

# Independent ECB?

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**Donald Trump's attacks on the Federal Reserve are attracting a lot of attention. But the independence of the ECB has also suffered in recent years.**

Donald Trump's fight against the independence of the Federal Reserve represents a historic break, the consequences of which most investors still underestimate. But the independence of the European Central Bank (ECB) has also been damaged in recent years, even though politicians in the euro zone are not agitating against the central bank and the EU treaties that enshrine the ECB's independence cannot be changed de facto because of the requirement for unanimity.

## Fiscal dominance ...

Instead, risks to the ECB's independence arise from the massive increase in sovereign debt. Similar to France, the left and right wings of the political spectrum are growing stronger in other countries in the monetary union, making it more difficult to organize majorities in favor of reducing budget deficits, which are often far too high. In France and Italy, sovereign debt could rise to around 150% of GDP in ten years – more than double the maximum allowed under the Maastricht Treaty. In this environment, the risk of a sovereign debt crisis is increasing.

If the worst came to the worst, the ECB would no longer focus on its actual mandate of price stability, but would buy government bonds on a large scale to calm the markets. To this end, the ECB had decided in mid-2022 on a bond purchase program that it could activate without any major hurdles.

## ... the appointment of former ministers ...

But even without the outbreak of a sovereign debt crisis, the ECB is likely to favor low policy rates so that countries can more easily bear their high debts and avoid turbulence on the bond markets. This phenomenon, known as fiscal dominance, was acknowledged by Belgian central bank chief Pierre Wunsch in a speech just over two years ago, when he said that “we are not in a situation ... where we could operate in terms of monetary policy completely without thinking about the fiscal implications.”

This consideration of fiscal aspects is also due to the fact that eleven of the 26 ECB council members were previously finance or economy ministers or their cabinet chiefs.<sup>[1]</sup> They can well understand their successors' desire for low interest rates.

## ... and the dominance of doves ...

In addition, politicians have appointed many national central bank governors and ECB Executive Board members who tend to favor loose monetary policy and are more open to purchasing government bonds. We now count 14 of the 26 ECB Governing Council members among this camp

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of monetary policy doves. In our perception, they are opposed by only four hawks and eight centrists (Chart 1).

### ... point to higher inflation in the long term

If the lack of independence of Western central banks in the 1970s was largely responsible for the high inflation at that time, the ECB's dwindling independence today is an argument for higher inflation in the long term – especially since structural inflation drivers such as de-globalization, de-carbonization and demographics are making the ECB's work more difficult.

#### ECB council dominated by doves

Commerzbank's perception of ECB council members' fundamental monetary policy orientation

	Hawk	Leaning hawk	neutral	Leaning dove	Dove			
Exec. Board			 Schnabel (DE) Executive Board	 Elderson (NL) Executive Board	 Lagarde (FR) Präsidentin	 De Guindos (ES) Vize-Präsident	 Cipollone (IT) Executive Board	 Lane (IR) Executive Board
National Central Bank Governors	 Kocher Austria	 Müller Estonia	 Sloiipen Netherlands	 Nagel Germany	 Villeroy d.G. France	 Makhoul Ireland	 Panetta Italy	 Stournaras Greece
	 Kazāks Latvia	 Wunsch Belgium	 Šimkus Lithuania	 Escrivá Spain	 Dolenc *) Slovenia	 Demarco **) Malta	 Rehn Finland	 Centeno Portugal
				 Vujčić Croatia	 Reinesch Luxembourg	 Kažimír Slovakia		 Patsalides Cyprus
*) Interim-Governor; <a href="#">no voting rights</a> at ECB.								
**) Since 30 July 2024, Deputy Governor Demarco has been standing in for the Governor of the Central Bank of Malta, Scicluna, who requested a leave of absence due to legal proceedings.								

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Source: Commerzbank Research

[1] These are the following Council members: Christine Lagarde (former French Minister of Economy and Finance), Luis de Guindos (former Spanish Minister of Economy), Martin Kocher (former Austrian Federal Minister of Labor and Economy), Mário Centeno (former Portuguese Minister of Finance), Edward Scicluna (former Maltese Minister of Finance), Yannis Stournaras (former Greek Minister of Finance), Peter Kažimír (former Slovenian Minister of Finance), Olli Rehn (former Finnish Minister of Economic Affairs), François Villeroy de Galhau (former Chief of Staff at the French Ministry of Economy and Finance), Pierre Wunsch (former Chief of Staff to the Belgian Finance Minister) and Gabriel Makhoul (former Head of the New Zealand Treasury). ([Back to the text](#))



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