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Encompassing monetary policy strategy review

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Abstract

This Policy White Paper assesses several main elements of ECB's upcoming review of its monetary policy strategy, announced in January 2020. Four aspects of the review are discussed in detail: i) ECB's definition of price stability and the arguments for and against inflation targeting; ii) the scope of ECB's objectives, considering financial stability, employment and the sustainability of the environment; iii) an update of ECB's economic and monetary analyses to assess the risks to price stability; iv) the ECB's communication practice. Furthermore, an overview of the ECB's monetary policy strategy and its last evaluation in 2003 is given.

I. Introduction

In the aftermath of the financial crisis, monetary policy worldwide is not what it used to be. Central bank interest rates have reached the effective lower bound and a number of unorthodox measures have been applied. Against this background, a broad discussion has started on the future of monetary policy and several central banks are conducting an evaluation of their monetary policy strategy.

On 23 January 2020, the ECB announced a review of its monetary policy strategy. This decision was widely welcomed. A central bank should continuously check whether the chosen strategy is still appropriate in guiding the course of its monetary policy. And from time to time the moment might come to start a fundamental review.

This paper first gives an overview of the ECB's monetary policy strategy and its last evaluation in 2003. In the second part, I offer some observations on several main elements of ECB's upcoming review of its monetary policy strategy, including the definition of price stability, communication practices, economic and monetary analyses as well as an assessment of financial stability, employment and environmental sustainability as potential goals of monetary policy.

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II. ECB's monetary policy strategy

1. The announcement of the strategy in October 1998

The ECB adopted its strategy in October 1998, i.e. before taking over the responsibility for monetary policy on 1 January 1999 from the central banks of those 11 countries, which became members of the European Monetary Union (EMU) sharing a single currency, the euro. The stability-oriented monetary policy strategy contains the following main elements (Issing 2008; Issing et al. 2001).

1) A quantitative definition of the primary objective: price stability. "Price stability shall be defined as a year-on-year increase in the Harmonized Index of Consumer Prices (HICP) for the euro area of below 2 per cent. Price stability is to be maintained over the medium term."

This definition made clear that an overshooting of 2.0 per cent per year has to be understood as out of line with the objective, while a lower rate of inflation was regarded as compatible with it. The ECB did not specify an explicit floor, taking account of the existing uncertainties (regarding inflation measurement and divergencies in the new currency area), thereby countering any impression that the ECB would more or less automatically switch to a more expansionary policy in case inflation fell below a certain level.

2) The two-pillar strategy.[1] The ECB would base its monetary policy decisions on [cross-checking of] information from both monetary and economic analysis. Money was given a prominent role, with a reference value for growth of a monetary aggregate – for which M3 was chosen. The economic pillar was based on an assessment of a wide range of other indicators relevant to the outlook for price stability in the euro area, including the regular staff projections. From the beginning, the monetary analysis included other monetary aggregates as well as the counterparts – mainly credit – to all the aggregates in the consolidated balance sheet of the monetary financial institutions (ECB 1999).

The ECB announced its strategy well before taking over the responsibility of conducting monetary policy for the euro area. Beyond this announcement, a book was published explaining the deliberations behind the choice of strategy as well as the theoretical and empirical findings underpinning this decision (Issing et al. 2001). Notably, this publication explains why the ECB discarded the options of inflation targeting and monetary targeting.

Announcing the strategy at the outset provided a well-specified framework for internal decision-making as well as for external communication, supporting monetary policy effectiveness by helping agents

[1] The term "two pillar" was adopted after President Duisenberg responded to a journalist using this term in a press conference. See Issing (2008, pp. 99/100)f

to form expectations about the central bank's "reaction function" and underpinning the ECB's transparency and accountability. The two-pillar strategy also determined the format and content of the Introductory Statement in the President's press conference, while the argumentation on the policy decision reflects the outcome of the cross-checking.

2. The evaluation of the strategy in 2003

In December 2002, I suggested to the Governing Council that we should conduct a thorough evaluation of our strategy. Four years of monetary policy seems, on the one hand, a rather limited span of experience (Issing 2008, pp. 114-118). On the other hand, the ECB had to deal with the consequences of an extreme regime shift, from many national currencies to a single one, and had adopted a monetary strategy without parallel worldwide, making a timely review all the more prudent. Even before the launch of the euro, several Watchers Groups were established and published rather critical reports on the strategy.

The annual ECB Watchers Conferences provided an occasion for me to explain our policy and discuss all the relevant issues with our critics (Center for Financial Studies 2006). From the beginning, the Monthly Bulletin presented timely information on all aspects of the euro area, comprising monetary, financial and economic developments. A number of articles analysed the monetary policy strategy.

Having adopted a new, unique strategy for a central bank conducting a single monetary policy for a euro area of high complexity made it compelling to continuously scrutinise the appropriateness of the chosen strategy. For that purpose, a number of in-house studies were prepared. After the announcement of the review, underlying research was strongly enhanced. As a consequence, the Governing Council could base its assessment on a broad foundation of research. The ECB explained the results of the review in a public press briefing with journalists, on 8 May 2003. The background studies were uploaded on the very same day on the ECB's website and subsequently published in an edited volume (ECB 2003). The discussion in the Governing Council had confirmed the main elements of the strategy.

Two changes were made.

The definition of price stability as a year-on-year increase of the HICP of below 2.0 per cent had proved its worth, not least as an anchor for inflation expectations, and was not changed. Repeated criticism that this definition was asymmetric, without a clear ceiling and no floor at all, and therefore not able to firmly anchor inflation expectations, did not stand up to empirical evidence, which showed that expectations were well-anchored. At the same time, in an environment of heightened concern about the risk of deflation, the ECB emphasised that, in the pursuit of its policy, it would aim to maintain inflation at "close to 2.0 per cent" over the medium term. This clarification was seen to provide a sufficient "safety margin" against deflation.

The studies undertaken by ECB staff supported the importance of the monetary pillar, which was broadly confirmed by the Governing Council. However, the order in which the two pillars were presented in the Introductory Statement of the President was changed. The information on current economic developments and the short- to medium-term outlook (including the staff projections) is now followed by the more medium- to long-term monetary analysis. This gives the information a clearer structure and makes the arguments easier to follow. The annual review of the reference value was discontinued, which sometimes had been misunderstood as a kind of annual concept or intermediate target.

In the foreword to the volume "Background studies" I could claim (ECB 2003, p. 7):

"To summarize, while the Governing Council confirmed the main elements of the strategy, several clarifications were made, aimed primarily to enhance the effectiveness of communication. Overall, the ECB's strategy has proven to be a sound – and, by now, tested – framework for conducting monetary policy in the euro area. It combines a clear focus on the ECB's primary objective of price stability with an open and transparent view about the presence of uncertainty surrounding the functioning of the economy and the reliability of key economic relationships, which require a diversified approach. Moreover, the attention given to monetary analysis helps to underpin the medium-term orientation of the ECB's monetary policy and to avoid excessive policy activism and overly ambitious attempts to fine-tune economic developments. Looking ahead, I am convinced that the ECB's monetary policy strategy will continue to provide a solid basis for dealing with future challenges."

3. Announcement of the new review

One might say that, after 17 years, a review of the monetary policy strategy by the ECB is overdue. Is the long time span since 2003 evidence that the strategy has worked well and that the ECB has seen no need for a review? Considering the many new developments in the economy as well as in the conduct of monetary policy, should one conclude that the strategy chosen 22 years ago was designed in a way that combined robustness and flexibility to allow for appropriate guidance to meet the challenges of a substantially changed environment? The ECB had declared the strategy a "full information" approach: "The strategy adopted by the ECB represents a framework that reduces the risks of policy errors caused by over-reliance on a single indicator or model. Since it adopts a diversified approach to the interpretation of economic conditions, the ECB's strategy may be regarded as facilitating the adoption of a robust monetary policy in an uncertain environment" (ECB 2000).

These characteristics have contributed to the effectiveness of the strategy, not only in the starting period of the euro. Notwithstanding this assessment, a thorough review seems appropriate after such a long period. This is all the more necessary given a perception that the ECB, in practice, has moved further and further towards joining the camp of inflation targeting central banks "in all but name" – without having officially abandoned the two-pillar strategy.

The ECB announced the review on 23 January 2020:

"The Governing Council will take stock of how the monetary policy strategy has supported the fulfilment of the ECB's mandate under the Treaty over the years and consider whether any elements of the strategy need to be adjusted. The quantitative formulation of price stability, together with the approaches and instruments by which price stability is achieved, will figure prominently in this exercise. The review will also take into account how other considerations, such as financial stability, employment and environmental sustainability, can be relevant in pursuing the ECB's mandate. The Governing Council will review the effectiveness and the potential side effects of the monetary policy toolkit developed over the past decade. It will examine how the economic and monetary analyses through which the ECB assesses the risks to price stability should be updated, also in view of ongoing and new trends. Finally, it will review its communication practices. The process is expected to be concluded by the end of the year. The Governing Council will be guided by two principles: thorough analysis and open minds. Accordingly, the Eurosystem will engage with all stakeholders." (Press Release of 23 January 2020). [Meanwhile the ECB has announced that the review is postponed by (at least) half a year.]

III. Main elements of the review

The review of the "effectiveness and the potential side effects of the monetary policy toolkit over the past decade" would need a deep and broad analysis which cannot be delivered here. For critical remarks see the Memorandum (Hanoun et al. 2019). In the following I offer some observations on the other main elements mentioned in the ECB's press release.

1. The definition of price stability

The main criticism of the ECB's strategy focused on the definition of price stability as an average annual inflation rate of below 2.0 per cent. The arguments against this definition were manifold:

- no clear ceiling
- no explicit floor
- asymmetric

While the definition implied no direct goal, the discussion focused more and more on the issue of setting an inflation target for the conduct of monetary policy. The aim to maintain inflation "at close to 2.0 per cent" that has been announced by the ECB in 2003 was widely understood as a move towards an inflation target, but without bringing clarity for a floor or ceiling. Thus, the formulation has sometimes been interpreted as a vague range or "comfort zone" or as a "focal point" ("thick point") within the retained definition of price stability. (Rostagno et al 2019).

In the last 15 years or more, a vast literature on a global scale has discussed the issue of an appropriate inflation target for a central bank in general and the ECB as a special case. The volume "Background studies" (ECB 2003) already contained four articles dealing with the key aspects.

Without going into the details of the discussion, one might identify a general preference for a band instead of a point target. Safeguards against risks from deflation and too high inflation should mark the floor and the ceiling of such a band. On the one hand, the wider the band, the more flexibility for conducting monetary policy while remaining at target. On the other hand, the more the forecasts or agents' expectations for medium-term inflation rates move away from the implied midpoint of the band, the more urgent the message on the need to tighten or loosen monetary policy. Considering the time lag of the measures taken, the initial flexibility might transform into a kind of straightjacket. In short, a range is no panacea for difficulties in conducting monetary policy and corresponding communication.

Adopting an explicit band (be it as a narrow range consistent with the 1998 definition of price stability such as 1.5 per cent to 2.0 per cent, or a broader tolerance band between 1.0 and 2.5 per cent or 1.5 to 2.5 per cent) might be an option for the ECB. But one should be aware that, in the end, the final decision will be based on a judgement. One aspect is judging to what extent technology, innovation and the global economy have changed underlying price trends. In this context, it must also be assessed whether a rather long period of low inflation might have had an influence on downward rigidities of prices and wages, which implied a strong argument in favour of a higher floor for an inflation target in the past (see the influential paper by Akerlof et al. 1996).

Concerns that the lower bound for the central bank interest rates limits expansionary monetary policy lead to the suggestion to set a higher inflation target and thus gain more room for manoeuvre to reduce interest rates in case of a major economic downturn (Blanchard et al. 2010). This is argued to apply all the more since the ECB, like other central banks, argues that the "equilibrium real interest rate" has fallen in the direction of zero or even below, and is expected to stay there for some time to come. This is seen to require a larger safety margin to avoid that the effective lower bound on interest rates is hit more frequently. However, such an announcement by the ECB would surely give rise to credibility problems, given that for years it has failed to raise inflation close to 2.0 per cent.

Moreover, in case the ECB did succeed in driving inflation towards a target of 4.0 per cent, for example, experience shows that it is difficult to stop an inflationary trend without substantial economic and social costs ensuing. Such a strategy is not really an option for the ECB, since the damage to the credibility of the bank and the euro as a stable currency could be substantial.

Price level targeting as an alternative or even a superior concept is one topic under discussion, not only in the academic world. The arguments pro and con would deserve fundamental research (see e.g. Hatcher and Minford 2014). However, without a clear definition of a period after which a correction of over- or undershooting must be initiated, the central bank would be confronted with almost insurmountable difficulties in guiding inflation expectations. This is especially true given the extremely hard task of communicating this concept to the general public.

In the context of inflation target discussions, the choice of the optimal price index has recently received new attention. Criticism of the HICP focused on the exclusion of the costs of living in one's own property. However, it turns out that the impact is rather minor and the price trend remains unchanged. Besides the fact that Eurostat has responsibility for compiling the index, the ECB is well advised to take information from several indices, the most important being various measures of “core inflation”.

Whatever the merits of an inflation target for the ECB, the change from the present regime is anything but a purely technical matter. A crucial aspect for a choice is its impact on the reaction by the financial markets and its understanding by the general public. A main argument against the “below 2.0 per cent” or “close to 2.0 per cent” definition was the lack of clear guidance for inflation expectations. However, was the performance so far so bad – not least in comparison with other leading central banks? To what extent was the dissatisfaction with the present regime due to overly ambitious communication by the ECB, which repeatedly announced that its monetary policy would try to bring inflation close to 2 per cent “as soon as possible” or “without delay”? The ECB must have known that it had no control over inflation over a relatively short period of time. Corresponding transparency and communication would have guided inflation expectations much better over the shorter and longer term. How, in comparison, would a new regime with an inflation band work?

2. Financial stability, employment and environmental sustainability

2.1. Financial stability

Financial stability is an important goal and failing to maintain it could entail substantial economic and social costs. Central banks will be made responsible for any emergence of financial instability. The question is: should financial stability become an official part of their mandate (Issing 2017)? According to Article 127.6 of the Treaty on the functioning of the European Union, the “ESCB shall contribute to the smooth conduct of policies pursued by the competent authorities relating to … the stability of the financial system”. To endow the ECB with a more direct and explicit mandate for preserving financial stability would need a change of the Treaty which, for the time being, is not a realistic option.

The review will therefore be restricted to specifying what the ECB can and will do to "contribute to the stability".

Macroprudential policy should be designed to identify risks to financial stability and implement adequate measures to prevent crisis. Macroprudential policy, as a rather new instrument, has still to demonstrate its effectiveness. The question in the context of the review is to what extent monetary policy could and should address financial stability. Following the Tinbergen rule, the separation principal (Smets 2013) leads to a division of tasks: macroprudential is devoted to the goal of financial stability and monetary policy should aim at maintaining price stability. However, this separation is difficult to achieve, as "price stability and financial stability are inherently interlinked. They tend to be mutually reinforcing, and in the long run, each is a necessary, albeit insufficient, condition for the other" (Draghi 2017).

Following this line of argument, a monetary policy focused on maintaining price stability in the medium- to long-term would be the best contribution it can make to implicitly deliver on its responsibility for financial stability as well.

According to one approach, macroprudential policy should be the main tool for preserving financial stability, and financial stability should become an "explicit objective of monetary policy to be used when macroprudential policies fail as an instrument of last resort" (Smets 2013, pp. 151/152).

However, this approach could blur the ranking of the central bank's objectives. And relying exclusively on macroprudential policies in the first place, notwithstanding all the critical arguments about building too high expectations, might bring monetary policy to an untenable position. If macroprudential policies fail in a boom phase, it might be too late for an appropriate reaction by monetary policy. The challenge might be close to "pricking the bubble", which would cause turmoil on financial markets, bring major economic costs, and have a negative impact on the reputation of the central bank (Issing 2017).

A better option would be to integrate the assessment of risks to financial stability into the strategy for monetary policy with the goal of maintaining price stability in the medium to long term. The ECB's two-pillar strategy might present a promising approach, in view of evidence that excessive money and credit growth is often associated with unsustainable developments in asset markets as well as with prices in goods markets over the medium term.

2.2. Employment

The mandate of the ECB is enshrined in the Treaty (Art. 127 AEUV): "The primary objective of the ESCB shall be to maintain price stability. Without prejudice to the objective of price stability, the ESCB shall support the general economic policies in the Community with a view to contributing to the achievement of the objectives of the Community".

Article 2 contains a long list of these policies, including the promotion of "a high level of employment." Without a change of the Treaty, which is not an option within the time frame of a review, "employment" must remain a so-called secondary objective for the ECB.

Real activity and employment have been important aspects in the ECB's conduct of monetary policy from the beginning. A legal dual mandate implies the risk that the central bank is trying to achieve more than one objective at a time. From a constitutional point of view, it is questionable whether such a choice should be left to an independent central bank, and political pressure in favour of employment is to be expected (Issing 2012, p. 59). This pressure exists in any case and the central bank must explain that a monetary policy with a single mandate can conduct a monetary policy to maintain price stability which implicitly contributes to promoting employment.

Within the ECB´s mandate, "employment" legally remains a secondary objective. It is a daunting challenge for the ECB's communication to explain to the public how its monetary policy promotes employment – while simultaneously warning about the limits of what monetary policy can and cannot achieve. Claiming to have created so and so many jobs is not conducive for the credibility of a central bank as, unavoidably, it will then be held responsible in a phase of rising unemployment.

2.3. Environmental sustainability

"Sustainable development" and (indirectly) "environmental protection requirements" (Art. 6) are also among the secondary objectives of the ECB. It is not surprising that central banks worldwide have demonstrated awareness of climate change, but to what extent could and should they also take responsibility for environmental sustainability (Issing 2019)?

The ECB as a regulator and supervisor is charged with assessing risks connected with environmental issues and implementing appropriate measures in the context of macro- and microprudential policies. Managing its own portfolio and applying "green aspects" when buying assets, the bank can pay tribute in the fight against climate change – also by increasing public awareness of this huge challenge.

Climate change and corresponding government policies in response to it can have substantial effects on economic development. These consequences are reflected in all kinds of variables – growth, inflation, employment – that will enter into economic forecasts and thereby influence monetary policy. But should the ECB go further and conduct a monetary policy that is directed towards environmental sustainability as a secondary objective? It would be hard to design a transmission mechanism from monetary policy to environmental problems. Confronting climate change is the responsibility of governments and legislatures. Central banks should not blur this priority. Climate policies that will affect social and economic arrangements across all of society belong in the hands of those who are accountable towards their voters.

Central banks as regulators and supervisors can make a limited contribution to protect the environment. There is no such thing as a “green monetary policy”. Making themselves responsible for environmental sustainability beyond their limited capability in this field will inevitably lead to disappointment and undermine their reputation.

Employment and environmental sustainability are among the secondary objectives of the ECB. Together with contributing to financial stability, this “triad” raises insurmountable problems for the conduct of monetary policy. Is there a rivalry between these objectives? Does an order of priority exist? If so, is the order fixed or dependent on current developments? Can an independent central bank be free to choose? And finally: can the Tinbergen principle applied in the argument for separation of policies towards price stability and financial stability be simply put aside when the number of objectives increases? These considerations speak in favour of maintaining a clear focus on the primary objective of price stability. At the same time major financial stability risks could be taken into account within a forward-looking orientation of monetary policy to the medium to longer term, beyond the typical macroeconomic forecasting horizon.

3. Economic and monetary analyses

The ECB has announced that it will “examine how the economic and monetary analyses through which the ECB assesses the risks to price stability should be updated, also in view of ongoing and new trends.”

The Introductory Statement of the President to the press conference presents the deliberations behind the monetary policy decision, in principle still in the format chosen in January 1999. The only change regards the order of the monetary and economic analyses, which goes back to the review of the strategy in 2003.

This kind of communication masks the fact that the ECB, without a formal decision of the Governing Council, has appeared to have progressively given up the two-pillar strategy and de facto adopted a policy of inflation targeting (Rostagno et al. 2019). In the words of the former Vice President Constancio (2017, p. 20): “I believe that this strategy of flexible inflation target also works for the euro area and can remain central to any future monetary policy framework.”

Whatever final decision is taken on the strategy, the ECB now has to clarify its approach. If the two-pillar strategy is (officially) abandoned in favour of the concept of inflation targeting, an explanation is required as to:

- Why inflation targeting is the “optimal” strategy for the ECB.

- Why the two-pillar strategy is not (any longer) appropriate and why it should be abandoned.

By now, research on the theory and practice of inflation targeting fills libraries. Initially basing monetary policy decisions on a simple forecast of inflation, the concept of inflation targeting has undergone a substantial change culminating in "flexible inflation targeting". After the financial crisis of 2008, the leading expert in this field gave a kind of final verdict: "In the end, my main conclusion so far from the crisis is that flexible inflation targeting, applied the right way and using all the information about financial factors that is relevant for the forecast of inflation and resource utilization at any horizon, remains the best-practice monetary policy before, during, and after the financial crisis" (Svensson 2009, p. 7).

On the one hand, this statement gives no guidance on how all the information should be organised in order to take the right decision in the context of an undefined horizon. In the end it immunises the concept against any critique and boils down to a tautology (Issing 2011). On the other hand, it implies a (unintended) critique of the policy of central banks that followed inflation targeting in the years before the crisis without respecting the information from the development of money and credit – a neglect which was a major factor leading to financial imbalances and ending up in the collapse of the financial system.

To cut it short: No model of inflation targeting exists so far which integrates the risks from the banking system and financial markets with all their dynamics, non-linearities and overall complexity. Central banks should agree that the search for an "optimal" monetary policy regime has not come to an end and inflation targeting might entail risks and shortcomings. From this perspective, one could argue that a situation in which major central banks follow the same strategy might also bring systemic risks and that there are benefits to a more diversified and robust approach. The ECB would be well-advised to think twice before joining the other major central banks.

Consequently, adopting a different strategy needs convincing arguments. The simple question is therefore: Has the two-pillar strategy failed and should it be abandoned in favour of inflation targeting?

Is it simply a matter of fact that the Governing Council has increasingly neglected monetary analysis when taking monetary policy decisions in recent years? Would this be evidence that the monetary pillar has failed? The relevant question is: Would the ECB, over roughly the last 10 years, have conducted a different policy by applying the two-pillar approach that ends with a cross-checking of the information from economic and monetary analysis? The answer is straightforward: Not really. Most of the time, the overall development of money and credit did not send signals for following a substantially different monetary policy. However, such "observational equivalence" by itself would not be an argument to abandon the monetary pillar, as there is no reason to believe that the observed coincidence of the information from both analyses will be permanent. If the future development of money and credit (in a broad sense) did signal inflation risks going beyond the information from the economic analysis, and if this information were excluded in the inflation targeting approach, this might lead to a policy that endangers price stability (in one direction or the other). With the present COVID-19 crisis prompting unprecedented expansion of central bank balance sheets in conjunction with large-scale fiscal accommodation, it might again become more important to pay close attention to the monetary variable.

One reason for such a divergence could be the different time horizon of the economic and the monetary analysis. The monetary analysis is designed to signal risks to price stability over the medium to long term. One reason why the monetary pillar did not signal risks to price stability over the last decade could be that the horizon covered so far has been too short. While the monetary analysis had proved very valuable in the context of the financial crisis and was subsequently substantially enhanced (Papademos and Stark 2010), research, in particular by the BIS (Borio 2014), has identified lengths of economic and financial cycles that go beyond the horizon usually covered by the monetary analysis of the ECB included in the Introductory Statement by the President. Based on further research, extending the horizon of the monetary analysis might not only identify future risks to price stability, but also integrate aspects of financial stability into the framework of monetary policy.

There exist convincing reasons for an in-depth review of the monetary policy strategy of the ECB. Confirming the de facto inflation targeting strategy via a simple formal adoption and putting the monetary pillar into the dustbin might turn out to be very risky for price – and financial – stability.

4. Communication practice

Effective communication has become a fundamental challenge for central banks. From the beginning – even before its strategy was initially announced – the ECB, as the youngest central bank in the world, set new standards in this field. It informed in real time on monetary decisions and published a compressed statement on the reasoning behind them. Immediately after the meeting of the Governing Council, the President gave a press conference answering questions from journalists. One week later, the Monthly Bulletin gave a detailed assessment of the information set underlying the decisions taken (two weeks later since a lower publication frequency was adopted for the ECB Economic Bulletin).

It was a long time before other major central banks followed the example of the ECB. Despite this outstanding track record, the ECB has repeatedly faced criticism of being intransparent and "opaque" (Buiter 1999). It was mainly criticized that the ECB did not publish formal minutes including a voting record for its monetary policy decisions. As a new central bank for an area of 11 countries, publishing votes would have raised concerns about giving undue weight to national idiosyncrasies of governors from the national central banks (Issing 1999).

Over the years the ECB has developed its communication further by publishing monetary policy "accounts", which present the spectrum of arguments behind the monetary policy decisions taken. In press conferences, the President has steadily increased information disclosure, including the degree of unanimity and dissenting positions. Over time a number of governors of national central banks felt obliged to go public in cases of fundamental dissent with monetary policy decisions.

This process of gradually increasing information on the decision-making process has triggered a dynamic leading in the direction of publishing personalised votes. Instead of bowing to mounting pressure, the ECB could take the initiative by announcing that it would start publishing a voting record with names included.

Such a decision would be seen as a landmark in communication. However, it would not stop the continuing pressure from politicians and the media for more transparency. Central banks all over the world are exposed to this pressure. It is a daunting challenge to convince the public that transparency and corresponding communication is not an end in itself and that absolute transparency is a mirage. It will not be easy for the ECB to explain this position convincingly and bring it into line with the collegiate accountability of a (independent) central bank. "Communication, accountability and transparency are interconnected in a kind of triad" (Issing 2019, p. 62).

Central bank communication addresses very different audiences – financial markets, academia, the media and the general public. The new media offer novel ways of communicating, but at the same time bring pitfalls that can exacerbate fragmentation of views in "echo chambers" to the detriment to cohesion and clarity of common messages vis-à-vis the markets and the public.

There is a risk that central bank communication might be exposed to exaggerated expectations of what it can achieve. Ultimately, communication must support the credibility of the central bank and promote the understanding and effectiveness of its policies in delivering on its institutional mandate. "Communication must not be blurred by all kinds of additional tasks and political considerations. The central message must always be that for us at the central bank the stability of the currency always has priority" (Issing 2019, p. 70).

IV. Conclusion

A review of the monetary policy strategy of the ECB is more than appropriate. At the same time, announcing a new review after so many years unavoidably raises high expectations. Analysing the different aspects that will make up the review in detail might lead to a kind of soberness compared with these expectations. The monetary policy of the ECB and its communication have developed over the years under the challenges stemming from various shocks. Taking stock of the monetary policy conducted over the last 17 years could indicate that emerging problems and corresponding criticism were more directed at the performance within the existing strategy than deficiencies of the strategy itself. Overall, it would be risky to raise undue expectations of the strategy review, which will not turn out to be a panacea.

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