EUROPEAN CENTRAL BANK

EUROSYSTEM

The quiet erosion of central bank independence

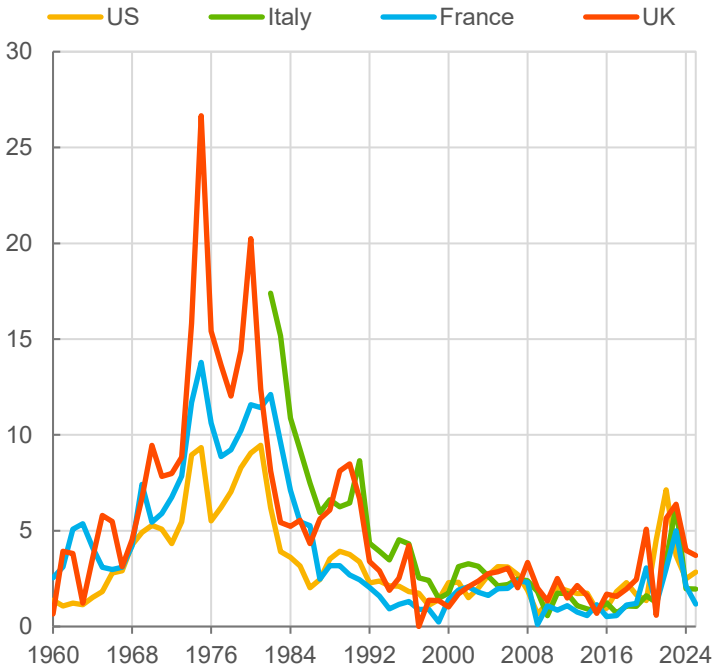
Isabel Schnabel
Member of the Executive Board of the ECB

5th Annual Charles Goodhart Lecture
London, 7 May 2026

Independent central banks contributed to lower and more stable inflation

GDP deflator

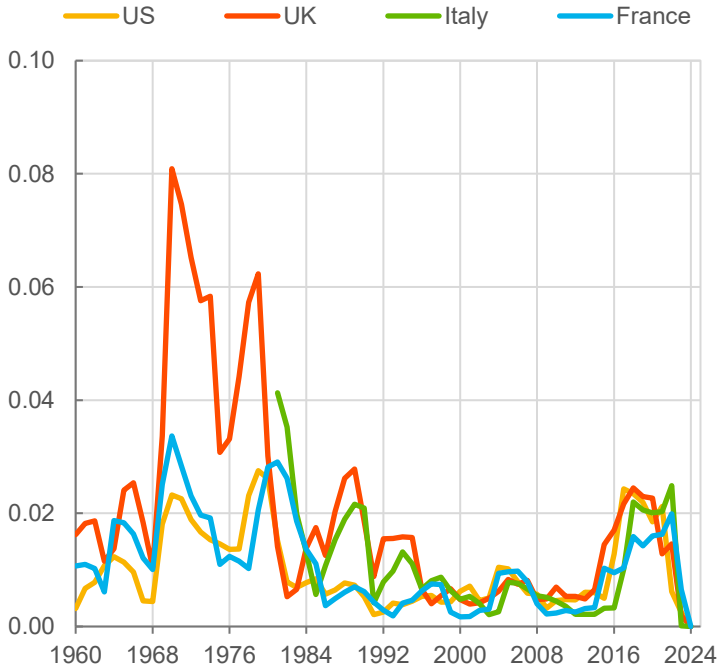
(y-o-y percentage changes)



Sources: Office for National Statistics, INSEE, Istituto Nazionale di Statistica, Bureau of Economic Analysis and Haver Analytics.
Latest observation: 2025.

GDP deflator volatility

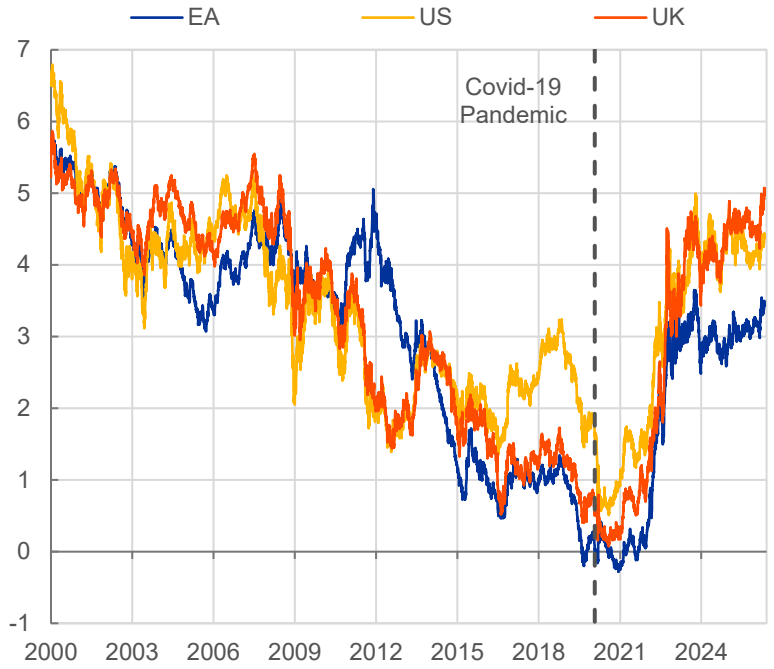
(percentage changes over rolling 5-year windows)



Sources: Office for National Statistics, INSEE, Istituto Nazionale di Statistica, Bureau of Economic Analysis and Haver Analytics.
Notes: Volatility is measured as the standard deviation of percentage changes in the GDP deflator, computed over rolling 5-year windows.
Latest observation: 2024.

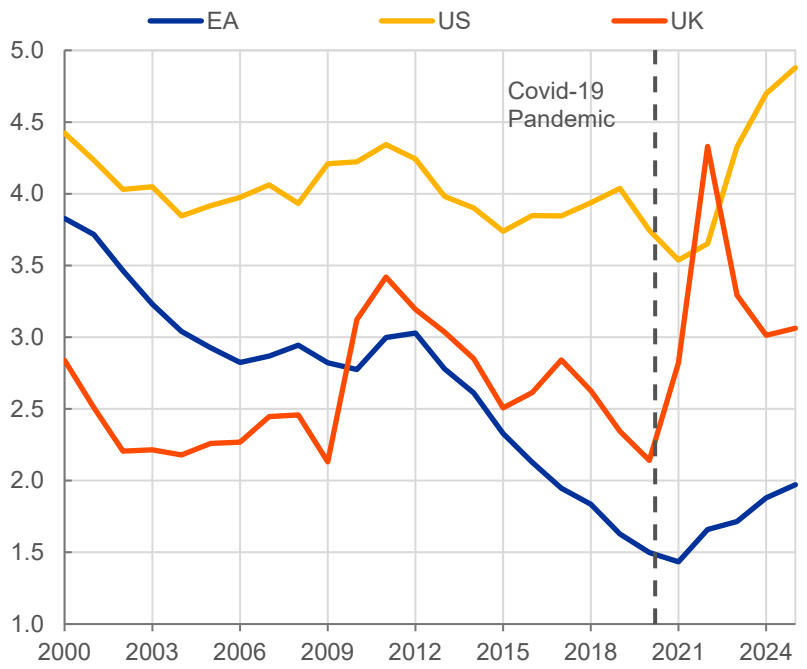
Central banks tightened forcefully when inflation surged despite rising debt servicing costs

10-year sovereign debt yields
(percentages)



Sources: Bloomberg, ECB and ECB calculations.
Notes: EA represents the GDP-weighted average yield for the countries in the euro area. The vertical dashed line indicates the onset of the COVID-19 pandemic in 2020.
Latest observation: 5 May 2026.

Sovereign interest payments
(percent of GDP)

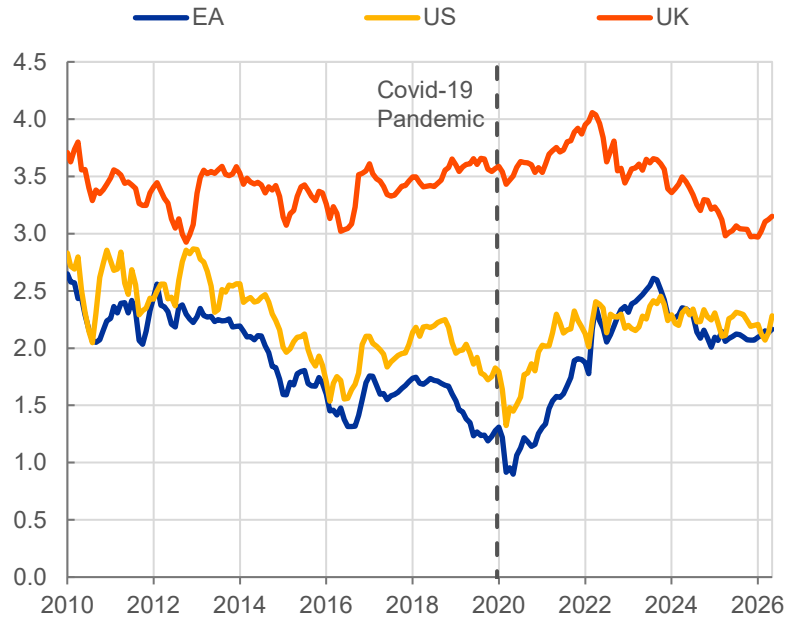


Source: European Commission.
Notes: EA includes the 21 countries of the euro area. The vertical dashed line indicates the onset of the COVID-19 pandemic in 2020.
Latest observation: 2025.

Anchored inflation expectations lowered the cost of disinflation after the pandemic

5y5y market-based inflation compensation

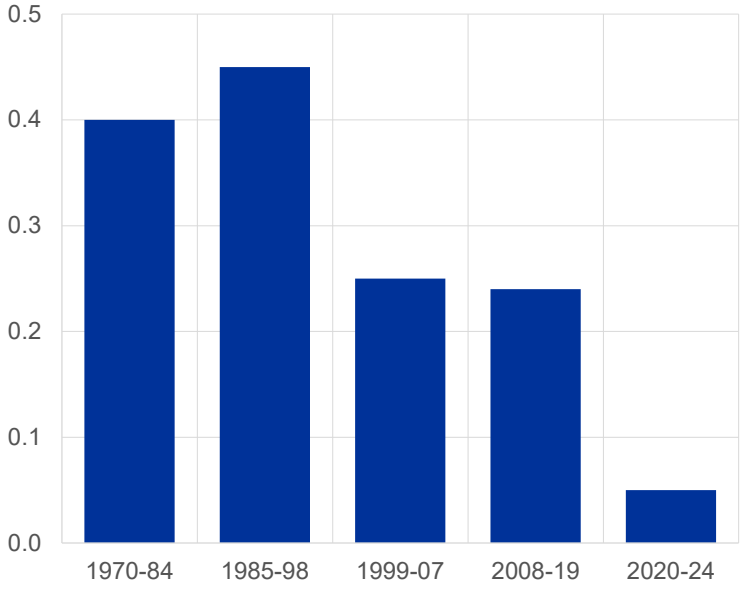
(percentages per annum)



Sources: Bloomberg, LSEG and ECB calculations.
Notes: EA and UK 5y5y forward inflation expectations are derived as an average of mid prices of the 10-year and 5-year inflation-linked securities, while US 5y5y forward inflation expectations use break-even inflation (BEIR) rates from Treasury securities and TIPS.
Latest observation: 5 May 2026.

Median sacrifice ratios during tightening phases

(ratio; sample of 24 advanced economies)

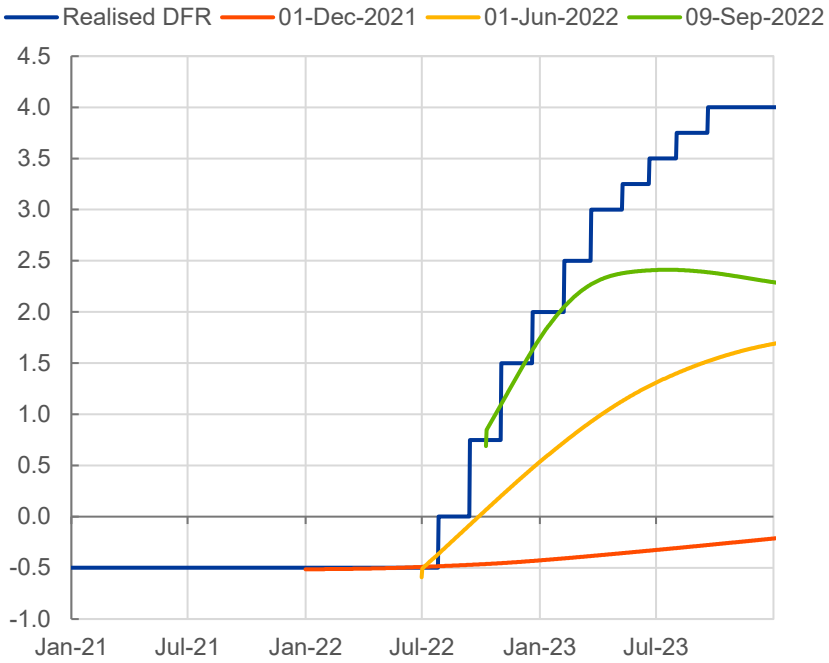


Source: Forbes, K., Ha, J. and Kose, M. (2025) "Tradeoffs over Rate Cycles: Activity, Inflation and the Price Level", NBER Working Paper No. 33825.
Notes: Sacrifice ratio is the absolute value of the accumulated negative output gap relative to the reduction in headline inflation from the peak to subsequent trough for each economy over each tightening phase (including a 12-month lag after the tightening phases ends). HP filter as gap measure.

ECB launched TPI to address disorderly market dynamics and fragmentation

ECB policy rate path and interest rate expectations

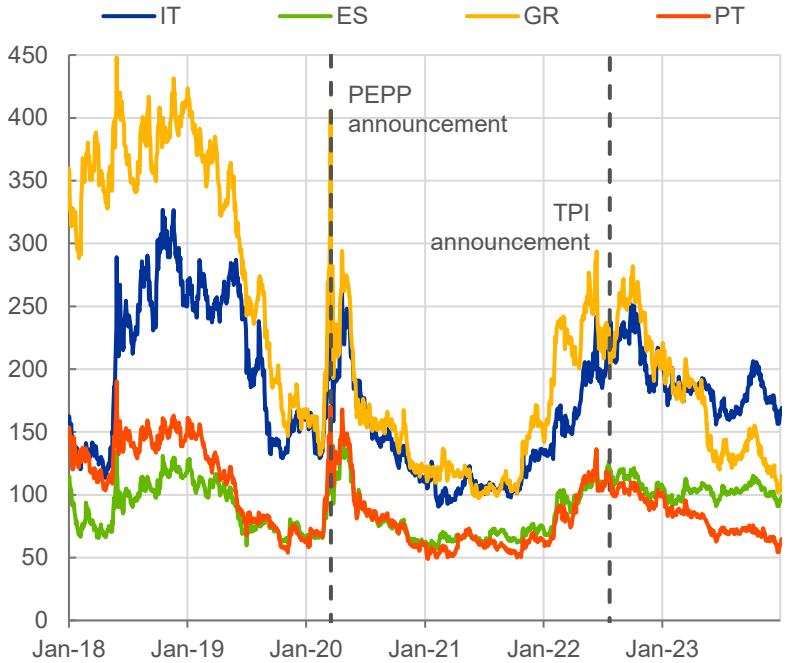
(percentages)



Sources: ECB, and ECB calculations.
Latest observation: 31 December 2023.

10-year sovereign bond yield spreads to Germany

(basis points)



Sources: Bloomberg and ECB calculations.
Notes: TPI announcement refers to 22 July 2022 and PEPP announcement refers to 18 March 2020.
Latest observation: 31 December 2023.

Monetary policy will need to tighten if energy price shock from Iran war broadens

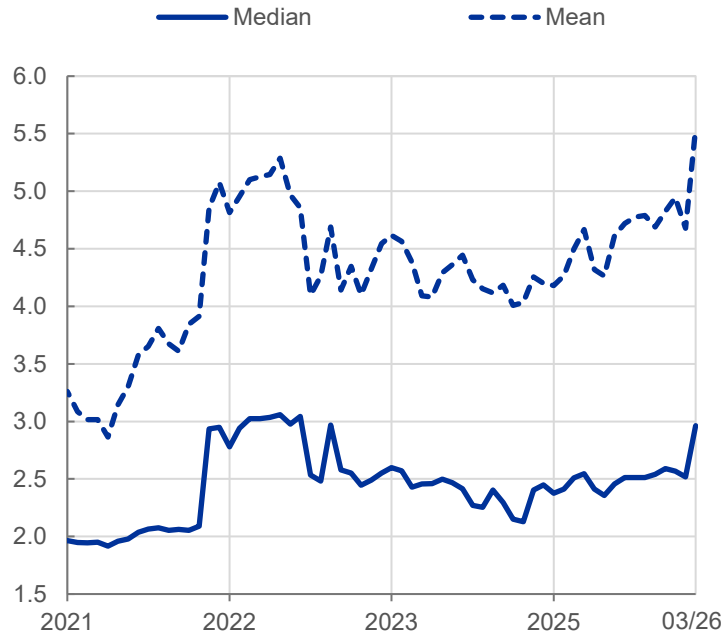
Manufacturing indicators in the euro area

(percentage balances)

Sources: European Commission, S&P Global and ECB calculations.
Notes: Suppliers' delivery times are taken from the PMI survey. A decline in the (diffusion) index means that delivery times are getting longer. Selling price expectations refer to firms' expectations for their prices over the next three months.
Latest observation: April 2026.

Euro area consumer inflation expectation three years ahead

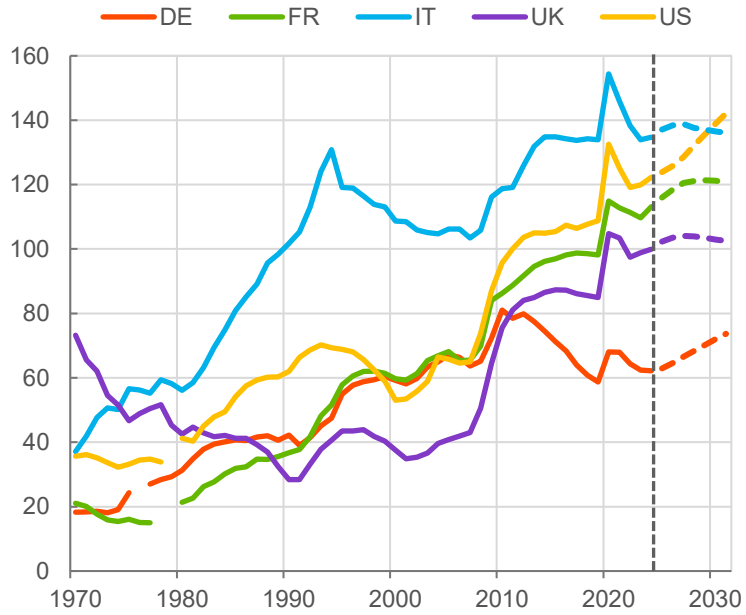
(annual percentage changes)



Sources: Eurostat and ECB Consumer Expectations Survey (CES).
Notes: The dashed line indicates the winsorised mean, while the solid line represents the median.
Latest observation: March 2026.

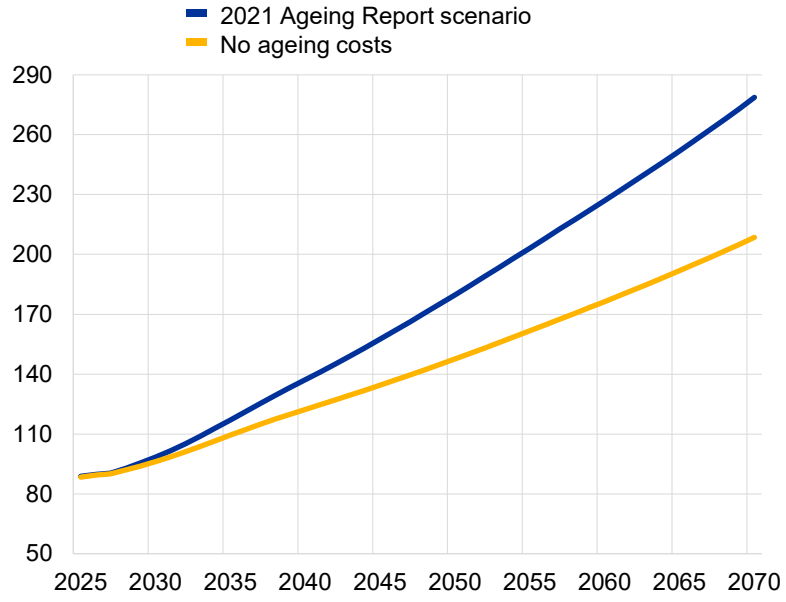
Ageing populations will push debt higher in the future from already elevated levels

General government debt
(percent of GDP)



Source: IMF (World Economic Outlook October 2025, Historical Public Debt dataset).
Notes: Missing values for DE in 1976, for FR in 1978 and 1979, and for the US in 1979. The vertical line marks the beginning of the projection period; dashed lines represent projected values for the included countries.

Debt simulations for the euro area with and without ageing costs
(percentage of GDP)

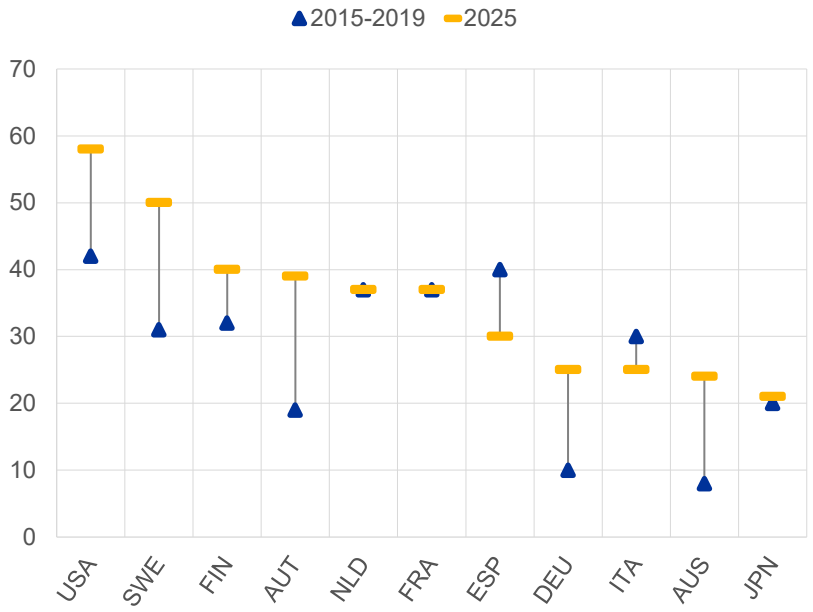


Sources: 2024 Ageing Report, 2025 Debt Sustainability Monitor (DSM), EC Autumn 2025 Forecast and Bodnar and Nerlich (2022). Note: Updated government debt simulations until 2070 are considerably higher than those presented in Bodnar and Nerlich (2022). Until 2036 based on the DSM; thereafter, ECB calculations using the DSM methodology and the macro-ageing-cost assumptions from the 2024 Ageing Report. Substantially higher interest expenditure are the main driver for the upward revision; implicit interest rate is around four times higher by 2036 and kept constant thereafter. The “no ageing costs” scenario assumes that ageing costs remain constant at their 2027 level throughout the simulation horizon.

Shorter debt maturities mean monetary tightening hits public finances faster

Government bill issuance

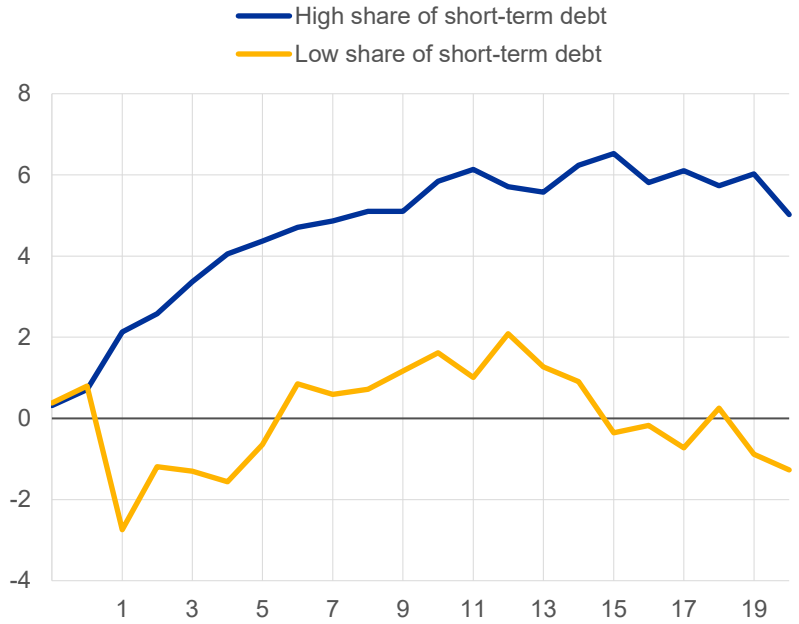
(% share of gross borrowing)



Sources: OECD (2026), Global Debt Report 2026: Sustaining Debt Market Resilience Under Growing Pressure.

Effects of monetary policy on government debt-to-GDP ratio

(x-axis: quarters; y-axis: percentage points of GDP)

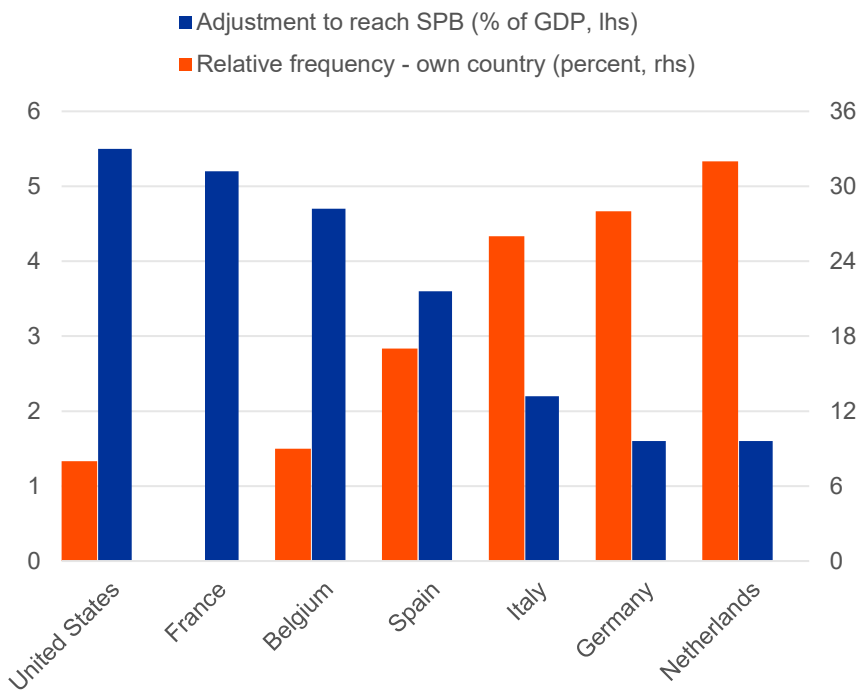


Source: Luca, B. et al. (forthcoming), "Monetary-Fiscal Interactions: The Role of Debt Maturity." IMF Working Paper, International Monetary Fund, Washington, DC.
Notes: The figure shows the response of the debt-to-GDP ratio to a monetary policy shock of one standard deviation, estimated using smooth-transition local projections based on US quarterly data (from the first quarter of 2001 to the third quarter of 2023). Scenarios depict high (low) shares of Treasury bills in countries' total outstanding public debt.

Debt stabilisation requires historically large fiscal adjustments amid rising risk premia

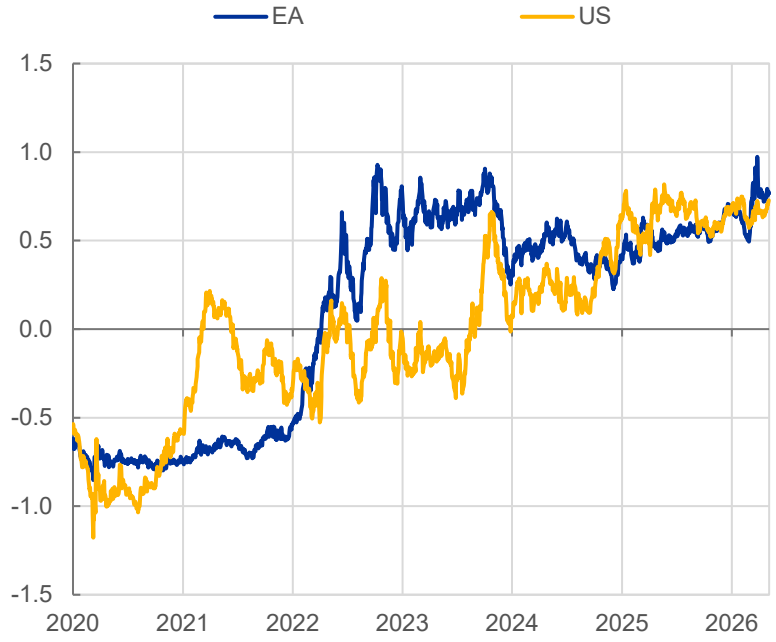
Structural primary balance: adjustment requirements and historical precedents

(% of GDP, percent)



Source: Darvas, Z., Huertas, G., L. Welslau and J. Zettelmeyer (2025), "What will it take to stabilise debt in advanced countries?", Working Paper 28/2025, Bruegel.
Notes: SPB refers to structural primary balance.

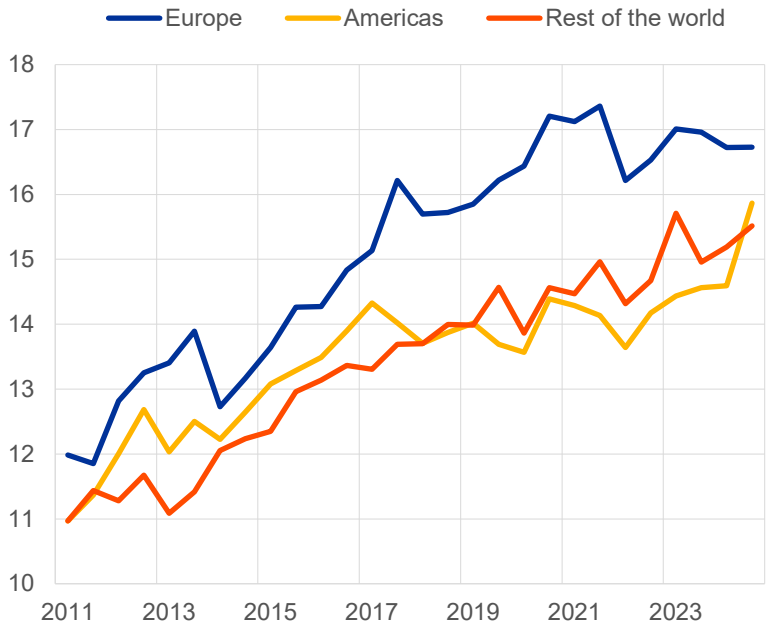
Euro area OIS and UST term premia



Sources: LSEG, Bloomberg and ECB calculations.Notes: Estimates of EA term premia are based on two affine term structure models, with and without survey information on rate expectations (both variations of Joslin, Singleton and Zhu (2011)), and a lower bound term structure model following Geiger and Schupp (2018) incorporating survey information on rate expectations. Estimates of US term premia averages the estimates from three different models: Adrian, Crump, Moench (ACM), Christiansen-Rudebusch model (CR) and the internal D'Amico, Kim and Wright model. The latest observations are for 5 May 2026 (EA) and 4 May 2026 (US).

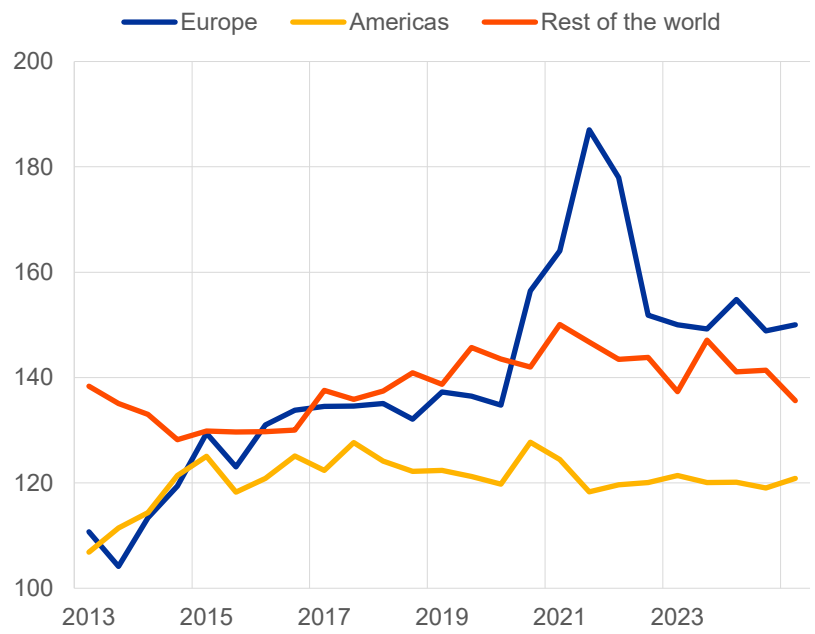
Post-2008 regulatory reforms protect central banks from financial dominance

Tier 1 ratios
(percent)



Source: Basel III Monitoring Report, November 2025.
Notes: Group 1 banks, balanced data set. Group 1 banks are those that have Tier 1 capital of more than €3 billion and are internationally active. All other banks are considered Group 2 banks.

Liquidity coverage ratios
(ratio)

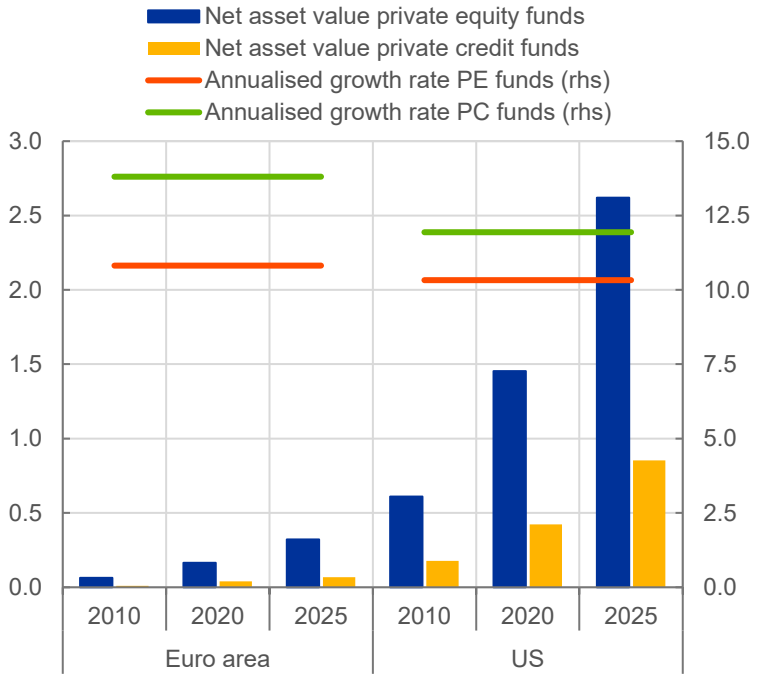


Source: Basel III Monitoring Report, November 2025.
Notes: Group 1 banks, balanced data set. Group 1 banks are those that have Tier 1 capital of more than €3 billion and are internationally active. All other banks are considered Group 2 banks.

Private credit has grown rapidly, with limits to redemptions exposing vulnerabilities

Size of private equity and private credit funds

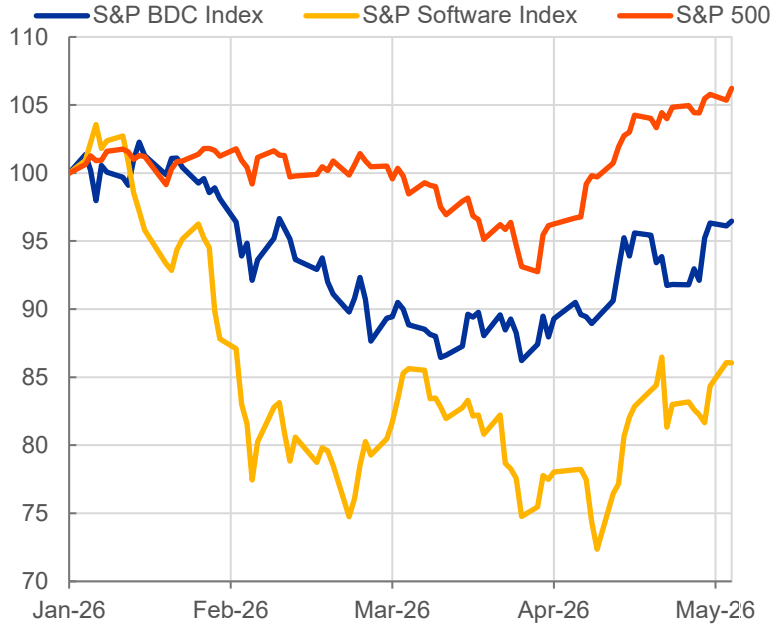
(LHS: EUR trillions; RHS: percentages)



Sources: PitchBook Data, Inc. and ECB calculations.
Notes: Funds are segmented by the location they are managed from. Annual growth rate of assets under management is computed between Q4 2010 and Q2 2025 for funds split by location and fund type. Euro area data includes funds in all member states, US data includes all funds allocated to regional classification "North America".
Latest observation: June 2025.

US business development companies, S&P500 and software stock prices

(Jan-Apr. 2026, index: Jan 2 = 100)

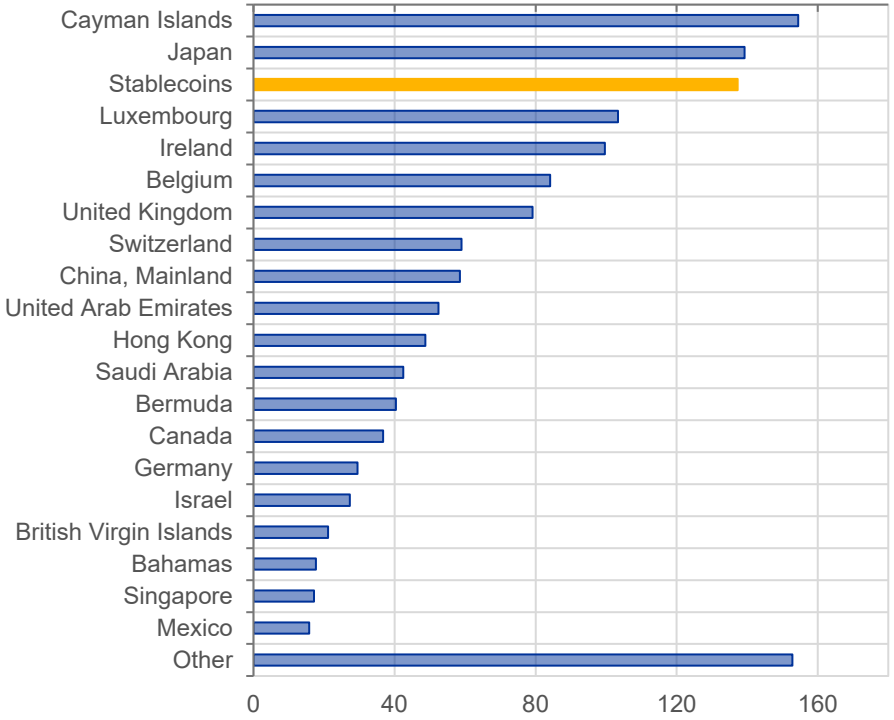


Source: S&P Global.
Notes: Daily Total Return Indices with Jan 2=100. The S&P Software Index is the S&P North American Technology Software Index which represents U.S. traded securities that are classified under the GICS® application software and system software sub-industries. The S&P BDC Index tracks leading business development companies that trade on major U.S. exchanges.
Latest observation: 5 May 2026.

Stablecoins could give rise to runs and fire sale dynamics

Holders of US Treasury Bills

(USD bn)

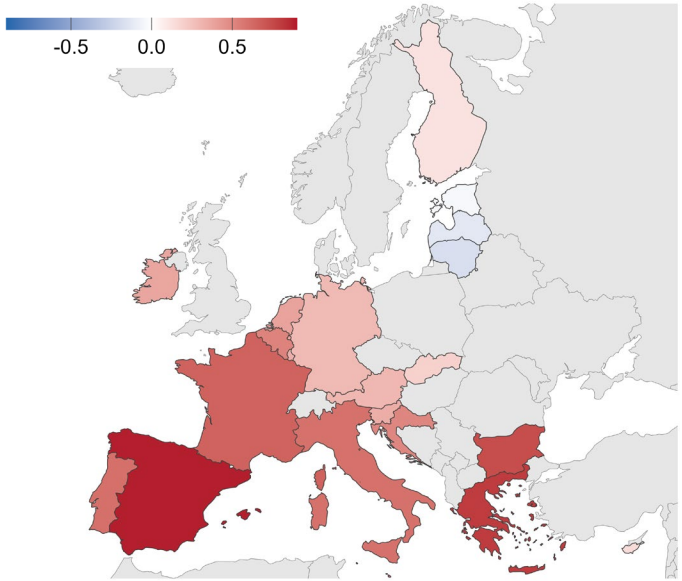


Sources: US Treasury Department, Tether, Circle, and ECB calculations.
Notes: Chart shows the largest foreign holders of US Treasury Bills. Stablecoins covers US Treasury Bills holdings from Tether and Circle.
Latest observation: 31 December 2025.

Risks from climate change affect price and financial stability

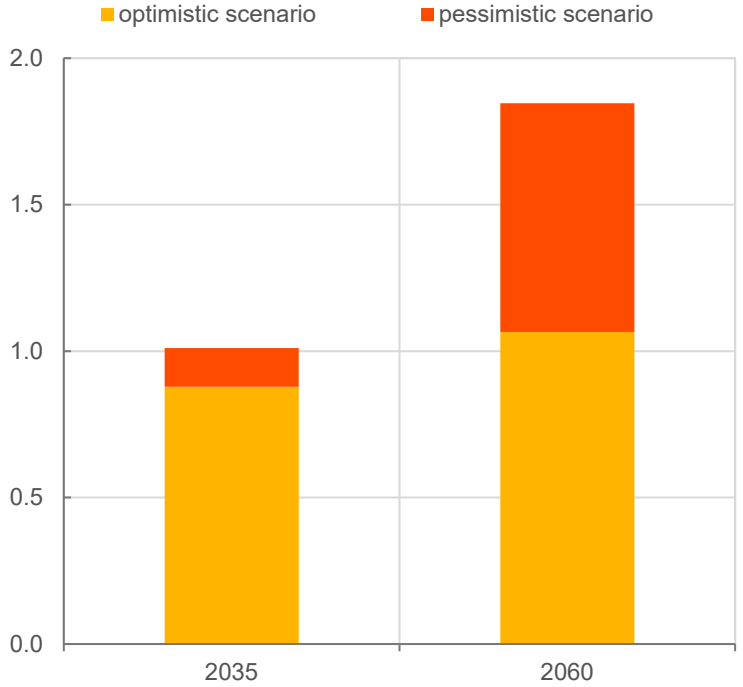
Impact of the 2025 heatwave on euro area unprocessed food price inflation after 12 months

(percentage points)



Estimated impact of summer heat on food price inflation in Europe under future projected climate

(percentage points)



Sources: ECB analysis based on Kotz, M., Kuik, F., Lis, E. and C. Nickel (2024): "Global warming and heat extremes to enhance inflationary pressures." *Commun Earth Environ* 5, 116. Also see Bates, C., Kuik, F., Wieland, E. and Zekaite, Z. (2025), "Inside the food basket: what is behind recent food inflation?", *Economic Bulletin*, Issue 8, ECB. Notes: Both charts show the cumulative deviation of prices from baseline after 12 months due to extreme June/July/August temperatures. The charts are based on combining elasticities of a 1°C increase in temperatures with realised 2025 summer temperatures (left-hand side chart) and results from 21 global climate models (right-hand side chart). Elasticities are estimated with a global panel regression approach, using monthly prices and high-resolution climate data. Right-hand side chart: Projected temperatures of an extreme summer (i.e., in the upper tail of the temperature distribution) in future climates are retrieved from climate model results under an optimistic ("below 2C by 2100", RCP2.6) and a pessimistic ("hot house world", RCB8.5) emissions scenario. The estimates can be understood as the additional impact on food inflation attributed to future higher temperatures. The approach does not make any assumptions about future inflation dynamics, macroeconomic factors or adaptation to climate change and can therefore be understood as a stylised sensitivity analysis.

Thank you very much for your attention!