

SPEECH

International trends in central bank independence: the ECB's perspective

Remarks by Yves Mersch, Member of the Executive Board of the ECB and Vice-Chair of the Supervisory Board of the ECB, Roundtable Discussion on Central Bank Independence

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Ladies and gentlemen,

The topic of central bank independence has received renewed attention in recent years.

Today, I will present the institutional set-up that underpins central bank independence in Europe, as well as accountability and transparency, since these things go hand in hand.

Central bank independence in the European System of Central Banks

I will start with the principles of independence and accountability that apply in the central banking context – which we have to differentiate from the supervisory one.

The legal foundation of central bank independence, which applies to both the ECB and the national central banks (NCBs), is established at the highest possible level in European law. It is enshrined in primary law, in the form of the Treaty on the Functioning of the European Union and the Statute of the European System of Central Banks (ESCB) and of the ECB. Since primary EU law can only be modified with the agreement of all (currently 28) Member States, this independence enjoys quasi-constitutional status.

ECB independence consists of four important pillars – institutional, functional, personal and financial independence.^[1]

Article 130 of the Treaty is the most important provision from the perspective of independence, guaranteeing **institutional independence**.^[2]

It works in two ways. First, it prohibits the ECB, the NCBs and the members of their decision-making bodies from seeking or taking instructions from EU institutions or bodies, from any Member State government or from any other body when exercising the powers and carrying out the tasks and duties conferred upon them by the Treaties. Second, it stipulates that EU and national authorities must respect this independence and not seek to influence the members of the ECB's or the NCBs' decision-making bodies in the performance of their tasks.

The second pillar of independence is **functional independence**. The ECB has been given the autonomy to determine which policy tools to use to achieve its primary objective of price stability. It has sole competence to decide which means and instruments are most appropriate to help it achieve its aims – such as outright purchases, the establishment of the collateral framework, and the designation of its counterparties. As part of this functional independence, NCBs must have the necessary means and instruments to achieve the ESCB's objectives independently of any other authority.

The third pillar of independence, **personal independence**, safeguards the capacity of the members of the ECB's decision-making bodies to take decisions without external influence. The members of the ECB Executive Board are appointed for a non-renewable term of eight years^[3]

and can only be removed from office by the Court of Justice in two cases: if they no longer fulfil the conditions required for the performance of their duties or if they have been guilty of serious misconduct^[4]. The Treaty requires that the NCB statutes provide for a minimum term of office of five years for the NCB governors^[5]. These governors, too, may only be relieved from office in the aforementioned cases^[6]. The Treaties also provide a powerful judicial remedy against arbitrary dismissals allowing the ECB and the governors to refer a dismissal to the Court of Justice of the European Union.

Even if central banks are fully independent from an institutional, functional and personal point of view, their overall independence would be jeopardised if they did not have sufficient financial resources to fulfil their mandate. The ECB therefore has **financial independence**, meaning that it is free to manage its own finances and ensure that it has sufficient capital, staff and income to perform its tasks independently.^[7] For their part, NCBs may not be deprived by their governments of sufficient financial resources to carry out their tasks.

Accountability and transparency

Accountability in exercising public authority is an inherent part of our constitutional traditions. Central bank independence therefore needs to be accompanied by accountability and transparency.^[8]

Accountability legitimises the independent decision-making powers of central banks. Being accountable for decisions means providing an ex post explanation and justification of autonomous decision-making.^[9] Alongside central bank independence itself, some of the basic channels through which the ECB is held accountable for the performance of its monetary policy function are laid down at constitutional level, in other words, in the Treaty. For instance, the ECB is required to submit its annual reports to the EU's political bodies, the European Parliament, the Council, the Commission and the European Council, as well as to publish quarterly reports on its activities and financial statements. The quarterly dialogue between the President of the ECB and the Economic and Monetary Affairs Committee of the European Parliament also contributes to upholding the principle of accountability.^[10]

Transparency – the other main accompaniment to central bank independence, which reinforces the central bank's accountability to the general public – refers to communicating in real time, or even in advance, the central bank's policies, thereby facilitating public understanding of the central bank's objectives, behaviour and decisions.^[11]

The ECB ensures greater levels of transparency by holding press conferences immediately after Governing Council monetary policy meetings, and by releasing monetary policy accounts four weeks after each monetary policy meeting. The ECB also publishes the Economic Bulletin, articles, interviews and speeches online, and answers questions from the general public. Moreover, it has a well-developed legal framework for handling public access requests for its documents, which, in principle, entitles every EU citizen to access them.^[12]

The principle of independence in the ECB's role as supervisor

As mentioned earlier, we need to differentiate between how the principles of independence and accountability apply in the central banking context on the one hand, and in respect of the ECB's supervisory tasks on the other^[13]

The wording of Article 130 of the Treaty makes it clear that the principle of independence concerns the performance of ESCB tasks conferred upon the ECB by the Treaty itself, that is, central banking-related activities. I therefore share the view that this Article cannot be applied equally to the exercise of the ECB's supervisory functions, which were assigned to the ECB through secondary EU legislation rather than by the Treaty,^[14] and were intended for purposes other than the pursuit of the price stability objective.

Whereas the ECB has fully autonomous regulatory and decision-making powers when conducting monetary policy,^[15]

its discretion in carrying out its supervisory tasks is confined by the decisions taken by European and national legislators or regulators. Moreover, the ECB has a different and higher degree of accountability for its supervisory tasks than for its monetary policy task. This is because taxpayers may be affected by the way in which microprudential supervision is conducted, notwithstanding the intention under the new EU banking resolution regime for the costs of bank failures to be borne by the bank shareholders and creditors.

I in no way question the necessity for banking or financial supervisors to be operationally independent from undue political, commercial banking or other third-party influences. My point is that the degrees of independence that the ECB enjoys as a monetary policy authority on the one hand, and a banking supervisor on the other differ: both the source of independence and the ECB's role are different in the two functions. And for these reasons, independence in the monetary policy function is stronger and more firmly embedded in the EU institutional framework than it is in the case of the supervisory function.

Let me conclude.

Conclusion

Independent monetary policy has brought important benefits to our economies and people and remains essential for us to continue fulfilling our mandate of price stability.

Paradoxically, inflation has been low for so long in some countries that people seem to be forgetting what it was like in the pre-independence era. Recent examples of central banks whose independence has been severely compromised and where inflation and interest rates have drifted away from healthy levels should serve as a useful reminder. Let us not forget that the potential consequences of political interference in monetary policy remain valid regardless of whether inflation is either too low or too high. Political horizons are typically shorter than the time it takes for the effects of monetary policy to fully unfold.^[16]

A key protection against attacks on central bank independence is a well-defined and narrow mandate anchored in a strong institutional setting, accompanied by a high degree of transparency and accountability as well as the strict respect of legal limits.

With that, I hand over the floor to the next presenters to elaborate on the challenges of their own institutions and wish you a successful conference.

[1] See Convergence Report 2018 pp. 20 et seq.

[2] See also Article 7 of the Statute of the ESCB and of the ECB.

[3] Article 283(2) TFEU and Article 11.2 of the Statute of the ESCB and of the ECB.

[4] Article 11.4 of the Statute of the ESCB and of the ECB.

[5] Article 14.2 of the Statute of the ESCB and of the ECB.

[6] Article 14.2 of the Statute of the ESCB and of the ECB.

[7] 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).

[8] See in detail Mersch, Y. "[Central bank independence revisited](#)" keynote address at the symposium "Building the Financial System of the 21st Century: An Agenda for Europe and the United States", 30 March 2017.

[9] 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.

[10] For an overview of the recent evolution in the ECB's accountability practices, see Fraccharoli, N., Giovannini, A. and Jamet, J. F. (2018), "The evolution of the ECB's accountability practices during the crisis", *Economic Bulletin*, Issue 5, ECB.

[11] 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.

[12] 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.

[13] See in detail Mersch, Y. "[Central bank independence revisited](#)" keynote address at the symposium "Building the Financial System of the 21st Century: An Agenda for Europe and the United States", 30 March 2017.

[14] 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".

[15] See Case C-62/14, Peter Gauweiler and Others v Deutscher Bundestag, ECLI:EU:C:2015:400, 16 June 2015, para. 75.

[16] See "[Necessity, proportionality and prudence – central bank independence in unconventional times](#)", Speech by Yves Mersch, Member of the Executive Board of the ECB, at The ECB and its Watchers XX conference, Frankfurt am Main, 27 March 2019.

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