The World’s Most Powerful Technocratic Organization: The Evolving Accountability of the European Central Bank

Michele Chang, College of Europe

michele.chang@coleurope.eu

ABSTRACT

The European Central Bank enjoys a large degree of independence due to the academic and policy consensus that independent central banks achieve better results in the pursuit of price stability. Since the 1999 founding of the ECB, however, the academic consensus has changed: no longer is European central banking limited to conventional monetary policy, it now includes broader objectives with stronger redistributive consequences. The ECB’s tasks (along with those of other central banks) has expanded since the onset of the global financial crisis—has its accountability structure kept pace. This paper evaluates the evolution of the ECB’s accountability structure in light of its new functions. The evolution is incremental in a way that does not correspond fully to the new tasks. While the increased transparency and dialogue are improvements over the pre-crisis system, the ECB’s accountability deserves more thorough consideration in the next round of euro area governance reform.

1. INTRODUCTION

The European Central Bank (ECB) is famously one of the most independent central banks in the world. This independence was founded on an academic consensus on the utility of an independent central bank in achieving price stability. Moreover, the success of the US and particularly Germany in combatting inflation was credited to their respective independent central banks. Despite some concerns over the democratic legitimacy of independent central banks, the academic and political momentum towards central bank independence was in full swing by the 1990s. The creation of the highly independent ECB reflected this consensus, and the ECB’s role was viewed as technocratic rather than redistributive.

After the global financial crisis and the sovereign debt crisis, however, the ECB has an expanded role in euro area governance. Not only has it engaged in controversial unconventional monetary policy in its core policy field, it has also extended its functions formally (as the Single Supervisory Mechanism) and through the expansive use of previously little-used roles such as government advisor (bilaterally and through the troika). While market reaction to the ECB’s expanded role was initially positive, concerns that the ECB has used up its policy arsenal has led to the end of the so-called “love affair” with markets (Khan 2016) and called into question the ECB’s prominence. Moreover, public opinion has also been increasingly skeptical of the ECB’s actions (Roth 2016). Finally, the ECB’s actions have prompted several legal challenges, albeit unsuccessfully.

Considering the expansion of the ECB’s activities, has its accountability structure kept pace? This paper analyses the ECB’s accountability structure, focusing on its relationship with the European Parliament. Considering the range of the major innovations of the ECB’s role in euro area governance over the last decade, this paper argues that the ECB has taken on a distinctly political character (Torres 2013) with fiscal implications (Hogenauer and Howarth 2016) that demand further accountability. Part 2 of the paper looks at the original logic of an independent central bank in Europe that rested on the expectation that the ECB would be a technocratic institution with a narrow mandate. Part 3 provides an overview to the expansion of the ECB’s activities. Part 4 looks at the evolution of the ECB’s accountability structure, focusing on its relationship with the European Parliament and the Monetary and Banking Dialogues. Part 5 concludes.

2. THE TECHNOCRATIC ORIGINS OF THE ECB

Why did EU member states delegate monetary authority to an independent central bank? The creation of an independent ECB was part of a larger trend internationally. First, central bank independence had gained widespread academic acceptance in the 1980s and 1990s. According to the literature on time inconsistency, governments have an incentive to renege on monetary commitments (such as a commitment to maintain stable prices) in order to generate “surprise inflation”, thereby stimulating output and employment in the short term. If inflation is anticipated by markets, however, higher inflation without growth ensues (Kydland and Prescott 1977). Indeed, studies have indicated that political business cycles occur in which governments try to engineer inflationary booms prior to elections in order to give the impression of economic prosperity (Nordhaus 1975), with governments of the left prone to generating low unemployment–high inflation economies, and governments of the right high unemployment–low inflation (Hibbs 1977). Given that people (and markets) understand these incentives, surprise inflation cannot occur systematically. To make matters worse, a vicious cycle is created when market actors do not believe government commitments to price stability. For example, if wage-setters expect inflation to rise, they will demand a commensurate increase in wages in order to offset the expected increase. This results in higher inflation, even if the government does not pursue inflationary policies – the expectation of inflation is enough to set the dynamic in motion.

Better macroeconomic outcomes could be achieved through credible policy commitments (Barro and Gordon 1983). Institutionally, this could be done by placing a conservative central bank in charge of monetary policy that places “large, but finite” weight on maintaining price stability (Rogoff 1985). Empirical studies have confirmed that economies with an independent central bank enjoy greater price stability (Cukierman 1992; Alesina and Summers 1993). In Europe, the success of the German Bundesbank in guarding price stability during the stagflation of the 1970s was widely acknowledged, and its independence made it an important actor both economically and politically. From the perspective of the Bundesbank, its fixation with price stability can be seen as the manifestation of Ordoliberal ideas prominent among German policymakers (Dyson 2009).

The rationale for the degree of central bank independence is therefore its need to achieve the relatively narrow mandate of price stability. According to the Maastricht Treaty Article 127.1 TFEU,

the primary objective of the ESCB shall be to **maintain price stability**… [and] without prejudice to the objective of price stability, the ESCB shall 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 (emphasis added)

Therefore, other economic objectives (such as economic growth or employment) can be pursued as secondary activities, and only to the extent that their pursuit does not impinge on price stability. Thus, the Maastricht Treaty enshrined the principle of monetary dominance through the ECB’s independence, price stability mandate, and monetary financing prohibition. Monetary dominance refers to the setting of interest rates without regard to fiscal policy, which then adjusts to monetary policy. Fiscal dominance implies the setting of fiscal policy independently of monetary policy, which tends to result in inflation and government debt (Sargent and Wallace 1981). Fiscal policy cooperation was limited to the setting of debt and deficit limits among the member states. No budget was created for the euro area, and the prospect of fiscal transfers was an anathema to countries like Germany. The ECB’s role was therefore proscribed so that its decisions would not have distributive consequences.

The ECB’s independence therefore rests on the assumption that it enables its pursuit of price stability and its other activities would be subservient to this objective. It independence spans institutional (no taking of instructions Art. 130), functional (over relevant policy instruments Art. 132), personal (secured tenure of office, Art. 283.2); and financial (own budget, Art. 282.3) independence. The ECB has defined price stability as “a year-on-year increase in the Harmonized Index of Consumer Prices for the euro area of below … but close to 2% over the medium-term” (ECB website), further underlining its independence in its ability to operationalize the treaty-mandated goal of price stability. In order to achieve price stability, the ECB employs interest rate policy, short-term liquidity management and communication, using instruments like open market operations, standing facilities, and minimum reserve requirements for credit institutions (ECB website). In the wake of the crisis, the limitations of the ECB’s focus on price stability as currently defined have become clear, as it has “meant that the effects of interest rates on exchange rate and asset prices are largely ignored… which contributed to the evolution of the financial crisis” (Arestis and Sawyer 2011, p.29). Finally, the Maastricht Treaty included a no-monetary-financing rule that prohibits the ECB from providing governments with a liquidity backstop. This legally prohibits the ECB from buying sovereign bonds in primary markets (which would be a direct purchase), but not in secondary markets.

According to Article 130 TFEU:

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. The Union institution, bodies, offices or agencies and the governments of the Member States undertake to respect this principle and not seek to influence the members of the decision-making bodies of the European Central Bank or of the national central banks in the performance of their tasks.

The Maastricht treaty also envisaged a role for the ECB in financial supervision and as a government advisor. Concerning financial supervision, Article 127.5 declares that the ECB “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.” The Treaty Protocol on the ECB (Articles 25.1 and 25.2) created the legal possibility of delegating financial supervision to the ECB, though it supported the status quo of national supervision (Padoa-Schioppa 1999, cited in Giavazzi and Wyplosz 2015). Article 127.4 TFEU establishes its advisory role to governments, noting that it shall be consulted on any acts or legislation “in its field of competence” by national authorities. Moreover, the ECB “may submit opinions to the appropriate Union institutions, bodies, offices or agencies or to national authorities on matters in its fields of competence.”

Prior to the global financial crisis, however, the ECB’s actions in these areas were relatively limited. Most analysts focused on the independence of the ECB and its pursuit price stability. The delegation of monetary policy to an independent central bank had already become widespread by the 1990s, and price stability was seen as an essential element of macroeconomic stability (Cukierman 1992; Grilli et al. 1991).

Some had protested the view of central banks as technocratic actors and voiced concern about the political nature and ramifications of the ECB’s policies even before the crisis (Howarth and Loedel 2003). In contrast to those that viewed monetary policy as relatively apolitical in its distributional implications, McNamara (2002: p.48) argued that “delegation to independent central banks produces partisan policies, with significant distributional effects.” Nevertheless, the low inflation and steady growth during the period referred to as the Great Moderation seemed a vindication of the emphasis on central bank independence.

3. CREEPING COMPETENCE AND THE ECB IN THE SOVEREIGN DEBT CRISIS

The global financial crisis exposed weaknesses in the reigning policy paradigms of central banking. Monetary policy targeted price stability with no concern for the build-up of asset bubbles (Mishkin 2007). During the sovereign debt crisis, new threats arose and the ECB shifted its focus. No longer was inflation the biggest concern among policymakers. Instead, the euro area underwent an existential crisis as a result of the sovereign debt crisis. Euro area governments struggled to identify the policy mix needed that would calm markets as well as domestic political forces in both creditor and debtor countries. As a seemingly endless cycles of summits attempted unsuccessfully to quell the crisis, the ECB’s actions bought policymakers additional time (Yiangou et al 2013). Moreover, its treaty-defined roles in government advisement and financial supervision were expanded substantially, particularly when it became a troika member and the Single Supervisory Mechanism. Finally, the prospect of deflation loomed over the euro area, prompting the ECB to respond aggressively. Saving the euro and fighting off deflation, however, included measures that extended beyond conventional monetary policy. A recent Transparency International report argued that “the ECB is left with little choice in the current institutional architecture of EMU, which allows elected politicians to shirk their responsibilities, thus forcing unelected technocrats to do the ‘dirty work’ for them” (Braun 2017, p.17)

**3.1 Lender of last resort**

First, the ECB undertook actions that some had construed as acting as a lender of last resort (LOLR) to sovereigns, which is legally prohibited (Buiter and Rahbari 2012). A lender of last resort (LOLR) ensures the stability of the financial system by providing liquidity to a single financial institution or the financial system as a whole during times of crisis, balancing concerns over moral hazard and contagion (Hu 2014, p.630). The moral hazard concern refers to the possibility that a government will be lenient in its financial supervision and the financial institutions will engage in risky behaviour if both are confident that the central bank is ready to provide assistance. According to this logic, the central bank should not intervene readily in order to prevent such behaviour. The contagion concern is that problems in one financial institution will spread to others, causing a crisis of confidence and broader instability throughout the financial system. According to this logic, the central bank should intervene quickly and decisively to stem such contagion. A 1998 IMF report cautioned that the ECB would be expected to support financial stability without the necessary tools to either determine creditworthiness of counterparties or directly support banks that were solvent but temporarily illiquid (cited in Braun 2015). This issue would not resolved until it became the Single Supervisory Mechanism (see below). During the crisis, the ECB eased liquidity not only through its standard monetary policy but also its unconventional monetary policy and its provision of Emergency Liquidity Assistance. The reason that these operations have caused concern is that they have implications for the ECB acting as lender of last resort to sovereigns as well as banks, which is strictly prohibited by the Treaty.

In May 2010 the ECB launched the Securities Market Program (SMP) in which it purchased the sovereign debt of peripheral economies like Greece, Ireland, Spain, Portugal and Italy on secondary markets. The ECB justified this as necessary to “restore an appropriate monetary policy transmission mechanism” (ECB 2010b, cited in Braun 2015 p433). This entails a certain amount of risk for the ECB in that it was purchasing the sovereign debt of countries with a questionable ability to service their debt. The expansion of the ECB’s balance sheets with lower quality assets meant that a sovereign default would lead to losses for the ECB. These losses would be distributed among its shareholders, the euro area member states, and would ultimately be paid for by their respective taxpayers. Moreover, the ECB was not purchasing sovereign bonds of all euro area members, it was purchasing those that experiencing trouble refinancing on financial markets due to their high public debt levels (assumed to be Greece, Portugal, Spain, Italy, and Ireland—see Buiter and Rahbari 2012). This arguably promoted moral hazard as it removed incentives for these governments to enact fiscal consolidation and structural reforms.

The ECB justified this move on the ground of needing to “restore an appropriate monetary policy transmission mechanism, and thus the effective conduct of monetary policy oriented towards price stability in the medium term” (ECB glossary). Others viewed it differently, particularly German central bankers. The ECB’s bond purchases had the effect of lowering bond yields and arguably could be construed as an indirect monetary financing of governments. Moreover, the ECB could be liable for the peripheral countries’ debt if they were to default. Bundesbank President Axel Weber resigned in February 2011, having publicly opposed the SMP. In September 2011 ECB Executive Board Member Jürgen Stark also resigned, a move that was interpreted as a protest against the SMP (Müller et al. 2011). The SMP was suspended in January 2011, resumed in August 2011, and ended in September 2012.

After Standard & Poor downgraded Italian debt in May 2011 provoked market pressure on Italian bonds, Finance Minister Tremonti vowed to “intensify”[[1]](#footnote-1) reforms. ECB President Trichet and Banca d’Italia President Draghi in their August 2011 letter urged the government to undertake structural reforms and improve public finances. By November Italian bond yields over German bunds soared to 491 basis points and new ECB president Mario Draghi “played his part in piling the pressure” on Berlusconi, limiting ECB purchases of Italian bonds (Dinmore 2011).[[2]](#footnote-2) The Italian parliament passed the austerity measures demanded by the EU, prompting Berlusconi’s resignation on 12 November 2011.

During this critical period of the euro area’s first concerted response to the burgeoning sovereign debt crisis, the ECB’s role was not only in the initiation of the SMP, it also role in building alliances among the key actors in favour of the Greek rescue. Fontan (2013: p.39) quoted one participant’s assessment of the key role played by the ECB: “The German members of the [Economic and Finance] Committee said that there was only one person that Merkel would listen to, and that was Trichet, no one else. Not Sarkozy, and certainly not Barroso.” On 7 May 2010 Trichet counselled the heads of state and government to establish a system of financial assistance for Greece and informed them that the Board of Governors had approved the SMP.

Nevertheless, the ECB strived to maintain its status as a technocratic institution and not a political one. When Draghi was asked early in his presidency of the ECB, he denied that it was becoming a lender of last resort to governments. Draghi stated, “No, I do not think that this is really within the remit of the ECB. The remit of the ECB is maintaining price stability over the medium term” (Draghi 2011). Yiangou et al. (2013) also have countered charges that the ECB acted as lender of last resort, arguing that the SMP interventions were limited, much more so than governments (who were hoping for a Federal Reserve-style quantitative easing program) were pressuring the ECB to do.

In addition to SMP, the ECB launched several series of long-term refinancing operations (LTROs) in 2010 in which it allowed banks to borrow money at the main refinancing rate. In December 2011 the LTROs were adjusted so that banks could obtain financing for just 1 percent during a three-year period (the previous round of LTROs had a duration of 1 year). A second round was launched in February 2012. The official explanation was “to support the liquidity situation of euro area banks” (Draghi 2011). The LTROs were also viewed as a way to make it easier for Spanish and Italian banks to purchase the debt of their sovereigns in primary markets. Indeed, 70 percent of the initial LTROs were purchased by banks from peripheral countries. French President Nicholas Sarkozy even seemed to think that they were designed specifically to encourage banks to buy sovereign bonds at low rates (Barber and Atkins 2011). The LTROs thereby strengthened the link between the domestic banking system and public finances that had been wreaking havoc on peripheral economies: as banks weakened, the prospect of a bailout weakened the financial stability of sovereigns. The reverse was also true, as the public finances appeared less sustainable, the stability of the financial system became more precarious because banks held large amounts of sovereign debt on their balance sheets. The LTROs exacerbated this as it encouraged banks to purchase even more sovereign debt (E. Jones 2013). Buiter and Rahbari (2012: p.22) termed it “subsidized bank funding and financial repression,” and Schelkle went as far as to deem it as “quasi-fiscal” role for the ECB (Schelkle 2014: p.105).

Finally, in July 2012 ECB President Mario’s Draghi’s famous “whatever it takes speech” vowed that the ECB would defend the euro. This was operationalized with the Outright Monetary Transactions (OMT) in which the ECB would make unlimited bond purchases on secondary markets for countries that were under a conditionality program as part of a bailout from the European Stability Mechanism (ESM) or its predecessor, the European Financial Stability Facility. Markets welcomed the announcement with sharply falling bond yields, as the announcement had effect of removing concerns over currency redenomination or a euro area breakup (Chang and Leblond 2015). The Bundesbank, however, opposed the OMT publicly, and the German constitutional court questioned its legality. The criticisms against the SMP were transferred to the OMT as it was a bigger and more extensive version of the former that therefore created larger risks for the ECB in terms of its potential generation of inflation and moral hazard. Stark (2012) referred to OMT as “out of mandate” transactions. The OMT immediately relieved market pressure, and many believe that the ECB “made the right decision to become the lender of last resort” (De Grauwe 2013: p.11), though others described it as less of a LOLR program and more they kind of lending program typically done by the IMF due to its conditionality (Mody 2015). Though it has never been used, the OMT furthered claims that the ECB was an unofficial LOLR to euro area banks and had possibly overstepped its mandate (Buiter 2014).

The ECB’s unconventional policy is not a straightforward extension of power in the sense that there was no transfer of competence to the European Central Bank. The ECB used its existing competence in a way that some have argued exceeds its legal mandate, in which case they would argue that it has acquired additional powers illegally. However, one could still assume an extension of the ECB’s influence through its unconventional policymaking, even without going so far as to assume that the ECB became lender of last resort to sovereigns, as a spillover process had occurred.

In addition to the unconventional monetary policy, the ramifications of conventional roles for the ECB as lender of last resort to banks (as opposed to sovereigns) also became more significant. Specifically, the granting or withdrawal of the ECB’s emergency liquidity assistance (ELA) has often meant the difference between whether or not a government needed to apply for a bailout. The threat of ELA withdrawal at times came with ECB suggestions for policy measures that the government should take to prevent such a decision.

ELA occurs when Eurosystem national central banks provide funding to financial institutions outside of monetary policy operations. The national central bank assumes primary financial responsibility for ELA, so the costs and risks are assumed by the NCBs (though the Governing Council takes decisions on the ELA for requests exceeding €2 billion by a 2/3 majority and has the option of objecting to or limiting ELA). ELA can only be provided to solvent financial institutions, as it would otherwise contravene the Treaty’s prohibition against monetary financing (Praet 2016). However, “there is a fine line between liquidity and solvency needs, which in a crisis is often blurred” (Coeré 2013). Moreover, despite temporary nature of ELA, “Greece, Ireland and Cyprus have used it in the past during their crises to prop up their banks for months at a time” (M. Jones 2015). Information on ELA is scarce, as the ECB contends that “flexibility and discretion are also essential in order to guard against the risk of moral hazard” (ECB 2008: p.124). Statistics on ELA are available under the heading “other claims on euro area credit institutions denominated in euro” in the weekly ECB eurosystem financial statements.

After its generous liquidity provisions following the fall of Lehman, the ECB shifted its strategy in June 2010 once the European Financial Stability Fund went into effect, trying to discontinue its ELA to the banks of countries under pressure, including Ireland, Spain and Portugal (Gabor 2014). Nevertheless, the ECB introduced some new innovations to ELA. First, the duration of assistance was lengthened. Second, assistance was no longer limited to individual banks but could include entire financial systems (Praet 2016). Despite trying to make banks less dependent on ELA, it has boosted its capacity to support ailing banks.

The decision to provide liquidity had a decisive effect on a government’s ability to prevent a possible default. The ECB at times used this influence government policy, as in the aforementioned case of Ireland in 2010. The Irish government had commissioned a report on the causes of the crisis and found that “the ECB…put the government under undue pressure to enter a program, but also insisted that there would be no burden sharing with bondholders” (Houses of the Oireachtas 2013: p.4). The letter to Finance Minister Lenihan “threatened that it would not continue to provide ELA support for Irish banks if Ireland did not enter into a bailout program” (Houses of the Oireachtas 2013: p.16). In summary, “The situation was clear: if the terms of the letter were not adhered to, Irish Covered institutions would not receive any further emergency liquidity assistance from the ECB” (House of the Oireachtas 2013: p.343), with the ECB’s communication with the government “very close to being an instruction” according to Kevin Cardiff, secretary general of the Department of Finance (House of the Oireachtas 2013: p.365).

The ECB again used the threat of ELA withdrawal in March 2011 “to prevent the Government from imposing losses on senior bondholders….[which] contributed to the inappropriate placing of significant banking debts on the Irish citizen” (Houses of the Oireachtas 2013: p.17). This “intervention of the ECB appears to have been critical” (Houses of the Oireachtas 2013: p.367).

ELA support was also instrumental to the survival of Greek banks. In 2010 bank deposits amounted to €233 billion, plunging to €165 billion by March 2012. Between the autumn of 2009 and March 2012, the market capitalization of major Greek banks had declined by 93% (National Bank of Greece and Piraeus Bank), 94% (Alpha Bank) and 96% (EFG Eurobank). The private sector involvement that had been agreed upon in early 2012 in which private investors took a “haircut” on their holdings amounted to a loss of €24 billion for the country’s four largest banks. The Greek central bank governor had to continually ask the ECB Governing Council to renew ELA, as well as allow Greek banks to enjoy lax collateral requirements to obtain fresh money from the ECB (Seith 2012).

During the latest installation of the Greek crisis in 2015, the ECB no longer accepted Greek sovereign debt (including bank bonds with sovereign guarantees) for lending to banks once the support of its troika creditors was no longer assured. Loans to Greek banks therefore switched into the category of ELA (Wallace 2015, p.150), which shot from €50 billion in February to €90 billion in June (Gὂtz et al. 2015). The ECB Governing Council removed the waiver of minimum credit rating requirements for Greek government bonds in February that had allowed Greek banks to access normal refinancing operations despite not achieving minimum credit rating requirements (Merler 2015). The ECB did so on the basis of its doubts concerning “a successful conclusion of the program review” (ECB 2015).

ECB ELA decisions again made headlines in June 2015 as the Tsipras government announced its intention to hold a referendum on the terms of a new bailout while requesting an extension of the current bailout that was set to expire. On 27 June the Eurogroup declared its refusal to the request for an extension beyond 30 June. On 28 June the ECB said that it would not increase its ELA to Greece. By this time, the combined lending of the ECB and the Bank of Greece amounted to 71% of Greek GDP, mainly through ELA. Without ELA, the Greek financial system would have collapsed and led to the “Grexit” scenario. According to an ECB Executive Board member, ELA was withdrawn when the Governing Council deemed it unlikely that the Greek government would negotiate successfully with the European institutions regarding the end of the second Greek bailout (Praet 2016). Unable to access ELA, Greek banks subsequently closed for a week. Upon reopening, capital controls were introduced. While the Greek referendum came back positive, the experience convinced the Greek government to negotiate another bailout that would demand further austerity and structural adjustment.

In the case of Cyprus in March 2013, ELA held up its two largest banks, the Bank of Cyprus and Laiki. Government bonds from the Cypriot government had ceased to be accepted as collateral in the ECB’s regular liquidity operations since the previous June, prompting the use of ELA. ECB Board Member Jὂrg Asmussen indicated that Cypriot banks would be considered insolvent unless they were quickly recapitalized, stressing that “we did not threaten [to cut off liquidity] but just pointed out as a matter of fact that we can provide emergency liquidity only to solvent banks and that the solvency of Cypriot banks cannot be assumed if an aid program is not agreed on soon” (Clover, et al. 2013). The ECB decided to end its ELA on 25 March. After this date, “ELA could only be considered if an EU/IMF program is in place” (ECB 2013). Although it had made similar comments before to government leaders, this was the first time the ECB had done so publicly, increasing pressure on the Cypriot politicians who had earlier in the week rejected a bailout deal that would have included a levy on depositors (Lawton et al. 2013). In order to avoid a bank run, a bank holiday was declared until March 28 and capital controls were imposed. The ECB’s threatened to stop its liquidity assistance and was instrumental in the Cypriot government’s decision to consent to the euro area’s bailout program (Schimmelfennig 2015).

The extensive use of ELA once again indicates the tension of EMU as a monetary union without a fiscal union as the spillovers that occurred did so without a corresponding increase in accountability despite their redistributive nature. ELA has allowed the ECB to sidestep issues regarding bank bailouts and resolution, which would have clear fiscal implications (Giavazzi and Wyplosz 2015).

**3.2 Financial supervision**

Second, in addition to LOLR the ECB became financial supervisor to the euro area. In June 2012 the European Council agreed to the creation of a banking union composed of a single supervisory mechanism (SSM), single resolution mechanism, and the single rulebook. The SSM was created under the aegis of the ECB in cooperation of national supervisory authorities. It directly supervises the largest and most important banks of the euro area since 2014. Banking union is the most significant steps in European economic integration since the introduction of the euro, and its role as the SSM puts the ECB at the heart of it.

The ECB had long been a proponent of acquiring additional supervisory authority; shortly after the introduction of the euro, it already argued for the merits of assuming this role (ECB 2001). After the global financial crisis, the ECB renewed its efforts for a greater role in financial supervision. ECB Vice President Lucas Papademos suggested that the ECB could work together with national central banks and take over the supervision of cross-border banks (*Wirtschaftswoche*, 4 January 2009). The ECB was suggested to the High Level Working Group (including by ECB representatives) to conduct financial supervision, but it was rejected out of concern for potential conflicts of interest between the ECB’s conduct of monetary policy and its micro-supervisory role (De Larosiere 2009). Nevertheless, the ECB did acquire a role in the macro-supervision by heading the new European Systemic Risk Board, which would replace the Banking Supervision Committee of the ECB. However, the institutional weakness of the new European Banking Authority made it difficult for it to be able to perform effectively, particularly its lack of independence (Masciandaro, Nieto and Quintyn 2011).

As the crisis wore on, the ECB continued to lobby for the need for European-level financial supervision. On 25 April 2012 Mario Draghi spoke before the European Parliament and argued, “Ensuring a well-functioning EMU implies strengthening banking supervision and resolution at European level” (Draghi 2012). The ECB had heavily supported euro area banks during the sovereign debt crisis, and Draghi preferred to centralize financial supervision, though he did not name the ECB directly and other bodies were speculated as possibilities. Others at the ECB were more forthright in their support for the ECB to assume banking supervision; French Central Bank Governor Christian Noyer connected the ECB’s successful track record to its potential to serve as a credible banking supervisor:

 “Building on the success of the single monetary policy, we must now establish a single supervisory system organized along the same lines: centralization of decision-making and decentralization of implementation. The ECB and national central banks are well-equipped to be the backbone of the financial union.” (Noyer 2012)

ECB Vice President Vitor Constâncio outlined the benefits and costs of giving the central bank supervisory powers in a speech delivered on 7 September 2012 (Constancio 2012). Constâncio concluded that “Indeed, the experience during the financial and sovereign debt crises has demonstrated the benefits of including banking supervision under the central bank’s purview.”

Insider accounts attest that “Draghi and Asmussen played a central role in redefining the terms of the euro debate…[and] have kept up the pressure both within the group of four presidents and beyond it” (Ludlow 2012, p.28). ECB representatives also tried to have the ECB involved in supervision before the mechanism was established, though such an interim arrangement did not prevail (Ludlow 2012). At the European Council meeting of 28 June 2012, Mario Draghi persuasively argued that supervision should be conferred to the ECB on the basis of Article 127.6, and he explained how ESM recapitalization could take place retroactively (Veron 2014, p.30).

Although the ECB pressed its case for assuming supervisory authority, it did not receive strong support from the other major supranational institution, the European Commission. Barroso supported the establishment of “banking union….[as] more integrated financial supervision and also more integrated deposit guarantees” (Commission 2012) but preferred that supervision to fall under the European Banking Authority (Barker 2012). Prior to the selection of the ECB, the Commission argued in favour of strengthening the EBA (Berschens 2012).

Nevertheless, the ECB had important allies in the European Council (Epstein and Rhodes 2016). The Commission and Draghi were in agreement in their desire for the central regulation of all Eurozone banks (Eurointelligence, 31 August 2012), despite “some senior ECB officials” expressing sympathy with Germany’s contention that direct supervision of all financial institutions would be beyond its capacity (Spiegel, 2012).

Moreover, the designation of the ECB as the SSM was the most straightforward in that it could be based on Article 127 (6) and therefore would not require a treaty change (Glöckler et al. 2016). The EU had still not recovered from the lengthy process of ratifying the Lisbon Treaty, and none were eager to repeat the experience. A treaty change would not only delay the implementation of banking union, it would open up the possibility of new deals being negotiated that would further complicate its passage. The requirement of some countries (like Ireland) to put treaty changes to a national referendum introduced further uncertainty. From the standpoint of political spillover, the ECB had accumulated a considerable amount of credibility during the crisis. Many of the ECB’s policies had been favorably received by markets, and the new banking union could conceivably benefit from a halo effect. The argument that the involvement of the ECB could also enhance the credibility of the ECB corresponds with the transferal of expectations and possibility loyalties over the longer-term. Finally, cultivated spillover appears relevant in that the ECB had repeatedly promoted the cause of centralized financial supervision and itself as supervisor. The Commission had promoted other options, but the ECB’s policy entrepreneurship prevailed. Indeed, the ECB had a powerful coalition supporting its acquisition of financial supervision that was reinforced by the time pressure needed to come up with a quick solution in the face of market pressure.

**3.3 Government advisor**

Third, the ECB has undertaken an important role as advisor to governments, offering counsel on matters like fiscal policies and structural reforms. Some of this has been informal, through the writing of letters during key moments of the sovereign debt crisis. President Jean-Claude Trichet and numerous euro area central bank governors had written letters to euro area governments during the height of the sovereign debt crisis. In October 2010 Trichet wrote to Irish Finance Minister Brian Lenihan, warning that “the extraordinarily large provision of liquidity by the Eurosystem to Irish banks in recent weeks…should not be taken for granted” (Trichet 2010a). Future support would be assessed on the basis of the government’s economic strategy, and he advised Lenihan to target a fiscal deficit below 3% in 2014 and a declining debt ratio starting from 2012. In November Trichet wrote another letter that indicated that Ireland should submit to an adjustment program, including implementing fiscal consolidation and financial sector restructuring, or else have its emergency liquidity assistance cut off (Trichet 2010b). The ECB continued its letter-writing campaign to government leaders in December 2010, when Trichet and Bank of Cyprus Governor Anasthasios Orphanides sent a letter to Cypriot President Demetris Christofias warning of the “negative feedback loops between the financial sector and public debt…[that] require prompt corrective action” (Sapir et al. 2014)

A similar exchange took place with leaders from Italy and Spain in August 2011. In a letter signed by Trichet and Bank of Italy Governor Mario Draghi to Italian Prime Minister Silvio Berlusconi on 5 August, they noted that the Italian government’s proposal for a balanced budget in 2014 was “not sufficient” and that “the government needs to take immediate and bold measures to ensuring the sustainability of public finances.” They suggested targeting the pension system as well as public sector employees, in addition to a myriad of other structural reforms. A day after the letter was sent, the ECB began purchasing Italian bonds as part of its SMP. Italian opposition parties protested that Italy had fallen under the ECB’s “trusteeship” (BBC News 2011). That same day, Trichet sent a letter with Spanish Central Bank Governor Miguel Fernández Ordoñez to Spanish Prime Minister José Luis Zapatero in which they indicated that it was “crucial” for reforms to be undertaken on wage bargaining and indexation, among others. Neither the Italian nor the Spanish letter, however, contained threats or conditions (Draghi and Trichet 2011; Hirst 2014).

The ECB’s advice has taken on a more general tone in recent years as a plea to governments to undertake structural reforms. The ECB (Economic Bulletin (2015) issue 2) has outlined the potential benefits of structural reforms, particularly product and labor market reforms, and their impact on growth and competitiveness. The ECB notes that such reforms can be taken “when monetary policy is constrained by the zero lower bound” (p7), as ECB lending rates were at historic lows: ECB marginal lending rates were hovering at 0.30, its deposit facility rate at -0.20, and its main financing operations at 0.05. The minutes from its April 2016 Governing Council meeting noted that “longer-term potential growth and structural unemployment were mainly determined by real factors, such as productivity and growth in the labour force”, though “monetary policy could help”, “there was no doubt that the structural policies set by governments ultimately had a key role to play in determining growth in the long run, and that the ECB was making a major contribution in the shorter run through its very accommodative monetary policy stance” (ECB 2016). By this time, the ECB had seemingly exhausted its policy arsenal of unconventional measures and thus its ability to save the euro once again, though ECB Vice President Vitor Constancio cautioned, “not only is it wrong to start talking down monetary policy – it’s actually dangerous”. [[3]](#footnote-3) The ECB acknowledged that “giving structural reform recommendations might prove challenging” and that the European Semester’s “country-specific recommendations were not being sufficiently followed up and implemented”. Individual members of the ECB Executive Board continued to emphasize this message in individual speeches (Coere 2016[[4]](#footnote-4); Draghi 2015[[5]](#footnote-5); Mersch 2016[[6]](#footnote-6); Praet 2016[[7]](#footnote-7)).In September 2016, Bloomberg (Randow and Speciale 2016) reported the creation of a ““Task Force on Economic Reforms,” composed national central bank staff to analyze domestic reforms.

In addition to this informal “advice”, the ECB also had an institutionalized role as advisor in its participation in the “troika” (with the Commission and International Monetary Fund (IMF)), which began on 25 March 2010 with the Greek bailout consisting of coordinated bilateral loans and IMF financing that would be subject to conditionality and based on evaluations performed by the European Commission and the ECB. Shortly thereafter the Eurogroup called on the Commission, in liaison with the ECB, to construct a program with the IMF and Greek authorities. The ECB became part of the troika, along with the European Commission and the International Monetary Fund. While the Commission (representing the EU) and the IMF provide the program assistance (i.e. bailout funds), the ECB offers liquidity assistance to the banks of the program countries. The ECB also co-signs the mission statements. The Maastricht Treaty did not foresee the need for the provision of financial assistance with conditionality programs. When the crisis broke out, “the European Commission had very little experience in providing financial assistance, and the ECB had no experience whatsoever” (Pisani-Ferry et al. 2013: p. 18) so “to overcome technical difficulties and to increase political credibility, a solution involving the European Commission, the European Central Bank and the IMF—the so-called Troika—was found” (Pisani-Ferry et al. 2013: p.19). Neither the Commission nor the ECB are responsible for lending decisions, which fall to the IMF and the ESM. The Commission, in liaison with the ECB,d is in charge of program negotiation and monitoring. The participation of the ECB on the same side of the table as the IMF was deemed “inappropriate” by some non-European countries, as it “implicitly took certain policy actions “off the table” and constituted bad governance” (IMF 2014: p7).

These institutions are responsible for the surveillance and implementation of financial assistance programs of countries under a conditionality program as part of a euro area bailout. With the addition of the European Stability Mechanism, these were later referred to as the “institutions” or the “quadriga”. The future of the ECB’s participation in the troika has been called into question by the ECJ and the European Parliament.

Within the conditionality programs implemented by the troika, the word “fiscal” was used most frequently for all of the program countries, followed by the reform of the financial sector (Sapir et al. 2014). While the ECB had a specific role to play in upholding the pillar of price stability, it also had an interest in upholding the euro area consensus (based on price and fiscal stability) that had provided its independence with legitimacy (E. Jones 2013). According to Menz and Smith (2013: p.203), the ECB “officials were dedicated to…pushing for fiscal union.”

The ECB, however, did not try to expand its competence into fiscal policy (Hodson 2015). Instead, it encouraged national governments to strengthen fiscal policy cooperation by using its intervention (in the form of sovereign bond purchases, LTROs, and ELA) as leverage (Yiangou et al. 2013). In this way, the ECB “used monetary policy interventions in order to increase its power to shape national fiscal decisions” (Gabor 2014: p.205). Moreover, the ECB’s participation in key forums not only allowed national government representatives to benefit from its economic expertise in monetary and financial matters, it also formed critical alliances. For example, ECB President Trichet and German Chancellor Merkel were in agreement in their initial rejection of restructuring Greek debt.[[8]](#footnote-8)

In summary, the global financial crisis revealed the inadequacy of the extant focus on price stability to the detriment of financial stability and asset bubbles. Despite criticism towards central banks for failing to foresee the problems this would cause, central banks became key players in the management of the crisis and in the reformed institutional architecture of economic governance. For the ECB, this included an extension into unconventional monetary policy as well as government advisement and financial supervision. Was this accompanied by corresponding changes in the ECB’s accountability?

4. THE ACCOUNTABILITY OF THE ECB

The adequacy of the accountability of the ECB had long been debated, given the absence of the possibility to sanction it. As elaborated in Section 2, the ECB (like other central banks) is independent in order to avoid the time inconsistency problem that weakened price stability in the 1970s and 1980s. Indeed, the ECB’s primary objective is price stability and it primarily relies on “output accountability” (Zilioli 2017: p.131) in which it is judged according to how well it fulfils this mandate. This is just one element of what De Haan et al have described as central bank accountability: the decisions regarding how the central bank’s objectives are defined and ranked; transparency; and who is ultimately responsible

Instead, the ECB’s accountability emphasizes transparency and dialogue. In a 2002 *Monthly Bulletin* elaborating on its accountability, the ECB defined accountability as “being held responsible for one’s decisions and being required to justify and explain them” (ECB 2002, p.48). Begg (2007: p.38) identified the “trend towards greater transparency[as] part of a wider political shift towards holding policymakers to account.” The ECB has gone beyond the transparency requirements demanded by the Treaty, including frequent press conferences and press releases as well as making its statistics and forecasts available (Zilioli 2016).

This emphasis on transparency seemed effective in ensuring transparency, which empirical work showed “leads to a lower expected rate of inflation and less stabilization of supply shocks” (Eijffinger and et al. 1998; see also Stasavage 2003). Erik Jones (2002) defended the ECB’s independence, noting that voters typically do not have preferences on macroeconomic issues but are focused on policies with a redistributive component. The logic of the high level of ECB independence rested on its very limited mandate on price stability. This was the case for independent central banks around the world, and the pursuit of such a technocratic aim was not normally subject to democratic control (Moravcsik 2002).

Nevertheless, “the ECB has a strong interest in finding ways to be perceived…as accountable and transparent…and…as acting effectively on behalf of the interest of European or Eurozone interests (output legitimacy)” (Torres 2013: p.290), given that the ECB scored low on accountability when compared to other central banks (De Haan et al. 1999) and represents “a departure from the norms of political accountability” (Elgie 1997: p.54).

The ECB’s accountability structure requires it to draft an annual report on its monetary policy and other activities to the European Council, the Commission, the Council of the European Union and the European Parliament. In addition, the ECB President (as well as other Executive Board members) can appear before the European Parliament, due to either its own initiative or an invitation from the European Parliament. The ECB President appears before the European Parliament’s Committee on Economic and Monetary Affairs (ECON) on a quarterly basis and before its plenary at least once a year. The ECB is also subject to control by two sets of auditors (an independent external auditor and the European Court of Auditors) and the European Anti-Fraud Office (OLAF) (ECB 2010).

The primary way the ECB is held to account is in its relationship with the European Parliament. During the Maastricht Treaty negotiations, the European Parliament unsuccessfully sought the insertion of a legal obligation for the ECB president’s appearance before the European Parliament akin to the obligations of the US Federal Reserve System. Despite the lack of legal basis, the European Parliament “could be seen defining its role keeping the ECB accountable in a proactive way” (Amtembrink and van Duin 2009: p569) by including in its rules of procedure an invitation to the ECB president to visit the ECON on a quarterly basis to declare a statement and answer questions, a ritual that became known as the Monetary Dialogue. Similarly, the stipulation that any MEP could demand a written answer to a question also finds its roots in rules of procedure. The ECB President has willingly engaged with the European Parliament, and the Monetary Dialogue has been mutually beneficial: it provides the ECB with a platform to publicly justify its policy actions as it gives the European Parliament a high-profile role in ensuring that the ECB is subject to at least a modicum of democratic accountability. The ECB President appears with greater frequency before the European Parliament than the Federal Reserve or Bank of England before their respective legislatures (Eijffinger and Mujagic 2004).

The Monetary Dialogue occurs four times a year and typically lasts two hours. The ECB President begins with an introductory statement, which is followed by questions from the ECON members. A monetary expert panel aids the lack of expertise of ECON by providing briefing papers on a range of issues related to monetary policy. Since 2006, for each hearing two topics are identified for which the experts write papers, and the ECB President is expected to comment on them during his introductory statement. Despite the general agreement that the experts’ advice should be put to more use, neither the ECB President nor the ECON members have been bound by the identified topics; the former frequently fails to mention the topics in the opening statement, and the latter do not limit themselves to asking questions about them (Amtembrink and van Duisen 2009). The Monetary Dialogue is similar in structure to the comparable hearings that the US Federal Reserve and the Bank of England have with their respective legislatures, with the key difference that the European Parliament lacks the possibility to sanction the ECB that make it “less accountable or transparent than the Bank of England or the Fed” (Clayes et al. 2014: p.2). Indeed, the ECB faces no direct consequences as a result of its dialogue with the ECON.

The Monetary Dialogue evolved over time, through which the ECB became progressively more accountable (Jabko 2000). During the first decade of EMU, the ECB was “highly responsive to the ECON” (Eijffinger and Mujagic 2004, p.190) as the dialogue seemingly had an impact on the ECB’s procedures, such as the May 2003 reform that removed the M3 from the policy analysis and refined the definition of price stability (Sibert 2005). The Parliament’s line of inquiry also evolved, moving away from the focus on price stability to include topics like its general mission and level of transparency (Amtembrink and van Duin 2009).

Despite the increased transparency and visibility of ECB actions through the Monetary Dialogue, the process has been viewed as inadequate by some. Charles Wyplosz (2007) referred to it as a “gentlemanly discussion. Nowhere is accountability mentioned and none of that happens.” Considering the expansion of the ECB’s activities that were outlined in section three, has its accountability structure been altered? Given that its forays into unconventional monetary policy (including ELA) and its activities as a government advisor were already part of its legal competence in the monetary sector, no new requirements were made in this regard. These policies, however, have clear fiscal and distribute consequences and have raised the spectre of fiscal domination. The ECB may have played a critical role in saving the euro (Chang and Leblond 2015), but the creeping competence should not go unchecked. The methods of accountability remain the same, focusing on transparency and the Monetary Dialogue.

The ECB did make efforts to improve its transparency in recent years; since 2015, for example, it has published the discussions of its Governing Council’s monetary policy meetings (ECB 2014). It also published ELA decisions and procedures on its website. President Draghi has also visited national parliaments to explain the ECB’s policies, visiting Germany (2012), Spain (2013). France (2013), Finland (2014) and Italy (2015). During his visit to the French National Assembly, he remarked that the further accretion of power at the EU level would need “greater democratic legitimacy” and that the European parliament and national parliaments would play a critical role (Draghi 2013). For some, “the new role for the ECB as adviser to legislators and governments and impartial critic of economic choices can only be welcomed… [as it] fosters a wider accountability of the democratic institutions towards their citizens” (Zilioli 2016).

How has the monetary dialogue evolved since the sovereign debt crisis? The European Parliament was sidelined in the management of the crisis on numerous occasions, as euro area governance took on an intergovernmental character (Bickerton et al. 2015) and increasingly made use of intergovernmental treaties (such as those establishing the European Stability Mechanism and the Treaty on Stability, Coordination and Governance) rather than use the Community method (Chang 2013). Indeed, since the sovereign debt crisis, its “competence has only been marginally strengthened and thus remains rather limited" (Jančić 2017, p.145). Considering the fiscal implications of ECB actions during the sovereign debt crisis, the Monetary Dialogue’s structure should be reconsidered to ensure adequate accountability (Belke 2014). Karl Whelan (2014) suggested that it become “more focused, more interactive, and make greater use of outside expert advice.”

On the other hand, one could argue that the Monetary Dialogues strengthened the ECB’s accountability, in comparison with the other EU Presidents (of the European Council and Commission) that lack such regular discourse (Bovens and Curtin 2016). During the first decade of EMU, MEPs focused on growth and employment while the ECB tended to restrict remarks to issues concerning price stability. From 2013-2016, however, about half of the MEP’s questions related to financial supervision, country surveillance and euro area governance reforms, and the number of questions posed to the ECB increased significantly. While the Monetary Dialogues do not seem to have influenced financial market expectations, but they do contribute to greater transparency and therefore legitimacy (Collignon and Diessner 2016).

The appointment of the ECB as the SSM did entail an updated system of accountability that is broadly similar to its system of accountability in the monetary realm. This incremental adjustment to the ECB’s accountability structure could be questioned. First, the ECB retains its independence as an institution; EU law “confers broadly the same level of independence to the ECB’s supervisory arm as is guaranteed to its monetary policy arm” (Braun 2017, p.14). But while this was common practice for central banks to be independent in conducting monetary policy, it is not an automatic impulse to grant independence to financial supervisors. Moreover, while many euro area countries’ banking supervision was under the control of the central bank, this was not the case for all (see Table 1 for a summary).

Table 1 National Competent Authority for Financial Supervision in Euro Area Countries: Financial Supervisory Authority or National Central Bank

|  |  |
| --- | --- |
| **Country** | **Financial Supervisory Authority (FSB) or national central bank (NCB)** |
| Austria | FSA |
| Belgium | NCB |
| Cyprus | NCB |
| Estonia | FSA |
| Finland | FSA |
| France | Mix (FSA closely linked to NCB) |
| Germany | FSA |
| Greece | NCB |
| Ireland | NCB |
| Italy | NCB |
| Latvia | FSA |
| Lithuania | NCB |
| Malta | FSA |
| Netherlands | NCB |
| Portugal | NCB |
| Slovakia | NCB |
| Slovenia | NCB |
| Spain | NCB |
|  | Total NCBs: 11Total FSAs: 6Hybrid: 1 |

Goodhart (2014) questioned the assumption of the central bank’s “mastery of specialized tools” in an analysis of the US Federal Reserve’s increased competence over financial stability; similar questions could be raised over the ECB in this regard. According to Westrup (2007). "the payoffs from monetary policy [for an independent central bank] are well established, while those from financial supervision are not so obvious...financial supervision appears to be too politically important to delegate to a non-majoritarian actor with the powers of an independent central bank."

Concerns over a possible conflict of interest between monetary policymaking and banking supervision (Copelovitch and Singer 2008) have prompted the requirement for the ECB to demonstrate in its Annual Report how it ensured that monetary policy decisions were considered separately from those related to banking supervision (found in both the inter-institutional agreement with the European Parliament (published 30 November 2013) and memorandum of understanding with the Council (signed December 2015)). Nevertheless, granting central banks too much power over macroprudential and microprudential stability could threaten as well the effectiveness of monetary policymaking (Buiter 2012).

The ECB’s accountability in banking supervision, like in monetary policymaking, rests on the principles of transparency and dialogue. Table 2 summarizes the differences. The SSM Regulation (hereafter SSM-R) notes that “any shift of supervisory powers from the Member States to the Union level should be balanced by appropriate transparency and accountability requirements.”

Table 2 ECB accountability for monetary policymaking and banking supervision

|  |  |  |
| --- | --- | --- |
| **Mechanism** | **Monetary policymaking** | **Banking supervision** |
| Appointment of leadership | European Council makes Executive Board appointments by qualified majority, European Parliament is consultedArt. 283(2) | Chair and vice chair of Supervisory Board appointed by the Council and European Parliament (approved by ECON and plenary) upon suggestion of the Governing Council |
| Dismissal of leadership | Court of Justice can dismiss Executive Board members, at the request of the Governing Council or the Executive Board | EP has right to approve removal of chair and vice chair of Supervisory Board |
| Submission of annual report | Sent to the EP, Commission, Council, and the European CouncilArt. 284 TFEU | Sent to the EP, Commission, Council, Eurogroup, and national parliaments of euro area member statesArticle 20 SSM-R |
| Presentation of annual report | ECB President presents to the EP | Chair of Supervisory Board presents report in public to the EP and the Eurogroup |
| Requests for hearings | EP can consult with President and other Executive Board membersArticle 284.3 | EP and Eurogroup can request a hearing with Chair of the Supervisory Board |
| Response to questions | Monetary Dialogue 4x/yearMEPs can submit questions to the ECB (up to 6/month) and get a written response from ECB within 6 weeks of receipt | ECB must provide written or oral response from MEPs, MPs, or Eurogroup |
| Requests for private hearings |  | Chair and vice chair of ECON can request meeting with Chair of the Supervisory Board, who must “cooperate sincerely” with “investigations” by the EP |
| Participation in ECB meetings | Council and Commission invited to attend Governing Council meetings (nonvoting and subject to strict confidentiality)Article 284.3In practice, Eurogroup President attends Governing Council meetings (Braun 2017) |  |

In addition, Art. 19(3) SSM-R demands that the Governing Council set up a Code of Conduct for ECB employees that are engaged with banking supervision, in a nod to the potential conflicts of interest (Braun 2017). In 2015 the ECB’s Code of Conduct for Supervisory Board members entered into force, and the Ethics framework for all ECB employees was revised.

This is not to deny that accountability requirements in its financial role are more demanding than those relating to the monetary function. The SSM’s Supervisory Board is accountable to a larger range of actors, including the Eurogroup and national parliaments. The Chair of the Supervisory Board “as a rule”[[9]](#footnote-9) meets with the European Parliament three times a year, once to present the annual report to the plenary and twice to meet with ECON to explain how the ECB has executed its supervisory tasks as well as to respond to questions. The European Parliament can request additional meetings as well. Nevertheless, one can question if the increasing powers of the ECB have also led to an increase in its accountability structure.

5. CONCLUSION: POLICY EXPANSION AND ACCOUNTABILITY

The ECB became one of the most independent central banks in the world in 1999, thanks to the broad policy consensus on the utility of central bank independence. The ECB’s independence was more problematic in the sense that it serves as a central bank for an area that is not a political union, thereby limiting the policy tools at its disposal relative to other major central banks like the Federal Reserve. Such limitations were necessary in order to justify its independence: by retaining a narrow remit (over monetary policy), its independence could be justified through the output legitimacy of price stability over the euro area.

Since the founding of the ECB, however, the tasks of central banks have expanded, including the duties of the ECB. As Goodhart (2014: p.280) has argued in an analysis of the Federal Reserve, this expansion “carries the potential for distributional conflict with the largest financial firms and the politicization of central bank policy”. Moreover, in its traditional competence over monetary policy the ECB also has made a number of “highly discretionary yet highly important” (Whelan 2014) decisions.

Can ECB independence still be justified on its role as a technocratic actor? In order to cope with the crisis, the ECB abandoned monetary dominance to promote financial stability and fiscal austerity (Gabor 2014). Interestingly, both advocates of fiscal austerity as well as their opponents have voiced their opposition to the expanded role of the ECB. Former ECB Executive Board Member Jurgen Stark (2012: p.53) accused the institution of having been “taken hostage by the national interests of the periphery” because of its actions that drove down the sovereign bond yields of these countries, deeming no “monetary policy but rather—as in this case—fiscal policy or “monetary economics” (p.82). The ECB has also faced criticism from government representatives (such as in Ireland) and even the European Parliament that questioned whether its actions that had clear fiscal implications were appropriate for a central bank that was not backed by a political and fiscal union.

This paper has considered the three roles of the ECB that have expanded as a result of the crisis: lender of last resort, financial supervision, and government adviser, a “quiet, yet powerful, mission creep” (Menz and Smith 2013: p.203). The extension of the ECB’s power is far from unique among central banks, as the Federal Reserve, for example, also benefitted from additional power, particularly in financial supervision (Conti-Brown 2016). And despite the stronger distributional implications of unconventional monetary policy and financial policy, the independence of central banks has not diminished (De Haan and Eijffinger 2016). The inclusion of additional actors to the ECB’s accountability structure in banking supervision contributes to Best’s (2016: p.215) call for a “more robust form of accountability that fosters more deliberation and debate”. Even absent institutional changes (that would be difficult legally) to the ECB’s accountability structure, the existing system could be improved. In particular, the Monetary Dialogue could be structured in a way that brings it closer to the standards of the Federal Reserve’s hearings before Congress. Limiting the number of questions and topics and making better use of the panel of experts, for example, could make the European Parliament’s questioning sharper and more focused. The ECB’s activism played an important role in shoring up market credibility during the critical years of the sovereign debt crisis, but with greater powers come greater accountability requirements that the ECB should not be free to direct.

Alesina, A. and L. Summers (1993). "Central Bank Independence and Macroeconomic Performance: Some Comparative Evidence." Journal of Money, Credit and Banking **25**(2): 151-162.

Amtembrink, F. and K. van Duin (2009). "The European Central Bank before the European Parliament: theory and practice after 10 years of monetary dialogue." European Law Review **34**: 561-583.

Arestis, P. and M. Sawyer (2011). "The Design Faults of the Economic and Monetary Union." Journal of Contemporary European Studies **19**(1): 21-32.

Barber, L. and R. Atkins (2011). Mario Draghi: Charged to Save the Euro. Financial Times. 18 December

Barker, A. (2012). Backing Grows for One EU Bank Supervisor. Financial Times. 18 June.

Barro, R. J. and D. B. Gordon (1983). "A Positive Theory of Monetary Policy in a Natural Rate Model." Journal of Political Economy **91**(4): 589-610.

BBC News. (2011). ECB Told Italy to Make Budget Cuts. 29 September. Available at <http://www.bbc.com/news/business-15104967>. Accessed on 9 April 2016.

Belke, A. (2014). "Monetary Dialogue 2009-2014– Looking Backward, Looking Forward." Ruhr Economic Papers #477.

Berschens, R. (2012). EZB Soll Europas Banken kontrollieren. Handelsblatt. 14 June. Available at <http://www.handelsblatt.com/politik/international/finanzaufsicht-ezb-soll-europas-banken-kontrollieren/6753570.html>. Accessed on 11 April 2016.

Bickerton, C. J., et al., Eds. (2015). The New Intergovernmentalism: States and Supranational Actors in the Post-Maastricht Era. Oxford, Oxford University Press.

Bovens, M. and D. Curtin (2016). An unholy trinity of EU Presidents?: Political accountability of EU executive power. The End of the Eurocrats' Dream: Adjusting to European Diversity. D. Chalmers, M. Jachtenfuchs and C. Joerges, Cambridge University Press.

Braun, B. (2015). "Preparedness, Crisis Management and Policy Change: The Euro Area at the Critical Juncture of 2008–2013." The British Journal of Politics & International Relations 17(3): 419-441.

Braun, B. (2017). "Two Sides of the Same Coin? Independence and Accountability of the European Central Bank." Transparency International.

Buiter, W. (2012). "The Role of Central Banks in Financial Stability: How Has It Changed?" CEPR Discussion Paper No.8780.

Buiter, W. (2014). Central Banks: Powerful, Political and Unaccountable? CEPR Discussion Paper No. DP10223. Available at SSRN: [http://ssrn.com/abstract=2526351](http://ssrn.com/abstract%3D2526351). Accessed on 9 April 201

Buiter, W. and E. Rahbari (2012). The European Central Bank as Lender of Last Resort for Sovereigns in the Eurozone Journal of Common Market Studies 50 (supplement 2), pp.6-35

Chang, M. (2013). "Fiscal Policy Coordination and the Future of the Community Method." Journal of European Integration **35**(3): 255-269.

Chang, M. and P. Leblond. (2015). All in: Market expectations of Eurozone integrity in the sovereign debt crisis. Review of International Political Economy 22 (3): pp.626-655

Claeys, G., et al. (2014). "European Central Bank accountability: how the monetary dialogue could be improved." Bruegel Policy Contribution. 3 March

Clover, C., K Hope and P. Spiegel. (2013). Cyprus Holds Crisis Talks in Russia. Financial Times 20 March.

Coeré, B. (2013). Liquidity Regulation and Monetary Policy Implementation: From Theory to Practice. Speech at the Toulouse School of Economics, 3 October.

Collignon, S. and S. Diessner (2016). "The ECB's Monetary Dialogue with the European Parliament: Efficiency and Accountability during the Euro Crisis?" JCMS: Journal of Common Market Studies **54**(6): 1296–1312

Commission, E. (2012). "A Roadmap towards a Banking Union."

Constâncio, V. (2012). Towards a European Banking Union. Amsterdam, Duisenberg School of Finance. 7 September

Conti-Brown, P. (2016). The Power and Independence of the Federal Reserve. Princeton, Princeton University Press.

Copelovitch, M. S. and D. A. Singer (2008). "Financial Regulation, Monetary Policy, and Inflation in the Industrialized World." Journal of Politics **70**(3): 663-680.

Cukierman, A. (1992). Central Bank Strategy, Credibility and Independence. Cambridge, MA, MIT Press.

De Grauwe, P. (2013). Design Failures in the Eurozone—Can They Be Fixed? European Economy Economic Papers No. 491. April.

De Haan, J., et al. (1999). "Accountability of Central Banks: Aspects and Quantification." Banca Nazionale del Lavoro Quarterly Review **52**(209): 169-193

De Haan, J. and S. C. W. Eijffinger (2000). "The Democratic Accountability of the European Central Bank: A Comment on Two Fairy Tales." Journal of Common Market Studies **38**(3): 393-407.

de Haan, J., et al. (2004). "The Transparency and Credibility of the European Central Bank." Journal of Common Market Studies **42**(4): 775-794.

De Haan, J. and S. Eijffinger (2016). "The politics of central bank independence." DNB Working Paper no.539.

de la Dehesa, G. (2014). "Improving Monetary Dialogue with the ECB " Paper prepared for the European Parliament's Committee on Environment, Public Health and Food Safety, 14 February.

de Larosière, J. (2009). "The High Level Group on Financial Supervision in the EU Report." 25 February

Dinmore, G. and R. Atkins (2011). "ECB letter shows pressure on Berlusconi." Financial Times. 29 September

Draghi, M. (2011). Introductory statement to the press conference. Frankfurt am Main. 8 December. Available at <https://www.ecb.europa.eu/press/pressconf/2011/html/is111208.en.html>. Accessed on 9 April 2016

Draghi, M. (2012). Hearing at the Committee on Economic and Monetary Affairs of the European Parliament. Brussels. 25 April.

Draghi, M. (2013). "Introductory remarks at the French Assemblée Nationale." Speech by Mario Draghi, President of the ECB, Paris, 26 June 2013.

Draghi, M. and J-C. Trichet. Trichet e Draghi: un’azione pressante per ristabilire la fiducia degli investitori. Corriere della Sera 29 September. Available at <http://www.corriere.it/economia/11_settembre_29/trichet_draghi_inglese_304a5f1e-ea59-11e0-ae06-4da866778017.shtml?fr=correlati>. Accessed on 10 April 2016

Dyson, K. (2009). German Bundesbank: Europeanization and the Paradoxes of Power. Central Banks in the Age of the Euro: Europeanization, Convergence and Power. K. Dyson and M. Marcussen. Oxford, Oxford University Press**:** 131-159.

ECB (2002). “The Accountability of the ECB” Monthly Bulletin November, pp.45-57

ECB (2008). Monthly Bulletin. 10th Anniversary of the ECB.

ECB (2013). Governing Council Decision on Emergency Liquidity Assistance Requested by the Central Bank of Cyprus. Press Release. 21 March.

ECB (2015). Eligibility of Greek Bonds Used as Collateral in Eurosystem Monetary Policy Operations. Press Release. 4 February.

ECB (2016). "Account of the monetary policy meeting of the Governing Council of the European Central Bank." held in Frankfurt am Main on Wednesday and Thursday, 20-21 April 2016.

Eijffinger, S. C. W., et al. (1998). "A Theory of Central Bank Accountability." Tilburg Center for Economic Research Discussion Paper 98103.

Eijffinger, S. C. W. and E. Mujagic (2004). "An Assessment of the Effectiveness of the Monetary Dialogue on ECB's Accountability and Transparency: A Qualitative Approach." Intereconomics, Review of European Economic Policy **39**(4): 190-203.

Epstein, R. A. and M. Rhodes (2016). International in Life, National in Death? Banking Nationalism on the Road to Banking Union. Oxford, Oxford University Press.

Fontan, C. (2013). "Frankenstein en Europe: L’impact de la Banque centrale européenne sur la gestion de la crise de la zone euro." Politique Europeenne **4**(42).

Gabor, D. (2014). "Learning from Japan: The European Central Bank and the European Sovereign Debt Crisis." Review of Political Economy **26**(2): 190-209.

Giavazzi, F. and C. Wyplosz (2015). "EMU: Old flaws revisited." Journal of Economic Integration **37**(7): 723-737.

Glöckler, G., J. Lindner, et al. (2016). "Explaining the sudden creation of a banking supervisor for the euro area." Journal of European Public Policy: 1-19.

Gὂtz, M.R., R. Haselmann, J.P. Krahnen, and S. Steffen. (2015). Did Emergency Liquidity Assistance (ELA) of the ECB Delay the Bankruptcy of Greek Banks? Safe Policy Letters No. 46.

Grilli, V., et al. (1991). "Political and Monetary Institutions and Public Financial Policies in the Industrial Countries." Economic Policy(13): 342-391.

Hibbs, D. (1977). "Political Parties and Macroeconomic Policy." American Political Science Review **71**(4): 1467-1487.

Hirst, N. (2014). ECB Tactics towards Spain up for Scrutiny. Politico. 24 December. Available at <http://www.politico.eu/article/ecb-tactics-towards-spain-up-for-scrutiny>. Accessed on 10 April 2016.

Hodson, D. (2015). De Novo Bodies and the New Intergovernmentalism: The Case of the European Central Bank. The New Intergovernmentalism: States and Supranational Actors in the Post-Maastricht Era. C. J. Bickerton, D. Hodson and U. Puetter. Oxford, Oxford University Press: 263-285.

Houses of the Oireachtas (2013). Report of the Joint Committee of Inquiry into the Banking Crisis. Volume 1: Report.

Howarth, D. and A.-L. Hogenauer (2016). "Unconventional Monetary Policies and the ECB’s problematic democratic legitimacy." Journal of Public Law **17**(2): 1-24.

Howarth, D. J. and P. Loedel (2003). The European Central Bank: The New European Leviathan? New York, Palgrave.

Hu, K. (2014). The Institutional Innovation of the Lender of Last Resort Facility in the Eurozone, Journal of European Integration, 36:7, 627-640

IMF (2014). *IMF Response to the Financial and Economic Crisis* (Washington: International Monetary Fund)

Jabko, N. (2000). "Expertise et politique a l'age de l'euro: La Banque Centrale Europeenne sur le terrain de la democratie." Revue Francaise de Science Politique **51**(6): 903-931.

Jančić, D. (2017). Accountability of the European Central Bank in a Deepening Economic Monetary Union. National Parliaments after the Lisbon Treaty and the Euro Crisis. D. Jančić. Oxford, Oxford University Press**:** 141-.

Jones, E. (2002). Macroeconomic Preferences and Europe's Democratic Deficit. The Euro: European Integration Theory and Economic and Monetary Union. A. Verdun. Lanham, MD, Rowman and Littlefield**:** 145-164.

Jones, E. (2013). The Collapse of the Brussels-Frankfurt Consensus and the Future of the Euro. Resilient Liberalism in Europe's Political Economy. V. A. Schmidt and M. Thatcher. Cambridge, Cambridge University Press**:** 145-170.

Jones, M. (2015). Factbox: What is ECB Emergency Liquidity Assistance? Reuters 22 June. Available at <http://mobile.reuters.com/article/idUSKBN0P21XH20150622>. Accessed on 10 April 2016.

Khan, M. (2016). 'Love affair' with negative rates ends as central banks step back from global currency wars. The Telegraph.

Kydland, F. E. and E. C. Prescott (1977). "Rules Rather than Discretion: The Inconsistency of Optimal Plans." Journal of Political Economy **85**(3): 473-492.

Lawton, C., T. Buell and J. Marson (2013). ECB Threatens to Cut off Cypriot Banks. Wall Street Journal 21 March.

Ludlow, P. (2012). "Short-term help and long-term conditionality: The European Council of 28-29 June 2012." EuroComment 4.

Masciandaro, D., M. J. Nieto, and M Quintyn. (2011). "Exploring governance of the new European Banking Authority—A case for harmonization?" Journal of Financial Stability 7(1): 204-214.

Masciandaro, D. and M. Quintyn (2011). Rgulating the Regulators: The Changing Face of Financial Supervision Architecture Before and After the Financial Crisis. Handbook of Central Banking, Financial Regulation and Supervision. S. Eijffinger, D. Masciandaro and P. Baffi, Edward Elgar.

McNamara, K.R. (2002). Rational Fictions: Central Bank Independence and the Social Logic of Delegation. West European Politics 25 (1): pp.478-76.

Menz, G. and M.P. Smith. (2013). Kicking the Can Down the Road to More Europe? Salvaging the Euro and the Future of European Economic Governance. Journal of European Integration 35 (3): pp.195-206.

Merler, S. (2015). ECB Collateral Damages on Greece. Bruegel blog post. 5 February.

Mishkin, F. S. (2007). Monetary Policy Strategy. Cambridge, MIT Press.

Mody, A. (2015). "Living (dangerously) without a fiscal union." Bruegel Working Paper 2015/03.

Moravcsik, A. (2002). "In Defense of the “Democratic Deficit”: Reassessing Legitimacy in the European Union." Journal of Common Market Studies **40**(4): 603-624.

Müller, P., et al. (2011). "ECB Chief Economist Quits: Jürgen Stark's Resignation Is Setback for Merkel." spiegel.de.

Nordhaus, W. (1975). "The Political Business Cycle." Review of Economic Studies **42**: 169-190.

Noyer, C. (2012). The Next Step for Europe Is Financial Union. Wall St. Journal. 12 June.

Pisani-Ferry, J., et al. (2013). "EU-IMF assistance to euro area countries: an early assessment." Bruegel Blueprint.

Praet, P. (2016). The European Central Bank and its role as lender of last resort during the crisis. The Lender of Last Resort: An International Perspective, Washington, DC, Committee on Capital Markets Regulation.

Randow, J. and A. Speciale (2016). "ECB Said to Redouble Economic Reform Push With Task Force." Bloomberg. 21 September

Rogoff, K. (1985). "The Optimal Degree of Commitment to an Intermediate Monetary Target." Quarterly Journal of Economics **C**(403): 1169-1189.

Sapir, A., G. B. Wolff, C. De Sousa, and A. Terzi. (2014). The Troika and Financial Assistance in the Euro Area: Successes and Failures. Study on the Request of the Economic and Monetary Affairs Committee of the European Parliament. Brussels. February.

Sargent, T. and N. Wallace (1981). "Some Unpleasant Monetarist Arithmetics." Federal Reserve Bank of Minneapolis Quarterly Review **5**(3): 1-17.

Schelkle, W. (2014). Fiscal Integration by Default. Beyond the Regulatory Polity. The European Integration of Core State Powers. P. Genschel and M. Jachtenfuchs. Oxford: Oxford University Press.

Schimmelfennig, F. (2015) ‘Liberal Intergovernmentalism and the Euro Area Crisis’. Journal of European Public Policy, Vol. 22, No. 2, pp. 177–195.

Seith, Anne. (2012). Mounting Risks: ECB Increasingly Concerned Over Aid to Greek Banks. Spiegel Online 21 May. Available at <http://www.spiegel.de/international/europe/analysis-of-european-central-bank-s-assistance-to-greek-banks-a-834156.html>. Accessed on 10 April 2016.

Spiegel, P. (2012). Brussels Pushes for Wide ECB Powers. Financial Times. 30 August.

Stark, J. (2012) The ECB’s OMTs (Out-of-Mandate Transactions). International Economy 26 (4): 52-83

Stasavage, D. (2003). "Transparency, Democratic Accountability, and the Economic Conseequences of Monetary Institutions." American Journal of Political Science **47**(3): 389-402.

Torres, F. (2013). The EMU’s Legitimacy and the ECB as a Strategic Political Player in the Crisis Context Journal of European Integration 35 (3): pp.287-300.

Trichet, J-C. 2010a. Letter to Irish Finance Minister Brian Lenihan. 15 October. Available at <http://www.ecb.europa.eu/press/html/irish-letters.en.html>. Accessed on 9 April 2016.

Trichet, J-C. 2010b. Letter to Irish Finance Minister Brian Lenihan. 19 November. Available at <http://www.ecb.europa.eu/press/html/irish-letters.en.html>. Accessed on 9 April 2016

Veron, N. (2014). L’Union bancaire, un succès européen. Paris, En Temps Réel.

Westrup, "Independence and Accountability: Why Politics Matters", in Masciandaro and Quintyn, Designing Financial Supervision Institutions \*2007

Wallace, P. (2015). The Euro Experiment. Cambridge, Cambridge University Press.

Whelan, K. (2014). "The Monetary Dialogue and Accountability for the ECB." Paper prepared for the European Parliament’s Committee on Economic and Monetary Affairs, IP/A/ECON/NT/2014-01.

Wyplosz, C. (2007). Wake-up call for the ECB VOX, CEPR's Policy Portal. **2017**.

Yiangou, J., M. O’Keeffe and G. Glὂckler. ‘Tough Love’: How the ECB’s Monetary Financing Prohibition Pushes Deeper Euro Area Integration, Journal of European Integration, 35:3, 223-237

Zilioli, C. (2016). The Independence of the European Central Bank and Its New Banking Supervisory Competences. The Independence and Legitimacy in the Institutional System of the European Union. D. Ritleng. Oxford, Oxford University Press**:** 125-179.

1. https://www.ft.com/content/97815d04-8483-11e0-afcb-00144feabdc0 [↑](#footnote-ref-1)
2. <https://www.ft.com/content/62b7533c-095b-11e1-a2bb-00144feabdc0> [↑](#footnote-ref-2)
3. https://www.ecb.europa.eu/press/inter/date/2016/html/sp160311\_1.en.html [↑](#footnote-ref-3)
4. https://www.ecb.europa.eu/press/key/date/2016/html/sp160617.en.html [↑](#footnote-ref-4)
5. <https://www.ecb.europa.eu/press/key/date/2015/html/sp151214.en.html> [↑](#footnote-ref-5)
6. <https://www.ecb.europa.eu/press/key/date/2016/html/sp161003.en.html> [↑](#footnote-ref-6)
7. <https://www.ecb.europa.eu/press/key/date/2016/html/sp161026.en.html> [↑](#footnote-ref-7)
8. https://www.ft.com/content/60525444-7fe4-11e0-b018-00144feabdc0 [↑](#footnote-ref-8)
9. <https://www.bankingsupervision.europa.eu/press/tvservices/hearings/html/index.en.html> [↑](#footnote-ref-9)