Yannis Stournaras: Should central banks' mandate be revised?

Speech by Mr Yannis Stournaras, Governor of the Bank of Greece, at "Les Rencontres Économiques d'Aix-en-Provence 2025", panel "Should central banks' mandate be revised?", Aix-en-Provence, 5 July 2025.

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Good morning, everyone. Many thanks to the organisers for inviting me here today. It's a pleasure to be part of this distinguished panel.

Heraclitus, the Greek philosopher, famously asserted "everything changes, and nothing stays".

This observation is valid across all aspects of life, and central banking is no exception.

It was not that long ago when monetary policy was thought to be a policy instrument with limited influence, even by central bankers.

One notable central banker who held that view was Arthur Burns, who was Federal Reserve Chairman in the 1970s.

And so, when inflation started rising in the United States following the first oil price shock in the early 1970s, Burns kept his foot on the monetary-policy gas pedal.

U.S. President Nixon was facing re-election and Burns did not want to jeopardize Nixon's chances by allowing unemployment to rise.

Burns advocated wage-price controls – and not monetary policy – as the best way to prevent inflation.

What followed was the Great Inflation -- a combination of double-digit inflation and double-digit unemployment rates.

Not all central banks acted that way. Both the Bundesbank and the Swiss National Bank, to name two notable exceptions, tightened monetary policy in response to the 1970s oil price shocks.

As a result, their economies escaped from the oil price shocks in much better condition, both in terms of inflation and in terms of unemployment, than that of the United States.

That experience taught central banks a lesson: monetary policy needs to focus on inflation if it wants to prevent stagflation – that is, a combination of high inflation and high unemployment.

Today, no central banker would doubt that firm resolve is needed to tame inflation, even if, as in the period following the Covid shock, inflation was mainly supply-driven.

Consequently, the evolution of thinking about what central banks can – and cannot – do has been profound during the past 50 years.

I. The evolving central bank mandate

Related to that, another significant change has been the adoption of price stability as the primary objective of central banks, reflecting the hard-learned lessons of the Great Inflation era in the 1970s, to which I just referred.

And many central banks have been granted political independence. Those two developments are intrinsically connected, because experience has shown that a politically independent central bank is best positioned to deliver price stability to its citizens.

The European Central Bank (ECB) is a prime example of a central bank that is both independent and legally bound to achieve price stability.

But the journey didn't end there. Fast forward to the Global Financial Crisis (GFC). That profound shock revealed structural vulnerabilities in the financial system. In response, many central banks broadened their mandates to include explicit financial stability objectives.

Central banks were granted sole or co-responsibility for macroprudential tasks – effectively tools to prevent systemic risk.

In the euro area, this translated into a monumental institutional development: the creation of the banking union, entrusting the direct supervision of significant banks to the ECB, in close cooperation with national authorities.

This marked a pivotal step in strengthening financial stability, an important precondition for price stability.

More recently, the post-pandemic inflation surge and other structural shifts reignited the debate around inflation targets and policy frameworks.

The following question was addressed: are our current objectives, instruments, and operational frameworks truly fit for purpose in this highly uncertain and volatile world?

Should we revise our mandate by integrating other considerations, without compromising the primary objective of price stability?

II. The ECB's monetary policy strategy: a stability anchor

My focus today will be on the Eurosystem. Our price stability mandate is enshrined in the Treaty on the Functioning of the EU. Why is this so vital? Because history has shown us the deep and lasting damage that can be caused by deviations from price stability.

How we deliver on our mandate is defined by our monetary policy strategy. Central to this strategy is our unambiguous and symmetric 2% inflation target over the medium term.

The point target was made explicit in 2021. It replaced a more complex formulation, providing greater clarity. It offered a stable reference point that is easy for the public to understand, enhancing wage and price setting, thereby strengthening the anchoring of inflation expectations.

Since its creation in 1999 and until the shocks of the early 2020s, the ECB delivered inflation close to 2% on average. This helped build credibility – a precious asset. Thanks to this credibility, even during the recent inflation surge, long-term expectations remained well anchored.

That, in turn, allowed us to act forcefully to bring inflation back to target, while also achieving a soft landing of the economy.

You might ask: why 2% and not zero? The answer lies in flexibility. An inflation buffer above zero provides monetary policy with space for interest rate cuts in the event of adverse developments and with a safety margin against the risk of deflation. It also addresses issues like downward nominal rigidities and measurement bias.

Several[1] academics and policymakers have called for raising the target above 2%. Such proposals have to be carefully weighed against potential risks to central bank credibility.[2] Frequent adjustments to the target risk undermining the credibility we have worked so hard to build. If markets expect the target to keep shifting, inflation expectations could de-anchor, making our job much harder.

Our focus on the medium term is equally important, as it gives us valuable flexibility. Monetary policy acts with long and variable lags. A medium-term approach enables us to navigate inflationary or deflationary pressures in a stepwise, gradual manner - without overreacting in ways that might harm economic activity and employment. This approach allows us to look through short-lived supply-driven deviations of inflation from target, which are expected to dissipate over time.

An important strand of the literature explores monetary policy implications from heterogenous developments in prices across sectors. Such approaches underscore the critical importance of delving into granular data to help the understanding of how prices are changing in the economy. At the ECB, inflation analysis includes a broad range of measures encompassing headline and various metrics of underlying inflation, to help us assess the dynamics and drivers of inflation.

Our aim is to ensure that our policies are transmitted smoothly and effectively across member states and segments of the economy, in order to enhance the prosperity of our citizens. This is key in a monetary union where financial structures and economic conditions still differ widely.

I. Rethinking Mandates: Responding to Emerging Challenges

Let me now turn to broader challenges that call for a forward-looking reassessment of central bank roles.

Central banks do not operate in a vacuum. In the euro area, we must navigate a particularly complex environment.

This environment is shaped by fragmented capital markets, persistent geopolitical tensions that impact energy markets and supply chains, the urgency of climate risks, and a pressing need to address the productivity gap vis-à-vis other major economic areas.

Let me be clear: central banks are not the main actors in resolving these challenges. That responsibility lies primarily with governments and legislators in Europe.

However, monetary policy has a vital supporting role: to provide an anchor of stability. By safeguarding our primary objective – maintaining low and predictable inflation – we secure a fundamental condition for sustainable growth. This, in turn, fosters confidence among households and firms, spurring investment and job creation.

Over the past year, as inflation has eased, we have been able to largely remove policy restrictiveness. This easing in financing conditions will make capital more affordable and accessible, which is essential for investment in a time of very high uncertainty.

The ECB has also been a frontrunner in contributing to some of these broader agendas. Within our mandate, we are actively integrating climate-related considerations into our operations, risk assessments, and supervisory and collateral frameworks. In our strategy assessment, climate remains a policy priority within our remit.

Yet, there is something that cannot change: monetary policy cannot drive Europe's transformation alone.

That's why we are pressing for progress in other areas, notably financial architecture. Such progress can support the effectiveness of our monetary policy, a point made clear also in our 2025 strategy assessment.

To mobilize investment at the scale needed to re-invigorate growth and ensure that the benefits flow seamlessly across borders, we need to finalise the Banking Union and deepen the Capital Markets Union.

A fully fledged "Savings and Investments Union" is essential. It will fundamentally improve how our financial system channels savings into productive investment, especially in critical areas like energy, defence, and innovation – all pressing priorities for our Union.

A more integrated union will allow the euro to take on a greater role as an international currency. This means not only sharing in the benefits that come with that global status, but also stepping up to the responsibility that comes with it – especially at a time when the world is increasingly marked by uncertainty and division.

Europe must rise to the occasion. The ECB is working towards the digital euro, a project that can strengthen the international role of our currency in the digital era. This initiative can increase efficiency, innovation and resilience while protecting our monetary sovereignty.

The current institutional setup poses an important obstacle because the ECB essentially operates without a genuine fiscal counterpart at the euro area level. A permanent central fiscal capacity – a shared framework for managing public finances – would be a true turning point, enabling coordinated investment and shared responsibility for growth-enhancing initiatives.

The Recovery and Resilience Facility (RRF) could serve as a valuable blueprint for the future. The creation of a common European safe asset can be a key instrument for deepening financial integration and resilience across the euro area. This, along with the elimination of internal barriers which fragment the European market as described in the Letta Report and in various IMF studies, and are in fact equivalent to internal high tariffs, will increase the rate of return on domestic investment, leading to a higher investment ratio as suggested by the Draghi Report, thus closing the investment and productivity gap with the US.

More ambitious proposals, such as the one recently put forward by Olivier Blanchard and Ángel Ubide,[3] deserve consideration: they could help create a deep and liquid EU bond market that could achieve greater global significance.

V. The Fiscal and Monetary interactions

Let me elaborate more on the interplay between fiscal and monetary policy.

An enabling force to the achievement of price stability and financial stability is sound fiscal policy that supports monetary policy.

In the euro area, we learnt the hard way during the debt crisis that fiscal and monetary policies should be aligned, reinforcing each other. This could lead to more effective crisis resolution and stronger economic recovery, as exemplified in the handling of the pandemic.

The optimal outcome arises when both policies are aligned, but critically, with a clear understanding of their respective roles, responsibilities, and mandates.

Today, as political pressure builds in some jurisdictions to cut interest rates, coordination without subordination is paramount. It is critically important to maintain the central bank independence and ensure that policymakers can uphold their primary mandate of price stability.

Conclusion

To conclude, in a world of constant flux, central bank mandates are not written in stone. They are continuously evolving in response to significant challenges and shifting economic landscapes.

Yet the foundation must remain firm. A firm, credible, clear commitment to price stability.

This is our best contribution to economic growth, job creation and the welfare of our citizens.

A more efficient architecture of the euro area can also play a vital role.

Thank you for your time. I look forward to our discussion.

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[1] See Blanchard, O., Dell' Ariccia, G., & Mauro, P. (2010), "Rethinking macroeconomic policy", *Journal of Money, Credit and Banking, 42,* 199-215; Ball, L.M. (2014), "The case for a long-run inflation target of four percent", *International Monetary Fund* Working Paper No. 14-92; Williams, J.C. (2016), "Monetary policy in a low R-star world", *FRBSF Economic Letter*, 23, 1-23.

[2] See Bernanke, Ben (2014), "Modifying the Fed's policy framework: Does a higher inflation target beat negative interest rates?", *Ben Bernanke's Blog at Brookings*.

[3] See Blanchard, O. and Ubide, A. (2025), "Now is the time for Eurobonds: A specific proposal", Pieterson Institute for International Economics (PIIE), *Realtime Economics*.