

# Revisiting Central Bank accountability in light of climate change and inequality

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# Agenda

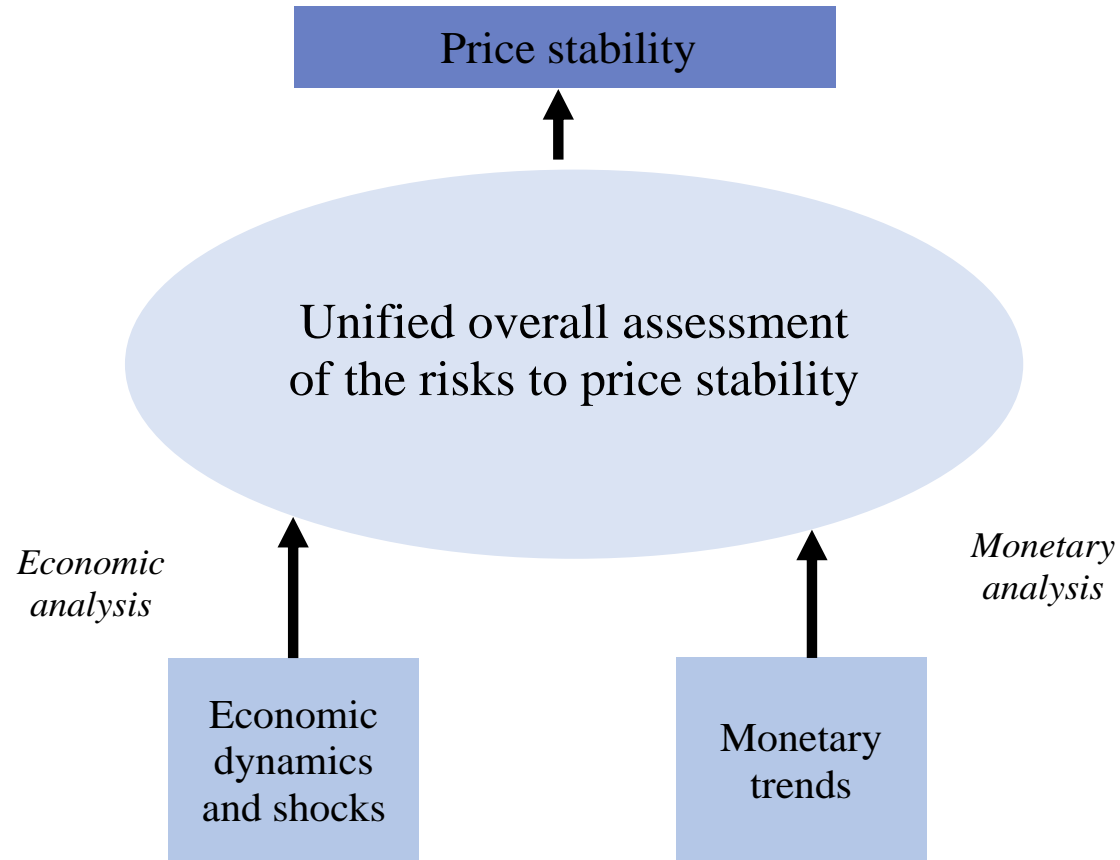
- Origins of ECB accountability
- The new reality: choices, trade-offs and authorization gaps
- Proposals to improve ECB accountability
- Conclusions

# Origins of ECB accountability

# Maastricht monetarist paradigm

- Far-reaching ECB independence as THE German condition
  - Well-defined, narrow mandate focused on price stability
  - One instrument (setting interest rates), one objective (price stability)
  - Monetary policy understood as a straight-forward technical task
- 
- Democratic legitimacy of the ECB's monetary policy rested predominantly on its legal mandate
  - Limited accountability to the European Parliament

# 2003 decision structure of the ECB



Definition of price stability  
(by the ECB):

Inflation rate below but  
close to 2 % over the  
medium term

# ECB mandate in the Treaty

“The primary objective of the [ECB] shall be to maintain price stability. Without prejudice to the objective of price stability, the [ECB] 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 of the Treaty on European Union. (...).”

Article 127(1) TFEU

# ECB independence in the Treaty

“When exercising the powers and carrying out the tasks and duties conferred upon them by the Treaties and the Statute of the ESCB and of the ECB, neither the European Central Bank, nor a national central bank, 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.

Article 130 TFEU

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Article 130 TFEU

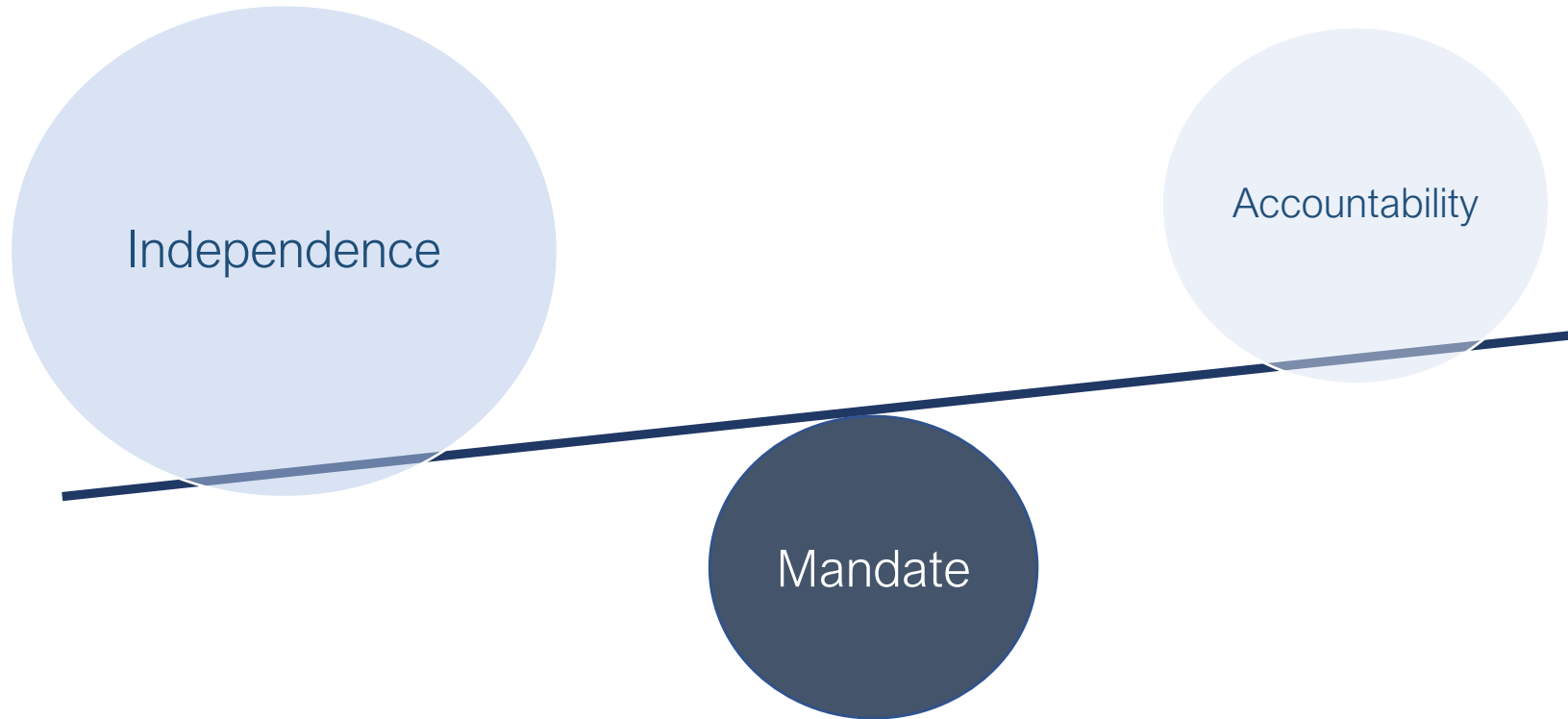
# ECB accountability in the Treaty

“The European Central Bank shall address an **annual report** on the activities of the ESCB and on the monetary policy of both the previous and current year to the European Parliament, the Council and the Commission, and also to the European Council. The President of the European Central Bank shall **present this report** to the Council and to the European Parliament, which may hold a general debate on that basis.

The President of the European Central Bank and the other members of the Executive Board may, at the request of the European Parliament or on their own initiative, **be heard by the competent committees of the European Parliament.**”

Article 284(3) TFEU

# “Accountable independence”



The new reality: choices, trade-offs  
and authorization gaps

# New challenges and authorization gaps

## Gaps

Sovereign bond  
market panic

## ECB decisions

Buying government  
bonds to stabilize  
markets

## ECB programmes

SMP, OMT, PSPP, PEPP

# Accountability through the Court?

“The ability of the [ECB] to influence price developments by means of its monetary policy decisions in fact depends, to a great extent, on the transmission of the ‘impulses’ which the [ECB] sends out across the money market to the various sectors of the economy. (...). Moreover, since **disruption of the transmission mechanism** undermines the effectiveness of the measures adopted by the [ECB], that necessarily affects the [ECB]’s ability to guarantee price stability.”

CJEU *Gauweiler*, para. 50

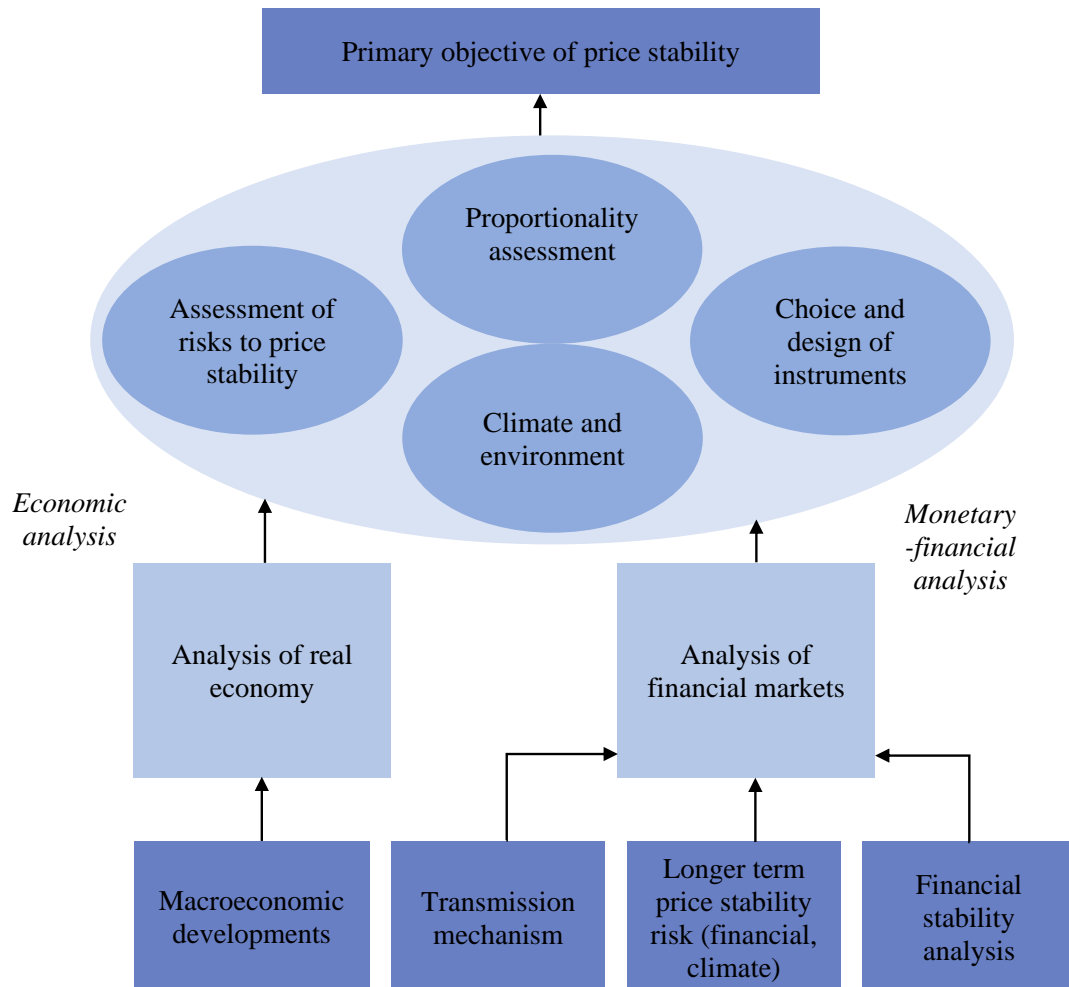
# New challenges and authorization gaps

Gaps	ECB decisions	ECB programmes
Sovereign bond market panic	Buying government bonds to stabilize markets	SMP, OMT, PSPP, PEPP
Environmental impact of operations	Implementing market-neutral policy	CSPP, collateral requirements on MROs and LTROs, PEPP

# New challenges and authorization gaps

Gaps	ECB decisions	ECB programmes
Sovereign bond market panic	Buying government bonds to stabilize markets	SMP, OMT, PSPP, PEPP
Environmental impact of operations	Implementing market-neutral policy	CSPP, collateral requirements on MROs and LTROs, PEPP
Impact of operations on inequality	QE over an extended period	CSPP, PEPP

# 2021 ECB strategy review



- New orientation towards long-term economic preconditions of price stability (climate change, financial stability)
- Acknowledgment of larger toolkit
- New proportionality assessment

“the Governing Council recognises the need to limit possible side effects of the new policy instruments and therefore remains committed to continuing to perform careful proportionality assessments and to adapting the design of measures related to these instruments with a view to **minimising side effects, without compromising price stability**” (ECB 2021, 9).

# Rediscovery of the ECB's secondary objectives?

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Article 127(1) TFEU

# Rediscovery of the ECB's secondary objectives?

“(…). [The Union] shall work for the sustainable development of Europe based on balanced economic growth and price stability, a highly competitive social market economy, aiming at full employment and social progress, and a high level of **protection and improvement of the quality of the environment**. (…).

It shall combat social exclusion and discrimination, and shall promote social justice and protection, equality between women and men, solidarity between generations and protection of the rights of the child. (…).”

Article 3(3) TEU

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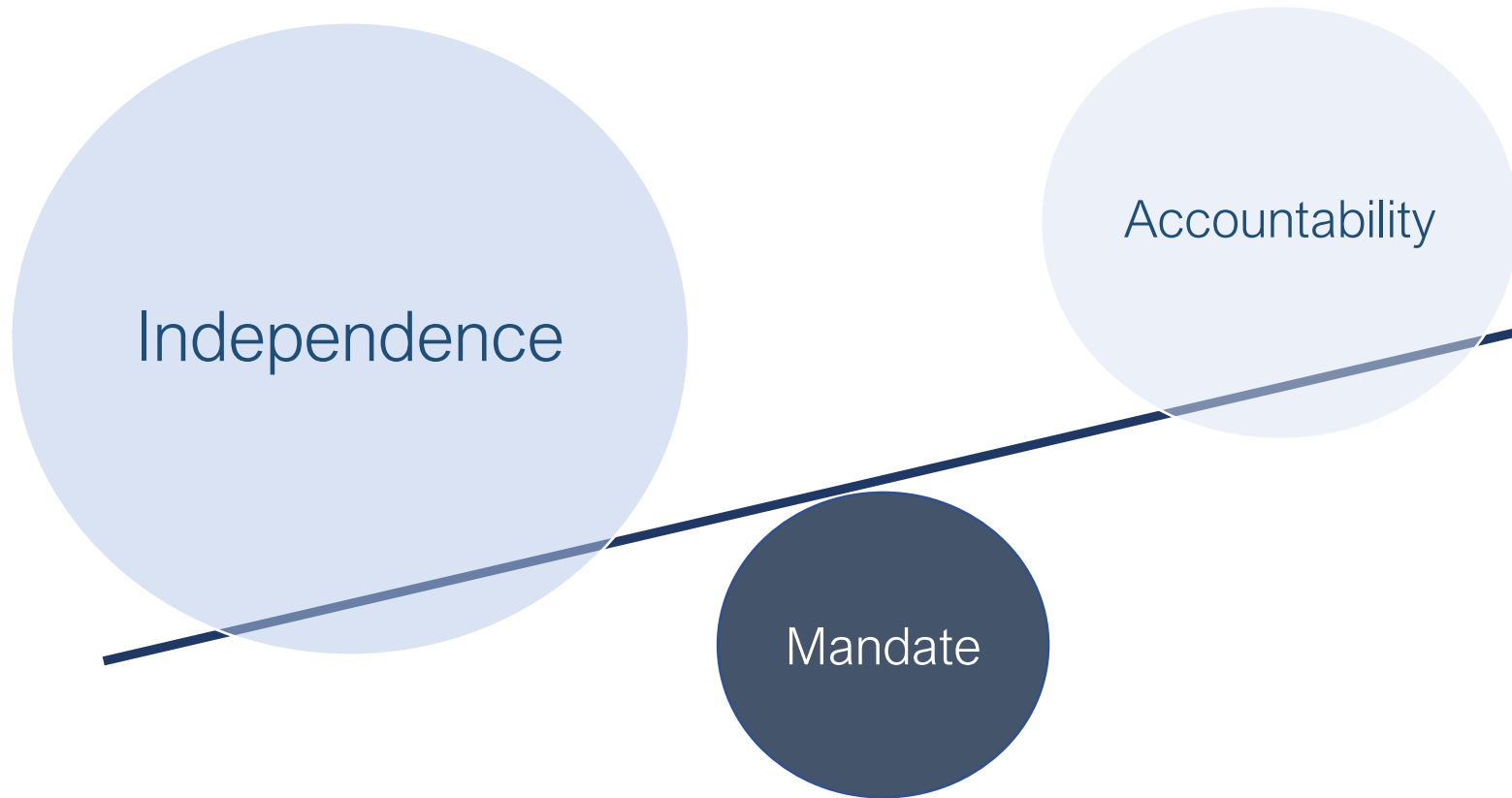
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Article 3(3) TEU

# Current ECB-EP accountability relations

ECB Annual Report	Article 284(3) TFEU
‘Monetary Dialogue’	Article 284(3) TFEU
Other communications with ECB	
Written questions by MEPs	Conventional practice
ECB feedback on EP annual resolution	Conventional practice
Annual visits to the ECB	Conventional practice

# Still “accountable independence”



# Proposals to improve accountability

Report commissioned by a party within the EP (with Jens van 't Klooster)

# An interinstitutional agreement on monetary policy?

## INTERNATIONAL AGREEMENTS

**Interinstitutional Agreement between the European Parliament and the European Central Bank on the practical modalities of the exercise of democratic accountability and oversight over the exercise of the tasks conferred on the ECB within the framework of the Single Supervisory Mechanism**

(2013/694/EU)

THE EUROPEAN PARLIAMENT AND THE EUROPEAN CENTRAL BANK,

- having regard to the Treaty on European Union,
- having regard to the Treaty on the Functioning of the European Union, in particular Article 127(6) thereof,
- having regard to Parliament's Rules of Procedure, in particular Rule 127(1) thereof,
- having regard to Council Regulation (EU) No 1024/2013 of 15 October 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions <sup>(1)</sup>, in particular Article 20(8) and (9) thereof,

# An interinstitutional agreement on monetary policy?

## EP resolution on the ECB's Annual Report 2020

“[The European Parliament] calls for the negotiation of a formal interinstitutional agreement to formalise and go beyond the existing accountability practices regarding monetary functions;”

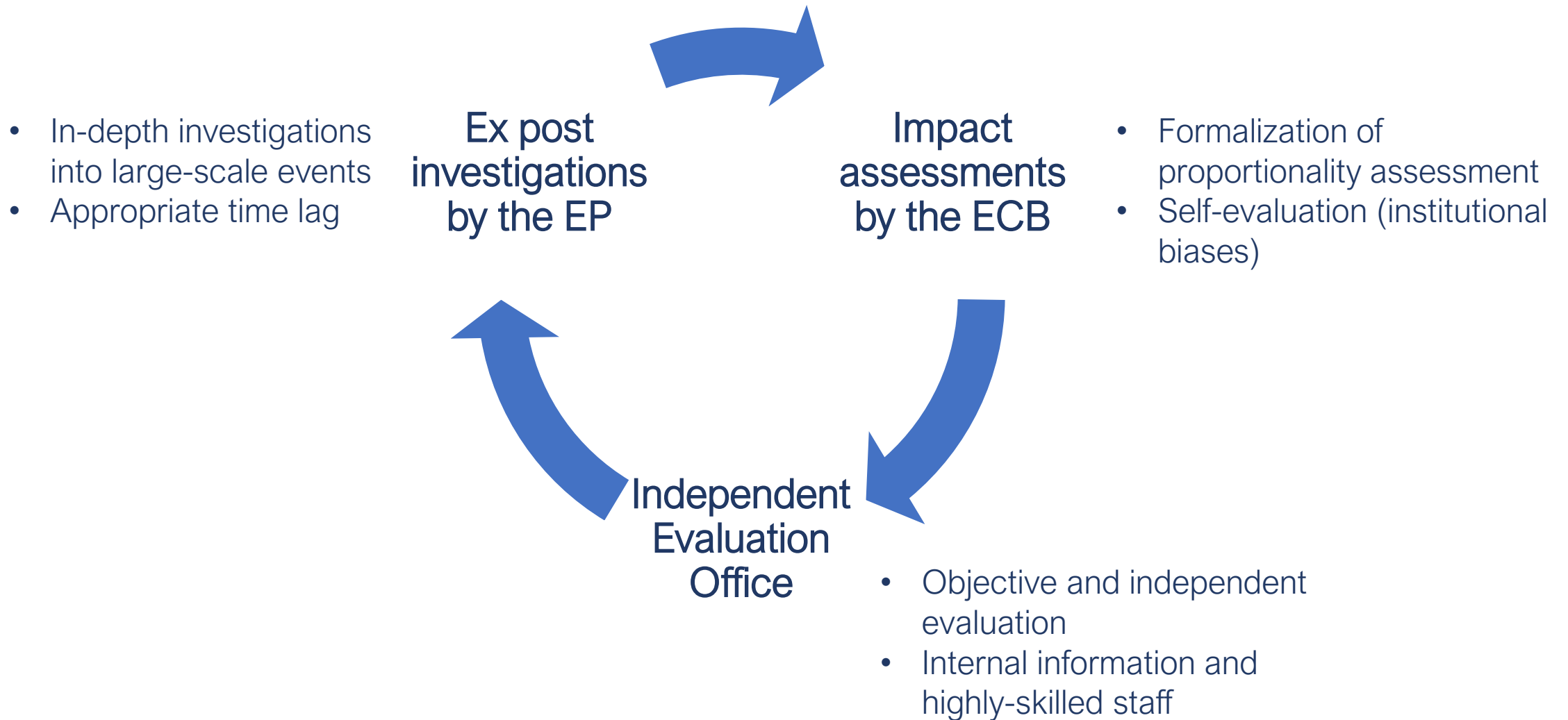
## ECB feedback to the resolution

“(...) any change [of the existing accountability practices] should build on provisions of EU primary law which set out explicit accountability obligations for the ECB, respect the principle of central bank independence and are flexible enough to cater for current and future demand for scrutiny of the ECB's actions.”

# Two axes of improvement

1. Enhancing democratic justification of policies
2. Introducing an element of democratic authorization with a view to secondary objectives

# Enhanced democratic justification



# Democratic authorization

- EP gives its interpretation of the secondary objectives
- EP incorporates reference to the ECB's supporting role in legislation
- ECB consults EP on evolving strategy

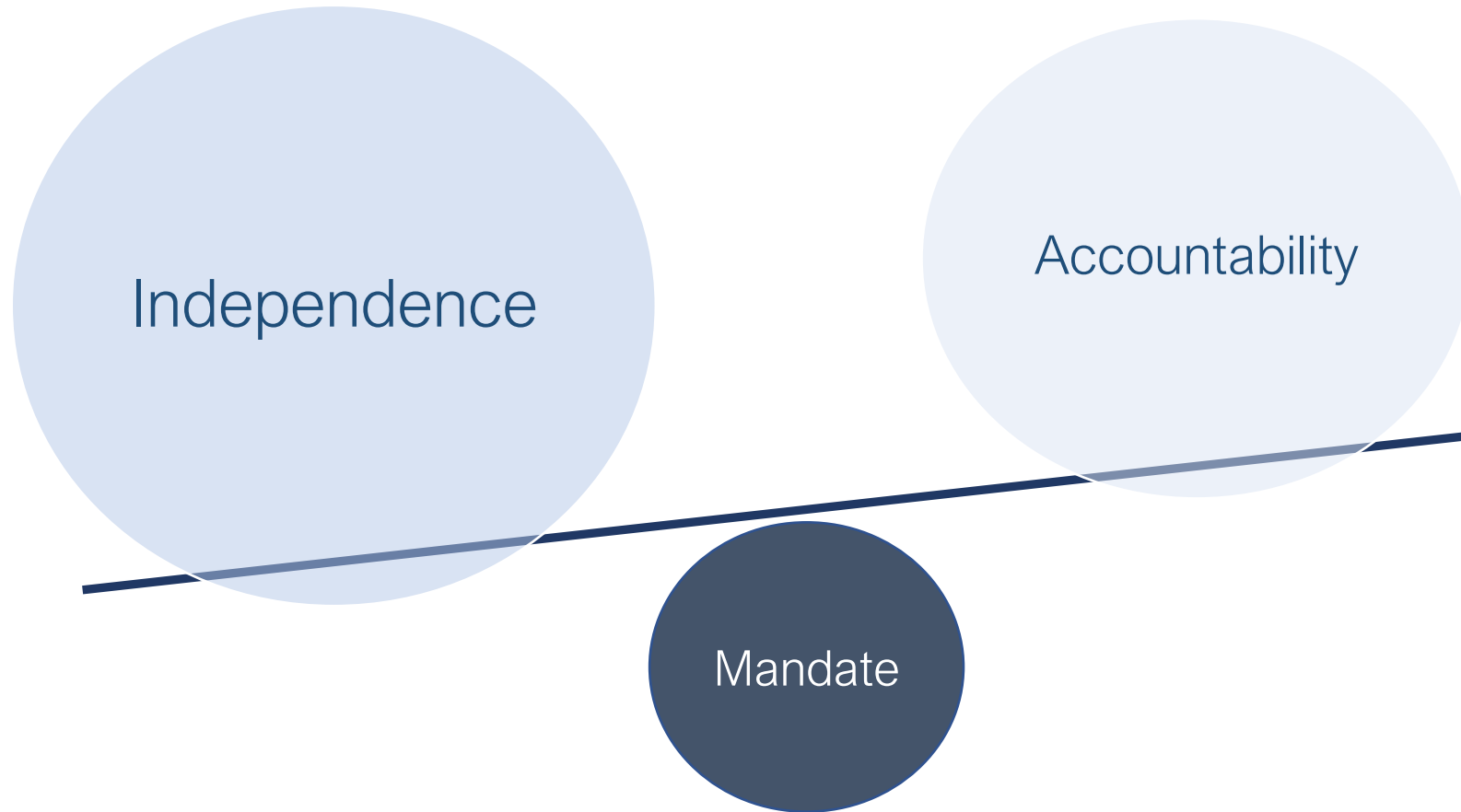
# Conclusions

# Is that the end of Central Bank independence?

“Central bank independence was nice while it lasted, but it owed a great deal to the supporting conditions that enabled it to achieve such great success in its early years. RIP.”

Goodhart and Lastra (2018)

No... but more political guidance to support ECB choices is needed



Thank you for the  
attention!

