Central bank independence revisited

Keynote address by Yves Mersch, Member of the Executive Board of the ECB, at the “Symposium on Building the Financial System of the 21st Century: An Agenda for Europe and the United States”, Frankfurt am Main, 30 March 2017

Good morning, ladies and gentlemen. It is a pleasure to speak to you today on the subject of central bank independence.

Independence has been granted to central banks in order to shield them from short-term political influence when fulfilling their mandate of ensuring price stability. It is largely undisputed that an independent central bank with a clearly defined mandate is better able to keep inflation lower and more stable. In the post financial crisis era, however, central banks in many countries have been entrusted with powers and responsibilities going beyond their traditional monetary policy mandates. Central banks have, for example, started acting in the areas of macro- and microprudential supervision and crisis management. Also, while remaining within their monetary policy mandate, some central banks adopted unconventional monetary policy measures. Critical voices claim that central banks have been over-stretching their mandates, blurring or even crossing the line into fiscal and economic policy. Central banks are accused of influencing the distribution of income and wealth and subsidising the financial sector at the expense of society as a whole – policy areas which traditionally require more democratic legitimacy and control. This has re-opened the debate surrounding the legitimacy, and the precise scope, of central bank independence.

Today I will focus on the independence conferred on the European Central Bank, on the reasons for it, and on the extent to which this independence can apply to the different ECB tasks and responsibilities. The main point I will make is that, notwithstanding the changes in the ECB’s role in the aftermath of the financial crisis, its independence remains unchanged and continues to protect its core monetary policy function. I will refer to the relevant case law of the Court of Justice of the European Union (CJEU), which has adjudicated on some controversial issues related to the ECB's mandate and the scope of its independence. Independence being an exception in a democracy, it has to be seen narrowly and cannot be applied to an ever-widening area of responsibilities without due adjustments in accountability for the new tasks.

Central bank independence

From an economic perspective, the support for central bank independence rests, in general, on three time-honoured insights. The core of these insights has remained intact when compared with the pre-crisis consensus, but I will touch upon some challenges as I go along.

First, there is sound economic evidence supporting the argument that an environment characterised by price stability is conducive to economic growth and high levels of employment which, in turn, positively contribute to the welfare of citizens. This insight can be explained by reference to a broad range of complementary factors which make inflation "costly". I would mention four such factors in this respect. First, there is the tendency for individuals to seek to economise on money holdings if inflation rises, referred to informally as "shoe leather costs". Second, there is the suboptimal allocation of goods and services, reflecting the fact that the variability in relative prices tends to increase average inflation, induced by typically disperse menu costs to change individual prices. Third, there are distortions in tax systems which are typically not indexed to inflation. And, fourth, there are costs arising from a de-anchoring of inflation expectations, which reflects the fact that inflation is typically more difficult to predict in high inflation environments.

The second insight is that in advanced economies central bank independence and inflation traditionally show a significant negative correlation. Regressions in support of this finding measure central bank independence by various indices which capture, inter alia, appointment and dismissal procedures of central bank board members, the degree to which the central bank is mandated to achieve price stability as its primary objective, and the extent to which the government is able to influence, or even veto, decisions of the central bank. This

empirical relationship did not receive much attention before the early 1990s.[1]
Historically, it needs to be viewed primarily against an understanding of how central banks in different institutional settings “managed to opt out of the great inflation after the break down of Bretton Woods”, to paraphrase a title used by Otmar Issing and co-authors in their account of German monetary policy in these years.[2]

To maintain the claim of a negative relationship between inflation and central bank independence in the more recent period (in which central banks in advanced economies have not been struggling with high inflation, but rather with inflation being too low for too long) requires a more nuanced approach, as some commentators have stressed.[3]
According to them, a consistently negative relationship between inflation and independence across time and countries remains intact if one considers a narrower measure of independence which captures the autonomy of the central bank in its selection and use of monetary instruments, in line with the core monetary policy function of the central bank (instrument independence). By contrast, the significance of broader measures of independence has been reduced in a period in which central banks have had to take on new tasks.

At a conceptual level, the benefits arising from central bank independence in terms of price stability have been strongly echoed in the literature on rules versus discretion.[4]
This literature points out that decision-makers who are subject to political election cycles tend to act in a more short-sighted manner when exercising their mandate. This short-termism creates an inflation bias, making it difficult to credibly promise actions which will validate low inflation expectations over time. To overcome this time-inconsistency problem, monetary policy needs to be delegated to an institution which is sufficiently detached from these cycles. However, independence does not mean isolation, which is why it is important for a dialogue between the central bank and the democratically elected institutions, as well as directly with the public at large, to be maintained.

There is a third insight, which is related to the second. For independence to contribute to achieving a desired inflation target, it needs to be accompanied by a limited and clearly defined mandate for the central bank. As I will explain in a greater detail when talking about accountability, a clear and limited mandate is necessary for the parliament and the public to be able to monitor and evaluate the performance of the central bank. But, apart from that, a clear and limited mandate also reflects the insight, dating back to Tinbergen[5], that institutions must not be overburdened with multiple goals without having the appropriate instruments to achieve them.

These economic insights contributed to the rationale for providing the ECB with a high level of independence, in view of the primary objective assigned to the ECB of maintaining price stability. This rationale has also been recognised by the CJEU, according to which this independence is not an end in itself but serves to shield the decision-making process of the ECB from short-term political pressures in order to enable it effectively to pursue the aim of price stability.[6]
The underpinning arguments resulted in the principle of central bank independence being enshrined in primary legislation, thereby establishing a link between monetary policy and the citizens of the European Union.

Let me finally add that there is a euro area specific argument in support of central bank independence which makes the euro area special within the group of advanced economies. The euro area is not a nation state. Its institutional framework is shaped by the fact that a single European monetary policy co-exists with national or shared sovereignty in various policy domains. Fiscal and labour market policies are particularly relevant in this regard. This raises complex political economy questions, not foreseen in the earlier literature, about how the interests of supranational policies and non-harmonised national policies can be aligned. In such an environment, it is important to have an independent institution which provides the various national decision-makers within the monetary union with a stable nominal anchor enshrined in Union primary law.[7]

From a legal perspective, the Treaty on the Functioning of the European Union established the European System of Central Banks (ESCB), consisting of the ECB and the national central banks (NCBs) of all EU Member States, and assigned to the ESCB the primary objective of maintaining price stability. To pursue that objective, the Treaty assigned to the Eurosystem,

which is composed of the ECB and the NCBs of Member States that have adopted the euro, the core task of defining and implementing monetary policy, together with a number of core central banking tasks in the areas of foreign exchange operations, foreign reserves management, the smooth operation of payment systems, authorising the issuance of euro banknotes, and the collection of the statistical information necessary to undertake these tasks.[8]
With respect to the prudential supervision of credit institutions and the stability of the financial system, the ESCB is mandated to contribute to the smooth conduct of policies pursued by the competent authorities.[9] In addition, Article 127(6) of the Treaty permits the Council to confer specific tasks upon the ECB concerning the prudential supervision of credit institutions and other financial institutions with the exception of insurance undertakings. That provision was activated recently through secondary legislation establishing the Single Supervisory Mechanism (SSM),[10] which confers tasks on the ECB relating to the prudential supervision of credit institutions.

Article 130 of the Treaty sets out the requirements of central bank independence. While Article 130 also applies to NCBs, my focus here today will be on the ECB. Article 130 prohibits the ECB and the members of its decision-making bodies from seeking or taking instructions from Union institutions or bodies, from any government of a Member State or from any other body when exercising the powers and carrying out the tasks and duties conferred upon them by the Treaties. In addition, under Article 130, Union institutions, bodies, offices or agencies, and the governments of the Member States undertake to respect this principle, and not to seek to influence the members of the ECB's decision-making bodies in the performance of their tasks.[11]
This is a very strong concept of independence from the perspective of its content (double prohibition), its legislative source (Treaty level, meaning that it is very difficult to modify), and the judicial protection granted in the event of violation (individual governors have locus standi against their Member States).

The concept of central bank independence has four features - institutional, instrument, personal and financial independence.[12]
In view of the broadened scope of the tasks performed by

central banks, they have to be viewed through a functional lens in order to be in line with the rationale of the Treaty provisions on independence.

Institutional independence refers to the prohibition of the influence of third parties on the structure, functioning, decision-making, and exercise of powers of the central bank. Institutional independence implies that the central bank has a "broad discretion"[13] when making policy decisions. As a consequence, the ECB independently defines its monetary policy strategy and quantifies the price stability objective.

Instrument independence refers to the central bank's ability to determine its policy tools in pursuit of price stability without interference. It means that the central bank has discretion to use and clarify its monetary policy instruments foreseen in primary law such as outright purchases, the collateral framework and its counterparties.

Personal independence safeguards the capacity of the members of the ECB's decision-making bodies to take decisions without external influence. This translates into requirements for appointment and protection from dismissal, as well as the length of mandates that should be longer than the electoral cycle. The members of the Executive Board have the requirements spelled out in the Treaty; their tenure is 8 years and their dismissal on grounds of either inability or serious misconduct is pronounced by the CJEU. The national laws for appointing governors, who in their personal capacity are members of the Governing Council, are to be compatible with the Statute of the ESCB. The reasons for dismissal are the same as for the members of the Executive Board and subject to the CJEU's scrutiny as soon as there is knowledge of material evidence of such a procedure. Their terms of office must be 5 years at a minimum.

Financial independence is so important that it is explicitly listed in Article 282(3) of the Treaty, which provides that the ECB is independent with regard to the management of its finances, meaning budgetary autonomy and ensuring that the ECB has sufficient capital, staff and income to perform independently the tasks conferred on it by the Treaty and the Statute of the ESCB.[14]

In addition, Article 14.4 of the Statute of the ESCB provides the Governing Council with a veto power to object to national functions/actions of NCBs that interfere with the objectives and tasks of the ESCB, thus further safeguarding, among other things, central bank financial independence. The NCBs cannot assume tasks that would endanger their ability, from a financial perspective, to carry out ESCB-related tasks.

Regarding the nature and the scope of the independence granted to the ECB, it is worth emphasising the CJEU's understanding that the broad concept of independence that the ECB enjoys, and which Article 130 of the Treaty is intended to protect its monetary function.

Some scholars and one national court[15] have been even stricter in their interpretation, arguing that the independence of central banks is an exception to the principle of democratic legitimacy. This exception allows an independent institution outside the normal process of democratic and political accountability to be entrusted with authority for monetary policy only under the condition that it has a clearly defined mandate allowing the public to hold it accountable for the performance of the technical tasks assigned to it by the legislator. The clearer and narrower the mandate of a central bank is, the easier it is for the citizens to monitor its performance.[16] In the case of the ECB's monetary policy, the Treaty sets out, in very clear terms, that the primary objective of the ECB is to maintain price stability. Also, the permissible rate of inflation is quantified by the ECB through the Harmonised Index of Consumer Prices (HICP), which is easy to understand and is updated at frequent intervals.[17]

On the other hand, with the conferral of new functions and tasks on the ECB, multiple objectives may arise, which may obstruct the accountability process and, ultimately, compromise the democratic legitimacy of central bank independence. Since the independence granted to a central bank is an exception to the general rule that public administration should be subject to scrutiny and oversight by democratically elected institutions, the scope of a central bank's independence should be interpreted narrowly and may not be automatically extended to other policy areas. As a consequence, institutional independence should be subject to a functional analysis of the need for those new tasks to benefit from the same broad independence framework.

If central bank independence is to be modelled in a functional manner, then its *pendant* – the central bank's accountability and disclosure requirements – also need to reflect this modelling.

Accountability and transparency

The principles of accountability and transparency are essential for independent central banks. Accountability is a political duty and *sine qua non* for the democratic legitimacy of an independent central bank that is answerable for the exercise of its decision-making powers.[18]
Accountability refers to the ex post explanation and justification of autonomous decision-making.[19]

Transparency is aimed at increasing the effectiveness of a central bank's policies by communicating them in real time, or even in advance, thus facilitating the public's understanding of the central bank's objectives, behaviour and decisions.[20]

The channels through which the ECB is held accountable for the performance of its monetary policy function are laid down at constitutional level, i.e. in the Treaty. The Treaty was concluded by the national governments and ratified by the national parliaments of the EU Member States, and in some cases endorsed by popular referenda, in accordance with national constitutional requirements. This gives the ECB, as an independent institution accountable to the EU institutions as well as to the public at large, a profound degree of democratic legitimacy. In addition, there are various "ex post" instruments, provided for by the Treaty, fostering dialogue and communication with the Union institutions.[21]

In addition to the requirements imposed on the ECB by the Treaty, the ECB is committed to ensuring greater levels of transparency and accountability by, for example, holding press conferences immediately following Governing Council monetary policy meetings, making the monetary policy accounts available four weeks after each monetary policy meeting and publishing the Economic Bulletin, articles, interviews and speeches online. The principles of transparency and openness are also implemented by the ECB regime for public access to documents.[22]

Developments following the financial crisis and their impact on the concept of central bank independence

I will now share with you some reflections on developments following the financial crisis and their impact on central bank independence. As I have already explained, the Eurosystem's most prominent task is to define and implement the monetary policy of the Union. Following the financial and sovereign debt crises, new tasks were conferred upon the ECB and, as a result, the ECB started engaging in broader policy fields. In particular, the ECB became the direct prudential supervisor of significant banks in Member States participating in the SSM, received some macroprudential tools in addition to its existing microprudential tasks, engaged in crisis management activities, and liaised with the Commission in connection with assistance programmes for certain Member States financed via the European Stability Mechanism (ESM) and the European Financial Stability Facility (EFSF).

In the light of these developments, it is important to consider the extent to which the very high level of independence granted to the ECB by Article 130 of the Treaty applies to each of its new tasks and responsibilities.

Is the principle of independence under Article 130 of the Treaty applicable to the ECB in its role as a banking supervisor?

Regarding the extent to which the principle of independence under the Treaty applies to the ECB in its role as a prudential supervisor of credit institutions, both the wording of Article 130 of the Treaty and the jurisprudence of the CJEU make it clear that the independence the ECB enjoys is limited to the performance of the tasks conferred on the Eurosystem and the ECB by the Treaty and the Statute of the ESCB in pursuit of the objective of price stability and, without prejudice to that objective, to supporting the general economic policies in the

Union. Tasks and functions conferred on the ECB by secondary legislation do not, therefore, fall within the scope of the principle of independence in Article 130 of the Treaty, and the four features of central bank independence applicable to the ECB as a monetary authority are not applicable per se.

The ECB's tasks in the field of microprudential supervision are conferred neither by the Treaty nor by the Statute of the ESCB, but rather by means of secondary legislation, the SSM Regulation.[23]
Therefore, the principle of independence, as enshrined in Article 130 of the Treaty, cannot be properly applied to the exercise by the ECB of its supervisory functions. In addition, the ECB's supervisory tasks cannot be considered to be inextricably linked to or indispensable to the pursuit of the price stability mandate although an efficient transmission mechanism and counterparty framework are supported by a sound and solvent banking system.

This legal interpretation of the precise scope of the principle of independence under Article 130 of the Treaty is further supported by additional purposive arguments which I would also like to present to you.

First, unlike the monetary policy task, which involves a wide discretion for which the Eurosystem has fully autonomous regulatory and decision-making powers,[24]
the ECB's discretion in carrying out its supervisory tasks is confined by the decisions taken by the respective European and national legislators or regulators. In particular, in its supervisory activities, the ECB must apply all relevant Union law and, where the Union law is in the form of directives, the national legislation transposing those directives.[25] The ECB is also subject to binding regulatory and implementing technical standards developed by the European Banking Authority (EBA) and adopted by the Commission[26] and to the EBA's powers to resolve disputes between competent authorities in a legally binding manner.[27] While the ECB is consulted on draft legislation within its fields of competence, the ECB is not a supervisory policymaker and its supervisory tasks, although entailing discretionary judgement, focus on the implementation and enforcement of supervisory policies and rules established by democratically accountable institutions. Even though operational independence is of importance to the

manner in which these tasks are carried out, the fact that a supervisor is required to act in response to decisions made by, or in cooperation with, policymakers and other supervisors means that the high level of protection from external influence that is guaranteed under Article 130 of the Treaty is not appropriate for these tasks. The provisions on independence in the SSM Regulation are similar to Article 130 of the Treaty, but serve a different purpose. The personal and instrument independence are also different. As for personal independence it should be also noted that the members of the Supervisory Board, apart from that of the Chair,[28] Vice Chair[29] and the ECB representatives[30] , are not protected under the SSM Regulation against arbitrary dismissal. There is also no legislatively protected minimum term of office for them.

Second, the ECB's accountability for its supervisory tasks is different from and more enhanced than that for its monetary policy task owing to the potential impact on taxpayers of the manner in which microprudential supervision is conducted. Throughout the financial crisis, taxpayers had to bail out banks supervised at national level. Even though, under the new EU resolution regime, the cost of bank failures is intended to be borne by bank shareholders and creditors, there is still a residual scope for public financial support, as we are currently witnessing.

A further argument for a functional interpretation of the principle of independence is the principle of separation between monetary policy and banking supervision under the SSM Regulation.[31]
Moreover, while the accountability obligations for monetary policy tasks are laid down in primary legislation,[32] the ECB's accountability obligations for banking supervision tasks are subject to a specific regime set out in the SSM Regulation[33] and further detailed in an interinstitutional agreement between the European Parliament and the ECB[34] and a memorandum of understanding between the Council of the EU and the ECB.[35] To the extent that accountability and independence are seen as counterparts, the different accountability frameworks might have implications for the implementation of the principle of independence.

An example in this regard is the restricted mandate of the European Court of Auditors (ECA) to audit the "*operational* *efficiency of the management of the ECB*". The rationale for this limitation on the ECA's audit, which is laid down in Article 27.2 of the Statute of the ESCB, is in the independence of the ECB vis-à-vis other Union institutions and governments of the Member States by virtue of Article 130 of the Treaty. The SSM Regulation makes a direct reference to the restricted mandate of the ECA under Article 27.2 of the Statute of the ESCB when defining the ECA's competences to audit the supervisory activities of the ECB. However, as the ECB as a supervisor enjoys a different kind of independence than the ECB as monetary authority, there is, in practice, a differentiated application of the concept of the "*audit of the operational efficiency of the management of the ECB*", meaning that it is possible for the ECB to have different obligations vis-à-vis ECA.

Third, the extension of the high standard of independence under Article 130 of the Treaty to the supervisory function of the ECB is hard to reconcile with the principle of democratic legitimacy. As I explained earlier, entrusting the ECB with the authority to make monetary policy decisions is not considered to give rise to legitimacy concerns because the ECB's very clearly defined mandate in this area allows the public to hold it accountable for the performance of its tasks. In other words, the clear Treaty mandate of the ECB to maintain price stability, which has been quantified since the very beginning,[36] provides the citizens of the Union with a benchmark against which to judge whether this mandate has been fulfilled. Unlike the objective of the monetary policy, however, the objectives of the ECB's supervisory tasks, as defined in the SSM Regulation, are diverse and multifaceted; and they are also not quantifiable.[37] For this reason, it is necessary for the trade-offs and judgement calls concerning these objectives to be subject to a greater degree of scrutiny by democratically elected institutions, or sometimes to a degree of control by democratically elected institutions. In view of the multiple objectives of banking supervision that at times might even conflict with the ECB's primary objective of maintaining price stability, it would not be justifiable to extend the independence under Article 130 of the Treaty to the ECB as supervisor.

Let me emphasise at this point that I do not question the necessity for banking or financial supervisors to be operationally independent from undue political, commercial banking or other third party influences. There are valid arguments for granting operational and financial independence to supervisors and, in fact, it has been accepted that operational independence is one of the core principles for effective banking supervision. The specific question that I am exploring is whether the highest possible level of independence granted to a central bank by virtue of Article 130 of the Treaty for the pursuit of the primary objective of price stability may be extended to the supervisory function of the ECB.

Operational independence of the ECB as a supervisor

When the Council conferred supervisory tasks on the ECB, it also set out the principles and conditions governing the exercise of those powers, including the level of independence for the ECB. Instead of including a direct cross-reference to Article 130 of the Treaty,[38]
as was the case in relation to the scope of the ECA's mandate vis-à-vis the ECB, the independence of the ECB in an SSM context is set out expressly in Article 19 of the SSM Regulation.

The wording of Article 19 of the SSM Regulation is similar to, but does not replicate, Article 130 of the Treaty. It stipulates that when "*carrying out the tasks conferred on it by this Regulation, the ECB and the national competent authorities acting within the SSM shall act independently. The members of the Supervisory Board and the steering committee shall act independently and objectively in the interest of the Union as a whole and shall neither seek nor take instructions from the institutions or bodies of the Union, from any government of a Member State or from any other public or private body*." Article 19(2) adds that "*the institutions, bodies, offices and agencies of the Union and the governments of the Member States and any other bodies shall respect that independence*."

The following question arises: what is the difference between the ECB's independence as a central bank and its independence as a bank supervisor?[39]

The first notable difference, as already mentioned, is that Article 130 of the Treaty is part of the Union's primary or constitutional law, while Article 19 of the SSM Regulation is secondary law. This gives the provision shielding the central bank from influence when performing its monetary policy task in Article 130 of the Treaty a constitutional character and takes it outside the scope of the Union legislator's legislative powers. By contrast, the provisions shielding the bank supervisor from influence are contained in secondary law, which is of a lower rank than primary law and easier to amend.

Second, Article 19 of the SSM Regulation should be read in the light of recital 75 of the SSM Regulation, which refers to the importance of the prevention of private industry interference in the supervisory field, in addition to "undue political influence". Such private industry interference is less pronounced in the area of monetary policy. In addition, only "undue" political influence is prohibited. Recital 75 also explicitly refers to the notion of the "operational independence" of supervisors.

In addition, Article 19 of the SSM Regulation does not contain an explicit prohibition on the ECB and the national competent authorities (NCAs) accepting instructions, unlike Article 130 of the Treaty with respect to the ECB and the NCBs. In the SSM context, Article 19 of the SSM Regulation only imposes such a prohibition on the members of the Supervisory Board and its steering committee. The drafting of Article 19 of the SSM Regulation reflects the legal situation in some Member States, where the NCAs are bound by the instructions of the respective ministries.[40]
Article 19 of the SSM Regulation requires only that the ECB and the NCAs "act independently" while carrying out their supervisory tasks under the SSM Regulation.[41]

Third, the principle of personal independence does not apply to the members of the ECB's Supervisory Board (apart from the specific rules applicable to the Chair[42]
, Vice Chair[43] and the ECB representatives[44]). There is neither a legislatively protected minimum term of office for them, nor a limitation of the grounds for dismissal by the appointing authority.

It should be noted that this does not affect the personal independence of the members of the ECB's decision-making bodies, who remain protected from arbitrary dismissal under Articles 11.4 and 14.2 of the Statute of the ESCB, irrespective of whether they exercise new tasks and functions that are conferred on the ECB. The Statute of the ESCB sets out explicitly the two grounds for dismissal and any interpretation leading to a different outcome would be contrary to the letter and the spirit of the Treaty. In practice, a dismissal from office would apply to all functions performed under that office and cannot be restricted only to the monetary policy and core central banking functions. Nothing would prevent a national legislator, however, from severing a national governor from national responsibilities in the prudential field.

Fourth, the principle of financial independence applies to the ECB as a bank supervisor in order to have sufficient financial and human resources to perform its supervisory tasks. [45]

To conclude on this point, when performing its supervisory tasks, the ECB is not shielded from external influences with the same level of independence as it is in its monetary policy function. While the ECB as a supervisor still enjoys a high degree of operational and financial independence, the ECB’s discretion in policy decisions and the use of supervisory tools is confined by the European and national legislators and regulators. With some exceptions, the principle of personal independence is not applicable to the members of the Supervisory Board.

Is the principle of independence under Article 130 of the Treaty applicable to the ECB in its role in EFSF/ESM financial assistance programmes for a number of euro area Member States?

Another question to examine is whether the principle of independence under the Treaty is applicable to the ECB in respect of its role in ESM/EFSF financial assistance programmes for certain Member States.

With the financial and sovereign debt crisis, the Commission, on behalf of the ESM and the EFSF, and in liaison with the ECB, was given a number of specific tasks relating to the assessment of risks to the financial stability of the euro area as a whole or of its Member States, the assessment of whether a Member State’s debt is sustainable, the assessment of the financing needs of the Member State concerned, the negotiation of a memorandum of understanding (MoU) detailing the conditionality attached to financial assistance facilities of the ESM/EFSF for that Member State, and monitoring compliance with such conditionality. Where possible and appropriate, the Commission – in liaison with the ECB – was mandated to conduct these ESM/EFSF activities together with the International Monetary Fund.

This new role for the Commission, in liaison with the ECB, was initially assigned under contractual arrangements, first for bilateral loans from Member States to Greece, and later for loans from the EFSF to a number of Member States. This role was later formalised in the case of loans from the ESM under the Treaty Establishing the European Stability Mechanism (the ESM Treaty), an intergovernmental treaty concluded by the euro area countries under public international law outside of the Union legal framework.[46]

The role allocated under the ESM Treaty to the Commission, in liaison with the ECB, was confirmed by the CJEU in *Pringle* v *Ireland*[47] as being in line with the case-law of the Court, whereby Member States are entitled, in areas which do not fall under the exclusive competence of the Union, to entrust tasks to Union institutions, outside the framework of the Union, such as the task of coordinating a collective action undertaken by the Member States or managing financial assistance, provided that those tasks do not alter the essential character of the powers conferred on those institutions by the Treaties. In this respect, the Court held that the duties conferred on the Commission and ECB under the ESM Treaty, important as they are, do not entail any power to make decisions of their own. Further, the MoU negotiated by the Commission, in liaison with the ECB, with the Member State concerned is signed by the Commission on behalf of the ESM and, therefore, solely commits the ESM and the Member State. As regards the tasks allocated to the Commission and the ECB by the ESM Treaty, these are in line with the various tasks which the Treaties confer on these Union institutions. In the specific case of the ECB, by virtue of its duties under the ESM Treaty, the ECB supports the general economic policies of the Union, in accordance with Articles 127(1) and 282(2) of the Treaty.

This approach was confirmed by the General Court in its

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judgment.

The role of the Commission, in liaison with the ECB, was finally mirrored in Union legislation strengthening economic governance in relation to euro area Member States under a financial assistance programme of the ESFS/ESM.[49]

This brings me to the conclusion that the ECB has no decision-making powers of its own in the context of its liaising role in the ESM/EFSF programmes, but is acting essentially as a technical advisor to the ESM/EFSF. Therefore, the protection provided to the ECB by the requirement of central bank independence in the Treaty is simply not relevant in this field, as the ECB does not adopt any decisions and does not have its own instruments for the implementation of decisions. This is without prejudice to the financial independence of the ECB because if the ECB did not have sufficient financial and human resources to perform its technical advisory tasks, this might undermine its ability to perform its tasks under the Treaty. The personal independence of members of the ECB's decision-making bodies is also unaffected, as they remain protected from arbitrary dismissal under the Treaty irrespective of the tasks they are exercising.

Is the principle of independence under Article 130 of the Treaty applicable to the ECB in its macroprudential role?

The last question I would like to analyse is whether the principle of independence under the Treaty is also applicable to the ECB's role in macroprudential supervision.

As a general principle, macroprudential competence lies at the national level. This is a reflection of the principle of conferral that governs the division of powers between the European Union and the Member States. According to that principle, the Union should act only within the limits of the competences conferred upon it by the Member States in the Treaties to attain the objectives set out therein.[50]
Where a competence is not conferred upon the Union in the Treaties, it remains with the Member States.[51]

The primacy of national competence in the field of macroprudential policy is clarified in Article 127(5) of the Treaty, which states that "*the ESCB shall contribute to the smooth conduct of policies pursued by the competent authorities relating to the stability of the financial system*". This implies that, in general, the Eurosystem has only a contributory role to the formulation of macroprudential policies. This means that, while the responsibility for the stability of the financial system lies with the competent authorities of the Member States, the Eurosystem may intervene to support, coordinate or complement the actions of those Member States whose currency is the euro. The specific tools given to the ECB by the SSM Regulation[52] to tighten up macroprudential measures adopted by the national macroprudential authorities (but not to ease them) in order to address the risk of cross-border spill-overs also reflect this division of competences between the Union and national levels: the adoption procedure for those top-up ECB decisions[53] may be initiated only at the initiative of the national macroprudential authorities, thus emphasising the national character of macroprudential competences.

The Treaty does not set macroprudential supervision as a basic ESCB task or financial stability as an ESCB objective. The reasoning appears to be that it is national, rather than Union, developments which contribute to systemic risks, and that the bearing of costs arising out of financial crises is predominantly a national rather than a Union matter.[54] Accordingly, the macroprudential authorities are accountable to their respective national stakeholders. Although, after the 2008 financial crisis, there were calls for greater central bank involvement in the oversight of macroprudential aspects of banking activities,[55] in the end, no changes beyond the contributory role of the ESCB were initiated. The ESCB contribution to the work of national authorities in this area can be seen as a contributory task rather than an own competence. As macroprudential policy does not generally involve ESCB policy decisions, the question of the applicability of the principle of independence under Article 130 of the Treaty is less relevant in this area. A possible exception is the case where macroprudential considerations are taken into account under the second pillar of the ECB monetary policy strategy – monetary analysis. As the specific tools under Article 5 of the SSM Regulation are used, the independence provisions of the SSM Regulation would be applicable with respect to decisions pertaining to those tools. To that extent, the ECB enjoys, in this particular case, a high degree of operational and financial independence; instrument independence is confined and personal independence is not protected equally for all members of the Supervisory Board in the same way as for the members of the decision-making bodies of the ECB.

Rationale for having different mandates for monetary policy, macroprudential policy and microprudential supervision

Let me finally elaborate on the rationale underlying the legislator's decision to keep separate the mandates for monetary policy, macroprudential policy and microprudential supervision. This helps us to understand why it is justifiable to treat different mandates differently and why certain institutional aspects characterising those mandates, like independence, might vary, even within the same institution.

The first reason to keep monetary and macroprudential policy separate lies in the differences between the financial and business cycles, which are often de-synchronised or have different amplitudes. While the business cycle relates to real GDP fluctuations, the financial cycle considers the evolution of variables such as credit developments and house prices. Empirical analysis suggests that the financial cycle typically lasts longer than the business cycle.[56]
De-synchronisation does not mean that business and financial cycles are uncorrelated. It simply means, for instance, that significant risks and imbalances can gradually build up in the financial system even in periods of low inflation and low output volatility. This is what happened during the "Great Moderation", before the recent financial crisis surfaced. Such a de-synchronisation between the financial and business cycles suggests that, if monetary policy seeks to stabilise the financial cycle, it may take actions which are detrimental to its primary objective of achieving price stability. In addition, seeking to mitigate financial risks by changing monetary policy rates may produce inefficient outcomes. The reason is that variations in policy rates typically influence all sectors of an economy and may therefore be too broad and too blunt a tool

to address sector-specific financial imbalances, such as in real estate.

Second, to achieve simultaneously price stability and financial stability, is it necessary to have two independent policy domains, each endowed with separate goals and instruments? While monetary policy would aim to guarantee price stability, macroprudential policy aims to ensure financial stability. In particular, within the euro area, as Member States often have heterogeneous business and financial cycles, macroprudential instruments have the advantage that they can target country-specific imbalances.

Having a central bank with a dual mandate for both price stability and financial stability might undermine the primary objective to pursue price stability. In addition, as elaborated above, such a dual mandate raises questions concerning appropriate accountability mechanisms, especially in view of the need for more stringent accountability obligations in the area of macroprudential policy.

Macroprudential policy tools can be put into three broad categories. First, capital-based tools, which target the capital of credit institutions and aim, inter alia, to enhance their resilience. An example of such a tool is the counter-cyclical capital buffer. Second, borrower-based tools, which essentially target borrowers, inter alia measuring the debt they can contract against their ability to repay. Caps on loan-to-value ratios and loan-to-income ratios, for example, seek to address this objective. Third, liquidity-based measures, which are aimed at containing banks' vulnerabilities deriving from over-exposure to cheap but unstable sources of finance. Examples of such measures include requirements regarding loans-to-deposits ratios, liquidity coverage ratios and net stable funding ratios.

Although monetary policy and macroprudential policy pursue different goals, one policy domain can influence the other. This has already been reflected in the ECB's monetary policy strategy. The design of the ECB's monetary policy strategy takes into account that credit developments deserve special attention, and allows for a good amount of built-in flexibility. In particular, it features a flexible and shock-dependent medium-term horizon, meaning that monetary policy does not

automatically respond to shocks, unless there is a risk of these shocks becoming embedded in inflation expectations. And it also features a monetary pillar. Under this pillar, trends in credit markets are monitored, and factored into policy decisions, even when inflation has not moved.[57]
As a built-in feature, this ensures a certain leaning-against-the-wind attitude in policymaking. However, although the ECB's two-pillar monetary policy strategy incorporates financial stability considerations, macroprudential policy cannot seek to impose its needs on the monetary pillar.

Against this background, one may wonder why microprudential supervision was not considered sufficient to address financial stability issues. One reason is that microprudential supervision is aimed at ensuring the soundness of individual financial institutions by mitigating their vulnerability to idiosyncratic risks. However, setting up a regulatory framework which guarantees the soundness of individual banks does not automatically ensure the soundness of the financial system as a whole. Financial institutions' inter-connectedness contributes to generating systemic risk, even when such institutions, taken in isolation, seem sound. Moreover, since financial institutions tend to engage in similar investment strategies both in upturns and downturns of the financial cycle, over time common exposures to similar sets of risks can create financial imbalances or credit disruptions, leading to pro-cyclicality. When a shock surfaces, interconnections may contribute to amplifying expansionary and contractionary phases of the financial cycle. Hence the need to have a policy domain, such as macroprudential policy, which seeks to mitigate the insurgence of systemic risk, i.e. the risk that the whole financial system is disrupted and becomes unable to provide services to the real economy.

Of course, the targets and instruments of macroprudential policy and microprudential supervision exhibit a certain degree of overlap. However, while macroprudential policy instruments are used to counteract risks of a systemic nature, microprudential supervision applies its instruments to individual institutions or limited groups of institutions to strengthen their resilience.[58]
Moreover, some macroprudential policies may require the use of fiscal instruments. This explains why, at national level, fiscal authorities are sometimes involved in systemic risk boards.

However, at EU level, no fiscal authority exists. Therefore, macroprudential policy should remain at national level.

Concluding remarks

To conclude, the rationale of the principle of central bank independence, as set out in the Treaty and interpreted by the CJEU, is to protect the ECB from political influence primarily when defining and implementing the Eurosystem’s monetary policy. The additional mandates and functions conferred on the ECB after the financial crisis with regard to micro- and macroprudential supervision and crisis management are not covered by the very high level of independence provided to the ECB under Article 130 of the Treaty. Nor does it apply to the contributory role of the ECB with regard to financial stability under Article 127(5) of the Treaty, as the ECB is not the policymaker in this field.

I will conclude my remarks at this point, and I am happy to turn the floor over to the workshop presenters and participants to further elaborate on these themes.

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[1]This correlation does not imply that independence is causal for low inflation. In particular, societies with a high degree of inflation-aversion may find it more natural to grant their central bank a high degree of institutional independence. On this, Posen, A., “Why central bank independence does not cause low inflation: there is no institutional fix for politics”, in O’Brien, R. (1994) (ed), Finance and the International Economy: in memory of Robert Marjolin, Oxford University Press. Moreover, it should be borne in mind that the short historical sample reflects the fact that the notion of independent monetary policy is of limited interest in periods of fixed exchange rates regimes (as was the case during the gold standard or under the Bretton Woods regime).
[2]Beyer, A., Gaspar, V., Gerberding, C., and Issing, O. (2013), “Opting Out of the Great Inflation: German Monetary Policy after the Break Down of Bretton Woods”, in Bordo, M. D., and Orphanides, A. (eds), The Great Inflation: The Rebirth of Modern Central Banking, University of Chicago Press.
[3]Balls, E., Howat, J., and Stansbury, A. (2016), “Central Bank

Independence Revisited: After the financial crisis, what should a model central bank look like?", *M-RCBG Associate Working Paper Series*, No 67, Harvard Kennedy School.

[4]For a representative contribution, see Barro, R., and Gordon, D. (1983), "Rules, Discretion, and Reputation in a Model of Monetary Policy", *Journal of Monetary Economics*, Vol. 12, pp. 101-121.

[5]Tinbergen, J. (1952), *On the theory of economic policy*, North Holland Publishing Company.

[6]See paras. 150 and 155 of the Opinion of Advocate General Jacobs in Case C-11/00, *Commission* v *ECB*, EU:C:2003:395 (the "OLAF case"). In this respect Advocate General Jacobs has in the OLAF case cited economic literature noting that the foremost argument put forward in favour of an independent monetary authority is that of price stability because "governments are tempted to create money for their own ends and in order to produce economic benefits in the short term, which eventually leads to an increase in the rate of inflation." The literature cited by Advocate General Jacobs concludes that "[t]heoretical considerations on the relationship between central bank independence and the rate of inflation are backed by empirical evidence. On the basis of comparisons of the degree of independence of central banks and the inflation record of the respective country a negative correlation between the degree of independence and the inflation record has been generally acknowledged." The Opinion of Advocate General Jacobs in the OLAF case cites, e.g., Alesina, A., and Summers, L.H. (1993), "Central Bank Independence and Macroeconomic Performance: Some Comparative Evidence", *Journal of Money Credit & Banking*, Vol. 23(2), pp. 151-62, 159; Amtenbrink, F. (1999), *The Democratic Accountability of Central Banks*, Hart Publishing, pp. 11-17, 23-26; and Cukierman, A., Webb, S.B., and Neyapti, B. (1992), "Measuring the Independence of Central Banks and Its Effects on Policy Outcomes", *The World Economic Review*, Vol. 6(3), pp. 353-98, 383.

[7]For an early contribution on the notion of a nominal anchor in the context of monetary unions, see Issing, O. (1999), "**Currency Competition and European Monetary Union**", Annual Hayek Memorial Lecture, Institute of Economic Affairs, London, United Kingdom, 27 May 1999. On the same topic, see also Hoeksma, J. (2017), "The EU and EMU as correlated institutions beyond the State", *ESCB Legal Conference 2016*, pp. 335-48.

[8]See Articles 127(2) and 128(1) of the Treaty on the Functioning of the European Union (TFEU) and Article 5 of the Statute of the European System of Central Banks and of the European Central Bank (Statute of the ESCB). The ECB also has an advisory function and, in this regard, it must be consulted on any proposed Union act and draft national legislative provisions in its fields of competence (Articles 127(4) and 282(5) TFEU and Article 25.1 of the Statute of the ESCB).

[9]Article 127(5) TFEU.

[10]Council Regulation (EU) No 1024/2013 of 15 October 2013 conferring specific tasks on the ECB concerning policies relating to the prudential supervision of credit institutions (SSM Regulation), OJ L 287, 29.10.2013, p. 63.

[11]The provisions of Article 130 TFEU are also mirrored in Article 7 of the Statute of the ESCB, which is annexed to the Treaty as Protocol Number 4.

[12]Similar classifications are used in the in **ECB convergence reports**, adopted on the basis of Article 140(1) of the Statute of the ESCB , which assess the progress made by non-euro area Member States in fulfilling their Treaty obligations regarding the achievement of economic and monetary union.

[13]Case C-62/14 *Gauweiler and Others v Deutscher Bundestag*, para. 75 (ECLI:EU:C:2015:400).

[14]The ECB has its own capital, which is paid up by the national central banks (Article 28 of the Statute of the ESCB) and other assets, including claims relating to the allocation of euro banknotes within the Eurosystem, securities held for monetary policy purposes, foreign reserves and other financial assets. The ECB’s accounts are audited by independent external auditors recommended by the ECB and approved by the Council (Article 27.1 of the Statute of the ESCB) and the competence of the European Court of Auditors (ECA) is limited to examining the operational efficiency of the management of the ECB (Article 27.2 of the Statute of the ESCB).

[15]BVerfG, **2 BvR 2728/13**, 14 January 2014. See also, for instance, Amtenbrink, F. (1999), *The Democratic Accountability of Central Banks*, Hart Publishing; and De Haan, J., Amtenbrink, F., Eijffinger S.C.W. (1999), “Accountability of central banks: aspects and quantification”, *PLS Quarterly Review*, Vol. 52, No 209.

[16]Issing, O. (1999), “The Eurosystem: Transparent and Accountable or ‘Willem in Euroland’”, *Journal of Common*

Market Studies, Vol. 39(3): 503-19; Padoa-Schioppa, T. (2000), “The Institutional Glossary of the Eurosystem”, *ZEI Working Paper*, No B-16; and ECB (2002), “The accountability of the European Central Bank”, *Monthly Bulletin*, ECB, November.

[17]The Governing Council’s quantitative definition of price stability is as follows: "*Price stability is defined as a year-on-year increase in the Harmonised Index of Consumer Prices (HICP) for the euro area of below 2%*."

[18]Issing, O. (1999), “The Eurosystem: Transparent and Accountable or “Willem in Euroland””, Journal of Common Market Studies, 39(3): 503-19; Padoa-Schioppa, T. (2000), “The Institutional Glossary of the Eurosystem”, ZEI working paper No. B-16, and; ECB (2002), “The accountability of the European Central Bank”, ECB Monthly Bulletin November 2002.

[19]Padoa-Schioppa, T. “ **An institutional glossary of the Eurosystem**” presented at the conference on "The Constitution of the Eurosystem: the Views of the EP and the ECB", 8 March 2000.

[20]Padoa-Schioppa, T. “ **An institutional glossary of the Eurosystem**” presented at the conference on "The Constitution of the Eurosystem: the Views of the EP and the ECB", 8 March 2000, and “ **Transparency in the monetary policy of the European Central Bank**”, ECB Monthly Bulletin November 2002.

[21]In particular, these are: the requirement to submit reports to the European Parliament, the EU Council and the Commission on an annual and quarterly basis (Article 284(3) TFEU and Article 15.1 of the Statute of the ESCB); the presentation of the annual report by the President of the ECB to the Council and the European Parliament which may hold a debate on the basis of it (Article 284(3) TFEU); and the publication of weekly financial statements (Article 15.2 of the Statute of the ESCB). Furthermore, at the request of the European Parliament, or at its own initiative, the President of the ECB and other members of the Executive Board may be heard by the competent parliamentary committees (Article 284(3) TFEU). The President of the ECB must also be invited to participate in Council meetings when the Council is discussing matters related to the objectives and tasks of the Eurosystem (Article 284(2) TFEU). The President of the ECB also answers a significant number of queries by members of the European Parliament. Moreover, the President of the Council and Members of the Commission may participate, without voting

rights, in the meetings of the Governing Council (Article 284(1) TFEU) and the President of the Council may submit a motion for deliberation to the Governing Council (Article 284(1) TFEU). With regard to questions from Members of the European Parliament, it is interesting to note that during the 2004-2009 parliamentary term, 62 letters with questions from Members of the European Parliament were received. The number of letters more than doubled during the 2009-2014 term to 128 letters. In the current parliamentary term so far, between 2014 and March 2017, some 383 letters have already been received, of which 317 addressed to the President of the ECB and 66 to the Chair of the Supervisory Board.

[22]Decision of the European Central Bank of 4 March 2004 on public access to European Central Bank documents, OJ L 80, 18.3.2004, p.42, as amended.

[23]Article 127(6) TFEU prescribes that specific tasks concerning policies relating to the prudential supervision of credit institutions may be conferred on the ECB by the Council by means of regulations adopted in accordance with a special legislative procedure. Article 1 of the SSM Regulation states "*this Regulation confers on the ECB specific tasks concerning policies relating to the prudential supervision of credit institutions*".

[24]See para. 75 of the judgment in the OMT case.

[25]See Article 4(3) of the SSM Regulation.

[26]See Article 6 of Regulation (EU) No 1093/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Banking Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/78/EC, OJ L 331, 15.12.2010, p. 12.

[27]See Article 21(4) of Regulation (EU) No 1093/2010.

[28]The Chair has a non-renewable term of office of five years (Article 26 (3) of the SSM Regulation) and may be dismissed from office following a special procedure by the appointing body – the Council - only in two specifically listed cases (Article 26 (4) of the SSM Regulation).

[29]The Vice Chair is chosen among the members of the Executive Board and the independence safeguards for the Executive Board apply to her/him (Article 26 (3) and (4) of SSM Regulation).

[30]The rules for the ECB representatives in the Supervisory Board are not set out in the SSM Regulation but in the ECB

Decision on the appointment of representatives of the ECB to the Supervisory Board (ECB/2014/4) where the appointing body – the ECB Governing Council – define a non-renewable term of office of five years (Article 1 (2)) and lists the only two specific cases under which they can be dismissed from office by the appointing authority.

[31]On the principle of separation between the monetary policy and supervisory functions, see Article 25 of the SSM Regulation and the Decision of the ECB on the implementation of separation between the monetary policy and supervision functions of the European Central Bank (ECB/2014/39), OJ L 300, 18.10.2014, p. 57.

[32]Article 284 TFEU and Article 15(3) of the Statute of the ESCB.

[33]Articles 20 and 21 of the SSM Regulation.

[34]Interinstitutional Agreement between the European Parliament and the ECB 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, OJ L 320, 30.11.2013, p. 2.

[35]Memorandum of Understanding between the Council of the European Union and the ECB on the cooperation on procedures related to the Single Supervisory Mechanism (SSM), 11.12.2013.

[36]The Governing Council’s quantitative definition of price stability adopted in 1998 is as follows: "*Price stability is defined as a year-on-year increase in the Harmonised Index of Consumer Prices (HICP) for the euro area of below 2%*." In 2003 the Governing Council clarified that in the pursuit of price stability, the ECB aims at maintaining inflation rates below, but close to, 2% over the medium term.

[37]Article 1, first paragraph, of the SSM Regulation stipulates that the supervisory tasks of the ECB should contribute “to the safety and soundness of credit institutions and the stability of the financial system within the Union and each Member State”.

[38]As was done in Article 20 of the SSM Regulation in respect of the audit.

[39]For general considerations on that matter, see Bini Smaghi, L. (2006), “ **Independence and accountability of supervision in the European financial market**”.

[40]For instance, the German supervisory authority (*Bundesanstalt für Finanzdienstleistungsaufsicht*) is subject to

instructions from the Ministry of Finance.

[41]See also Bini Smaghi, L. (2006), " **Independence and accountability of supervision in the European financial market**".

[42]The Chair has a non-renewable term of office of five years (Article 26(3) of the SSM Regulation) and may be dismissed from office following a special procedure by the appointing body (the Council) only in two specifically listed cases (Article 26(4) of the SSM Regulation).

[43]The Vice Chair is chosen from among the members of the Executive Board and the independence safeguards for the Executive Board apply to her/him (Article 26(3) and (4) of the SSM Regulation).

[44]The rules for the ECB representatives in the Supervisory Board are not set out in the SSM Regulation but in the ECB Decision on the appointment of representatives of the ECB to the Supervisory Board (ECB/2014/4), which defines a non-renewable term of office of five years (Article 1(2)) and lists the two specific cases under which they can be dismissed from office by the appointing authority (the ECB's Governing Council).

[45]Article 28 of the SSM Regulation requires the ECB to provide the necessary financial resources for its supervisory tasks, and Article 30 of the SSM Regulation empowers the ECB to levy fees on credit institutions to cover its expenditure on supervision.

[46]Under the ESM Treaty, the ECB's role is, generally speaking, as follows: (i) to assess together with the Commission the urgency of requests for stability support (Article 4(4)); (ii) to participate as an observer in the meetings of the Board of Governors and the Board of Directors (Articles 5(3) and 6(2)); (iii) the Commission, in liaison with the ECB, assesses requests for stability support (Article 13(1)); (iv) the Commission, in liaison with the ECB, negotiates an MoU detailing the conditionality attached to the financial assistance facility (Article 13(3)); and (v) the Commission, in liaison with the ECB, monitors compliance with the conditionality attached to the financial assistance (Article 13(7)).

[47]Case C-370/12, *Pringle* v *Ireland*, ECLI:EU:C:2012:756, paras. 155-65.

[48]Joined Cases C-8/15 P to C-10/15 P, *Ledra Advertising Ltd and Others* v *Commission and ECB*, ECLI:EU:C:2016:701.

[49] See, in particular, Regulation (EU) No 472/2013 of the European Parliament and of the Council of 21 May 2013 on the

strengthening of economic and budgetary surveillance of Member States in the euro area experiencing or threatened with serious difficulties with respect to their financial stability (OJ L 140, 27.5.2013, p. 1).

[50]Article 5 (1) and (2) of the Treaty.

[51]Article 5 (1) and (2) of the Treaty.

[52]See Article 5 of the SSM Regulation.

[53]Article 13h of the ECB's Rules of Procedure.

[54]On the reciprocity of macroprudential policy measures in the EU, see Deutsche Bundesbank (2016), **Financial Stability Review 2016**, pp. 45-46.

[55]See, for instance, de Larosière, J. (2009), **Report of the High Level Group on Financial Banking Supervision in the EU**, p. 39.

[56]Drehmann, M., Borio, C., and Tstasaronis, K. (2012), "Characterising the financial cycle: don't lose sight of the medium term!", *BIS Working Papers*, No 380, Bank for International Settlements; and Rünstler, G., and Vlekke, M. (2016), "Business, housing and credit cycles", *Working Paper Series*, No 1915, ECB.

[57]See Issing, O., "Monetary and financial stability – is there a trade-off?", speech at Conference on "Monetary Stability and the Business Cycle", Bank for International Settlements, Basel, 28-29 March 2003.

[58]See ECB (2016), *Macroprudential Bulletin*, Issue 1/2016, ECB, Frankfurt am Main, Germany, Chapter 1.