

HOW THE ECB LEARNED TO LOVE PROPORTIONALITY

**Redburn 2020 Financials Conference
Accelerating Change**

1 July 2020

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ECB under scrutiny – broader power, more accountability

- One monetary policy, 19 governments - A bank not like any other
- Greater ECB scrutiny parallels trends for other central banks
- GCC action catalysing overdue changes in ECB accountability
- Growing multiplicity, complexity - Massive balance sheet expansion
- ‘Jurisdiction / competence’ challenge simmering for 20 years
- Extended beyond ‘lender of last resort’ into financial stability remit
- Language problems – exposed to media, politics, electorates
- Greater interaction with and repercussions from fiscal policy
- Pressure on independence – ‘boundary management’
- German parliamentary procedures will be copied elsewhere

Tussling in legal land – Karlsruhe v. Luxembourg



Peter Huber,
rapporteur, German
constitutional court,
Dec 2019

‘The ECB has developed a rather limitless understanding of its mandate... The conclusion is clear: democracy is at stake! ’



Koen Lenaerts,
president,
European court of
justice,
Dec 2019

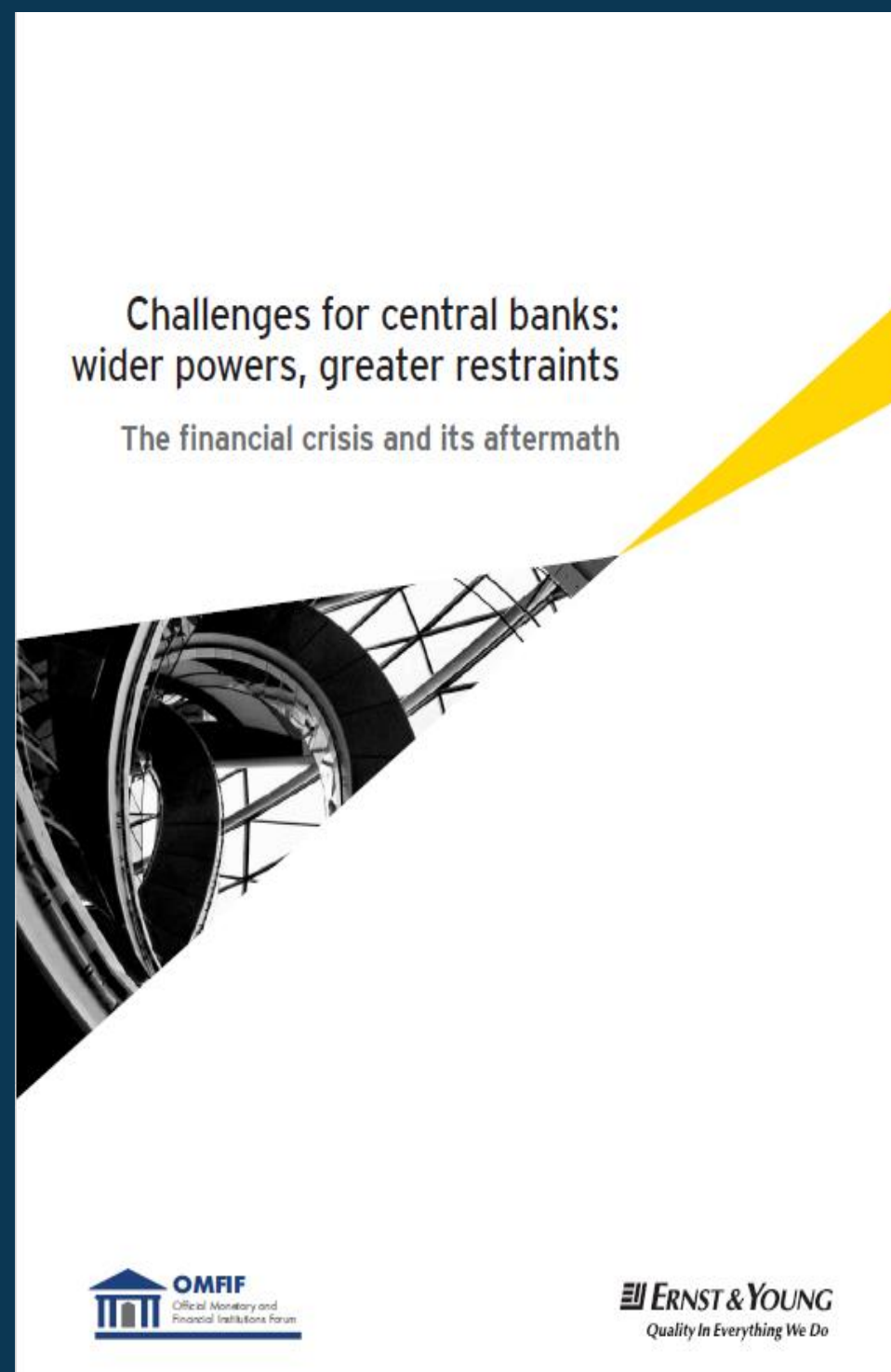
‘The PSPP is covered by the scope of the ECB’s mandate, falls within monetary policy, and complies with the principle of proportionality.’



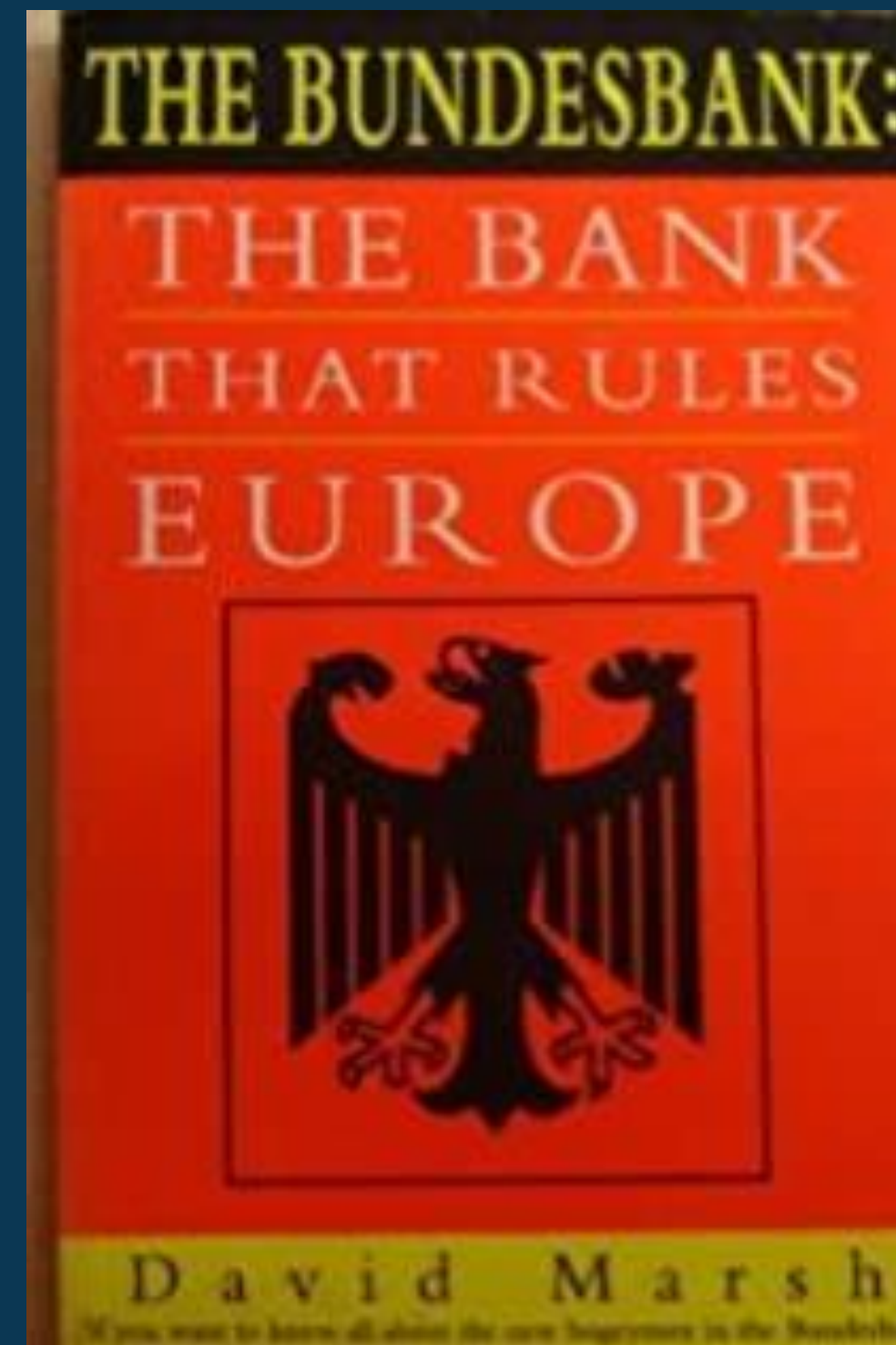
Andreas
Voßkuhle,
German
constitutional
court, May 2020

‘The PSPP is found partly to violate the German constitution. Three month deadline for Bundesbank ... The ECJ’s verdict is incomprehensible.....’

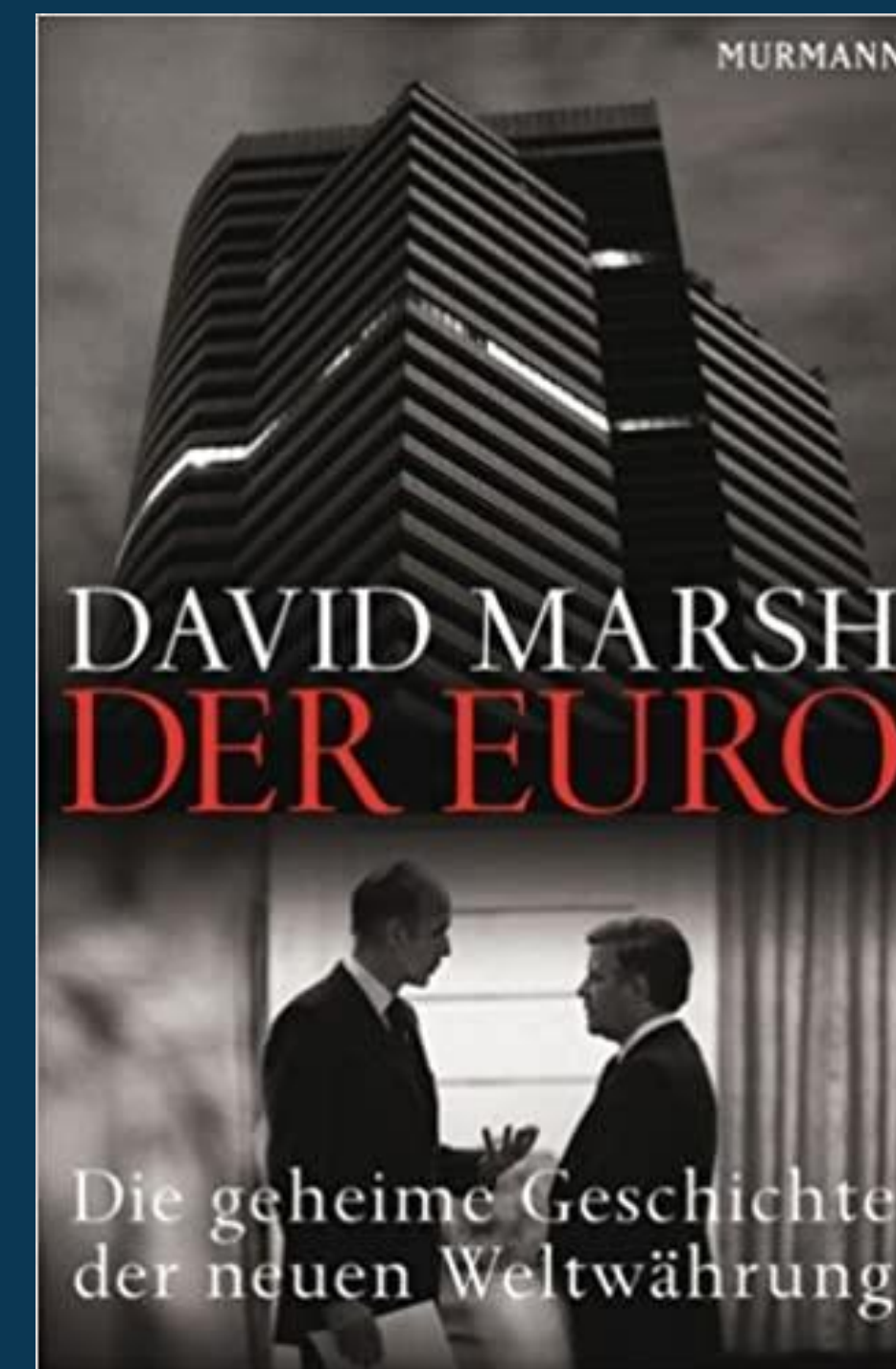
Mystique of central banking waxes and wanes



Independence falls
as range widens



‘State within
a state’



Franco-German
jousting



The power and
the sorcery

Kafka's spirit lives on

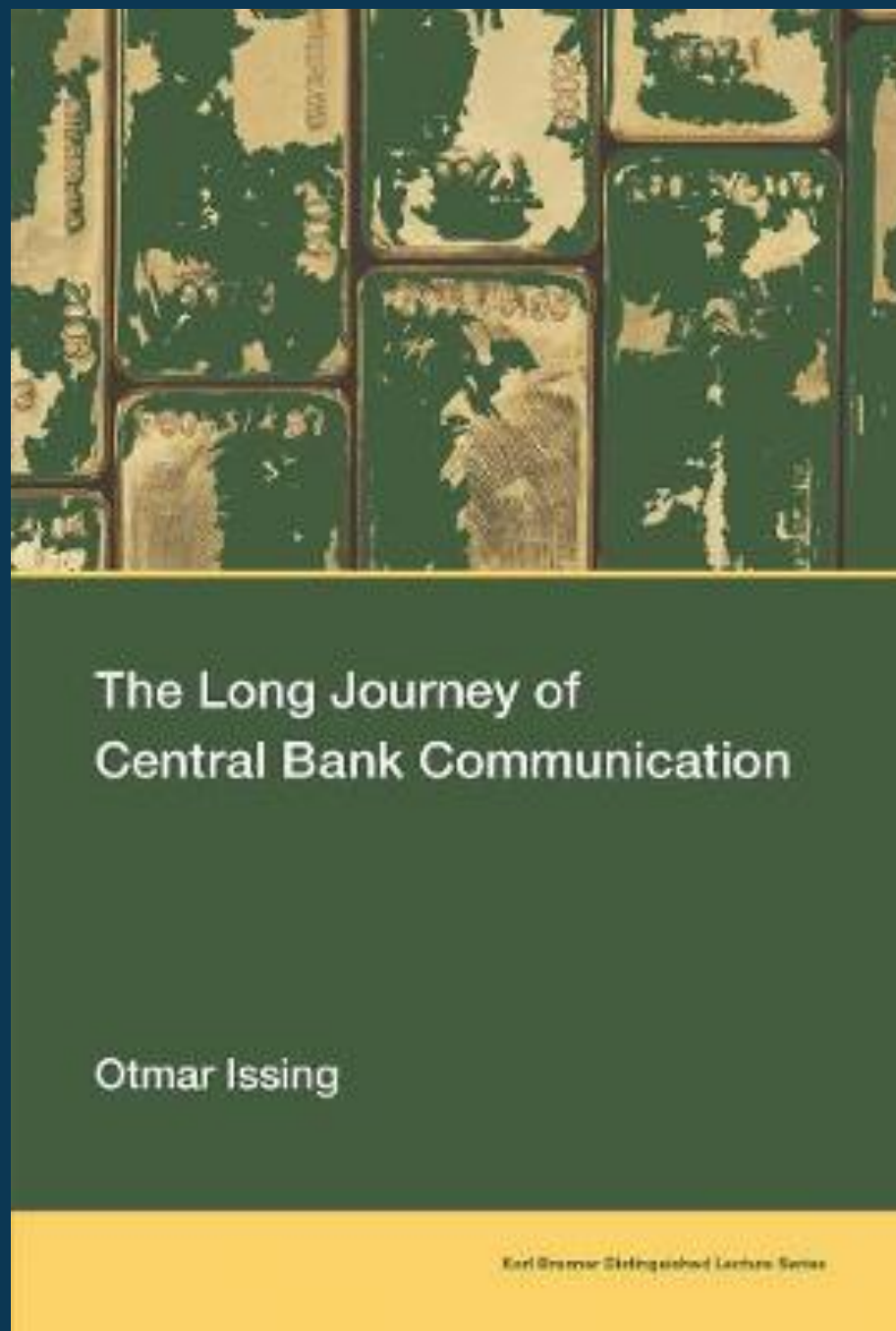


‘Someone must have been spreading lies about Josef K. for without having done anything wrong he was arrested one morning.’

The ECB stands accused of misdemeanours it says it did not commit by a court it does not recognise, in an opaque legal process with no specific evidence, explicit rules or clear-cut criteria for conclusion.

Weidmann has backed up a central bank policy he has never advocated by sending documents to Berlin with which he doesn't totally agree to prevent the worst of outcomes – being ordered by Berlin to comply with ECB policies.

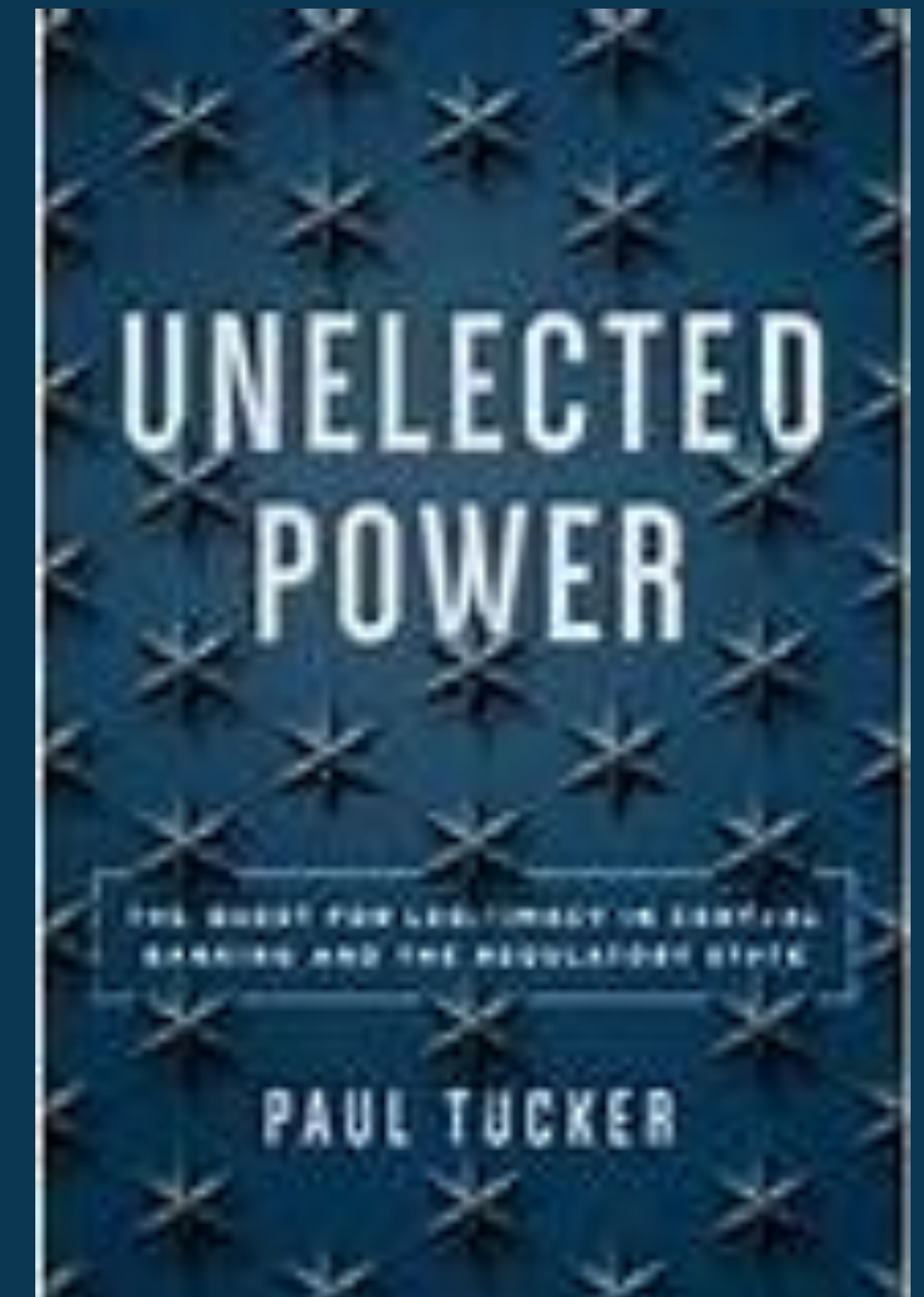
Power, independence and coordination



Otmar Issing,
executive board
member, ECB
(1998-2006), 2019

“Objections to the independence of a central bank grow exponentially with the extension of its powers.... Sound monetary policy and communication must go hand on hand. Matching deeds to words is the basis for credibility.” - Issing

“The problem of the emergency state.. is how agency independence can be squared with a need for coordination, and arguably for political leadership, during a national crisis.” - Tucker



Paul Tucker,
deputy governor,
Bank of England
(2009-13), 2018

Monetary diplomacy - Bringing together Bundesbank and ECB



Jens Weidmann,
Bundesbank
president

Dual role Frankfurt-Berlin: messenger for
300 pages of 'secret' ECB documents



Isabel Schnabel,
ECB board
member

Transition to persuasiveness –
embracing proportionality



Wolfgang
Schäuble,
Bundestag
president

Behind the scenes efforts to calm
troubled waters

Moving with the flows - how ECB adapts vocabulary

Use of key words in accounts of ECB Governing Council meetings – Jan 2015-June 2020 (45 meetings)						
	2015 (8)	2016 (8)	2017 (8)	2018 (8)	2019 (8)	2020 Jan-June (5)
Average 'account' length in words	7,600	7,000	6,500	5,400	6,100	7,300
Accommodative, accommodating	51	49	76	54	79	46
Anchoring, unanchoring	25	6	13	8	9	5
Bubble	0	1	0	0	0	0
Capital key	3	1	5	4	0	9
Coronavirus, Covid-19	0	0	0	0	0	116
Costs and benefits	3	1	0	0	0	3
Fiscal	69	63	21	53	76	65
Forward guidance	11	24	83	62	97	11
Inflation	540	473	649	491	626`	252

‘References to capital key rise and fall over 6-1/2 years

Moving with the flows – how ECB adapts vocabulary

Use of key words in accounts of ECB Governing Council meetings – Jan 2015-June 2020 (45 meetings)						
	2015 (8)	2016 (8)	2017 (8)	2018 (8)	2019 (8)	2020 Jan-June (5)
Issue (share), issuer, self-imposed limits	20	7	1	0	0	4
Mandate	15	17	3	0	0	17
Monetary financing	3	0	0	0	0	5
Moral hazard	2	0	0	0	0	0
Proportionate, proportionality	2	1	0	0	1	9
Risk	201	174	218	169	186	174
Savers, savings	1	22	9	2	2	10
Side-effect(s)	10	8	0	0	0	8
Stimulus	19	19	15	26	25	15
'Zombie' (lending to unviable companies)	0	0	0	0	0	1

‘First-ever reference to zombie loans in June 2020, ‘proportionality’ enters vocabulary.
‘Mandate’ used notably in 2015-15 and 2020.

Lagarde swings into action



‘The Governing Council of the ECB received a request from the President of the Bundesbank to authorise the disclosure of non-public documents that show how the ECB has assessed and continues to assess the proportionality of the PSPP and of all its instruments of monetary policy. In line with the principle of sincere co-operation, the Governing Council has decided to accommodate this request and to authorise the Bundesbank to disclose these documents to the German Federal Government, provided that the non-public elements are treated confidentially. ‘

- Letter to European parliament deputy, 29 June 2020