017, or beyond, if necessary, and in any case until the Governing Council sees a sustained adjustment in the path of inflation consistent with its inflation aim” (Draghi, 2016).

When the Governing Council announced the end of QE on 14 June 2018, it also stated that it expected the key ECB policy rates to remain at their then present levels at least until the summer of 2019 and, in any case, for as long as necessary to ensure the sustained convergence of inflation to levels that are below, but close to, 2% (Hartmann & Smets, 2018). A similar statement was issued in September 2019:

> We now expect the key ECB interest rates to remain at their present or lower levels until we have seen the inflation outlook robustly converge to a level sufficiently close to, but below, 2% within our projection horizon, and such convergence has been consistently reflected in underlying inflation dynamics. (Draghi, 2019)

During the Covid-19 pandemic, forward guidance on asset purchases was calendar-based. For example, on 10 December 2020, the ECB announced that it would “increase the envelope of the pandemic emergency purchase programme (PEPP)” and extended the horizon of net purchases to “at least the end of March 2022” (Lagarde, 2020). Irrespective of how the economy develops, the ECB would thus continue to ease policy through this facility for 15 months (Orphanides, 2023).

At its meeting on 16 December 2021, the ECB’s Governing Council decided to stop net asset purchases under the PEPP at the end of March 2022, but also announced that APP purchases would continue for much longer:

> The Governing Council decided on a monthly net purchase pace of €40 billion in the second quarter and €30 billion in the third quarter under the APP. From October 2022 onwards, the Governing Council will maintain net asset purchases under the APP at a monthly pace of €20 billion for as long as necessary to reinforce the accommodative impact of its policy rates. (Lagarde, 2021b)

3.2. Has the ECB Forward Guidance Worked?

According to the ECB Task Force on Forward Guidance (ECB, 2022a), the ECB’s forward guidance was effective in that it steered markets in the intended direction (see also Goodhead, 2024) and raised inflation (and output). More specifically, the report concludes that an unexpected forward guidance announcement equivalent to a 10-basis-point decline in the one-year overnight indexed swap forward rate is estimated to have a median peak impact on real GDP of 0.17% and a cumulative impact on inflation of 0.1 percentage point, with impacts ranging from 0.1 to 0.2% for GDP and 0.08 to 0.17 percentage points for inflation.

Contrary to the conclusions of the ECB Task Force report (ECB, 2022a), not all empirical research suggests that the ECB’s forward guidance has been effective. For example, Sutherland (2023) examines how private forecasters revise the level of their interest rate forecasts following a change in forward guidance. The analysis covers about 32 years of monetary policy statements from eight central banks (including the ECB). The author finds that forward guidance has had the largest influence on interest rate expectations in Canada, New Zealand, Sweden, and the United States, while forward guidance of other central banks, including the ECB and the Bank of England, has had less impact. The author argues that this is because these central banks were late adopters of forward guidance and all of their guidance was done at or near the ELB, when it is less powerful (Cole et al., 2023).

Using micro data, D'Acunto et al. (2022) report that the ECB's forward guidance had a negligible impact on households' inflation expectations. These authors use data from the European Commission's harmonized consumer survey programme for Germany, France, the UK, and Sweden. As a counterfactual, the authors employ households in the UK and Sweden that were not directly exposed to the ECB's forward guidance announcements, as these countries are not part of the euro area. This muted effect on inflation expectations is consistent with the ambiguous signal of forward guidance discussed above. If the announcement is interpreted as bad news about future macroeconomic outcomes, expected inflation will fall. However, if the announcement is interpreted as a signal that in the future the central bank will deviate from its usual reaction function, expected inflation will rise. These effects may cancel each other out. Andrade and Ferroni (2021) find that the ECB's communication was initially interpreted as a signal about the future economic situation, but since 2012 it has been interpreted as a signal about future monetary policy.

3.3. The ECB Forward Guidance Trap

This section discusses how the ECB's forward guidance hampered its policy normalisation. According to Issing (2014, p. 8), a former member of the ECB's Executive Board, a "central bank should…under no circumstances make any unconditional commitments to its future policy." In other words, forward guidance should not be Odyssean. Yet, this is exactly what the ECB has done, linking forward guidance on lift-off to the end of its APPs (Orphanides, 2023). For instance, after the March 2022 Governing Council meeting, the ECB announced that "any adjustments to the key ECB interest rates will take place some time after the end of the Governing Council's net purchases under the APP and will be gradual" (ECB, 2022b).

And the ECB stuck to this "promise." Perhaps the ECB feared that reneging on the commitment that normalisation would only begin after the end of the APP would undermine its credibility with financial market participants. After all, credibility is defined by Blinder (1998, pp. 64–65) as "that your pronouncements are believed—even though you are bound by no rule and may have an incentive to renege." Nevertheless, with inflation rising rapidly to levels well above target, there were good reasons to change policy.

In June 2022, the ECB announced that:

> On the basis of our updated assessment, we decided to take further steps in normalising our monetary policy….First, we decided to end net asset purchases under our asset purchase programme (APP) as of 1 July 2022. The Governing Council intends to continue reinvesting, in full, the principal payments from maturing securities purchased under the APP for an extended period of time past the date when it starts raising the key ECB interest rates and, in any case, for as long as necessary to maintain ample liquidity conditions and an appropriate monetary policy stance. Second, we undertook a careful review of the conditions which, according to our forward guidance, should be satisfied before we start raising the key ECB interest rates. As a result of this assessment, the Governing Council concluded that those conditions have been satisfied. Accordingly, and in line with our policy sequencing, we intend to raise the key ECB interest rates by 25 basis points at our July monetary policy meeting. (Lagarde, 2022)

It was not until July 2022, when inflation was already 8%, that the ECB key policy rates were increased by 50 basis points. The ECB also announced that it would no longer provide forward guidance on interest rate decisions, but would move to a meeting-by-meeting approach based on the information available at the time.

The decision not to raise interest rates until July 2022 has been criticized as inflation had already passed the 2% mark in July 2021 and rose sharply to 5% by the end of the year. In addition, the ECB continued to expand its balance sheet, long after the economy had recovered.

According to Orphanides (2023), two aspects of the ECB's forward guidance led to a significant delay in the policy response to the rise in inflation. First, the ECB's calendar-based forward guidance on asset purchase programmes, with a pre-announced schedule of net purchases, implied that asset purchases would continue and maturing bonds would be reinvested even when inflation was above target. Asset purchases under the PEPP continued until March 2022. It was not until July 2023 that the ECB stopped reinvesting assets purchased under the APP. Between March 2023 and July 2023, maturing assets were partially reinvested (the monthly decline of the APP portfolio amounted to 15 billion euros), while in the second half of 2024, the PEPP portfolio was supposed to be reduced by 7.5 billion euros per month. Second, "a commitment to raising policy rates only after net asset purchases ended—a 'sequencing' restriction that was an important component of the ECB's forward guidance" (Orphanides, 2023, p. 10). Indeed, according to a report in the *Financial Times* on 22 July 2022, two members of the ECB Governing Council believe that the ECB would have raised rates at least a month earlier if it had not been bound by its forward guidance that rates would not rise until it stopped buying more bonds in early July (Arnold, 2022). Although the ECB ended the APP earlier than previously announced, it did in fact stick to its sequencing approach.

Moreover, the ECB's forward guidance on normalisation relied on inflation forecasts. (This should not be interpreted as a structural flaw of forward guidance as such, since other types of forward guidance, such as qualitative forward guidance, do not rely on forecasts.) For example:

> The Governing Council expects the key ECB interest rates to remain at their present levels until it sees inflation reaching 2% well ahead of the end of its projection horizon and durably for the rest of the projection horizon, and it judges that realised progress in underlying inflation is sufficiently advanced to be consistent with inflation stabilising at 2% over the medium term. (ECB, 2022b)

This is a crucial part of the forward guidance trap that Orphanides (2023) ignores. As the inflation forecasts turned out to be wrong (see Table 1), lift-off was postponed.

Initially, inflation was expected to rise only temporarily and soon to return to levels below 2%. This explains why the ECB considered it necessary to continue the APP and not to raise policy rates. In her testimony to the European Parliament on 15 November 2021, Lagarde (2021a) stated:

> In our forward guidance we clearly articulated the three conditions that need to be satisfied before rates will start to rise. Despite the current inflation surge, the outlook for inflation over the medium term remains subdued, and thus these three conditions are very unlikely to be satisfied next year.

Although inflation forecasts were subsequently revised upwards, they remained too optimistic for a long time. To put the forecasts reported in Table 1 into perspective: Inflation in 2022 was 8.5% and 5.4% in 2023. To be fair, most private sector inflation forecasts in this period were also off the mark (Buiter & Rahbari, 2024). Several explanations for this poor forecasting have been proposed. Policymakers may have underestimated the impact of massive fiscal policy loosening (such as pandemic-related transfers to firms and households) and pent-up demand after the Covid-19 restrictions were eased. In addition to these demand shocks, the economy was hit by hard-to-predict supply shocks due to the pandemic (bottlenecks in supply chains) and then Russia's invasion of Ukraine. And these shocks were particularly large in 2020–2022. Note, however, that inflation was already well above target when the latter supply shock occurred.

Table 1. ECB inflation assessments and forecasts.

Meeting	Statement	Forecast				
		2021	2022	2023	2024	2025
July 2021	Inflation was 1.9 percent in June. We expect inflation to increase further over the coming months and to decline again next year.					
September 2021	Inflation increased to 3.0 percent in August. We expect inflation to rise further this autumn but to decline next year.	2.2	1.7	1.5		
October 2021	Inflation increased to 3.4 percent in September. We expect it to rise further this year. But while the current phase of higher inflation will last longer than originally expected, we expect inflation to decline in the course of next year.					
December 2021	Inflation increased further to 4.9 percent in November. It will remain above two percent for most of 2022. Inflation is expected to remain elevated in the near term, but we expect it to decline in the course of next year.	2.6	3.2	1.8	1.8	
February 2022	Inflation increased to 5.1 percent in January, from 5.0 percent in December 2021. It is likely to remain high in the near term. Energy prices continue to be the main reason for the elevated rate of inflation.					
March 2022	Inflation has continued to surprise on the upside because of unexpectedly high energy costs. Price rises have also become more broadly based. The Governing Council sees it as increasingly likely that inflation will stabilise at its two percent target over the medium term.		5.1	2.1	1.9	
April 2022	Inflation increased to 7.5 percent in March, from 5.9 percent in February. Energy prices were driven higher after the outbreak of the war and now stand 45 percent above their level one year ago. They continue to be the main reason for the high rate of inflation.					
June 2022	In May inflation again rose significantly, mainly because of surging energy and food prices, including due to the impact of the war. But inflation pressures have broadened and intensified, with prices for many goods and services increasing strongly. Eurosystem staff have revised their baseline inflation projections up significantly.		6.8	3.5	2.1	

Table 1. (Cont.) ECB inflation assessments and forecasts.

Meeting	Statement	Forecast				
		2021	2022	2023	2024	2025
July 2022	Inflation increased further to 8.6 percent in June. Surging energy prices were again the most important component of overall inflation. Market-based indicators suggest that global energy prices will stay high in the near term.					
September 2022	According to Eurostat's flash estimate, inflation reached 9.1 percent in August. Price pressures have continued to strengthen and broaden across the economy and inflation may rise further in the near term.		8.1	5.5	2.3	
December 2022	Inflation remains far too high and is projected to stay above our target for too long. Amid exceptional uncertainty, Eurosystem staff have significantly revised up their inflation projections.		8.4	6.3	3.4	2.3
February 2023	Price pressures remain strong, partly because high energy costs are spreading throughout the economy. Although supply bottlenecks are gradually easing, their delayed effects are still pushing up goods price inflation.					
March 2023	Inflation edged down to 8.5 percent in February. The decline resulted from a renewed sharp drop in energy prices. By contrast, food price inflation increased further, to 15.0 percent.			5.3	2.9	2.1
May 2023	Inflation is still being pushed up by the gradual pass-through of past energy cost increases and supply bottlenecks. In services, especially, it is still being pushed higher also by pent-up demand from the reopening of the economy and by rising wages.					
June 2023	Inflation has been coming down but is projected to remain too high for too long. Wage pressures, while partly reflecting one-off payments, are becoming an increasingly important source of inflation.			5.4	3.0	2.2
July 2023	The drivers of inflation are changing. External sources of inflation are easing. By contrast, domestic price pressures, including from rising wages and still robust profit margins, are becoming an increasingly important driver of inflation. While some measures are moving lower, underlying inflation remains high overall.					
September 2023	Most measures of underlying inflation are starting to fall as demand and supply have become more aligned and the contribution of past energy price increases is fading out. At the same time, domestic price pressures remain strong.			5.6	3.2	2.1
October 2023	Most measures of underlying inflation continue to decline. At the same time, domestic price pressures are still strong, reflecting also the growing importance of rising wages.					
December 2023	While inflation has dropped in recent months, it is likely to pick up again temporarily in the near term. Inflation is expected to decline gradually over the course of next year, before approaching our two percent target in 2025.			5.4	2.7	2.3

Table 1. (Cont.) ECB inflation assessments and forecasts.

Meeting	Statement	Forecast				
		2021	2022	2023	2024	2025
January 2024	Aside from an energy-related upward base effect on headline inflation, the declining trend in underlying inflation has continued.					
March 2024	Most measures of underlying inflation declined further in January. However, domestic price pressures are still elevated, in part owing to robust wage growth and falling labour productivity. At the same time, there are signs that growth in wages is starting to moderate.				2.3	2.0
April 2024	Inflation has continued to fall, led by lower food and goods price inflation. Most measures of underlying inflation are easing, wage growth is gradually moderating.					
June 2024	Since our meeting in September 2023, inflation has fallen by more than 2.5 percentage points and the inflation outlook has improved markedly. Underlying inflation has also eased, reinforcing the signs that price pressures have weakened, and inflation expectations have declined at all horizons.				2.5	2.2

Source: Author based on ECB website presenting press conferences of the ECB president following ECB Governing Council meetings (ECB, n.d.).

4. What Will Happen Now That Forward Guidance Is Gone?

4.1. The Impact of High Inflation on Trust in the ECB

Trust in the ECB has declined during the recent period of high inflation (Dreher, 2024). Lower public trust in the central bank may be problematic as evidence suggests that the inflation expectations of individuals who trust central banks tend to be closer to the central bank's inflation target (Binder, 2021; Brouwer & de Haan, 2022b; Christelis et al., 2020; Dreher, 2024; Rumler & Valderrama, 2020; van der Cruijsen & Samarina, 2021). To illustrate: Using the ECB's Consumer Expectations Survey for 2020–2021, van der Cruijsen and Samarina (2021) examine how trust in the ECB influences consumers' inflation expectations three years ahead to assess the anchoring of expectations around the ECB's inflation target. On average across the countries analysed, the mean expected inflation three years ahead was 3.3% and the median was 2%. Thus, at that time, consumers' median expected inflation was in line with the ECB's definition of price stability (i.e., inflation expectations were anchored). Nevertheless, there is heterogeneity among respondents. A person with complete trust in the ECB is 1.5 percentage points more likely to have inflation expectations between 1.5% and 2% than a person with absolutely no trust in the ECB. Anchored inflation expectations help the central bank to maintain price stability. As ECB Executive Board member Schnabel (2020) argues:

> Stable inflation expectations…ensure that short-term deviations in inflation from the ECB's medium-term target do not take hold in the price and wage decisions of companies and households. This mechanism can be self-reinforcing, as the achievement of our monetary policy mandate may in turn strengthen trust in the ECB.

However, the reverse mechanism also applies. Indeed, as pointed out by Carstens (2023), if society doubts the central bank's commitment to the objective of maintaining price stability, public trust can be lost quickly. That is indeed what has happened. As shown in the previous section, the ECB reacted too late to rapidly rising inflation. High inflation, in turn, has reduced trust in the ECB. The fact that the ECB's inflation projections underpredicted inflation substantially, and persistently so, has also damaged its reputation as an expert and knowledge-based institution (Ehrmann, 2024). Van der Cruijsen et al. (2025) show that the rise in inflation in 2022 had a very negative impact on trust in the ECB. Based on a survey of more than 2,000 individuals in the Netherlands, these authors find that the higher individuals' perceived inflation is and the harder it is for them to make ends meet, the lower their trust in the ECB. However, trust in the government and De Nederlandsche Bank (i.e., the Dutch central bank) also declined as a result of higher inflation (Figure 1). Interestingly, the authors also find that many respondents believe that the government is primarily responsible for maintaining price stability. More specifically: Respondents are more likely to see inflation control as a responsibility of the national government (over 70%), rather than the ECB (over 50%) or the national central bank (just under 40%). Finally, the results suggest that people have less trust in authorities that are seen as responsible for reducing inflation.

Two recent studies confirm the trust-reducing effects of high inflation. First, using Bundesbank survey data for Germany, Eickmeier and Petersen (2024) show that a one-standard-deviation increase in the importance households attach to the ECB's ability to maintain stable prices increases self-reported trust in the ECB by 0.4 units (on a scale from 0 to 10 that respondents could choose). This is consistent with the finding by Bergbauer et al. (2020) that Eurobarometer respondents' assessment of the state of the European economy has a consistently significant effect on trust in the ECB. Eickmeier and Petersen (2024) also report that higher inflation expectations reduce trust in the ECB. Similarly, using individual-level data from the European Commission's Eurobarometer survey, Guillochon and ter Ellen (2024) find that when inflation rises, people become more worried about inflation, which in turn leads to lower trust in the ECB. The authors also show that an important driver of whether people are concerned about inflation is the attention paid to inflation. When there is more media coverage of inflation and therefore households are more likely to pay attention to inflation, they are more concerned about inflation—over and above the effect of inflation itself.

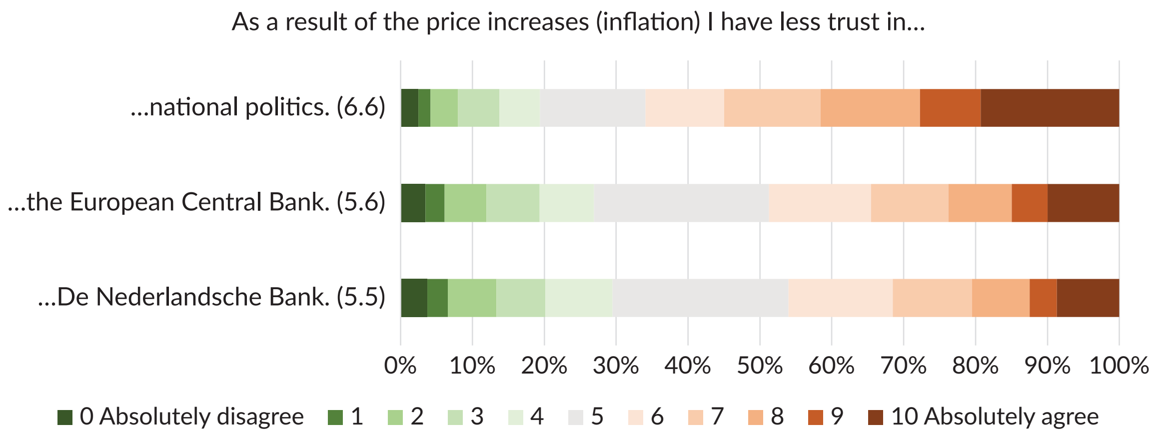

Figure 1. Inflation and trust. Note: Numbers in parentheses show the average scores to the statement. Source: van der Cruijsen et al. (2025).

The next subsections will discuss how communication under the new "meeting-by-meeting and data-dependent" approach works in financial markets and whether it is easier to understand and therefore has the potential to increase public trust.

4.2. Better Predictability Now That Forward Guidance Is Gone?

It seems that the new communication approach has changed the way how financial markets respond to ECB communication. Dragomirescu-Gaina et al. (2024) report evidence for a structural break in financial market reactions to ECB communication on 21 July 2022. Since the introduction of the "meeting-by-meeting and data-dependent" approach, media reports seem to play a more important role in determining financial market reactions to ECB Governing Council decisions.

A key question here is how well financial markets are able to predict central bank actions. Most economists agree with Poole (2001, p. 9) that "the presumption must be that market participants make more efficient decisions...when markets can correctly predict central bank actions."

The decision to cut interest rates by 25 basis points in June 2024 was widely expected, as several members of the ECB Governing Council had hinted at a cut. For example, in an interview with the Japanese financial newspaper *Nikkei*, Schnabel said that depending on the incoming data and Eurosystem staff projections, a rate cut in June might be appropriate. However, she also stressed that:

> The path beyond June is much more uncertain. Based on current data, a rate cut in July does not seem warranted. We should follow a cautious approach. After so many years of very high inflation and with inflation risks still being tilted to the upside, a front-loading of the easing process would come with a risk of easing prematurely. (Teles, 2024)

Thus, while it may not be forward guidance as in the past when the ECB's Governing Council gave statements about its future policies, under the current approach members of the ECB Governing Council give indications about future interest rate decisions. However, they make different public statements about future policy decisions. Whereas Schnabel said in the aforementioned interview that a rate cut in July was not needed, other members of the Governing Council gave different signals. For example, the governor of the Banque de France, Francois Villeroy de Galhau, argued in an interview in favour of maintaining flexibility with regard to ECB rate cuts in both June and July (Azzam, 2024).

This raises the question of whether such dispersed communication is conducive to helping financial markets better understand the ECB's Governing Council discussion and hence the stance of monetary policy, or whether it could be counterproductive. There are different views on this. According to Blinder (2007, p. 114), a "central bank that speaks with a cacophony of voices may, in effect, have no voice at all," while Bernanke (2004) argues that when central bankers express different views this "provides the public with useful information about the diversity of views and the balance of opinion on the Committee."

Most of the empirical evidence supports Blinder's (2007) view. For example, Ehrmann and Fratzscher (2007) find for three central banks (the Federal Reserve, the ECB, and the Bank of England) that a higher degree of dispersion in communication reduces the predictability of their policy decisions (as measured by the difference between actual and expected decisions). Similarly, de Haan and Jansen (2010) find that dispersed communication by Governing Council members on the inflation outlook reduces the predictability of ECB policy, while inconsistencies in statements on the main refinancing rate and the economic growth outlook are not related to the absolute forecast error.

Another piece of evidence supporting Blinder's view comes from research on dissent in the ECB Governing Council. Although the voting behaviour of Governing Council members is not published, Tillmann (2021) constructs an index of dissent based on the ECB presidents' answers to journalists' questions during the press conference following each meeting. Tillmann finds evidence of dissent in 28% of all meetings, based on the information provided during the press conference. Importantly, the author reports that a monetary policy shock has a smaller effect on long-term interest rates when it comes from a meeting with dissent. Thus, dissent weakens the transmission of monetary policy impulses.

4.3. More Trust in the Absence of Forward Guidance?

There is considerable evidence that better knowledge about the central bank increases public trust (see Brouwer & de Haan, 2022a, for a discussion of the literature). If so, informing the general public about monetary policy may be a promising way to increase trust in the central bank, as long as communicating with the public *increases* their knowledge. However, according to Blinder et al. (2024, p. 452):

> There are severe limits on what communication with the broad public can reasonably be expected to achieve. No country will ever become a nation of monetary policy experts. Ordinary people have neither the time nor the energy for that; levels of financial/economic literacy are low and hard to raise; and the subject matter is complicated enough to strain the cognitive abilities of many. Citizens with so many other things on their minds cannot be expected to understand, for example, the nuances of forward guidance.

Perhaps communication under the current "meeting-by-meeting and data-dependent" approach is easier to digest by the general public than forward guidance. If so, it may increase public trust in the ECB.

Unfortunately, the recent literature on central bank communication and public trust does not provide strong support for this (de Haan & Hoogduin, 2024). Dräger and Nghiem (2023) present experimental evidence for a representative sample of German consumers, showing that providing information about inflation and monetary policy improves respondents' knowledge about monetary policy and inflation and increases their trust in the central bank. However, Brouwer and de Haan (2022a) find that providing information about how the ECB tries to achieve price stability has no effect on trust in the ECB. Hwang et al. (2023) even find that the number of speeches by ECB officials reduces public trust as measured by the Eurobarometer survey. Hayo and Méon (2024) report that showing German respondents a graph representing the ECB's inflation target alongside euro area inflation from 1999 to 2017 does not generally affect trust in the ECB, but providing this information does increase trust among respondents who state no preference for any political party.

In assessing this evidence, it is important to recognize that most of the research discussed above is based on experiments in which respondents are exposed to information about the ECB whereas they are highly unlikely to receive this information in real life (Blinder et al., 2024). As several studies have shown, the general public is not well-informed about the ECB (Dräger & Nghiem, 2023) and there has been no improvement over time in how well-informed people are about the ECB (Brouwer & de Haan, 2022b). Even worse: They don't care much about being informed (van der Cruijsen et al., 2015).

5. Conclusions

Forward guidance can be very useful when policy rates cannot be lowered any further because the ELB has been reached. However, this way of communicating with financial markets also has some drawbacks. Adherence to forward guidance, combined with inflation forecasts that missed the mark for a long time, led the ECB to raise policy rates far too late and to continue asset purchases far too long. By the time policy rates were finally raised in July 2022, inflation was already well above target. The lesson to be learned, I think, is that in rapidly changing economic circumstances, Odysean forward guidance can be very dangerous, especially if that guidance is based on forecasts that may turn out to be off the mark.

This is not to say that all guidance on future policy should be avoided. In the past, the ECB has often used the phrase "upside" or "downside risks to price stability" to indicate that a change in policy rates was likely in the near future. In the June 2024 press conference, Lagarde used this terminology as well:

> Upside risks to inflation also stem from the heightened geopolitical tensions, which could push energy prices and freight costs higher in the near term and disrupt global trade. Moreover, extreme weather events, and the unfolding climate crisis more broadly, could drive up food prices. By contrast, inflation may surprise on the downside if monetary policy dampens demand more than expected, or if the economic environment in the rest of the world worsens unexpectedly. (Lagarde, 2024)

In my view, this type of communication, just like forward guidance, could help steer financial markets in the desired direction, although it is not helpful that ECB officials provide (contradictory) hints about future interest rate decisions.

Although this form of communication may be easier for the public to digest than forward guidance, it seems unlikely, based on the findings of recent literature, that it will increase trust in the ECB. Restoring trust is important because research has shown that people who trust the ECB have inflation expectations that are close to the ECB's inflation target. Anchored inflation expectations help the ECB to maintain price stability. When the ECB reacted too late to the recent rise in inflation, trust in the ECB fell. The best way to restore trust is probably to bring inflation back to target.

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Conflict of Interests

The author declares no conflict of interests.

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COMMENTARY

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The ECB's Evolving Mandate and High Independence: An Undemocratic Mix

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Abstract

After over a decade of crisis, the ECB's functions have expanded considerably. The ECB's activities during the eurozone crisis, new debates on the ECB's role in supporting political goals like the fight against climate change, and its participation in geopolitical stand-offs have overcome the fiction of a technocratic role that can be allocated to an independent institution with few constraints to democracy. We highlight how the ECB's mandate has been (re)interpreted while eschewing the impact of this change on its independence. Drawing on the contributions to this thematic issue, we also argue that the limited legal and political accountability does not match the evolving mandate. In particular, we contrast the voluntary mechanisms of accountability created in the past years and the judicial endorsement of the expansion of the ECB's mandate.

Keywords

accountability; European Central Bank; European Parliament; eurozone crisis; independence; inflation; judicial review; mandate

1. Introduction

In the editorial of this thematic issue (Högenauer & Mendes, 2025), we recalled that authors like Friedman (1962) or Wachtel and Blejer (2020) questioned whether a neat separation of technocratic monetary policy from political fiscal policy would be feasible in the long-term, and especially in times of upheaval. This was the scenario that the eurozone experienced. To face crises that threatened the very existence of the euro, the highly independent ECB moved explicitly beyond its narrow primary mandate (price stability). While the formal mandate remained unchanged, its interpretation evolved substantially. In this issue, Diessner and Genschel (2025), Quaglia and Verdun (2025), Donnelly (2025), Matos Rosa (2025), and Spielberger (2025) documented the expansion of the mandate to accommodate climate change, emergency measures, the power to act as lender of last resort, and industrial policy. Legally, a decade of unconventional monetary policies and a strategic review aimed at adjusting monetary policy to a different macroeconomic context have sparked multiple discussions on how far such changes could still be aligned with the Treaty on the Functioning of the European Union (TFEU) and what role the law could play in such a change. Politically, the decisions of the ECB have been increasingly polarising as evidenced by protests and an increased presence of ECB-related topics in parliamentary debates (e.g., Högenauer, 2019).

This commentary will thus focus on how the ECB's mandate has been (re)interpreted and on who can control these (re)interpretations. We argue that the lack of political or legal control over the interpretation of the mandate is an untenable problem for the legitimacy of EU monetary policy.

2. The Mandate Creates Limited Constraints

The link between a clearly defined mandate for the central bank (Mersch, 2018) and an independent central bank is nowhere made in the TFEU, but it is a foundation of the constitutional framework of the EMU. It is the translation of the monetarist paradigm of monetary policy that underpinned the design of the EMU in 1992 and provided the justification for the democratic exception of withholding a whole policy area from the realm of democratic politics (de Boer & van 't Klooster, 2020). Independence was accepted as a condition of price stability. The Court acknowledged this relative character of independence (*European Commission of the European Communities v. European Central Bank*, 2003, para. 134; *Gauweiler and Others v. Deutscher Bundestag*, 2015, para. 40). Lawyers and central bankers have invoked it to justify the different institutional arrangements of the ECB's independence in monetary policy and banking supervision (Ioannidis, 2020; Mersch, 2018). But this relative character of independence runs deeper: an expansion of the meaning of price stability—or an expansion of the mandate of the ECB through a different articulation between price stability and its secondary mandate—requires reconsidering the very meaning of independence.

That relative character of independence was largely sidestepped as judges and lawyers were coming to terms with the expansion of the ECB's mandate. First, the CJEU supported the expansion of the very notion of price stability in a way that was oblivious of that link (*Gauweiler and Others v. Deutscher Bundestag*, 2015) and maintained it in a very different political-economic context of non-crisis (*Weiss and Others*, 2018). Secondly, the ECB has understood its competence "to define and implement the monetary policy of the Union" (TFEU, 2007, Article 127(2)) as entailing not only the definition of the objective that it must achieve independently from any other authority but also the need to "cater for other considerations relevant to the pursuit of price stability" (ECB, 2021). The ECB's strategy review famously laid the foundation for the ECB to become an actor in the Union's climate change policies. In both cases, legal techniques of interpretation supported the process whereby the ECB decided independently on the very terms of its mandate.

The evolution just sketched foregrounded the distinction between the ECB's primary and secondary mandate. In the ECB's 2021 Strategic Review, the ECB also made a fundamental political choice: the Eurosystem was to "fully [take into] account the implications of climate change and the carbon transition for monetary policy and central banking" (ECB, 2021, p. 13). The greening of monetary policy was understood to fall under the primary mandate of price stability (Höflmayr, 2021, p. 4). It signified a shift from a previously claimed "market neutrality" to a commitment to intervene to transform the economy. This choice raises a fundamental question: What can be accommodated within the primary mandate of price stability as opposed to the secondary mandate of actions supportive of the economic policies of the member states (TFEU, 2007, Article 127(2))? This distinction is fundamental: it is generally held that only the action of the ECB that falls under its secondary mandate requires political coordination of the ECB's action with other EU institutions (de Boer & van 't Klooster, 2022; Zilioli & Ioannidis, 2022), though coordination should also accompany the primary mandate (de Boer & van 't Klooster, 2020). The scope and degree of political accountability depend then on whether a decision falls under the primary objective.

The Court has provided an answer to that question: any actions that are *intended* to preserve the transmission mechanism (the singleness and effectiveness of monetary policy) fall under the primary mandate of the ECB (*Gauweiler and Others v. Deutscher Bundestag*, 2015, para 50). If the ECB demonstrates that link, any considerations it includes in its monetary policy measures are regarded as part of its price stability mandate with only "indirect effects" in other policy fields (*Gauweiler and Others v. Deutscher Bundestag*, 2015, para 52; *Weiss and Others*, 2018, para. 61). This interpretation can accommodate both a monetarist interpretation of price stability that prevailed in the first decade of the ECB (de Boer & van 't Klooster, 2020) and the conclusion that "green" monetary policy is still a monetary policy that can be pursued both as part of the ECB's primary mandate and of its secondary mandate, in abidance to the principles of conferral and of institutional balance (Zilioli & Ioannidis, 2022).

Thus, the law provides the means for a self-standing interpretation by the ECB of the boundaries of its primary mandate of price stability. Because of the specific EMU circumstances that we have already alluded to (Högenauer & Mendes, 2025), the pressure that political institutions can then exert to push for coordination is very little.

It follows from the above that the possible limits to how the ECB can lawfully exercise its powers are delimited by what the ECB can plausibly invoke and justify as pertaining to price stability, not by the norm of Article 127(1) TFEU. If, like any other public body, the actions of the ECB are also subject to judicial review, the ability of the courts to weigh in on the ECB's interpretation of its mandate is very limited.

3. The Limited Legal Accountability of the ECB

Much has been said regarding the suitable degree of judicial review over monetary policy decisions (e.g., Goldmann, 2014; Wendel, 2014, 2021), in particular following the unprecedented clash in the case of *Weiss* that led the German Constitutional Court to consider the judgment of the CJEU *ultra vires* (Dawson & Bobić, 2019; van der Sluis, 2019). No matter where one would stand in the debate before August 2020—the deadline by which the Bundestag considered itself satisfied with the explanations that the ECB gave—it is a fact that the intense judicial scrutiny that the German Constitutional Court applied, following a demanding application of the principle of proportionality, did not result in any substantive constraint to the action of the ECB. Its Public Sector Purchase Programme continued unscathed by the legal polemic, irrespective of possible heightened justifications of proportionality that may have ensued.

Legal accountability, including all three aspects of accountability to the law (to legal norms and standards), accountability through law (e.g., through courts), and accountability of law (i.e., the accountability of legal institutions to the public and each other) were at the heart of Dawson and Bobić's article in this thematic issue (Dawson & Bobić, 2025). They come to the damning conclusion that, in the realm of monetary policy, there is only limited evidence that legal standards meaningfully structure ECB activity (given the long history of re-interpretations), that judicial intervention improved political accountability or that the judicial dialogue contributed to the accountability of the courts themselves. Dermine and Markakis's (2025) analysis shows another important layer of this weak accountability: the ECB is one pillar of the European System of Central Banks, whose current centralisation can insulate national central banks from domestic accountability. Weaker accountability at the national level aggravates then the absence of strong accountability mechanisms at the European level.

4. The Marginalisation of Political Institutions

As the role of the ECB expanded, its goals—financial stability, the stability of the eurozone, the stabilisation of individual member states, the pursuit of green policies, and a more active geopolitical role—have deep political implications (e.g., Högenauer & Howarth, 2019; Weber & Forschner, 2014). However, the ECB's accountability to political institutions has not evolved to the same extent and contains too much of a voluntary element.

Beukers pointed out the undesirable lack of *formal* (*institutionalised*) instruments of political coordination (Beukers, 2013, pp. 1581–1582). Mersch (2018) also called for a dialogue between the ECB and elected institutions, echoing that independence cannot exist in a vacuum. Monetary policy and fiscal policy interact, and effective policies thus require a certain common understanding of treasuries and central banks. However, the treaties foresee almost no coordination—and little accountability to political institutions—beyond the fact that the ECB should support the general goals of the eurozone.

The ECB is required to report every two years on the completion of the eurozone. In addition, the president of the Council and a member of the Commission may participate in meetings of the Governing Council, but without voting rights (TFEU, 2007, Art. 284). The Council can submit a motion for deliberation to the Governing Council. The Council can invite the president of the ECB to relevant Council meetings. Finally, the ECB has to provide an annual report on the functioning of the European System of Central Banks and monetary policy to the European Parliament, the Council, and the Commission. The president of the ECB presents this report to the Council and the European Parliament, and members of the Executive Board can be invited to European Parliament hearings. However, the ECB is not obliged to take the comments of these institutions on board and these institutions have no powers to sanction the ECB. Formal political accountability remains low.

Nevertheless, the ECB has voluntarily agreed to interact with the European Parliament more than required, and it is also answering written questions. It also occasionally visits national parliaments, and it communicates with the general public through press conferences, the Economic Bulletin, weekly financial statements, the monetary accounts of Governing Council discussions and speeches, interviews, etc. Most recently, it has engaged in listening exercises where it allows citizens to express their concerns. While Heldt and Müller (2021) emphasise the improvements to the accountability structure, and Petit (2019) believes that the treaty framework is flexible enough to accommodate sufficient accountability in the future, Dawson and Bobić (2019) argue that the ECB is mainly accountable in procedural terms, but that there is almost no accountability in substantive terms. However, Kreppel and Tomasi (2025) noted a gradual change in attitudes, whereby MEPs increasingly ask *why* certain decisions have been taken instead of just asking for a summary of *what* decisions have been taken. Thus, they do pressure the ECB more on substance. Still, political accountability ultimately remains very soft. Argyroulis and Vagdoutis (2025) and Vermeiren (2025) similarly find that the communication and legitimisation strategies of the ECB have not kept up with its expanding powers, especially with powers that move into more politicised areas. De Haan (2025) criticises the level of accuracy of forward guidance and its potential impact on trust.

As long as the ECB aligns itself with political priorities, it may not seem problematic that the ECB works with a reinterpreted mandate that has been sanctioned by the ECJ but that has never been democratically sanctioned (van 't Klooster, 2018). Indeed, Vermeiren (2025), Quaglia and Verdun (2025), Diessner and Genschel (2025), and Donnelly (2025) agree that the interpretation of the ECB's mandate and its expanding toolkit generally reflected the political mood. However, as the list of areas of ECB activity grows, there is potential for clashes between different goals of the ECB and between the ECB and political institutions. As Issing (2021) muses: would an approach to climate change through the lens of price stability not also require the ECB to assess the inflationary effects of (legislative) climate policies, e.g., to neutralise the inflationary effects of carbon taxes? In addition, Donnelly (2025) provides several examples where the ECB did not follow political guidelines or priorities. Political priorities can also change: the 2024 European Parliament elections—and recent national elections in Europe—show that the enthusiasm for green policies is ebbing.

Several of the thematic issue articles (e.g., Diessner & Genschel, 2025; Donnelly, 2025; Quaglia & Verdun, 2025) argue that the ECB's broader mandate and toolkit allow it to adopt solutions that have output legitimacy, i.e., that address an objective need. However, the notion of output legitimacy is problematic: as discussed in the editorial (Högenauer & Mendes, 2025), a monetary policy decision usually produces effects that are beneficial to some and harmful to others. Who decides which output is legitimate? When the ECB sets targets based on a reinterpretation of its mandate, the question of what constitutes output legitimacy becomes even more blurred. Rehm and Ulrich (2025) provide key insights into the complexity of output legitimacy: they find that the ECB's performance in terms of price stability is not very relevant for public trust. The analysis of the years 1999–2023 shows that trust for all EU institutions is closely related and that the public wants them to collectively deliver low unemployment, but also low debt. From that perspective, the performance of the ECB during the crisis years is mixed, as it tried to support the economy by warding off the risk of deflation, but also created a more permissive environment for high public debt.

5. Conclusion

Underlying the key questions of the thematic issue (on the ECB's evolving mandate, its accountability, and legitimacy) was the compatibility of broad mandates composed of multiple objectives with a high degree of central bank independence, and the extent to which central banks can build priorities into monetary policy that should arguably be politically defined (e.g., on environmental policy, social inequality, etc.). The de facto transformation in central bank independence and the voluntary initiatives for more accountability can hardly replace formal treaty change. A key problem is the fact that both the mandate, on the one hand, and central bank independence concerning political interactions, on the other, have evolved—but the nature of their evolution is fundamentally different. Central bank independence has evolved informally. The ECB *voluntarily* interacts more with the public and political institutions, and it *voluntarily* aligns itself with political priorities. By contrast, the evolution of the mandate was vindicated by the Court of Justice. The ECB has gained the power to define its mandate very broadly to include a range of different objectives—as long as it can couch its actions as required to secure the monetary policy transmission mechanism. In addition, price stability can now be interpreted as potentially encompassing any policy that has an impact on price stability. The combination of these changes means that the ECB is today an institution that is legally and politically more powerful, but only voluntarily more accountable and politically responsive. Addressing this imbalance would require a fundamental revision of the EU treaties, which is not forthcoming.

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Conflict of Interests

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