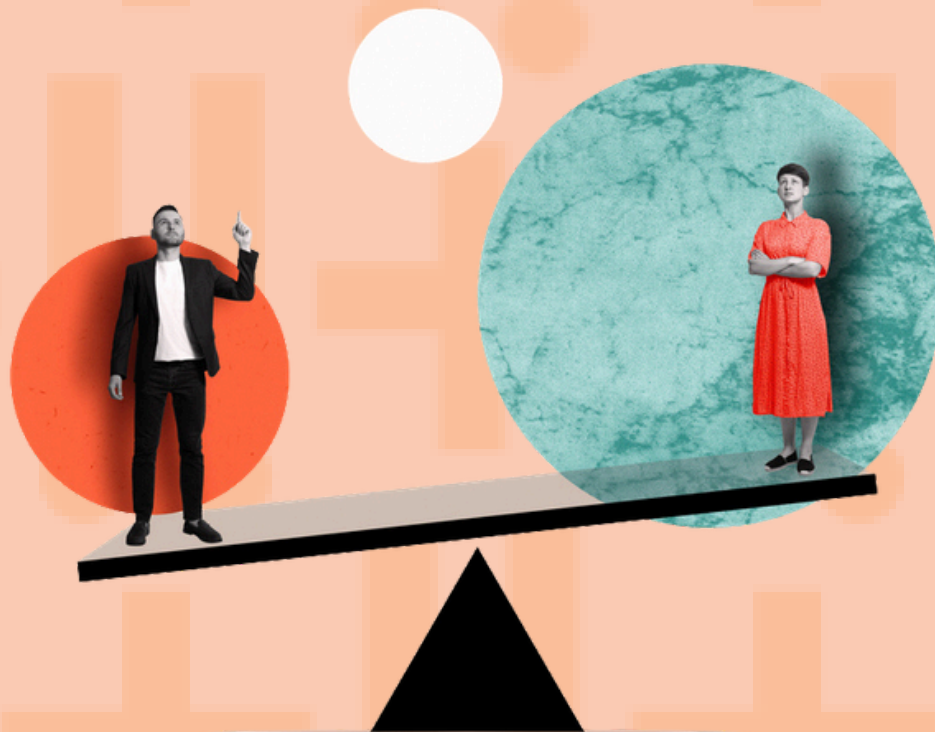


# The ECB and inequality

## Can monetary policy lean without falling?

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# Foreward

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The euro area's monetary history over the past fifteen years has been marked by a succession of "once-in-a-generation" shocks. Each of these episodes has forced the European Central Bank (ECB) to innovate within the tightly-bound constitutional framework of safeguarding price stability, preserving the realness of monetary policy, and acting independently of political instruction. Yet the same period has also made one fact increasingly hard to ignore: the euro area economy is not a uniform space in which policy transmits smoothly and evenly. Instead, it is a highly heterogeneous union across regions, sectors, labour markets and household balance sheets where distributional differences can alter how monetary impulses work.

This report starts from the observation that inequality is not only a social outcome. It is also a macroeconomic condition that can affect monetary transmission and, therefore, the effectiveness of monetary policy. When households differ sharply in income security, wealth holdings, indebtedness, and access to credit, policy actions can have uneven pass-through into spending, borrowing, saving and hiring. The more unequal and segmented the economy, the more likely it is that standard tools operate with friction, asymmetry, or unintended side effects. In that sense, an inequality-blind central bank risks being analytically incomplete beneath the surface.

In this context, the legal question is unavoidable. The ECB is a Treaty-based institution with a hierarchy of objectives, clear limits on competences, and a strong independence guarantee. Integrating inequality concerns cannot become a proxy for redistribution, nor can it be framed as an autonomous goal that competes with price stability. A narrower and more demanding question arises: within the EU Treaties' monetary framework, when can inequality be treated as monetarily relevant, and how can it be taken into account within mandate discipline?

The report's answer is guided by three propositions. First, inequality can be monetarily relevant when it impairs the transmission mechanism or amplifies vulnerabilities that affect the pursuit of price stability. Second, within the existing Treaty architecture, distributional considerations can be integrated in a mandate-compatible way through two routes. On the one hand, as part of fulfilling the primary objective of price stability where monetary effectiveness is at stake, and through the duty to support the European Union's general economic policies (once price stability is secured), reinforced by horizontal integration clauses. Third, the principle of proportionality provides the operational method that allows the ECB to navigate the boundary between what is economically relevant and what is legally possible.

Proportionality is treated as a disciplined decision structure. It forces clarity about aims, evidence, instrument choice, and alternatives; it requires that side effects be acknowledged, weighed and explained; and it creates a record that can be scrutinised without politicising

day-to-day policy. If the ECB is to become more “inequality-aware”, proportionality is the mechanism that can keep this evolution legally coherent and institutionally credible.

The sections that follow move from context to doctrine and then on to design. They trace the shift from crisis interventions to post-pandemic debates about “side effects” and inclusion; describe how inequality interacts with transmission and how monetary policy leaves a distributional footprint; map the relevant mandate provisions and integration principles; and show how proportionality can operate as a practical constraint on policy design. The final section offers a phased agenda, starting with transparency and internal processes, moving to carefully scoped pilots within the monetary toolkit, and leaving open, for the longer term, the possibility that Treaty adjustments may be required if distributional risks become an enduring and explicit component of monetary governance.

The overarching aim is not to transform the ECB into what has been labelled an “inequality-reducing institution”. It is rather to contribute to a framework in which the ECB can remain firmly within its mandate while responding intelligently to an economy where persistent disparities matter for both effectiveness and legitimacy. Given that the EU policy that is technically sound but socially opaque is increasingly fragile, an ECB that is analytically attentive, legally disciplined, and procedurally transparent can better secure price stability in practice, while reinforcing trust in the institutions that deliver it.

# Executive Summary

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This report examines whether, and how, the ECB can integrate concerns about inequality into its monetary policy framework without disregarding its legal mandate. The European Union Treaties did not design a central bank focused on distribution. But they do not require the ECB to treat inequality as irrelevant either. The mandate question can be framed operationally. For example, when inequality materially affects monetary transmission or the effectiveness of monetary instruments, ignoring it can weaken the ECB's ability to deliver price stability. When price stability is secured, the ECB must support the Union's broader objectives insofar as this does not prejudice its primary mandate.

The report advances three main ideas. First, inequality is relevant in relation to monetary policy because it shapes the transmission mechanism, i.e., heterogeneity in income, wealth, liquidity and credit access all impact how monetary impulses spread through the economy. Second, integrating inequality considerations can be compatible with the ECB's mandate when done through legally recognised routes, i.e., it may be justified under the primary objective, where inequality impairs monetary transmission or the effectiveness of instruments needed to secure price stability, and it may also be considered under the secondary objective and relevant Treaty integration principles or horizontal clauses once price stability is secured. Third, proportionality operationalises the key boundary question, i.e., how far and in what manner inequality can be integrated by disciplining instrument choice and justification, competence limits and the ECB's institutional independence.

The report's findings begin from the monetary transmission problem. Inequality can weaken transmission because it affects several channels at once, including employment, credit access, asset prices and financial vulnerability. Where household balance sheets are heterogeneous, consumption responses to interest rate changes can differ sharply across groups. Where access to finance is uneven, the bank-lending channel can be diminished for certain households, firms or regions. Where asset ownership is concentrated, wealth effects may be amplified without translating proportionately into aggregate demand. Where many households are financially fragile, tightening cycles can have stronger contractionary effects. These dynamics matter not because inequality becomes a policy target in itself, but because they can alter the strength and uniformity with which policy reaches inflation outcomes.

A second finding is that monetary policy has a distributional footprint even when redistribution is not an aim. Monetary instruments can have unequal impacts across groups and over time. Accommodative policies may compress inequality in the short run through stronger output and hiring, while also generating asset-price effects that can widen wealth gaps. Over the medium and long term, distributional outcomes are mixed depending on the context. The ECB cannot and should not, promise distributive outcomes. However, it can improve its analytical and governance capacity to identify when distributional heterogeneity is relevant to transmission and instrument effectiveness, and to make those considerations explicit within a disciplined accountability framework.

Third, the report concludes that the existing Treaty framework allows inequality considerations to play a role, under, at least, two conditions. Distributional considerations can be compatible with the ECB's mandate. This could be when either inequality demonstrably undermines monetary transmission, macroeconomic stability, or the effectiveness of instruments required to achieve price stability (the primary objective). It could also be true when price stability is secured and the ECB is acting within its supportive duties to advance the Union's general economic and social objectives (e.g., employment, social inclusion and cohesion) so far as this can be done without prejudice to the primary objective (the secondary mandate). Under this approach inequality is integrated, not as an independent policy goal but, as a relevant factor in designing and justifying monetary policy action.

A fourth finding concerns proportionality. It emerges as the practical bridge between monetary policy relevance and legal permissibility. Proportionality, as applied by the Court of Justice of the EU (CJEU), provides a structured way to integrate inequality without prejudicing price stability or stretching competences. It requires the ECB to specify the objective pursued, demonstrate why the measure is suitable, show that it is necessary relative to alternatives, and address foreseeable side effects in a reasoned manner. In an inequality context, proportionality turns "awareness" into method by disciplining how distributional information enters the policy process and how it is communicated.

To ensure legal accountability, considering the legal literature in that regard, the report proposes that any future use of inequality-concerned instruments should follow a three-step assessment. Decision-makers should identify whether inequality undermines monetary policy transmission; justify why this matters under present conditions; and demonstrate how the selected instrument addresses the issue proportionately. These assessments should be periodically reviewed and disclosed in an accountable format, with appropriate safeguards for confidentiality.

On that basis, the report proposes a phased agenda for next steps. In the immediate term (2026 onward), the ECB should prioritise transparency and internal governance by developing and publishing more systematic analysis of distributional effects (i.e., income, wealth, employment and credit access) linked to key monetary instruments. The banks should also embed internal procedures to ensure that proportionality assessments explicitly consider transmission heterogeneity and foreseeable distributional side effects. Over the medium term (2026–2028), the ECB should pursue carefully scoped pilots within the monetary toolkit by testing inequality-aware design features justified by improving transmission, such as refining liquidity or collateral settings in ways that strengthen pass-through to underserved segments, without adopting redistribution as an objective. In parallel, the ECB should strengthen structured dialogue with EU institutions to clarify the operational meaning of supportive duties and integration principles while safeguarding independence. Over the longer term (2029 and beyond), the report suggests considering whether Treaty adjustments should be explored to address distributional risks explicitly, should inequality-aware practices become durable and central to monetary governance.

# Abbreviations

BIS	Bank for International Settlements
BoE	Bank of England
CBs	Central banks
Charter	Charter of Fundamental Rights of the European Union
CJEU	Court of Justice of the European Union
ECB	European Central Bank
e.g.	Exempli gratia
EP	European Parliament
EU	European Union
i.e.	Id est
IFM	International Monetary Fund
p.	Page
PMEU	Positive Money European Union
pp.	Pages
TEU	Treaty on the European Union
TFEU	Treaty on the Functioning of the European Union
SSM	Single Supervisory Mechanism

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# 1. Introduction

Inequality in the context of monetary policy can be defined as a distributional heterogeneity concept encompassing income, wealth, liquidity and credit access that materially alters the strength, speed, and symmetry of transmission channels. Data shows that advanced economies' income inequality is rising since the 1980s.<sup>1</sup> Draghi's Report on the competitiveness of the European Union (EU) shows that Europe has fared better than the United States but the trend has still been upward,<sup>2</sup> with implications for aggregate demand, financial vulnerability and macroeconomic dynamics.<sup>3</sup>

The relevance for monetary policy is straightforward. Some scholars argue that excessive inequality carries measurable macroeconomic costs.<sup>4</sup> When disparities in income or wealth mirror unequal access to education, finance, or productive opportunities it becomes significant that inequality denies people opportunities.<sup>5</sup> At the same time, aggregate demand weakens, since households at the top of the distribution typically save a larger share of each additional euro earned.<sup>6</sup> Yet direct tools to address inequality, and often proposed, are fiscal and structural measures, including reinforcement coordination between monetary and fiscal policy, and those tools involve trade-offs that lie within democratic policymaking.<sup>7</sup> Given that such policies can distort labour-supply decisions, investment, or innovation incentives, they may offset part of the welfare gains from a narrower distribution.

Against this backdrop, the report appraises the arguments for and against embedding specific sustainability objectives in the European Central Bank's (ECB) mandate. In particular, the report asks a narrower and legally grounded question: why is inequality a monetary policy issue for the ECB, and on what terms can distributional considerations be integrated into monetary policy without breaching the ECB's Treaty-based mandate? The report does not argue for the ECB to become a redistributive actor. Instead, it evaluates how and when an "inequality-aware" approach can be framed within the ECB's mandate, and how proportionality can discipline the design and justification of instruments with distributional implications.

This report aims to provide a legal-institutional assessment of the ECB's mandate, taking into account economic transmission. In doing so, the methodology employed follows four steps.

First, it adopts a functional definition of inequality for monetary purposes: inequality is treated as relevant insofar as it affects transmission, instrument effectiveness, or macro-financial conditions linked to price stability.

Second, the report takes into account the ECB's mandate framework grounded in the Treaties' hierarchy of objectives. Measures are assessed under two routes: (i) the primary objective route, where inequality is considered as a factor affecting the pursuit of price stability; and (ii) the secondary objective route, where, once

<sup>1</sup> Maarten Dossche, Jiri Slacalek and Guido Wolswijk, 'Monetary Policy and Inequality' <[https://www.ecb.europa.eu/press/economic-bulletin/articles/2021/html/ecb.ebart202102\\_01-1773181511.en.html](https://www.ecb.europa.eu/press/economic-bulletin/articles/2021/html/ecb.ebart202102_01-1773181511.en.html)> accessed 20 January 2026. See also BIS, 'II. The Distributional Footprint of Monetary Policy', Key Takeaways <<https://www.bis.org/publ/arpdf/ar2021e2.htm>> accessed 20 January 2026.

<sup>2</sup> European Commission (ed), The Future of European Competitiveness: Part A: A Competitiveness Strategy for Europe (Publications Office 2025) (hereafter Draghi's Report), Foreword, p. II. Previously, Income inequality in the EU: General trends and policy implications, VoxEU Column 2021, [https://cepr.org/voxeu/columns/income-inequality-eu-general-trends-and-policy-implications#:~:text=EU%20market%20incomes%20are%20relatively,\(red%20versus%20yellow%20bars\).](https://cepr.org/voxeu/columns/income-inequality-eu-general-trends-and-policy-implications#:~:text=EU%20market%20incomes%20are%20relatively,(red%20versus%20yellow%20bars).), accessed 22 December 2025

<sup>3</sup> See Eurostat, Living conditions in Europe – income distribution and income inequality, [https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Living\\_conditions\\_in\\_Europe\\_-\\_income\\_distribution\\_and\\_income\\_inequality](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Living_conditions_in_Europe_-_income_distribution_and_income_inequality), accessed 20 January 2026. See also Dossche, Slacalek and Wolswijk (n 1).

<sup>4</sup> Jonathan Ostry and others, 'Redistribution, Inequality, and Growth' (2014) 14 Staff Discussion Notes

<sup>5</sup> Id.

<sup>6</sup> Ostry and others (n 39).

<sup>7</sup> See Christophe BLOT, Jérôme Creel, Emmanuelle Faure, and Paul Hubert, Setting New Priorities for the ECB's Mandate, Monetary Dialogue Papers, June 2020, pp. 18, 20–23, [https://www.europarl.europa.eu/cmsdata/207721/OFCE\\_FINAL2%20online.pdf#:~:text=match%20at%20L1073%20Besides%2C%20even,inequality%20is%20a%20highly](https://www.europarl.europa.eu/cmsdata/207721/OFCE_FINAL2%20online.pdf#:~:text=match%20at%20L1073%20Besides%2C%20even,inequality%20is%20a%20highly), accessed 12 December 2025.

price stability is secured, policy design may support wider Union objectives so far as this does not prejudice the primary objective. Horizontal integration principles are treated as interpretive constraints that shape how supportive objectives can be operationalised, not as autonomous sources of competence.

Third, the report uses proportionality as an evaluative method for instrument design and accountability. Proposed or hypothetical measures are assessed through a structured proportionality test: (1) whether inequality impairs transmission (problem identification); (2) why this matters under prevailing conditions; and (3) whether the chosen response is suitable and necessary relative to alternatives (proportionate design), including transparent treatment of foreseeable side effects.

Fourth, the report does not assume stable distributional effects from any single tool across time and contexts. Where effects are ambiguous or depend on specific context, the report treats this uncertainty as a reason for stronger transparency, clearer justification, and phased experimentation rather than as a basis for expansive mandate claims.

Finally, the report is divided into sections, as follows. Section 2 explains why inequality matters for the ECB, describing how inequality has evolved and how it can affect monetary policy transmission. Section 3 discusses how inequality considerations fit within the ECB's legal mandates – covering the primary objective (price stability), the secondary objective (supporting general EU economic goals), and relevant EU Treaty principles. Section 4 addresses CJEU case law on monetary measures and proportionality. Section 5 concludes with key findings and reflections on balancing price stability with inequality concerns.

## 2. Why Inequality Matters for the ECB: From Draghi's "whatever it takes" to the post-pandemic "whatever it costs socially"

There is a recent resurgence of interest in economic inequality, and this factor matters for central banks. When Mario Draghi pledged in 2012 to do "whatever it takes" to save the euro and fight deflation, the ECB became the anchor of financial stability in Europe. These interventions, ranging from great bond purchases to ultra-low interest rates, succeeded in stabilizing the economy, but not without social side effects."<sup>8</sup>

A decade later, in the wake of the pandemic, energy shocks, and climate disruption, the challenge has changed. While the ECB remains the guardian of price stability, post-pandemic awareness of policy side effects and calls for inclusion have raised new questions: how should central banks cope with the social consequences of their success? As they raise or lower rates to control inflation, their decisions reshape wealth, credit, and opportunity across society.<sup>9</sup> The new question is not only whether monetary policy is effective, but for whom it is effective. In other words, the post-pandemic era demands that the ECB does "whatever it takes" without ignoring "whatever it costs socially."<sup>10</sup>

This is not a rhetorical but a structural shift. For years, monetary policy's actions redistributed resources between debtors and savers, asset owners and renters, core and periphery, and younger and older populations.<sup>11</sup> The cumulative effect was a slow yet visible widening of economic divides across the euro area. The legitimacy of ECB independence, long grounded in its price stability mandate, increasingly depends on how credibly it can acknowledge and account for distributional side effects within its proportionality assessment.<sup>12</sup>

Inequality itself is not a new concern, but its persistence and scale are concerning.<sup>13</sup> Standard metrics<sup>14</sup> show that since the 1980s, wealth and income inequality have increased in many advanced economies.<sup>15</sup> In the euro area, income inequality rose pre-2008 and then stabilized somewhat, but wealth is highly concentrated, and wealth inequality has grown. Importantly for monetary policy, inequality is multi-faceted, i.e., it can refer to income, wealth, or even regional disparities, and each of these might influence how policy changes transmit through the economy.<sup>16</sup>

Public scrutiny of the ECB's (social and climate) footprint has grown.<sup>17</sup> During the 2021 ECB Strategy Review,

<sup>8</sup> Critics argue that such measures widened the gap between rich and poor, for example by boosting asset prices and benefiting asset owners. As a result, there is increasing awareness that monetary policy is not "distributionally neutral".

<sup>9</sup> Id.

<sup>10</sup> See Furceri, Loungani and Zdzienicka (n 13) pp. 3–4. See also Jens van't Klooster, 'The ECB's Conundrum and 21st-Century Monetary Policy: How European Monetary Policy Can Be Green, Social and Democratic' pp. 6–7.

<sup>11</sup> Miguel Ampudia and others, 'Monetary Policy and Household Inequality' [2018] SSRN Electronic Journal <<https://www.ssrn.com/abstract=3223542>> accessed 6 November 2025.

<sup>12</sup> Rosa M Lastra and Sara Dietz, 'Accountability of Greening the ECB' (2023) 30 Maastricht Journal of European and Comparative Law 377, pp 377–395. The article links ECB independence to evolving accountability when side-effects grow; notes the emphasis on proportionality taking into account the CJEU. ruling on Weiss (C-493/17 – Weiss and Others, ECLI:EU:C:2018:1000) and the need to explain side-effects. In the same line but arguing that unconventional tools entail unavoidable distributive choices and raise legitimacy and accountability questions see Jens Van 'T Klooster and Clément Fontan, 'The Myth of Market Neutrality: A Comparative Study of the European Central Bank's and the Swiss National Bank's Corporate Security Purchases' (2020) 25 New Political Economy 865. Discussing distributional side-effects and proposing regular reporting to bridge the legitimacy gap with democratic institutions, see Patrick Honohan, 'Should Monetary Policy Take Inequality and Climate Change into Account? | PIIÉ' (29 October 2019) <<https://www.piie.com/publications/working-papers/should-monetary-policy-take-inequality-and-climate-change-account>> accessed 4 November 2025.

<sup>13</sup> 'The World #InequalityReport 2022 presents the most up-to-date & complete data on inequality worldwide' (World Inequality Report 2022) <[wir2022.wid.world/](https://wir2022.wid.world/)> accessed 4 November 2025. For example, as of 2021 the richest 0.001% of the world's adults owned 6.4% of global wealth, while poorest half owned barely 2%. Such disparities are echoed within Europe.

<sup>14</sup> Like the Gini coefficient for income. See 'The World #InequalityReport 2022 presents the most up-to-date & complete data on inequality worldwide' (n 19).

<sup>15</sup> OECD, 'Inequalities in Household Wealth and Financial Insecurity of Households', vol 2 (2021) OECD Policy Insights on Well-being, Inclusion and Equal Opportunity 2 <[https://www.oecd.org/en/publications/inequalities-in-household-wealth-and-financial-insecurity-of-households\\_b60226a0-en.html](https://www.oecd.org/en/publications/inequalities-in-household-wealth-and-financial-insecurity-of-households_b60226a0-en.html)> accessed 4 November 2025, pp 2–9.

<sup>16</sup> Ampudia and others (n 17).

<sup>17</sup> Quantitative easing (QE), by boosting financial asset prices, is seen to have widened wealth gaps. See ECB, 'An Overview of the ECB's Monetary Policy Strategy' [2021] <[https://www.ecb.europa.eu/mopo/strategy/strategy-review/html/ecb.strategyreview\\_monpol\\_strategy\\_overview.en.html](https://www.ecb.europa.eu/mopo/strategy/strategy-review/html/ecb.strategyreview_monpol_strategy_overview.en.html)> accessed 4 November 2025.

many citizens called for the ECB to play a more active role in addressing “social inclusion”. The legal backdrop is the EU’s objective of “social progress” and inclusion, which accompanies the full-employment mandate.<sup>18</sup> In the Treaty reference highlighted in the strategy, the Union’s aims include a social market economy that brings progress for society at large. The 2021 strategy overview addresses inequality indirectly by stating that “when tailoring its tools, the ECB will prefer the approach that best supports ... social inclusion,” without prejudice to price stability.<sup>19</sup> In 2025, the ECB Strategy Review did not review the foundations of the 2021 framework and just confirms its conclusions.<sup>20</sup>

The 2024 Draghi Report highlights that the European approach should promote productivity growth together with social inclusion.<sup>21</sup> “Social inclusion”, it notes, is a foundational value alongside prosperity, equity, freedom, and democracy.<sup>22</sup> Draghi’s report highlights these values enshrined in the Charter of Fundamental Rights of the EU (Charter). This reference is significant as the foundations of the Union, the EU itself “exists to ensure that Europeans can always benefit from fundamental rights.”<sup>23</sup> In other words, productivity growth requires our values of social inclusion to be preserved.<sup>24</sup>

These concerns are not abstract. Policymakers are now expected to account for labour income effects tied to globalisation, technology, and industrial transition. This includes central banks. The ECB’s monetary strategy, while still oriented around price stability, increasingly reflects the reality that social outcomes, such as inequality (and climate change) feed back into inflation, demand, and macroeconomic resilience.<sup>25</sup> Frank Elderson, ECB Executive Board member, put it clearly in a 2025 speech: “We face an ever-increasing volume of climate and nature-related factors that we must take into account in order to successfully deliver on our mandate.”<sup>26</sup> While his comments centred on environmental risks, the precedent is broader: central banks are adapting to systemic risks that threaten monetary transmission and price stability.

Moreover, EU-level regulatory initiatives increasingly integrate social dimensions into economic governance. The European Green Deal, while centred on environmental transformation, explicitly acknowledges that the transition must be fair, inclusive, and protective of vulnerable groups.<sup>27</sup> Its Just Transition Mechanism aims to “leave no one behind,” directing financial support to regions and communities most affected by decarbonization and industrial change.<sup>28</sup> The Green Deal also aligns with the European Pillar of Social Rights, reinforcing that climate and digital

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<sup>18</sup> Article 127(1) TFEU, second paragraph, read together with Article 3 TEU. See below section 3

<sup>19</sup> ‘An Overview of the ECB’s Monetary Policy Strategy’ (n 23), section 3.3. Social inclusion in this context means fostering an economy where growth and stability benefit as many people as possible, including e.g., marginalized or lower-income groups. By aligning with the EU’s social inclusion goals, the ECB indicates it will avoid policies that unduly favor one group over another.

<sup>20</sup> Inequality matters are less prominent in the 2025 Strategy Review than in 2021. The ECB noted in its communications that the Governing Council now “caters” for other considerations ‘relevant’ to the conduct of monetary policy. These include those laid down in Article 3 TEU, such as balanced economic growth, a competitive social market economy, full employment, and social progress, objectives pursued “without prejudice to price stability.” See European Central Bank, ‘An Overview of the ECB’s Monetary Policy Strategy – 2025’ <[https://www.ecb.europa.eu/mopo/strategy/strategy-review/ecb.strategyreview202506\\_strategy\\_overview.en.html](https://www.ecb.europa.eu/mopo/strategy/strategy-review/ecb.strategyreview202506_strategy_overview.en.html)> accessed 4 November 2025.

<sup>21</sup> Mario Draghi, The Future of European Competitiveness: Part A: A Competitiveness Strategy for Europe (Publications Office 2025).

<sup>22</sup> The report states clearly: “The EU exists to ensure that Europeans can always benefit from fundamental rights.” Maintaining these values in the face of technological disruption and global fragmentation will require managing the resulting inequality, such as rising wage gaps between highly educated and less educated workers. As Draghi concludes, “productivity growth requires preserving our values of equity and social inclusion.” See Mario Draghi’s Report (n 27), pp. 10–12.

<sup>23</sup> Mario Draghi’s Report (n 27).

<sup>24</sup> Id.

<sup>25</sup> See ECB, Strategy Review 2021 (n 5), Box 5. The ECB, in its 2021 Strategy Review examined the relationship between globalization, technology and inequality and concluded that there were differences when inequality was measured across countries and within countries: despite the past three decades there has been a “steady fall in inequality worldwide” across countries, “inequality within countries (notably in some advanced economies) has increased markedly.” According to the ECB, globalisation is one of the forces driving the rise in inequality in advanced economies, yet this effect cannot easily be disentangled from the effects of technological progress. Moreover, countries exposed to similar degrees of trade and financial openness and technological change have exhibited different trends in inequality. See also ECB, Occasional Paper Series No 311 / March 2023, p. 4

<sup>26</sup> Frank Elderson, ‘From Concept to Delivery: Accounting for Climate and Nature in Maintaining Price Stability and Keeping Banks Safe and Sound’ <<https://www.bankingsupervision.europa.eu/press/speeches/date/2025/html/ssm.sp250212-98cec58949.en.html>> accessed 4 November 2025.

<sup>27</sup> ‘The European Green Deal – European Commission’ <[https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/european-green-deal\\_en](https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/european-green-deal_en)> accessed 4 November 2025.

<sup>28</sup> ‘The Just Transition Mechanism – European Commission’ <[https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/european-green-deal/finance-and-green-deal/just-transition-mechanism\\_en](https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/european-green-deal/finance-and-green-deal/just-transition-mechanism_en)> accessed 4 November 2025.

transitions should uphold social justice and cohesion.<sup>29</sup> In parallel, the ECB's climate roadmap, particularly its collateral and portfolio tilting strategies can improve social co-benefits in implementation, offering a blueprint for how "inequality-sensitive design" could develop in monetary operations.<sup>30</sup>

The growing macroeconomic relevance of inequality therefore raises two foundational questions for this report: can and should the ECB incorporate inequality considerations into monetary policy? And if so, how can this be done in a manner consistent with its mandate and legal obligations under EU law? The remainder of the report provides a legal-institutional response, focusing on the ECB's mandate in Article 127 TFEU and the role of proportionality as a framework for incorporating distributional concerns without compromising price stability.

## 2.1 Inequality in the ECB context

Prior to developing specific arguments, this section first clarifies what "inequality" means for our purposes and why it matters for the ECB. Briefly considering at least one common economic notion of inequality as the dispersion of income and wealth across households, then we translate it into the ECB's legal vocabulary by explaining when and how inequality becomes transmission-relevant and thus reviewable under proportionality. Then the legal aspect converges with a long-run baseline. Structural forces shape the trend in inequality too, while policy can affect distribution mainly through cyclical channels. With this shared frame—economic definition, legal relevance, and long-run benchmark –, the subsequent sections examine, in turn, (i) the transmission channels, (ii) the proportionality implications for instrument choice, and (iii) the limits of monetary policy in addressing inequality.

Inequality has been defined in macro-monetary work as the dispersion of income and wealth across households.<sup>31</sup> Framing inequality for the ECB from a legal perspective and the long run requires one to determine why inequality matters in law and its connection with the ECB and the proportionality principle.

First, central banks have framed the question around the two main dimensions of economic inequality, i.e, income and wealth.<sup>32</sup> Economic central bank literature treats wealth and income as the two core dimensions commonly proxied by Gini coefficient and percentile ratios.<sup>33</sup> For EU-specific context, inequality also matters across Member States, a category that can shape transmission conditions in a monetary union.

In the EU, ECB research defines the inequality lens for monetary policy as distributional effects on "households' income, wealth and consumption," then quantifies transmission channels (such as net interest rate exposure, intertemporal substitution, indirect income via wages/unemployment.)<sup>34</sup> Isabel Schnabel, member of the Executive Board of the ECB, distinguishes (1) inequality's impact on transmission (via heterogeneous marginal propensity to consume (MPC)) and (2) monetary policy's distributional effects; attributes long-run inequality to

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<sup>29</sup> 'The European Pillar of Social Rights Action Plan' <<https://op.europa.eu/webpub/empl/european-pillar-of-social-rights/en/>> accessed 4 November 2025.

<sup>30</sup> ECB, 'Climate and Nature Plan 2024–2025', pp. 1–7. On the mandate to include sustainability considerations, but from a climate change point of view, see Sara Dietz, 'Green Monetary Policy Between Market Neutrality And Market Efficiency' *Common Market Law Review* 59(Issue 2), p. 416.

<sup>31</sup> Agustín Carstens, 'Central Banks and Inequality' Markus' Academy, Princeton University's Bendheim Center for Finance, Basel, 6 May 2021, p. 2. See also Raffaele Felicetti, 'A Study on Central Banks and Social Responsibility: The Case of the ESCB' (2024) 10 *Journal of Financial Regulation* 65, p. 2..

<sup>32</sup> Carstens (n 2).

<sup>33</sup> The index ranges from 0 = perfect equality to 100 = perfect inequality. Relevant empirical papers use summary measures "including the Gini coefficient or the ratio between the P90 and P10 percentiles of the income distribution", e.g., P90/P10. See, e.g., Olivier Coibion and others, 'Innocent Bystanders? Monetary Policy and Inequality' (2017) 88 *Journal of Monetary Economics* 70. See also Felicetti (n 2), p. 3.

<sup>34</sup> Stephanie Bergbauer, Alessandro Giovannini and Nils Hernborg, 'Economic Inequality and Public Trust in the European Central Bank' <[https://www.ecb.europa.eu/press/economic-bulletin/articles/2022/html/ecb.ebart202203\\_02-f9d2d059f0.en.html?utm\\_source=chatgpt.com](https://www.ecb.europa.eu/press/economic-bulletin/articles/2022/html/ecb.ebart202203_02-f9d2d059f0.en.html?utm_source=chatgpt.com)> accessed 6 November 2025. The ECB's bulletin article sets the terrain as "income and wealth inequality," noting diverse national trajectories.

structural forces and embeds distributional concerns in proportionality assessments.<sup>35</sup>

Second, inequality becomes legally relevant insofar as it impairs and disrupts the monetary policy transmission mechanism, allowing measures under Article 127(1) of the Treaty on the Functioning of the European Union (TFEU).<sup>36</sup> Where “excessive” inequality risks damping transmission, for example by weakening consumption responses along the income and wealth distribution, ECB measures aimed at safeguarding transmission remain bound by the principle of proportionality, i.e., distributional effects are weighed in the ECB’s regular proportionality assessment.<sup>37</sup>

The legal definition of “excessive inequality” for ECB purposes is not a statutory metric, but rather a standard operationalised through transmission-based proportionality. In practice, the ECB must (1) explain inequality weakens transmission, (2) justify why the level is excessive, relative by reference to a specific threshold, and (3) specify how inequality is measured. Any ensuing measure must satisfy the “Court of Justice of the EU (CJEU)-style proportionality test”.

Consistent with the CJEU practice, the proportionality test requires actions to be duly justified and proportionate: (1) there must be a convincing means–end link between the chosen instrument and price stability (suitability), (2) no less-restrictive alternative capable of achieving the objective (necessity), and (3) a reasonable balancing that minimises harmful side-effects (proportionality *stricto sensu*). While the ECB enjoys broad discretion in complex economic assessments, it is not immune from review.<sup>38</sup> The CJEU examines whether measures are suitable, do not manifestly exceed what is necessary, reflect a weighing of relevant interests, and withstand scrutiny under the “manifest error” standard.<sup>39</sup> In practice, the ECB explicitly links distributional considerations to the regular proportionality assessment, choosing instruments that fulfil the mandate while minimizing distributional effects.<sup>40</sup>

Third, over the long run, there is consensus as to structural forces, beyond monetary policy, drive the trend of rising economic inequality.<sup>41</sup> The ECB frames inequality’s trend as driven by structural forces beyond monetary policy’s remit, with distributional effects weighed inside the proportionality assessment of instruments.<sup>42</sup>

## 2.2 How inequality affects the transmission mechanism

Inequality is not just a social concern, but it can also shape how powerfully the ECB’s instruments travel through the economy. If economic resources are heavily concentrated, monetary policy stimulus might produce a weaker response in aggregate demand. For example, wealthy households, who hold more financial assets, have a lower

<sup>35</sup> Isabel Schnabel, ‘Monetary policy and inequality’ Isabel Schnabel Virtual conference on ‘Diversity and Inclusion in Economics, Finance, and Central Banking’, Frankfurt am Main, 9 November 2021, [https://www.ecb.europa.eu/press/key/date/2021/html/ecb.sp211109\\_2-cca25b0a68.en.html](https://www.ecb.europa.eu/press/key/date/2021/html/ecb.sp211109_2-cca25b0a68.en.html)

<sup>36</sup> Safeguarding it falls under Article 127(1) of the Treaty on the Functioning of the European Union (TFEU). Article 127 makes price stability the core aim of EU monetary policy and assigns this task to the European System of Central Banks (ESCB, the ECB plus national central banks). While prioritizing price stability, the ESCB also supports the Union’s broader economic policies to support the general objectives in Article 3 of the Treaty on the European Union (TEU). It must operate within an open, competitive market economy that promotes efficient resource allocation and comply with the principles in Article 119 TFEU. See below section 3.

<sup>37</sup> Isabel Schnabel (n 6). The ECB explicitly links distributional considerations to the regular proportionality assessment choosing instruments that fulfil the mandate while minimising distributional effects. See below section 4.

<sup>38</sup> David Ramos Muñoz and Elia Cerrato García, ‘Environmental and social sustainability in the mandate of the European Central Bank’ in Kern Alexander and Seraina Grünwald (ed), ‘Central Banking and Sustainability’, Cambridge University Press (forthcoming). Takis Tridimas, ‘The ECB and the Court of Justice: Old Toolbox, New Problems’, in Thomas Beukers, Diane Fromage, and Giorgio Monti (eds), *The New European Central Bank: Taking Stock and Looking Ahead* (Oxford, 2022; online ed, Oxford Academic, 22 June 2023), <https://doi.org/10.1093/oso/9780198871231.003.0012>, accessed 4 Nov. 2025. The chapter addresses the rationale for judicial review of central bank decisions, argues the distinction between economic and monetary policy, and reflects on the role of proportionality.

<sup>39</sup> See David Ramos Muñoz and Elia Cerrato García, (n 38).

<sup>40</sup> Schnabel (n 6).

<sup>41</sup> Carstens (n 2), opening paragraph: “I will argue that, over the long run, inequality is not a monetary phenomenon, though central banks’ actions can have an impact on the distribution of wealth and income over shorter horizons.”

<sup>42</sup> Some empirical literature uses the same operational definition (income and wealth distributions) and supports the cycle-not-trend view, i.e., contractionary shocks typically raise inequality, expansionary shocks reduce it, but these shocks do not explain the long-run trend. See, e.g., Davide Furceri, Prakash Loungani and Aleksandra Zdzienicka, ‘The Effects of Monetary Policy Shocks on Inequality’ IMF Working Paper WP/16/245, pp. 1–43. See also Coibion and others (n 4). The ECB anchors the terrain explicitly in income and wealth inequality for euro-area policy communication and public trust. See, e.g., Bergbauer, Giovannini and Hernborg (n 5) and Maarten Dossche, Jiří Slačálek and Guido Wolswijk ‘Monetary policy and inequality’ ECB Economic Bulletin, Issue 2/2021 <[https://www.ecb.europa.eu/press/economic-bulletin/articles/2021/html/ecb.ebart202102\\_01-1773181511.en.html](https://www.ecb.europa.eu/press/economic-bulletin/articles/2021/html/ecb.ebart202102_01-1773181511.en.html)> accessed 4 November 2025.

marginal propensity to consume (MPC); they are less likely to spend additional income from a tax cut or asset gain than a low-income household would.<sup>43</sup> Thus, when the ECB injects liquidity or lowers rates, the boost to spending may be muted in an unequal economy, because the extra funds end up largely with those already inclined to save.<sup>44</sup>

Since 2021, the ECB's strategy has widened its analytical lens to labour markets and distributional developments alongside inflation, precisely to understand interactions and side effects within its proportionality assessment.<sup>45</sup> For example, if monetary stimulus fuels asset markets predominantly without benefiting lower-income consumers, inflation may stay below target.<sup>46</sup> However, if policy tightening hits indebted poorer households disproportionately, consumption could contract faster than expected.<sup>47</sup> Therefore, inequality matters for achieving price stability because it can change how powerful or prone the ECB's tools are to side effects.<sup>48</sup>

DIRECTION	MAIN TRANSMISSION MECHANISMS	CORE INSIGHT
Monetary policy ► Inequality	<p>-<i>Employment channel</i>: expansionary policy lowers unemployment, helping lower-income households to a certain level while contractionary monetary policy tends to slow economic growth and increase unemployment.</p> <p>-<i>Asset-price channel</i>: rate cuts and asset purchases raise equity and housing prices, benefiting wealthier households that hold a larger, riskier portfolio.</p> <p>-<i>Debt-deflation channel</i>: deflation inflates real debt burdens, hitting highly-leveraged, often poorer, borrowers first.</p>	Conventional easing can reduce income inequality up to a point in regular cycles, but prolonged ultra-loose or unconventional measures may widen wealth inequality. <sup>49</sup>
Inequality ► Monetary policy	<p>-<i>Aggregate demand or MPC channel</i>: Higher inequality can fuel household indebtedness, leverage and financial fragility.</p> <p>-<i>Leverage channel</i>: A skewed income distribution may dampen aggregate demand because richer households have lower MPC.</p> <p>-<i>Credibility channel</i>: Perceived "unfairness" of tools can weaken the transmission of policy impulses and erode institutional trust in the ECB.<sup>50</sup></p>	Excessive inequality can weaken transmission, impair the ECB's capacity to stabilise prices and manage shocks, and therefore raise the importance of proportionality checks. <sup>51</sup>

Table 1. Interplay between monetary policy and inequality.<sup>52</sup>

<sup>43</sup> Carstens (n 31).

<sup>44</sup> In a hypothetical scenario where inequality keeps rising unabated, "some worry that the effectiveness of an ECB intervention... could be severely limited by such unequal distribution of income and wealth". In other words, excessive inequality could impair the transmission mechanism of monetary policy, the chain by which decisions influence borrowing, spending, and inflation.

<sup>45</sup> The ECB explained that to keep price stable it must "pay close attention to the economy and how our monetary policy interacts with it", including labour market conditions and inequality trends" See ECB, "Employment and the strategy review", <https://www.ecb.europa.eu/mopo/strategy/strategy-review/html/employment.en.html#:~:text=Our%20job%20is%20to%20keep,monetary%20policy%20interacts%20with%20it>.

<sup>46</sup> Pierre Monnin, 'Inflation and Income Inequality in Developed Economies', CEP Working Paper 2014/1, pp 4-18, [https://www.cepweb.org/wp-content/uploads/2014/05/CEP\\_WP\\_Inflation\\_and\\_Income\\_Inequality.pdf](https://www.cepweb.org/wp-content/uploads/2014/05/CEP_WP_Inflation_and_Income_Inequality.pdf). The paper studies inflation-inequality relationship in OECD countries (inequality measured with standard income dispersion indices).

<sup>47</sup> Carstens (n 31).

<sup>48</sup> That lens complements the price-stability core by asking whether a given instrument is (i) suitable, (ii) necessary versus alternatives, and (iii) proportionate in light of transmission and side effects, an approach that is linked to Articles 5 TEU and 127 TFEU. See below sections 3 and 4.

<sup>49</sup> Van 'T Klooster and Fontan (n 12). Carstens (n 31).

<sup>50</sup> S. Bergbauer, A. Giovannini and N. Hernborg, 'Economic inequality and public trust in the European Central Bank', ECB Economic Bulletin, Issue 3/2022, [https://www.ecb.europa.eu/pub/economic-bulletin/articles/2022/html/ecb.ebart202203\\_02-f9d2d059f0.en.html](https://www.ecb.europa.eu/pub/economic-bulletin/articles/2022/html/ecb.ebart202203_02-f9d2d059f0.en.html).

<sup>51</sup> Honohan (n 12), Carstens (n 31).

<sup>52</sup> Author's own elaboration.

As Table 1 reveals, monetary policy and economic inequality interact in two distinct directions, each governed by well-identified channels. On the one hand, monetary policy shapes inequality through three channels when the ECB loosens its stance by cutting policy rates, providing refinancing operations or purchasing assets.<sup>53</sup>

First, the employment channel. Easier policy can support output and hiring, helping lower-income workers who are first fired in downturns and first rehired in recoveries; this compresses income inequality in the short run, and the employment channel may also indirectly affect wages, raising average wages under expansionary policy and lowering average wages under contractionary policy.<sup>54</sup> For example, Mario Draghi (then ECB President), citing research from the US and UK, pointed out that monetary actions that “boost the economy typically reduce income inequality” because falling unemployment disproportionately helps the poor.<sup>55</sup> Empirical studies in the euro area similarly find that unconventional easing measures (like quantitative easing (QE)) lowered inequality mainly by sharply reducing unemployment for lower-income households.<sup>56</sup>

In contrast, research by IMF economists shows that across advanced economies, an unanticipated monetary tightening, i.e., contractionary measures, raises income inequality.<sup>57</sup> The mechanism is intuitive: higher interest rates cool down borrowing and spending, often leading to job losses or wage stagnation that hit lower-income workers hardest, even as savers or wealthier households might benefit from higher rates on assets.<sup>58</sup>

Second, the asset-price channel. Rate cuts and asset purchases lift the prices of equities, bonds and housing, which are disproportionately held by wealthier households.<sup>59</sup> This tends to widen wealth inequality, even as jobs improve.<sup>60</sup> Third, the debt-deflation channel. If policy is constrictive during a recession (and it causes deflation), real debt burdens rise and highly-leveraged (often poorer) borrowers are hit hardest; timely easing protects these households.<sup>61</sup>

Causality also runs the other way. High inequality shifts income toward households with lower marginal propensities to consume, so a given rate cut triggers a smaller demand response. This is consistent with findings that contractionary shocks raise inequality and depress consumption at the bottom.<sup>62</sup> Where middle- and lower-incomes stagnate, households borrow to smooth consumption, raising leverage and financial fragility;<sup>63</sup> in downturns, bank balance-sheet stress and defaults can clog the bank-lending and risk-taking channels.<sup>64</sup> Finally, perceived “unfairness”, especially around asset purchases, can erode trust and weaken the credibility of guidance

<sup>53</sup> See also the further analysis in David Ramos Muñoz and Elia Cerrato García (n 38).

<sup>54</sup> Symmetrically, tightening raises earnings/income/consumption inequality by weakening labour income at the bottom. See Coibion and others (n 33), Haroon Mumtaz and Angeliki Theophilopoulou, ‘The Impact of Monetary Policy on Inequality in the UK. An Empirical Analysis’ (2017) 98 *European Economic Review* 410.

<sup>55</sup> Mario Draghi, ‘Stability, equity and monetary policy’, German Institute for Economic Research (DIW), Berlin, 25 October 2016, <https://www.bis.org/review/r161026c.htm#:~:text=Most%20importantly%2C%20it%20reduces%20unemployment%2C,labour%20market%20scarring>, accessed 20 December 2025.

<sup>56</sup> Michele Lenza, Jiri Slacalek, ‘How does monetary policy affect income and wealth inequality? Evidence from quantitative easing in the euro area, No 2190, October 2018, <https://www.ecb.europa.eu/pub/pdf/scpwps/ecb.wp2190.en.pdf#:~:text=The%20paper%20%ICnds%20that%20the,purchases%20have%20also%20contributed%20to>, accessed 20 December 2025.

<sup>57</sup> Davide Furceri, Prakash Loungani, and Aleksandra Zdzienicka, ‘The Effects of Monetary Policy Shocks on Inequality’, IMF Working Paper WP/16/245 2016, <https://www.imf.org/external/pubs/ft/wp/2016/wp16245.pdf#:~:text=of%2032%20advanced%20and%20emerging,business%20cycle%2C%20and%20across%20countries>.

<sup>58</sup> Davide Furceri, Prakash Loungani, and Aleksandra Zdzienicka, ‘The Effects of Monetary Policy Shocks on Inequality’ (n 58). Similarly, other economic studies have found that “contractionary monetary policy systematically increases inequality” in labor earnings, total income, consumption, and expenditures. See Olivier Coibion, Yuriy Gorodnichenko, Lorenz Kueng and John Silvia, INNOCENT BYSTANDERS? MONETARY POLICY AND INEQUALITY IN THE U.S., pp. 1–25.

<sup>59</sup> B. S. Bernanke, ‘Monetary policy and inequality’, *Brookings*, 1 June 2015.

<sup>60</sup> Asger Lau Andersen and others, ‘Monetary Policy and Inequality’ <<https://papers.ssrn.com/abstract=4188872>> accessed 4 November 2025.

<sup>61</sup> See J. Cloyne, C. Ferreira and P. Surico, ‘Monetary Policy when Households have Debt: New Evidence on the Transmission Mechanism’, (2020) 87 *The Review of Economic Studies* 1, 102–129. In the US, the Vice supervisor for the FED highlighted the need to promote both economy and resilience of families and communities, avoiding discrimination of poorer households. See also M. S. Barr, ‘Remarks at the “Banking on Financial Inclusion” Conference’, 7 February 2023, <https://www.federalreserve.gov/newsevents/speech/barr20230207a.htm>, accessed 4 November 2025.

<sup>62</sup> Coibion and others (n 33). See also Andersen and others (n 56).

<sup>63</sup> Michael Kumhof, Romain Rancière, and Pablo Winant ‘Inequality, Leverage, and Crises – American Economic Association’ <[https://www.aeaweb.org/articles?id=10.1257%2Faer.20110683&utm\\_source=chatgpt.com](https://www.aeaweb.org/articles?id=10.1257%2Faer.20110683&utm_source=chatgpt.com)> accessed 4 November 2025. The paper links income-share shifts to leverage-driven crises and show inequality as a predictor of financial crises.

<sup>64</sup> Karolin Kirschenmann, Tuomas Malinen and Henri Nyberg, ‘The Risk of Financial Crises: Is There a Role for Income Inequality?’ (2016) 68 *Journal of International Money and Finance* 161.

and the anchoring of expectations while forcing stronger actions for the same macroeconomic impact.<sup>65</sup>

If we connect the two directions together, the net distributional effect of easing is ambiguous ex ante given that it compresses labour–income inequality but can widen wealth inequality. Depending on the “state of the cycle”,<sup>66</sup> the structure of household balance sheets, and the mix and length of instruments (rates vs. asset purchases vs. credit operations) either the effect of reduced inequality in labour income or the effect of increased inequality in wealth may prevail.<sup>67</sup> This is precisely why the ECB’s proportionality review weighs “efficacy vs. side effects” and keeps the full toolkit under review.<sup>68</sup>

European data reinforces these points. Wealth is concentrated and consumption is more shock–sensitive at the bottom while being relatively interest–insensitive at the top.<sup>69</sup> Combined with persistent labour–market heterogeneity and regional gaps, this produces asymmetric and slower transmission.<sup>70</sup> In short, Europe’s distribution of income, wealth and debt contributes to making both the strength and speed of transmission inequality–dependent.<sup>71</sup>

If distribution shapes, at least to a certain extent, how effectively policy transmits, inequality is not a mere social externality; it is a parameter of instrument suitability and necessity. In proportionality terms, the ECB must (1) show that a measure remains suitable given heterogeneous MPCs, leverage and trust; (2) assess necessity against less distortionary alternatives (e.g., tool mix, design features that limit adverse distributional effects); and (3) balance benefits against side effects where transmission is weakened or uneven. Where inequality materially dampens efficacy or amplifies harm, it becomes a legally relevant side effect that must be weighed within the proportionality assessment, before, during, and after deployment of the instrument.

## 2.3 Monetary Policy’s Distributional Footprint

The ECB’s policies inevitably have distributional effects as stated by well recognized experts in relation to employment gains and asset price rises.<sup>72</sup> The 2021 ECB Strategy Review states that “monetary policy measures have reduced income inequality, especially through falling unemployment, while also contributing to wealth inequality via rising asset prices.”<sup>73</sup> From an economic standpoint, Agustín Carstens, former General Manager of the BIS, makes a central banker’s case: “Over the short run... monetary policy affects distribution. More inequality weakens transmission... more stimulus is needed to achieve the same output boost.”<sup>74</sup> Likewise Patrick Honohan, former Central Bank of Ireland governor and ECB Governing Council member, in his 2019 PIIE working paper, observes:

“[T]hese policy innovations also had novel effects on the distribution of income and wealth that were more noticeable than with traditional interest rate policies. And outright purchases of securities changed the cost of financing for the governments and other entities whose bonds were bought by central banks in large–scale asset

<sup>65</sup> Stephanie Bergbauer, Alessandro Giovannini and Nils Hernborg, ‘Economic Inequality and Public Trust in the European Central Bank’ <[https://www.ecb.europa.eu/press/economic-bulletin/articles/2022/html/ecb.ebart202203\\_02-f9d2d059f0.en.html?utm\\_source=chatgpt.com](https://www.ecb.europa.eu/press/economic-bulletin/articles/2022/html/ecb.ebart202203_02-f9d2d059f0.en.html?utm_source=chatgpt.com)> accessed 4 November 2025.

<sup>66</sup> M. Draghi, ‘Stability, equity and monetary policy’, Speech German Institute for Economic Research, 25 October 2016; O. Coibion, Y. Gorodnichenko, L. Kueng and J. Silvia, ‘Innocent bystanders? Monetary policy and inequality’ (2017) 88 *Journal of Monetary Economics*, 70–89.

<sup>67</sup> Id.

<sup>68</sup> Lastra and Dietz (n 12).

<sup>69</sup> ‘Inequalities in Household Wealth and Financial Insecurity of Households’ (n 15).

<sup>70</sup> Carstens (n 31).

<sup>71</sup> J. Cloyne, C. Ferreira and P. Surico, ‘Monetary Policy when Households have Debt: New Evidence on the Transmission Mechanism’, (2020)

87 *The Review of Economic Studies* 1, 102–129. In the US, the Vice supervisor for the FED highlighted the need to promote both economy and resilience of families and communities, avoiding discrimination of poorer households. M. S. Barr, ‘Remarks at the “Banking on Financial Inclusion” Conference’, 7 February 2023, <https://www.federalreserve.gov/newsevents/speech/barr20230207a.htm>.

<sup>72</sup> In addition, Jens van ’t Klooster and Clément Fontan, ‘The Myth of Market Neutrality’ (n 12) convincingly argue that asset purchase programmes (like the ECB’s CSPP) are inherently redistributive, favouring firms with better market access and wealthier asset holders.

<sup>73</sup> ECB, *Strategy Review 2021* (n 5).

<sup>74</sup> Agustín Carstens, *Central Banks and Inequality*, (n 31).

purchase (quantitative easing [QE]) programs—evidently a stronger effect than anything associated with precrisis collateral eligibility rules.”<sup>75</sup>

From a legal perspective, the ECB is not “explicitly” tasked with managing inequality.<sup>76</sup> Nonetheless, distributional consequences raise normative questions.<sup>77</sup> The outcomes (e.g. who gains or loses from policy) raise questions about the central bank’s role in a society’s economic equality.<sup>78</sup> For instance, the ECB itself has acknowledged that monetary easing benefited the poorest by creating jobs, even as it raised asset prices for the rich, and that the effectiveness of policy transmission depends on the income/wealth distribution in the economy. Such acknowledgments show a growing awareness within central banks of the economic reality that policy is not “distribution-neutral”.<sup>79</sup> Nonetheless, current mandate constraints limit the pursuit of inequality objectives unless they align with the bank’s primary goals.<sup>80</sup>

Income inequality, which captures the distribution of labour and transfer income across households, from wealth inequality, which reflects the distribution of assets net of liabilities. Other layers such as regional gaps within the euro area or gender-based income and wealth differences add further nuance. Distributive effects are typical of economic policy measures but their presence does not change the legal nature of monetary policy.<sup>81</sup>

Climate dynamics add another channel. Rising temperatures and more frequent extreme weather can pressure food and energy prices (“climateflation”),<sup>82</sup> making inflation more volatile and, through higher food inflation, or higher energy inflation, exerting disproportionate pressure on lower-income households. In that sense, climate-related price shocks can interact with inequality and complicate the overall policy environment.<sup>83</sup>

These disparities influence macroeconomic outcomes that matter directly to the ECB.<sup>84</sup> Ultimately, persistent inequality may even erode institutional trust in the ECB,<sup>85</sup> weakening its ability to steer expectations when shocks occur. The relationship is reciprocal and context-dependent: while accommodative policy can support lower-income employment, asset-intensive measures tend to benefit wealthier portfolios; deflationary dynamics, by contrast, raise real debt burdens most for the highly indebted. The lesson is not that monetary policy should pursue redistributive aims, but that it is not distribution-neutral, a fact relevant to how instruments are designed, justified and reviewed.<sup>86</sup>

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<sup>75</sup> Patrick Honohan, *Should Monetary Policy Take Inequality and Climate Change into Account?*, Peterson Institute, 2019 – <https://www.piie.com/publications/working-papers/should-monetary-policy-take-inequality-and-climate-change-account>, accessed 15 January 2026.

<sup>76</sup> According to an analysis of the European Parliament, monetary policy’s long-run impact on inequality is limited, while other tools like fiscal policy are more potent. See Christophe Blot, Jérôme Creel, Emmanuelle Faure and Paul Hubert, ‘Setting New Priorities for the ECB’s Mandate’ (n 7), *Monetary Dialogue Papers* 2020, [https://www.europarl.europa.eu/cmsdata/207721/OFCE\\_FINAL2%20online.pdf#:~:text=match%20at%20L1073%20Besides%2C%20even,inequality%20is%20a%20highly](https://www.europarl.europa.eu/cmsdata/207721/OFCE_FINAL2%20online.pdf#:~:text=match%20at%20L1073%20Besides%2C%20even,inequality%20is%20a%20highly), accessed 12 January 2026. See also,

<sup>77</sup> Lastra and Diez argue that distributional effects though not part of the ECB’s core mandate “have sparked a new wave of accountability debates”. They suggest that secondary mandate provisions (Article 127(1) TFEU) allow ECB actions that incidentally affect inequality, provided they are proportional and respect price stability.

<sup>78</sup> For example, Jacqueline Best et al., ‘Climate Change Governance by Central Banks in an Era of Interlocking Crises’, *Environmental Politics*, 2025, <https://www.tandfonline.com/doi/full/10.1080/09644016.2025.2481713>, accessed 20 December 2025.

<sup>79</sup> Jens van ’t Klooster and Clément Fontan, ‘The Myth of Market Neutrality’ (n 12).

<sup>80</sup> See below section 4.

<sup>81</sup> Gauweiler/ C-493/17 – Weiss and Others, ECLI:EU:C:2018:1000,

<sup>82</sup> Jordi Schröder Bosch, ‘A roadmap towards greening the European Central Bank’, Heinrich-Böll-Stiftung European Union, December 2023, p. 13.

<sup>83</sup> Id. In addition, supply-side inflation is less sensitive to increasing interest rates, leading to a situation in which a contractionary monetary policy has weak effect on inflation, but a considerably high effect on inequality.

<sup>84</sup> High inequality can drag on aggregate demand because richer households spend a smaller fraction of their income; it can also encourage leverage in lower-income groups, raising financial fragility and complicating the monetary-policy transmission mechanism. See R. Rajam, *Fault Lines*, (Princeton University Press, 2010); M. Kumhof, R. Rancière, P. Winant, ‘Inequality, Leverage and Crises’ (2015) 105 *Am. Ec. Rev.* 3, 1217–1245; K. Kirschenmann, T. Malinen, and H. Nyberg, ‘The risk of financial crises: Is there a role for income inequality?’ (2016) 68 *Journal of International Money and Finance*, 161 – 180.

<sup>85</sup> S. Bergbauer, A. Giovannini and N. Hernborg, ‘Economic inequality and public trust in the European Central Bank’, *ECB Economic Bulletin*, Issue 3/2022.

<sup>86</sup> Research finds, for example, that in the euro area the ECB’s crisis-period measures overall may have slightly reduced income inequality, even if they boosted wealth inequality via asset prices. What is to be clear is that monetary policy is not distribution neutral. This realization has fuelled calls for the ECB to “pay close attention to the distributional effects of its policy and, ultimately, to economic inequality.” See Schnabel (n 6), *Distributional effects on monetary policy* section. See also Michael Ioannidis, Sarah Jane Hlásková and Chiara Zilioli, ‘The Mandate of the ECB: Legal Considerations in the ECB’s Monetary Policy Strategy Review’ [2021] *SSRN Electronic Journal* <<https://www.ssrn.com/abstract=3928298>>. Accessed 2 December 2025.

The integration of distributional footprints into the scope of the ECB's proportionality assessment would raise questions such as does it achieve the intended macro effect given heterogeneity? (suitability), could an alternative or a design tweak achieve the stance with fewer adverse distributional effects? (necessity), and do the benefits outweigh foreseeable side effects? (proportionality strictum sensu). This framing preserves the primary mandate while recognising that distribution is a parameter of effective implementation.

Although the ECB's mandate has not formally changed,<sup>87</sup> the ECB has progressively made these interactions more explicit in its strategy and communication. The 2021 Strategy Review broadened the analytical lens around price stability and highlighted the importance of employment conditions, social inclusion and climate risks.<sup>88</sup> It also committed the Governing Council to assess side effects across groups and sectors, and to consider instrument configurations that support the Union's general economic policies, growth, employment and social progress, provided this is not prejudicial to price stability.<sup>89</sup>

Subsequent initiatives (e.g., the 2021 Climate Action Plan and later updates) emphasise methods such as impact analysis, better data, and structured dialogue with other EU institutions that can serve as a template for assessing distributional footprints.<sup>90</sup> Public communication since 2022 has, likewise, referenced inequality more frequently,<sup>91</sup> reflecting its growing salience in central-bank discourse while staying within the Treaty framework.<sup>92</sup>

Policy debate around the secondary mandate has encouraged the ECB to demonstrate how it weighs side effects without expanding its objectives. Parliamentary and broader societal expectations increasingly evaluate central-bank performance not only by inflation outcomes,<sup>93</sup> but also by whether implementation unnecessarily undermines employment, inclusion or cohesion. The appropriate legal response is not a shift in mandate, but a transparent proportionality practice.<sup>94</sup> Central banks should show the link from instrument to objective, identify material side effects (including distributional ones), and explain design choices and alternatives.<sup>95</sup>

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<sup>87</sup> Unlike, for example, the U.S. Federal Reserve, which has a "dual mandate" that includes an explicit employment mandate. See Federal Reserve Act, Section 2A: "[the FED] shall maintain long run growth of the monetary and credit aggregates commensurate with the economy's long run potential to increase production, so as to promote effectively the goals of maximum employment, stable prices, and moderate long-term interest rates." [Emphasis added]. See also Board of Governors of the Federal Reserve System, "Monetary policy: what are its goals? How does it work?", <https://www.federalreserve.gov/monetarypolicy/monetary-policy-what-are-its-goals-how-does-it-work.htm#fn1>.

<sup>88</sup> ECB, 'An Overview of the ECB's Monetary Policy Strategy'–2021 (n 17).

<sup>89</sup> Id.

<sup>90</sup> ECB, 'An Overview of the ECB's Monetary Policy Strategy'–2025 (n 20). See also ECB, 'Climate and Nature Plan 2024–2025'.

<sup>91</sup> Ampudia and others (n 11). See also Lastra and Dietz (n 12); Honohan (n 12).

<sup>92</sup> Felicetti (n 31).

<sup>93</sup> 'European Parliament Resolution of 16 February 2023 on the European Central Bank – Annual Report 2022 (2022/2037(INI))', para 34. The Annual Report 2022 makes a brief but clear reference to inequality and how the ECB should take into consideration that "the costs of its monetary policy operations" should not be "disproportionately borne by lower income strata" and the "most vulnerable groups" and "assess the impact of its monetary policy operations on these groups," while bearing in mind that "wealth and income inequality negatively affect the effectiveness of monetary policy transmission."

<sup>94</sup> Lastra and Dietz (n 12).

<sup>95</sup> Honohan (n 12). The paper argues that central banks can and should assess and communicate distributional and climate side effects carefully, so as not to derail the core mandate.

## 3. Inequality and the ECB mandates: how to determine priorities

The ECB operates under a hierarchy of objectives established by the EU Treaties. Understanding whether and how inequality can factor into ECB decisions requires unpacking these objectives and related legal principles.

### 3.1 Primary Objective: Price Stability

The ECB's foundational mandate is framed by the EU Treaties, chiefly Article 127(1) TFEU and Article 2 of the Statute of the European System of Central Banks (ESCB). These provisions confer a hierarchical set of objectives on the ESCB. According to Article 127(1) the ECB's main mandate is to maintain price stability in the euro area. Unlike central banks with dual mandates, such as the U.S. Federal Reserve,<sup>96</sup> the ECB has the primary goal of keeping inflation low and stable. The Treaties do not define a specific target. Thus, the Court of Justice of the European Union (CJEU) has upheld the ECB's discretion in defining price stability, confirming that "the objective of maintaining price stability as the maintenance of inflation rates at levels below, but close to, 2% over the medium term" is valid.<sup>97</sup>

This primary focus implies that all other considerations, including social and environmental concerns, are subordinated to the objective of price stability,<sup>98</sup> i.e., the price stability objective is paramount and "takes precedence" when in conflict with other objectives.<sup>99</sup> ECB independence is constitutionally protected to ensure an undistracted commitment to this goal, which remains the source of the institution's legitimacy.<sup>100</sup>

Formally, reducing inequality is not part of the wording of Article 127(1) and the "price stability" main objective. Under this logic, the ECB cannot pursue redistribution for its own sake without a link to price stability. However, the argument that inequality is irrelevant to this core mandate does not withstand scrutiny. As discussed in Section 2, inequality can distort the effectiveness of the monetary transmission mechanism. If the poorest segments of society are unable to access credit or respond to interest rate changes, the ECB's capacity to influence aggregate demand and achieve price stability is undermined. Indeed, the CJEU has acknowledged in the Gauweiler<sup>101</sup> and Weiss<sup>102</sup> rulings that the ECB may take measures "which make an indirect contribution to the primary objective by fostering the preconditions necessary to achieve price stability."<sup>103</sup>

Arguments in favour of prioritising inequality reason that extreme inequality can undermine macroeconomic stability and the effectiveness of monetary policy transmission.<sup>104</sup> Distributional matters are not about equity for

<sup>96</sup> Federal Reserve Act, Section 2A. See above fn 74.

<sup>97</sup> C-493/17 – Weiss and Others, ECLI:EU:C:2018:1000, para 56.

<sup>98</sup> David Ramos Muñoz and Elia Cerrato García, (n 9), p. 7.

<sup>99</sup> Nonetheless, as David Ramos Muñoz and I discussed in David Ramos Muñoz and Elia Cerrato García, (n 9) (and cites therein), section 3, this conclusion could change if a stronger link between inequality and price stability is established. For example, if evidence shows that certain monetary policies, such as persistently targeting very low inflation, widen inequality and, in turn, create financial fragility that jeopardizes future macroeconomic and price stability, the ECB would face a trade-off between present and future price stability. Absent such evidence, the priority ranking remains clear.

<sup>100</sup> Michael Ioannidis, Sarah Jane Hlásková Murphy, Chiara Zilioli, "The mandate of the ECB: Legal considerations in the ECB's monetary policy strategy review, ECB Occasional Paper Series No 276/September 2021, p. 8.

<sup>101</sup> C-62/14 – Gauweiler and Others [2015] ECLI:EU:C:2015:400. In Gauweiler the CJEU was reassured by the ECB's arguments that any economic impacts were side effects, not the primary objective. In this case, the CJEU upheld the ECB's bond-buying (OMT) programme precisely because it was aimed at price stability in the eurozone and not a veiled economic rescue of specific Member States. Thus, the Court ruled that the OMT programme aimed at repairing the monetary transmission mechanism was within the scope of price stability, since a halting mechanism would undermine the ECB's ability to influence prices.

<sup>102</sup> C-493/17 – Weiss and Others, ECLI:EU:C:2018:1000. Similarly, in Weiss regarding the PSPP (quantitative easing), the Court accepted that "to influence inflation rates, the ESCB necessarily has to adopt measures that have certain effects on the real economy" but those effects (such as lowering government borrowing costs or affecting wealth distribution) were tolerated as long as the monetary aim was genuine and dominant.

<sup>103</sup> C-62/14 – Gauweiler and Others [2015] ECLI:EU:C:2015:400, paras 50–51; C-493/17 – Weiss and Others, ECLI:EU:C:2018:1000, paras 65, 74. In these judgments the judicial decision explains how preserving/using channels (credit, portfolio rebalancing) serves price stability, i.e., preconditions that justify measures which only indirectly advance the primary objective. See also Michael Ioannidis, Sarah Jane Hlásková Murphy, Chiara Zilioli, "The mandate of the ECB: Legal considerations in the ECB's monetary policy strategy review (n 100) p. 8.

<sup>104</sup> Some economists link this scenario to secular stagnation and weaker inflation. For example, monetary stimulus can yield diminishing returns in a situation in which large portions of society are liquidity-constrained.

equity's sake, but about the ECB's mandate performance and legitimacy. In other words, ignoring distributional issues could carry risks for the ECB's own objectives. By contrast, careful management of distributional concerns could even strengthen central bank independence by bolstering public trust in the long run.<sup>105</sup>

Nevertheless, the link between inequality and monetary policy transmission remains complex and context-dependent. While conventional policy may reduce inequality during downturns by supporting employment, excessive inflation disproportionately harms low-income households.<sup>106</sup> Unconventional tools like quantitative easing (QE) have ambiguous effects.<sup>107</sup> Whereas they stabilize the macroeconomy, they also benefit asset holders more than wage earners.<sup>108</sup> Therefore, when price stability and inequality-reducing measures align, the ECB faces no trade-off. But when they diverge, price stability takes precedence.<sup>109</sup>

A common counterargument to inequality-sensitive measures lies in the doctrine of market neutrality, derived from Art. 127(1) TFEU, third paragraph, which requires the ECB to act "in accordance with the principle of an open market economy with free competition." The principle sets that the ECB should not distort market outcomes by favouring specific sectors or social groups.

However, the principle of an open economy does not demand absolute neutrality in all operations and market neutrality is not a Treaty obligation but an operational principle.<sup>110</sup> In its 2021 Climate Roadmap, for example, the ECB openly conceded that market neutrality may conflict with Union objectives when market prices misallocate capital due to unpriced risks.<sup>111</sup> Analogously, if monetary policy tools have unintended distributional biases, the ECB could recalibrate them, not to engage in redistribution per se, but to ensure that monetary impulses are transmitted evenly.

This pragmatic view supports the idea of replacing strict neutrality with an efficiency-based approach, i.e., the goal is not to "pick winners and losers", but to avoid structural blind spots that impair policy effectiveness.<sup>112</sup> If evidence shows that certain tools disproportionately treat some market participants and financial instruments better than others,<sup>113</sup> the ECB may rebalance its instruments, provided this is justified in terms of price stability and respects proportionality.<sup>114</sup>

The ECB's Transmission Protection Instrument (TPI), adopted in 2022 to counteract unwarranted fragmentation in financing conditions, exemplifies this logic.<sup>115</sup> By ensuring that its policy stance is felt across all euro area

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<sup>105</sup> Bergbauer, Giovannini and Hernborg (n 61); Furceri, Loungani and Zdzienicka (n 10).

<sup>106</sup> See P. Monnin, 'Inflation and Income Inequality in Developed Economies', CEP Working Paper 2014/1. See also H. Mumtaz and A. Theophilopoulou, 'The impact of monetary policy on inequality in the UK. An empirical analysis' (2017) 98 *European Economic Review*, 410–423; D. Furceri, P. Loungani and A. Zdzienicka, 'The Effects of Monetary Policy Shocks on Inequality', IMF Working Paper No. WP/16/245, 2016.

<sup>107</sup> J. Bivens, 'Gauging the Impact of the Fed on Inequality During the Great Recession', Hutchins Center on Fiscal & Monetary Policy WP No. 12, 2015.

<sup>108</sup> A. L. Andersen, N. Johannesen, M. Jørgensen and J.L. Peydro, 'Monetary policy and inequality' (2021) UPF Economic Working Paper Series WP No. 1761.

<sup>109</sup> See David Ramos Muñoz and Elia Cerrato García, (n 9).

<sup>110</sup> See Javier Solana and Marco Goldoni, 'The Legal Nature of Market Neutrality in the Euro Area's Monetary Policy' (2024) 3 *European Law Open* 7, pp. 7–49; René Smits, 'The ECB's Mandate in the Face of Climate Change and Biodiversity Loss' in René Smits (ed), *Sustainable Finance and Climate Change* (Edward Elgar Publishing 2024), pp. 174–177 <<https://www.elgaronline.com/view/book/9781800377288/book-part-9781800377288-17.xml>> accessed 4 November 2025. Isabel Schnabel, 'From Market Neutrality to Market Efficiency' <https://www.ecb.europa.eu/press/key/date/2021/html/ecb.sp210614-162bd7c253.en.html>. Accessed 4 November 2025. See also Ioannidis, Hlásková and Zilioli (n 100) 28.

<sup>111</sup> European Central Bank, 'ECB Presents Action Plan to Include Climate Change Considerations in Its Monetary Policy Strategy' [https://www.ecb.europa.eu/press/pr/date/2021/html/ecb.pr210708\\_1-f104919225.en.html](https://www.ecb.europa.eu/press/pr/date/2021/html/ecb.pr210708_1-f104919225.en.html). Accessed 4 November 2025. The ECB decided to adjust its framework "to better account for climate-related financial risk". As such, it acknowledged that "market neutrality may not be sufficient as a guiding principle for benchmark-based operations when market failures are present."

<sup>112</sup> In other words, if inequality itself threatens the effectiveness of monetary transmission and thereby the ECB's ability to control inflation, addressing it may become instrumental to price stability. In favour of this approach see, e.g., Honohan (n 12) 17–18. A reluctant view on the impact that market efficiency theory may have on monetary policy decisions is Lastra and Dietz (n 12) p. 384.

<sup>113</sup> See the reference to Accorinti ruling by the CJEU in section 4 below.

<sup>114</sup> Sara Dietz, 'Green Monetary Policy Between Market Neutrality and Market Efficiency' (n 30), p. 421.

<sup>115</sup> European Central Bank, 'The Transmission Protection Instrument' <https://www.ecb.europa.eu/press/pr/date/2022/html/ecbpr220721-973e6e7273.en.html>. Accessed 4 November 2025. The TPI is a tool that can be activated to counter unwarranted, disorderly market dynamics that pose a serious threat to the transmission of monetary policy across the euro area.

countries, the ECB acts not to redistribute, but to protect monetary transmission.<sup>116</sup> The same logic may apply to socioeconomic disparities, i.e., if income or wealth inequality causes asymmetries in transmission, the ECB could lawfully intervene to correct the impairment, not to promote social equality per se, but to uphold its primary function.

### 3.2 Secondary Objective: inequality and other policies that are to be supported

The ECB's secondary mandate is grounded in the second sentence of Article 127(1) TFEU, which obliges the ECB to "support" the general economic policies of the Union as set out in Article 3 TEU,<sup>117</sup> provided this support does not prejudice price stability. Among these objectives are balanced economic growth, full employment, social inclusion, and a high level of environmental protection.

First, the secondary mandate is *supportive*, not constitutive. The ECB is not empowered to create or rank policy goals, which remains the prerogative of democratically accountable institutions. Nevertheless, once price stability is secured, the ECB has a duty, not mere discretion, to contribute to Union general objectives.<sup>118</sup> The ECB's 2021 Strategy Review affirms this interpretation by stating that its policy actions should be consistent with broader EU goals, including full employment and social progress.<sup>119</sup>

Second, the second sentence of Article 127(1) remains indeterminate because it integrates a binding duty without stating which objectives the ECB must support.<sup>120</sup> Since the Treaties do not rank these general objectives, discretion is necessary but must be exercised within legal bounds. If the ECB were to unilaterally prioritize inequality reduction absent a monetary justification, it would risk breaching its mandate. Yet, when policy choices are otherwise equal in terms of inflation control, the ECB may choose the option that better supports secondary aims.<sup>121</sup> This does not mean endorsing redistributive policies, but rather exercising institutional responsibility under the Treaties.

Crucially, the Treaty deliberately refrains from ranking these aims. Hard-wiring a hierarchy into primary law would unduly constrain future policymakers. Instead, Article 127(1), second paragraph, treats the "policies" as instruments for pursuing these objectives, leaving the practical order of priority to be determined through the policy choices made in a given context.

Third, the intensity of the duty is curtailed by the clause "without prejudice to" price stability. The ECB must lend its weight to Union objectives even when they do not help the primary mandate, yet any action that endangers price stability breaches the Treaties. In practice this allows the Bank to justify limited measures that incidentally advance social cohesion, provided those measures are demonstrably consistent with medium-term price stability and proportionate to their purpose.

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<sup>116</sup> Felicetti (n 31).

<sup>117</sup> TFEU enounces the primary objective (price stability), and then, Article 127 (1), para. 2nd states that: "Without prejudice to the objective of price stability, the ESCB shall support the general economic policies in the Union with a view to contributing to the achievement of the objectives of the Union as laid down in Article 3 of the Treaty on European Union" (emphasis added).

<sup>118</sup> Article 127 TFEU refers to relevant "objectives" by directing the ECB to those "laid down in Article 3" TEU, encompassing 'sustainable development' and environmental objectives, but also 'balanced economic growth' and 'price stability', a 'highly competitive social market economy', 'full employment' and 'social progress'. See Article 3 (3), para (5) TEU.

<sup>119</sup> ECB, 'The ECB's monetary policy strategy statement (2025), section 3.4, [https://www.ecb.europa.eu/mopo/strategy/strategy-review/ecb-strategyreview202506\\_strategy\\_statement.en.html](https://www.ecb.europa.eu/mopo/strategy/strategy-review/ecb-strategyreview202506_strategy_statement.en.html). See also Zilioli and Ioannidis, 'Climate Change and the mandate of the ECB' (n 100).

<sup>120</sup> *Id.*

<sup>121</sup> Proponents of the "moderate approach" in relation to the ECB's actions stress that letting the ECB select and prioritize among secondary objectives would risk opening the door to broad, discretionary policy-making. See discussion on Felicetti (n 44), p. 67.

### 3.3 Integration principles and horizontal clauses impact on the ECB's mandate

The Treaties also contain horizontal clauses that influence the ECB's institutional responsibilities.<sup>122</sup> These clauses, set out in Arts 8–11 TFEU, require the EU to integrate key values such as gender equality and non-discrimination (Articles 8 and 10 TFEU), employment, education, and health (Article 9 TFEU), environmental protection (Article 11 TFEU), and consumer protection (Article 12 TFEU) across all policy areas. These provisions are complemented by the consistency rule (Art 7 TFEU), requiring coherence among all EU measures.

Among these, Article 9 TFEU, the so-called social clause, is particularly relevant for the purposes of this report. It requires that, in defining and implementing its policies, the Union “shall take into account requirements linked to the promotion of a high level of employment, the guarantee of adequate social protection, [and] the fight against social exclusion.”<sup>123</sup>

The strength of these obligations depends in part on the specificity of the treaty language.<sup>124</sup> While some articles use open-ended phrasing, the requirement to “take into account” social objectives remains binding, even if its precise legal weight may vary.<sup>125</sup>

It would be reductive to subsume these obligations entirely under the ECB's secondary mandate.<sup>126</sup> That mandate, expressed in the second sentence of Article 127(1) TFEU, refers specifically to supporting the Union's general economic policies as laid down in Article 3 TEU. By contrast, Articles 8–11 TFEU are directly applicable and impose broader institutional obligations across all EU bodies.<sup>127</sup> In some cases, such as Article 11 TFEU on environmental protection, they have been recognized as carrying substantive weight.<sup>128</sup> These horizontal clauses inform how that mandate should be exercised, not as competing priorities, but as integrative considerations.<sup>129</sup>

Rather than placing the ECB's objectives in conflict, Article 7 TFEU calls for their alignment.<sup>130</sup> Consistency among Union goals requires that, where feasible, the ECB integrates horizontal values into the conduct of monetary policy.<sup>131</sup> These principles are not mandates for activism, but they guide interpretation and operational choices. Their relevance becomes clearest in proportionality assessments, i.e., if two policy options achieve price stability equally, the ECB should favour the one more aligned with social outcomes.<sup>132</sup>

<sup>122</sup> In other words, “horizontal” provisions requiring, beyond the explicit mandates, that certain values be taken into account across all policies.

<sup>123</sup> This provision reflects the Union objectives set out in Articles 2(2) and 3(3) TEU. In addition, a high level of employment can be read together with the implementation of Union policies in accordance with Article 147(2) TFEU.

<sup>124</sup> See David Ramos Muñoz and Elia Cerrato García, (n 38), section 3.2, where the interplay between the ECB and the integration principles from a legal perspective is deeper developed following “interpretative steps.”

<sup>125</sup> *Id.*

<sup>126</sup> See Benoît Cœuré, ‘The Role of Central Banks’, NGFS conference on Scaling up Green Finance, Berlin 8 November 2018, <https://www.ecb.europa.eu/press/key/date/2018/html/ecb.sp181108.en.html>.

<sup>127</sup> A comment on the applicability of Arts 8–11 TFEU can be found in Markus Klamert, ‘Articles 7–13’, in Manuel Kellerbauer, Marcus Klamert, and Jonathan Tomkin (ed), ‘The EU Treaties and the Charter of Fundamental Rights. A Commentary, Oxford University Press, 2019.

<sup>128</sup> Javier Solana, ‘The Power of the Eurosystem to Promote Environmental Protection’ (2019) EBLR, 557. Whereas Article 3 TEU has a ‘substantive’ dimension (and Article 127 (1) para. 2nd TFEU would provide a procedural dimension based on hierarchy) Article 11 TFEU has both a substantive and procedural dimension. Also Beate Sjøfjell, ‘The Legal Significance of Art. 11 TFEU for EU Institutions and Member States’, in Beate Sjøfjell and Anja Wiesbrock (eds.), *The Greening of European Business under EU Law: Taking Art. 11 TFEU Seriously* (Cambridge: Cambridge University Press, 2017) and Beate Sjøfjell, ‘The Environmental Integration Principle: A Necessary Step Towards Policy Coherence for Sustainability’, in Francesca Ippolito, Maria Eugenia Bartolino and Massimo Condinanzi (eds.), *The EU and the Proliferation of Integration Principles under the Lisbon Treaty* (Routledge, 2019).

<sup>129</sup> Therefore, arguing that the ECB's price stability mandate is *lex specialis* fails to capture the main fact. See David Ramos Muñoz and Elia Cerrato García, (n 38), section 3.2.

<sup>130</sup> Article 7 reads: ‘The Union shall ensure consistency between its policies and activities...’

<sup>131</sup> David Ramos Muñoz and Elia Cerrato García, (n 38), section 3.2.

<sup>132</sup> For example, when designing an asset purchase program, the ECB could prefer a variant that also modestly reduces inequality over another that doesn't, provided both are equally effective for inflation. Indeed, some commentators argue the ECB is legally bound to “promote full employment and other social goals” to the extent possible without prejudice to price stability. See Felicetti (n 31).

In this context, Article 151 TFEU further elucidates the Union’s social objectives, including high employment, improved living and working conditions, and the fight against exclusion.<sup>133</sup> These aims reinforce the interpretive framework within which the ECB operates when evaluating the distributional impact of its instruments.<sup>134</sup>

Article 3(3) TEU reflects this orientation too. It establishes the Union’s economic model as a “social market economy,” explicitly tying economic growth to social progress. As an EU institution, the ECB is expected to take these foundational values into account. Thus, Article 3(3), together with the horizontal clauses, provides an interpretative anchor for integrating environmental (and social) concerns into monetary policy transmission.<sup>135</sup> By analogy, the same holds for inequality, where its effects intersect with monetary transmission and macroeconomic stability.<sup>136</sup>

The CJEU plays a crucial role in policing these boundaries. In *Gauweiler and Weiss*, the Court upheld the ECB’s broad discretion but imposed procedural rigour, requiring the ECB to explain how the side effects of its actions are proportionate to the intended monetary benefits. The Court emphasised that economic “spillovers”, such as those impacting fiscal policy or distribution, are tolerable only if they are not “manifestly disproportionate.” This jurisprudence establishes that the ECB must acknowledge and assess the side effects of its policies, including distributional ones, even if its ultimate goal remains price stability.

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<sup>133</sup> M. Klamert, “M. Klamert, ‘Article 9’”, in *The EU Treaties And The Charter Of Fundamental Rights A Commentary* by Manuel Kellerbauer, Marcus Klamert, Jonathan Tomkin (Editors), Oxford University Press, 2021, para 1, p. 384.

<sup>134</sup> See above sections 2.3 and 3.1. Furthermore, the Union and the Member States will pursue these aims through measures that respect diverse national practices while safeguarding the Union’s competitiveness. Progress is expected both from the operation of the internal market and from Treaty-based procedures.

<sup>135</sup> Lastra and Dietz (n 12).

<sup>136</sup> The Strategy Review implicitly recognises the spirit of Article 9. See ‘An Overview of the ECB’s Monetary Policy Strategy’ (n 23). The 2021 ECB’s Strategy Review nods to such orientation. It acknowledged the growing importance of employment and social cohesion in the assessment of macroeconomic stability, showing that the ECB itself recognizes the normative pull of these Treaty provisions.

## 4. Proportionality and design limits in monetary policy decisions

### 4.1 Proportionality in CJEU Review of ECB Monetary Policy Decisions

The principle of proportionality offers a valuable framework for reconciling tensions between the ECB's primary objective of price stability and broader social considerations such as inequality. Codified in Article 5(4) TEU, it requires that "the content and form of Union action shall not exceed what is necessary to achieve the objectives of the Treaties."<sup>137</sup>

The settled case law of the CJEU interprets the principle of proportionality of Article 5(4) as the implementation of measures that are appropriate for attaining the legitimate objectives pursued by the legislation at issue and that they do not go beyond what is necessary in order to achieve those objectives.<sup>138</sup> In the context of monetary policy, especially unconventional measures, this means the ECB must justify that its actions contribute to price stability, are calibrated to avoid unnecessary interference, and balance the measure's benefits with its side effects.

In *Gauweiler*, the Court held that the ECB must be afforded wide discretion in designing open market operations (OMT programme), provided it bases its decisions on sound analysis and proportional calibration.<sup>139</sup> Thus, the legality of ECB action hinges not on whether a measure is ideal, but on whether it is manifestly inappropriate in light of the stated objectives.

The CJEU has recognised the ECB's broad discretion in areas involving economic, political, or social judgment, where technical complexity and forecasting are unavoidable.<sup>140</sup> Article 296 TFEU reinforces this by allowing EU institutions to select the appropriate form of legal act where the Treaties do not prescribe one and requiring them to state the reasons for their decisions. The Court has clarified that its review remains limited, it does not second-guess technical assessments, but insists that institutions demonstrate they genuinely exercised discretion, considered all relevant factors, and avoided manifest errors of assessment.<sup>141</sup>

This was further emphasized in *Weiss*, where the Court explicitly examined whether the ECB's Public Sector Purchase Programme (PSPP) imposed excessive burdens or had disproportionate effects on Member States' financing conditions.

Applying this logic to inequality-sensitive policy, the ECB could incorporate proportionality as an internal governance tool. For instance, when inflation is on target or policy space allows, the ECB could prefer instruments that also support employment and cohesion, provided they are equally effective for price stability. This aligns with legal commentary suggesting that if two policy options are equally effective in delivering price stability, the ECB should choose the one with more favourable economic or social effects.<sup>142</sup>

<sup>137</sup> Art. 5(2) TEU. Case 68/ 86, *UK v Council*, paragraph 32: it establishes the legal bases specify the procedures for exercising conferred powers and are not at the disposal of the Union organs. Joined Cases 3, 4 & 6/ 76, *Kramer*, paras 19/ 20 and 30/ 33: The Union has implied powers that are necessary for the achievement of a certain objective in its internal system.

<sup>138</sup> See, e.g., C-422/19 *Hessischer Rundfunk* [2021] ECLI:EU:C:2021:63 para 70. Also, see previous CJEU's judgments such as C-516/17 *Spiegel Online*, EU:C:2019:625, para 34 and the case-law cited.

<sup>139</sup> C-62/14 – *Gauweiler and Others* [2015] ECLI:EU:C:2015:400, para 61.

<sup>140</sup> C-62/14 – *Gauweiler and Others* [2015] ECLI:EU:C:2015:400, para 68. Also, see C- 343/ 09, *Afton Chemical Limited* [2010] EU:C:2010:419 paras 29–34. The CJEU rejected British MMT producer *Afton Chemical's* challenge and upheld the EU's MMT limit and labeling in Directive 98/70/EC, finding no violation of the precautionary principle or the principles of equal treatment and proportionality. Also, see *Billerud Karlsborg and Billerud Skärblacka*, C-203/12 [2013] EU:C:2013:664, para 35.

<sup>141</sup> Case C-310/04 *Spain v Council* [2006] ECR I7285, para 122. The CJEU noted that even though such judicial review is of limited scope, it requires that the competent EU institutions which have adopted the act in question must be able to show before the Court that in adopting the act they actually exercised their discretion, i.e., they take into consideration of all the relevant factors and circumstances of the situation the act was intended to regulate.

<sup>142</sup> 'An Overview of the ECB's Monetary Policy Strategy' (n 17): when inflation is on target or there is policy space, the ECB will choose options that also support employment and social cohesion if those options are equally effective for price stability. This idea echoes the legal interpretation that "if two policies are equally effective on price stability, the ECB has to adopt the one with positive effects on the economy or environment."

Considering the foregoing, a proportionality-based operational framework might involve the following steps:

- (1) *assessment*: evaluating how proposed measures affect inequality and whether alternative tools could achieve the same inflation objective with fewer side effects;
- (2) *justification*: documenting why a specific measure was chosen (e.g., extending refinancing operations to banks that lend in low-income regions to improve transmission);
- (3) *limitation*: calibrating measures to the minimum extent necessary to achieve the goal on a case-by-case scenario; and
- (4) *review*: reassessing periodically whether conditions still warrant the measure.

This process can be reviewed by an internal accountability body.<sup>143</sup> A “mandate compliance unit”, acting as a forward-looking institutional proposal, could be empowered to review the consistency of the ECB monetary policy proposals in light of Article 127 TFEU. Additionally, involving the ECB’s legal counsel more prominently in policy formulation could ensure Treaty objectives (including social objectives) are respected. This idea aligns with the spirit of the CJEU jurisprudence – demonstrating that the ECB has “taken into account” broader EU objectives and balanced them without prejudice to its primary goals.<sup>144</sup>

Crucially, proportionality is not a licence to pursue inequality reduction as an independent goal, but it prevents the ECB from disregarding inequality when it interferes with effective transmission. For example, if a credit facility were designed to improve lending in underserved communities, the ECB would need to demonstrate that the measure enhances monetary transmission, imposes no unnecessary burdens, and is the least intrusive option available. Acknowledging ancillary inequality benefits would strengthen (not undermine) the proportionality analysis.<sup>145</sup>

Transparency is also essential. Per Article 296 TFEU, the ECB must provide clear reasoning for its actions. This includes explaining how various impacts were weighed. As seen in *Gauweiler* and *Weiss*, the CJEU expects evidence of reasoned judgment, especially regarding economic side effects. Including “impact boxes” in ECB policy communications, explicitly addressing inequality, could enhance both legal defensibility and public understanding.

The *Accorinti* case adds another layer.<sup>146</sup> This case stems from private investors challenging the ECB’s preferential treatment during Greece’s debt restructuring. Hence, the General Court touched on the principle of equal treatment, ruling that the ECB did not unlawfully discriminate by exempting itself from the Greek bond haircut because it had a different role and legitimate objective (financial stability) in that context. Hence, the take for inequality is that if the ECB adopts measures that benefit certain groups (say, low-income households or specific sectors), it must ensure there is a rational justification tied to its mandate. As long as the differentiation is based on objective criteria (e.g. aiding policy transmission or mitigating a risk) and not arbitrary, it can withstand an equal treatment challenge. Any preferential treatment in monetary operations (like accepting certain social bonds as collateral on favourable terms) would need to be open to all eligible counterparties under set criteria, to avoid unfair discrimination.

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<sup>143</sup> Lastra and Dietz (n 12), pp. 391–395. The authors clearly propose enhanced internal accountability structures within the ECB to verify mandate compliance when navigating the intersection of primary and secondary objectives. On the various channels of accountability according to which the ECB carries out its tasks see Ioannidis, Hlásková and Zilioli (n 73), p. 22 et seq.

<sup>144</sup> Chiara Zilioli and Michael Ioannidis, ‘Climate Change and the Mandate of the ECB: Potential and Limits of Monetary Contribution to European Green Policies’ [2022] Common Market Law Review 363.

<sup>145</sup> In this regard, if the legislature is obliged to assess the future effects of rules to be adopted and those effects cannot be accurately foreseen, its assessment is open to criticism only if it appears manifestly incorrect in the light of the information available to it at the time of the adoption of the rules in question. See, e.g., case C-233/94, *Germany v EP and Council* [1997] ECLI:EU:C:1997:231, paras 55–56. In the context of uneven national deposit-guarantee schemes and cross-border gaps, the CJEU held that faced with a complex and uncertain economic context the EU legislature could choose broad risk prevention or the establishment of a system of specific protection, and the Court will not replace that judgment unless it is “manifestly incorrect” or imposes disadvantages wholly disproportionate to the benefits.

<sup>146</sup> T-79/13 DEP – *Accorinti and Others v ECB* [2018] ECLI:EU:T:2018:365.

Ultimately, recognizing inequality within the ECB's framework is not about transforming the central bank into a social policy actor.<sup>147</sup> Rather, it is about ensuring that the ECB applies its tools effectively, with full awareness of their transmission dynamics and side effects. The principle of proportionality, alongside the clear hierarchy of objectives in Article 127 TFEU, provides the legal infrastructure to pursue this balance.

CJEU case law offers key lessons. The Court acknowledges the ECB's broad discretion in technical matters but requires that it demonstrates reasoned evaluation. In *Weiss*, the Court upheld PSPP because the ECB showed it had considered inflation dynamics and side effects and found them proportionate. The same reasoning would apply to policies addressing inequality-related transmission failures.

To lawfully incorporate inequality into its operations, the ECB must answer three questions: (i) how current inequality levels undermine monetary transmission; (ii) why those levels are problematic now; and (iii) how the chosen instrument remedies the issue without exceeding necessity. For example, if general asset purchases prove ineffective due to asymmetric impacts, a more targeted tool (e.g., focused asset purchases or credit operations) could be justified—if supported by data and proportionality analysis.

In *Gauweiler*, the CJEU found that the OMT programme, while politically sensitive, was within the ECB's monetary mandate and proportionate because it preserved monetary transmission. The Court emphasized the need for *ex ante* limits and safeguards. Similarly, *Weiss* reaffirmed that side effects, such as impacting public borrowing costs, do not invalidate a measure when the ECB's primary goal is pursued, and the action is properly calibrated. Taken together, this jurisprudence provides legal space for the ECB to act on inequality, provided it shows the measure enhances price stability and passes the proportionality test. *Accorinti* reinforces that differentiation is permissible if objective and linked to the ECB's role.<sup>148</sup>

## 4.2 Proportionality and designing inequality-aware instruments within the ECB's mandate

The mandate of the ECB under the EU Treaties is *potentially wider* than traditionally assumed despite it has been also discussed that its mandate is limited in specific ways.<sup>149</sup> Nonetheless, some legal studies argue that the ECB is not tasked with controlling inequality because income redistribution is a question left to elected governments rather than unelected technocrats, leading to a debate on whether it should do more and how.<sup>150</sup>

Under Article 127(1), first paragraph, of the TFEU the ECB's primary objective is maintaining price stability, but under Article 127(1), second paragraph, "without prejudice to price stability" it "shall support the general economic policies in the Union. Those general EU policies are defined by Article 3 of the TEU to include goals like full employment, social progress, and a "high level of protection and improvement of the quality of the environment." Under current law, issues such as employment, climate stability or environment protection are

<sup>147</sup> These considerations are accompanied by arguments supporting the need for institutional cooperation between the ECB and national authorities. For example, the ECB, without compromising independence, can coordinate with fiscal authorities so that policies complement each other to meet the common Union objectives. For example, the ECB can maintain accommodative conditions while governments implement redistributive fiscal measures. See Klaus Masuch and others, 'Structural Policies in the Euro Area' [2018] SSRN Electronic Journal <<https://www.ssrn.com/abstract=3202072>> accessed 4 November 2025.

<sup>148</sup> General Court of the European Union Rules ECB not Responsible for Private Losses in Greek Debt Restructuring (October 7, 2015) | ASIL. See also Felicetti (n 31).

<sup>149</sup> EU institutions are growingly expected to seriously grapple with issues like climate change, housing booms, or inequality, even were traditionally "considered outside" their purview. See Karl Whelan, 'The ECB's Mandate and Legal Constraints', Monetary Dialogue Papers, June 2020, [https://www.europarl.europa.eu/cmsdata/207502/Whelan\\_FINAL%20online.pdf](https://www.europarl.europa.eu/cmsdata/207502/Whelan_FINAL%20online.pdf), pp 18–26, accessed 28 December 2025. In its analysis, Whelan explains that Karl Whelan "taken together, these articles mean there is a legal obligation on the ECB to act to promote full employment and other social goals such as improvements in the quality of the environment – provided the actions taken to support those goals do not endanger price stability."

<sup>150</sup> For example: Karl Whelan, 'The ECB's Mandate and Legal Constraints' (148), p. 21, [https://www.europarl.europa.eu/cmsdata/207502/Whelan\\_FINAL%20online.pdf#:~:text=disproportionately%20negatively%20affect%20households%20with,to%20consider%20distributional%20issues%20%E2%80%94](https://www.europarl.europa.eu/cmsdata/207502/Whelan_FINAL%20online.pdf#:~:text=disproportionately%20negatively%20affect%20households%20with,to%20consider%20distributional%20issues%20%E2%80%94), accessed 20 January 2026: "there is nothing in the ECB's legal mandate that requires it to consider distributional issues." See also Michael Ioannidis, Sarah Jane Hlášková and Chiara Zilioli, 'The Mandate of the ECB: Legal Considerations in the ECB's Monetary Policy Strategy Review', 2021, SSRN Electronic Journal, p. 16 <<https://www.ssrn.com/abstract=3928298>> accessed 2 December 2025: "this broader interpretation does not imply that the ECB must necessarily pursue a wide range of potentially conflicting political objectives as the ECB's action in pursuit of the secondary objective is limited...the scope of action of the ECB with regard to the general economic policies in the Union is limited to "support."

within the ECB's mandate, albeit subordinate to inflation control.<sup>151</sup>

Likewise, legal experts Rosa María Lastra and Kern Alexander note that Article 127's reference to Article 3 TEU inherently covers objectives related to "employment, growth, climate change, and the quality of the environment," all framed by the Union's overarching goals of sustainability and solidarity.<sup>152</sup>

Some scholars also recognise that the ECB's secondary mandate is quite broad and indeterminate, making it tricky for an unelected central bank to decide which societal goal to prioritize at any given time. In this regard, Lastra and Skinner (2022) examine how far central banks should go in addressing climate change, emphasizing both that the ECB has been proactive on climate change considerations and the need to maintain a narrow, clearly defined mandate for unelected central bankers in order to prevent eroding the technocratic isolation that justifies its independence.<sup>153</sup>

Furthermore, others have floated the idea of giving the ECB a dual mandate, similar to the U.S. Federal Reserve's,<sup>154</sup> that explicitly includes an employment objective alongside price stability.<sup>155</sup> This broader mandate reflects a political choice that monetary policy should balance inflation with jobs. Other scholars, like van 't Klooster and de Boer (2021), propose formalizing a process for democratically setting priorities among the secondary objectives of the ECB.<sup>156</sup>

By contrast, the Bank of England (BoE), while primarily an inflation-targeting central bank, can have its remit tweaked by the government.<sup>157</sup> The BoE's legislation sets price stability as the goal, but also states that the Bank should "support the economic policy of the government" (which currently includes sustainable growth, and functions as a secondary mandate). Therefore, through political direction, the BoE's mandate expanded to include climate sustainability without the need to implement a new law, a flexibility that the ECB (bound by Treaty) is not able to exercise.<sup>158</sup>

Nonetheless, the trend internationally is towards broader central bank mandates. This expanding role is driven by real world pressures: climate change, for instance, poses systemic risks to financial stability and macroeconomic conditions,<sup>159</sup> while ultra-low interest rates and unconventional policies have drawn attention to central banks' impact on wealth distribution. Proponents counter that central banks cannot achieve price stability or financial

<sup>151</sup> Although see above section 3 in relation to the differences between those sustainability considerations.

<sup>152</sup> Rosa M. Lastra, Kern Alexander, 'The ECB's Mandate: Perspectives on General Economic Policies', Monetary Dialogue, 2020, <https://www.europarl.europa.eu/cmsdata/207722/Topic%201%20compilation%20online.pdf#:~:text=TFEU,with%20the%20price%20stability%20mandate>, accessed 20 January 2026.

<sup>153</sup> Rosa M. Lastra, and Christina Parajon Skinner, 'Sustainable Central Banking', November 2022, Virginia Journal of International Law, Vol. 61, 2023, pp. 398-445. See also Rosa María Lastra, 'Mission creep, democratic accountability and central bank independence', SUERF Policy Note Issue No 351, June 2024, p.4, [https://www.suerf.org/wp-content/uploads/2024/06/SUERF-Policy-Note\\_Issue-351\\_Lastra.pdf#:~:text=in%202021,House%20of%20Lords%20in%202021](https://www.suerf.org/wp-content/uploads/2024/06/SUERF-Policy-Note_Issue-351_Lastra.pdf#:~:text=in%202021,House%20of%20Lords%20in%202021), accessed 21 January 2026.

<sup>154</sup> See above fn 87. In recent years, some U.S. lawmakers have pushed to expand the Fed's mission further to address inequality and racial disparities. Notably, the proposed Federal Reserve Racial and Economic Equity Act defines in its Section 2C a duty to minimize and eliminate racial disparities requiring the Fed to pursue its duties in a way that "fosters the elimination of disparities across racial and ethnic groups with respect to employment, income, wealth, and access to affordable credit, including actions in carrying out—"(1) monetary policy"."

<sup>155</sup> Nazaré da Costa Cabral, 'The Multiple Facets of the ECB's Monetary Policy: From Money Management to Societal Policy Goals', New Perspectives on Political Economy 2025.

<sup>156</sup> Nik de Boer & Jens van 't Klooster, 'The ECB's Neglected Secondary Mandate: An Inter-Institutional Solution', PMEU October 2021, [https://www.positivemoney.eu/wp-content/uploads/2021/10/The-ECBs-neglected-secondary-mandate\\_v6.0.pdf](https://www.positivemoney.eu/wp-content/uploads/2021/10/The-ECBs-neglected-secondary-mandate_v6.0.pdf), accessed 27 December 2026.

<sup>157</sup> The UK Treasury's remit letters to the BoE have recently incorporated climate objectives, for example, since 2021 the BoE is explicitly tasked with supporting the government's net-zero greenhouse gas emissions target.

<sup>158</sup> Art. 130 TFEU establishes the independence of the ECB and national central banks. It prohibits any government or EU institution from seeking to influence the ECB's decision-makers, and likewise forbids the ECB from taking instructions.

<sup>159</sup> In relation to climate change see, e.g., Serena Di Luccio, 'Why the ECB cannot ignore the biggest driver of instability — climate change', December 2025, <https://positivemoney.org/eu/update/why-the-ecb-cannot-ignore-the-biggest-driver-of-instability-climate-change/#:~:text=This%20shows%20how%20climate%20and,ECB%20is%20meant%20to%20manage>, accessed 12 December 2025. Also, Mario Tamez, Hans Weenink, and Akihiro Yoshinaga, 'Central Banks and Climate Change: Key Legal Issues' IMF WP/24/192, 2024, <https://www.imf.org/-/media/files/publications/wp/2024/english/wpiea2024192-print-pdf.pdf#:~:text=Climite%20change%20could%20impact%20price,legal%20frameworks%20can%20support>, accessed 14 February 2026. Considering both climate change and inequality from an economic perspective, see, e.g., Barry Eichengreen, 'New-Model Central Banks', Project Syndicate, <https://www.project-syndicate.org/commentary/central-banks-have-tools-for-climate-change-and-inequality-by-barry-eichengreen-2021-02#:~:text=Syndicate%20www.project,objections%20of%20those%20who>, accessed 14 February 2026.

stability in the long run without addressing underlying structural risks like inequality.<sup>160</sup>

However, the push to expand mandates is not without controversy. Some scholars warn that taking on too many goals could dilute the focus on inflation or threaten central bank independence.<sup>161</sup> They argue that unelected technocrats are not in the position to make the decision on how to trade off, say, inflation vis-à-vis unemployment vis-à-vis climate action – because those are political choices.<sup>162</sup>

Article 127(6) TFEU sets a precedent for limited functional expansion through coordinated political agreement without formal Treaty amendment. It states that the Council may, by unanimous decision, confer specific supervisory responsibilities upon the ECB over banks. This article was invoked in 2012 to create the Single Supervisory Mechanism (SSM), making the ECB the chief supervisor of eurozone banks.<sup>163</sup> Notably, this provision does not change the ECB's primary mandate, but it expanded the Bank's role into bank regulation as a response to the financial stability lessons of the euro crisis. Thus, Article 127(6) shows that some mandate expansions can be done via unanimous political agreement under existing treaty provisions.<sup>164</sup>

Therefore, from a competence-and-conferral perspective, ECB contribution can be distinguished between (i) "beyond-mandate expansion", i.e., any attempt to expand the mandate in order to introduce new substantive objectives (e.g., inequality) into the ECB's constitutional remit and (ii) "within-mandate expansion" via secondary mandate operationalisation, interpretive integration, and strengthened democratic guidance accountability. On the first option, the "transformative ECB" analysis argues that if policymakers expect the ECB to do substantially more in socio-ecological transformation, then this "will necessarily involve a review of objectives, instruments, and governance," i.e., a governance-and-mandate discussion is an ongoing constitutional question rather than an excluded option.<sup>165</sup>

However, the possibility of expanding the mandate has been analysed from a more restrictive view. Certain legal experts argue that Article 127(6) enabled a functional expansion of the ECB's mandate into bank supervision, yet it is "narrowly focused on banking supervision" and does not provide a legal basis for incorporating entirely new policy goals like climate action or social equity without formal treaty amendment.<sup>166</sup> The rationale underpinning this argument is that while environmental objectives (e.g., Article 3(3) TEU and Article 11 TFEU) must be considered within the ECB's operations, they cannot themselves serve as independent sources of competence under EU law.<sup>167</sup> In other words, Article 127(6) TFEU is framed as an enabling clause for narrowly defined supervisory tasks and not a vehicle for broadening the ECB's constitutional mandate toward sustainability. Regarding the second option, some proposals recommend institutional and legal pathways for a broader "ECB

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<sup>160</sup> In the words of Positive Money's manifesto, "a healthy planet is essential for a stable economy," and ignoring climate risk "undermines" the central bank's primary objectives. See Positive Money, 'Stability Through Sustainability', 28 January 2025, <https://positivemoney.org/eu/publications/stability-through-sustainability/#:~:text=The%20in%20driving%20the%20green%20transition>, accessed 14 February 2026.

<sup>161</sup> Rosa M. Lastra, and Christina Parajon Skinner, 'Sustainable Central Banking' (n 152).

<sup>162</sup> Positive Money, 'EU Parliament offers historic solution on ECB's secondary objectives' (2023), <https://positivemoney.org/eu/update/historic-solution-ecb-secondary-objectives/#:~:text=However%2C%20the%20law%20remains%20vague%2C,necessary%20instruments%20to%20fulfil%20it>, accessed 14 February 2026. Previously, other legal analysts note that inequality is a political issue (involving value judgments and redistribution best handled by elected fiscal authorities), so making it a central bank mandate could clash with the principle of an independent, technocratic monetary authority. See e.g., Christophe Blot, Jérôme Creel, Emmanuelle Faure and Paul Hubert, 'Setting New Priorities for the ECB's Mandate' (n 7), pp. 6, 18, [https://www.europarl.europa.eu/cmsdata/207721/OFCE\\_FINAL2%20online.pdf#:~:text=match%20at%20L1080%20desired%20level,not%20be%20compatible%20with%20independence](https://www.europarl.europa.eu/cmsdata/207721/OFCE_FINAL2%20online.pdf#:~:text=match%20at%20L1080%20desired%20level,not%20be%20compatible%20with%20independence), accessed 15 February 2026.

<sup>163</sup> Rosa M. Lastra and Kern Alexander, 'The ECB's Mandate: Perspectives on General Economic Policies' (n 152), p. 24. The authors, when addressing the option of financing a sustainable recovery fund mention that "there is room in the Treaty to adequately respond to Covid -19." In footnote 38 they explain that the possibility of expanding the ECB functions according to Article 127(6) TFEU following the simplified revision foreseen in Article 48(6) TEU is another enabling provision.

<sup>164</sup> In this case, all Member States agreed to give the ECB a financial stability role alongside its monetary role. In addition, Treaty change is explicitly contemplated by Article 48 TEU, which sets out the revision procedures for amending the Treaties (including amendments that would expand EU competences and, by implication, could re-specify the ECB's objectives).

<sup>165</sup> Ulrich Klüh & Janina Urban, 'Independently Green? An Integrated Strategy for a Transformative ECB' in Harald J. Bolsinger, Johannes Hoffmann, Bernd Villhauer (eds), *The European Central Bank and Its Role in a Sustainable Finance System*, Springer 2023, pp 17–64.

<sup>166</sup> Lastra and Dietz (n 12).

<sup>167</sup> Sara Dietz, 'Green Monetary Policy Between Market Neutrality and Market Efficiency' (n 30).

contribution". For example, the European Parliament (EP) has moved toward this "guidance or oversight" route.<sup>168</sup> Its resolutions increasingly call on the ECB to give reasons on how it has interpreted and acted upon its secondary objectives and how this interacts with the primary mandate. In relation to climate change-related risks, the EP's resolutions encourage the ECB to assess how climate risks affect its ability to maintain price stability,<sup>169</sup> i.e., a political-institutional channel to steer interpretation and accountability without adding new Treaty objectives that could be used also to check inequality.

Second, a broader contribution can be justified through mandate-consistent interpretation of the ECB's existing tasks, especially where climate and/or inequality factors are framed as affecting price stability, monetary transmission, or the ECB's risk management, without relying on Article 127(6). The ECB explains the architecture of the primary and secondary objectives and the constitutional framework governing ECB action (conferral, proportionality, institutional balance).<sup>170</sup> It also underscores that, in identifying whether an ECB measure falls within monetary policy, EU law focuses on the objectives and instruments of the measure, while recognising that ECB measures may have wider effects, hence the emphasis on proportionality and legal safeguards rather than a search for an "expanded objective" via Article 127(6). Complementing that legal framing, the European Parliament's research service describes ECB climate measures as "far-reaching" and a "paradigm shift," illustrating why legal debates increasingly focus on how far existing competences can be used (and how they should be justified and controlled),<sup>171</sup> rather than treating climate-related action as automatically ultra vires.

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<sup>168</sup> This is in line with previous analysis by Nik de Boer & Jens van 't Klooster, 'The ECB's Neglected Secondary Mandate: An Inter-Institutional Solution' (n 155). Their report argues that the secondary mandate is not optional but a legally relevant constraint that must be made operational through an inter-institutional process in which democratically accountable EU actors (Council/Parliament) give guidance on which Union objectives the ECB should prioritise when several options are equally compatible with price stability.

<sup>169</sup> European Parliament resolution of 27 February 2024 on the European Central Bank – annual report 2023 (2023/2064(INI)) (C/2024/6738). See also Green central banking, Think Tank European Parliament, August 2022, [https://www.europarl.europa.eu/thinktank/en/document/EPRS\\_BRI%2B2022%29733614?utm\\_source=chatgpt.com](https://www.europarl.europa.eu/thinktank/en/document/EPRS_BRI%2B2022%29733614?utm_source=chatgpt.com), accessed 22 January 2026.

<sup>170</sup> See, e.g., Michael Ioannidis, Sarah Jane Hlášková Murphy, Chiara Zilioli, "The mandate of the ECB: Legal considerations in the ECB's monetary policy strategy review (n 100)

<sup>171</sup> EP, Green Central Banking, Briefing, [https://www.europarl.europa.eu/RegData/etudes/BRIE/2022/733614/EPRS\\_BRI\(2022\)733614\\_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/BRIE/2022/733614/EPRS_BRI(2022)733614_EN.pdf), accessed 20 January 2026.

## 5. Next steps and conclusions

This report has examined whether, and how, the ECB can integrate concerns about inequality into its monetary policy framework without breaching its legal mandate. While the EU Treaties were not designed with an inequality-responsive central bank in mind, they do not prohibit the ECB from addressing inequality either. The ECB's mandate is flexible enough to allow distributional considerations to play a role, provided two core conditions are met: (1) inequality demonstrably undermines macroeconomic or financial stability (a primary mandate concern), or (2) monetary stability is secured, allowing the ECB to support the Union's general economic and social objectives (a secondary mandate route).

Inequality interacts with monetary policy through multiple transmission channels, including employment, credit access, asset prices, and financial vulnerability. While accommodative policies may temporarily reduce disparities, their medium- to long-term effects are mixed and context-dependent. Given the ECB's overriding obligation to maintain price stability under Article 127(1) TFEU, inequality considerations cannot displace that priority. However, when consistent with price stability, the ECB is required, under its secondary mandate and the horizontal clauses of the Treaties, to support broader Union goals such as social inclusion, employment, and economic cohesion.

In this regard, any explicit inequality mandate would require treaty changes, and some argue that it might jeopardize the Bank's independence. However, within the existing framework, the ECB can give greater weight to social objectives through its secondary mandate, reinforcing the link between them and price stability. Indeed, scholars and institutional reports urge that the ECB's mandate should not be viewed too narrowly: the Treaties already empower (and arguably oblige) the Bank to support goals like balanced growth, full employment, and social cohesion when possible. The current challenge, both economic and legal, appears to lie in determining how far the ECB can go in addressing issues like inequality under its existing mandate. For now, the ECB appears to be cautiously broadening its interpretation of price stability and secondary goals, rather than awaiting the unlikely event of treaty revision. This approach keeps the door open to addressing inequality indirectly, even as the debate continues over the proper scope of central banking in advancing sustainability (which would include inequality).

The principle of proportionality provides the legal and analytical bridge between these obligations.<sup>172</sup> It enables the ECB to take inequality into account not as a goal in itself, but as a relevant macro-financial risk that may impair policy transmission or the effectiveness of its instruments. When independent evidence supports the claim that inequality weakens the monetary transmission mechanism, proportional and well-targeted responses become not only permissible but necessary to fulfil the ECB's core mandate.

The expert consensus is evolving, but there is clear momentum behind integrating sustainability and equality considerations into central banking, whether by interpreting existing mandates more broadly or by formally rewriting those mandates, or carefully operationalizing the tools already available within that mandate to address inequality as a relevant factor.

To operationalize a more inequality-aware approach within the ECB's existing legal framework, this report proposes a phased agenda aligned with what has been discussed throughout this document, the ECB's institutional capacities and mandate hierarchy.

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<sup>172</sup> See above section 3.

In the immediate term (2026 onward), the ECB should focus on transparency and internal governance reforms that carry no implications for its independence.<sup>173</sup> This includes i.e., publishing in-depth data and analysis on the distributional effects of monetary policy decisions, such as the impact on income and wealth dispersion, employment, and access to credit. Such disclosures would enhance accountability and inform democratic scrutiny without altering policy content. In parallel, the ECB could establish internal procedures to systematically assess the proportionality of new instruments or adjustments to existing ones.<sup>174</sup> These checks would ensure that any measure with potential distributional consequences is evaluated not only for its monetary efficacy but also for its consistency with broader EU objectives.<sup>175</sup>

Over the medium term (2026–2028), the ECB should consider piloting inequality-sensitive instruments that remain firmly within the bounds of monetary policy. These might include targeted refinancing operations directed at banks that lend to underserved regions, or collateral frameworks that take account of social impact indicators. Such instruments would be justified not by redistribution goals per se, but by their capacity to improve the transmission of monetary policy across different sectors and social groups. Concurrently, the ECB should seek closer coordination with the EU’s political institutions, especially the European Parliament and Commission, to clarify the scope and operational meaning of its secondary mandate. An inter-institutional understanding or interpretive guidance could help define how social objectives under Article 3 TEU are to be factored into ECB decision-making, without compromising price stability.

In the longer term (2029 and beyond), explore the need for Treaty “adjustments” that may more explicitly address distributional risks, ensuring political legitimacy and legal clarity.

Each of these steps is consistent with the ECB’s institutional independence and primary mandate. In fact, improving the inclusiveness of monetary policy enhances its effectiveness, credibility, and public trust. Measures such as publishing more granular data on distributional effects are costless in legal terms but powerful in democratic accountability.

The overarching aim is not to make the ECB an “inequality-reducing” institution,<sup>176</sup> but to make it an “inequality-aware” one. This approach enables the ECB to remain firmly within the boundaries of its mandate while adapting its tools to an economy marked by persistent disparities. In this sense, proportionality becomes the linchpin: it allows the ECB to respond appropriately to distributional challenges when they materially impact monetary policy goals, without overstepping its conferred competences.

Finally, to ensure full legal accountability, any future use of inequality-sensitive instruments should follow a disciplined three-part test in accordance with the legal analysis carried out by the CJEU in the review of monetary policy decisions, which pivots on proportionality (suitability plus necessity, with “manifest error” deference):

- (i) Identify whether inequality undermines monetary transmission;
- (ii) Justify why these matter under present conditions; and
- (iii) Demonstrate how the selected instrument addresses the issue proportionately.

Such assessments should be regularly reviewed and disclosed, ideally with oversight from an internal compliance

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<sup>173</sup> As suggested in Rosa M Lastra and Sara Dietz, ‘Accountability of Greening the ECB’ (n 12).

<sup>174</sup> For example, one option could be the creation of a dedicated “Mandate Compliance Unit” within the ECB, tasked with procedurally safeguarding for reviewing proposals for alignment with the Treaties, in particular Article 127 TFEU and the proportionality principle.

<sup>175</sup> Id.

<sup>176</sup> Agustín Carstens, ‘Central Banks and Inequality’ (n 31).

mechanism. This process would strengthen the ECB's legitimacy, reinforce the coherence of its objectives, and contribute constructively to the Union's broader economic architecture.



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