From Central Bank to Political Actor: The Transformation of The European Central Bank's Role in Crisis Governance and Its Implications for European Integration

من بنك مركزي إلى فاعل سياسي: تحول دور البنك المركزي الأوروبي في حوكمة الأزمات وتداعياته على التكامل الأوروبي

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Abstract:

The present study examines the European Central Bank's transformation from a price-stability institution into a political actor within the European Union's governance structure. Through a process-tracing analysis of the ECB's responses to the 2008 financial crisis, the Eurozone sovereign debt crisis, and the COVID-19 pandemic, the research demonstrates how unconventional monetary policies specifically the Outright Monetary Transactions and the Pandemic Emergency Purchase Programme have blurred the traditional boundaries between monetary and fiscal policy. The analysis indicated that these strategies facilitated a form of "integration by stealth," without formal treaty revisions while simultaneously preserving the stability of the Eurozone.

However, this expanded mandate raises critical concerns regarding democratic accountability, legal legitimacy, and the separation of powers between EU institutions and Member States. Ultimately, the paper concludes that without parallel developments in the Eurozone's fiscal and political structures, the ECB's increasingly politicized role may undermine the long-term legitimacy of the European integration project

Keywords: Crisis Governance - Democratic Deficit - European Central Bank - European Integration - OMT - PEPP

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Introduction

The European Central Bank (ECB) was created to fulfil a specific ordoliberal logic which is stability-oriented liberalism based on the Maastricht Treaty: to create a politically independent institution with a sole, narrow mandate of price stability[1]. In the first ten years of its existence, the ECB largely adhered to this technocratic blueprint and operated as a rather remote guardian of the currency. The successive shocks of the 2008 Global Financial Crisis, the Eurozone Sovereign Debt Crisis, and the COVID-19 pandemic fundamentally transformed the ECB's role. The ECB has evolved from being an inflation regulator to the "lender of last resort" for sovereigns and a crisis manager who effectively determines fiscal sustainability[2]. This transformation constitutes a major research question in the field of International Political Economy. The ECB adopted "unusual" monetary measures like Outright Monetary Transactions (OMT) and Pandemic Emergency Purchase Programme (PEPP) with major redistributive fiscal powers which are traditionally left to elected officials[3].

Based on the aforementioned, the present study aims to analyse this transformation by answering the following main questions: how did the imperatives of crisis management provoke the politicization of the ECB and with which consequences for the development of European integration?

On this basis, the present paper is based on two objectives. First, distilling the historical and institutional mechanisms whereby the ECB widened its mandate. Second, it aims to engage in a critical evaluation of the impact of this development on the democratic legitimacy of the EU. This study explores the democratic deficit debate that exists between supranational technocracy and national sovereignty, thereby showing the real contribution of this study. The paper uses qualitative analysis and interpretations of policy documents and case law of the CJEU and GFCC, and speeches by ECB presidents, between the theoretical frameworks of neofunctionalism and intergovernmentalism.

Firstly: Theoretical Framework and Methodology

Through a neofunctionalist and intergovernmentalist lens, this research tries to explain the transformation of the European Central Bank (ECB). Neofunctionalism, as described, before revisions by Niemann and Ioannou[4], holds that integration takes place via "spillover," whereby integration in one policy area creates functional pressure to also integrate other, related areas.

1. Theoretical Framework

The incompleteness of the EMU results in functional spillovers from the monetary dimension to the fiscal dimension through the ECB's interventions. Under existential pressure, logical calculation drives the recruitment of technocratic actors

to maintain system stability. This leads to "integration by stealth" rather than intentional integration .

On the other hand, liberal intergovernmentalism highlights that important integration choices are the result of intergovernmental bargaining among member states that want to further national interests[5]. The ECB has assumed a new role. This role is not necessarily that of an autonomous technocratic actor but rather of an independent agent. One that has been tasked by governments that are unwilling or unable to agree on a fiscal union and would bear the political cost of such actions. The ECB becomes the “agent” empowered by divided “principals” (member states) who would prefer to shift the blame for unpopular austerity measures.

The ECB works through a contested space where both logics apply and hence will make a synthetic case. The starting interventions were functionally necessary (neofunctionalism). However, their persistence and institutionalization reflect national governments deliberate political choices not to reform the treaties. (intergovernmentalism) This hybrid approach enables an understanding of the complexity of the ECB’s transformation.

2. Research Design and Methodology

To achieve the objectives of this study, qualitative process-tracing techniques are employed to explore the manner to which the crisis context transformed the role of the ECB. Moreover, in order to identify causal pathways and critical junctures[6], it is ideal for comparatively tracing complex institutional change over a small number of cases. The research links the 2008 Financial Crisis, the Eurozone Sovereign Debt Crisis, and the COVID-19 pandemic as critical junctures expanding the ECB’s political power.

The empirical data analysed in this study are: (i) Primary documents: ECB press releases, governing council decisions and announcements about the policy programmes from 2008 to 2024. (ii) Legal texts: CJEU judgments (most importantly[7], as well as previously mentioned ones) and German Constitutional Court decisions (most importantly OMT decision); Eurozone member state legal opinions (to the extent that they have been published). (iii) Speeches and testimonies: speeches and testimonies by the three ECB presidents Jean-Claude Trichet (2003-2011), Mario Draghi (2011-2019) and Christine Lagarde (2019-present); (iv) European Council conclusions, ESM programme documents[8]. (v) Secondary analysis: Analysis of financial market data (most importantly sovereign bond spreads and ECB balance sheet composition).

The analytical strategy determines the observable implications of the theoretical mechanism in each stage of the crisis. To find confirmation of neofunctionalist spillover in the ECB, we need to look for evidence that the actions of the ECB were caused by functional necessity and led an irreversible integration. According to

intergovernmentalist logic, member states engaged in deliberate empowerment of the ECB in avoiding political costs. This process-tracing approach enables us to determine whether the ECB's transformation was path-dependent whereby the early interventions generated precedents limiting late choices or whether it remained conditional upon political authorization.

3. Scope and Limitation

The present study concentrates specifically on the Eurozone and the ECB. Although comparative analysis with other central banks (Federal Reserve, Bank of England, Bank of Japan) could enhance understanding, it is beyond the scope of this paper. The time frame (2008–2024) highlights the ECB's most transformative period but excludes its pre-crisis history unless relevant for context[9]. A major constraint is that the complete effects of more recent interventions particularly the winding down of PEPP and the ECB's reaction on inflation from 2022 to 2024 are still unfolding. In conclusion, although this study utilizes financial data, it is not econometric in nature; rather, it contributes to an institutional and political analysis as opposed to a quantitative assessment of effectiveness.

Secondly: Literature Review

There has been literature over the ECB's modifications that may account for outliers. Some individuals assert that the bank's efforts are essential, while others contend that these actions are perilous. The initial ECB literature focused mostly on its autonomy and legitimacy. A significant portion of that literature was shaped by the "time-inconsistency" issue stated by Kydland and Prescott[10]. The evaluation of central bank independence, seen as the foundation of the ordoliberal consensus that supports the Maastricht Treaty, asserts that the Euro's survival is contingent upon strict commitment to price stability[11]

Nonetheless, the literature from 2010 onward shows a change. In a foundational analysis, De Grauwe observed that Eurozone member states borrow, almost always, in a "foreign" currency[12]. This makes them vulnerable to a liquidity crisis which can only be resolved by a central bank. This established the theoretical rationale for how it came to be that ECB intervened. In a more radical reading[13], claims that the ECB has morphed from a credibility-focused institution into a stability one, often taking over a European Council, paralyzed at the political level[14].

Furthermore, Torres claims that the ECB became a "political actor" through politicization when lending aid to the member state but rather because of conditionalities imposed on member states for bond purchasing[15]. According to Fontan (2018), the ECB's quantitative easing policies have clear winners and losers, which makes it political. Fontan analyses the distributive effect of the ECB's actions to come to this conclusion. Legal scholars, including Dawson and Bobić, examined possible constitutional implications[16]. They point out that through the validation of

the OMT program, the CJEU was essentially approving a permanent change within the constitutional order of the EU without a treaty change.

This is a rich bibliography but needs consolidation of response to COVID-19 pandemic along with previous crises for knowing the cumulative effect of these measures for European integration in Europe. This paper closes that gap by linking the OMT precedent directly to the PEPP mechanisms, suggesting a line of increasing supranational power.

1. Central Bank Independence and Accountability

There have been many studies done regarding the trade-off between independence of central banks and their accountability to the democratic process. In his paper written in 2018, Tucker underlined the need for the "accountability framework" of independent institutions such as the central bank which has to be proportionate to its authority[17]. The European Central Bank was established as a highly independent institution, but not very accountable one because it used the Bundesbank as its model. However, as Mabbett and Schelkle demonstrate[18], the ECB's crisis interventions significantly expanded its de facto authority without corresponding accountability mechanisms[19]. The European Parliament's Monetary Dialogue provides only ex-post scrutiny without sanctioning power[20], creating what Braun terms "executive discretion without executive accountability."

2.The constitutional Dimension

The Legal scholars have been engaged in intense debates on the legality of the ECB’s non-conventional measures. The ECB is restricted from engaging in monetary financing under Article 123 TFEU. Nonetheless, the OMT and PEPP schemes require substantial bond purchases by the government. Supporters contend that the measures are monetary policies, which aim at achieving price stability and effective transmission mechanisms. The opponents, however, view the measures as indirect fiscal transfers. While the CJEU’s decision defended OMT by employing a broad definition of monetary policy[21], the German Constitutional Court’s decision has rejected the judicial deference to the ECB's expertise[22].

3. Political Economy Perspective

The political economy approach studies the distribution effects of the ECB's actions. Quantitative easing, by buying government bonds and stocks, causes an increase in asset prices, favouring the rich, although there is a possibility of widening income disparities[23]. Additionally, the ECB's covert conditionality, which ties bond buying to structural reforms, makes it possible for the ECB to dictate economic policy in member states that had previously been set by democratically elected governments. Matthijs and McNamara state that this creates a "moral hazard" whereby peripheral member states postpone reforms in light of the ECB's support. the ECB's actions constitute "monetary solidarity" [24].

Thirdly: Historical Evolution: From Maastricht to the Crisis

The birth of the ECB represented a political compromise of a sort, with Germany's fears about the inflationary past of its neighbors leading to the establishment of the ECB on the model of the Bundesbank: a completely independent central bank without any ability to monetize government debts (Art. 123 of the TFEU). Its mandate was hierarchical, with the priority set as price stability and secondary consideration reserved for the support of general economic policies only if doing so would not undermine the former objective. For the duration of what became known as "the Great Moderation" (1999-2007), the ECB did not attract much controversy. Its function was limited to economic analysis and monetary analysis under the "two-pillar strategy" approach used to determine interest rates. During this period, competitiveness differences between the "core" and "periphery" members of the Eurozone were not addressed.

This pre-crisis period entrenched a culture of technocratic isolation. The ECB prided itself on avoiding coordination with fiscal authorities, viewing such coordination as a threat to independence. However, this intellectual framework ignored the systemic risk posed by the incomplete nature of the Economic and Monetary Union (EMU), specifically, the lack of a fiscal union or a banking union. When the global financial crisis hit, this incomplete architecture forced the ECB to step beyond its narrow statutory confines.

1. The Institutional Design of the ECB: Ordoliberal Foundations

The ordoliberal approach, which characterized the German economic perspective at that time, significantly influenced the formation of the ECB institution. The principles of ordoliberalism include economic governance based on rules, competition, and depoliticized monetary policy[25]. The ordoliberal approach brought about three major aspects of the rules of the game: (1) the ban on monetary financing (Article 123 TFEU), (2) the "no-bailout rule," which is the ban on transferring funds between member countries (Article 125 TFEU), and (3) the hierarchical goal of ensuring the primacy of price stability over all other goals.

However, ordoliberalism contained an inherent contradiction when applied to a monetary union without fiscal integration. While it prohibited bailouts, it did not provide mechanisms for handling asymmetric shocks or sovereign debt crises. The assumption was that fiscal discipline enforced by the Stability and Growth Pact (SGP) would prevent crises. This proved catastrophically wrong. When crises emerged, the ECB faced a dilemma: adhere strictly to ordoliberal rules and risk Eurozone collapse or reinterpret its mandate pragmatically. It chose the latter, marking the beginning of its political transformation.

2.The Great Moderation and Complacency (1999-2007)

In the first decade of the existence of the Eurozone, low inflation and steady growth provided an illusion of comfort. However, the monetary policy of the ECB, set for the average economy of the euro area, ignored different paths towards competitiveness among countries of the Eurozone. While Germany, which introduced labor reforms (Hartz reforms), experienced wage moderation and export-led growth, Spain and Ireland went through speculative property booms driven by ECB interest rates, which were unsuitable for their overheated economies. Current account discrepancies grew considerably, as Germany enjoyed surplus current accounts, whereas periphery countries had deficits. Most importantly, financial markets considered sovereign debts of all Eurozone countries practically risk-free, reducing spreads to German ones. Such valuation was based on the incorrect notion that the participation in the EMU provided guarantees of implicit bailouts irrespective of Article 125 TFEU. Banks in core economies invested heavily in governments and banks of periphery countries, building up cross-country financial links that would transfer crises between them in the future.

Fourthly: The ECB as a Political Actor in Crisis Management

The transformation of the ECB into a political actor occurred in three distinct phases, each escalating the depth of its intervention and the political nature of its decisions.

1.The Liquidity Provider (2008-2010)

After the bankruptcy of Lehman Brothers in 2008, the reaction of the ECB was strong, though still limited to the normal scope of operations of a central bank. Interest rates were lowered and LTROs provided an unlimited liquidity supply to banks at fixed interest rates. Although unprecedented in terms of size, lending to banks against collateral remained a conventional practice. Yet, during this period it became clear that there was a strong interconnection between sovereign and banking debts (the "doom loop"), since banks owned substantial portions of their countries' government bonds. The ECB reaction to the crisis was quicker and stronger compared to the Fed at first because it understood that there was a danger of freezing the entire credit market in a fragmented Europe. Between October 2008 and December 2009, the ECB offered fixed rate full allotment operations lending banks up to €1.1 trillion. Thanks to this measure, interbank credit market did not freeze again, after its halt following the bankruptcy of Lehman. Crucially, the ECB also widened the variety of assets it accepted as collateral for loans even if they included low-rated assets.

However, this period highlighted an inherent flaw in the system because even though the ECB was able to offer liquidity in euros to banks, it could not help in solving the issue of solvency among banks and sovereigns. Following worsening public finances in Greece towards the end of 2009 – owing to reports of underestimating deficits – market sentiment shifted to whether a country within the

Eurozone could go bankrupt. Since there was the "no-bailout" clause, there were no fiscal measures available. In addition, the ECB was reluctant to intervene because of the interpretation of Article 123 of TFEU.

Table N°1: ECB Policy Response Timeline (2008-2024)

Date	Policy Measure	Scale/Volume	Key Innovation
Oct 2008	Fixed-Rate Full Allotment	€1.1 trillion	Unlimited bank liquidity
May 2010	Securities Markets Programme (SMP)	€210 billion	First sovereign bond purchases
Dec 2011	3-Year LTRO	€1 trillion	Extended bank funding
Sep 2012	Outright Monetary Transactions (OMT)	Unlimited (announced)	Conditionality + "whatever it takes"
Jun 2014	Targeted LTRO (TLTRO)	€740 billion	Incentivize bank lending to real economy
Mar 2015	Public Sector Purchase Programme (PSPP)	€2.6 trillion	Large-scale QE, capital key
Mar 2020	Pandemic Emergency Purchase Programme (PEPP)	€1.85 trillion	Flexibility on capital key, pandemic flexibility
Jul 2022	Transmission Protection Instrument (TPI)	Unlimited	Anti-fragmentation tool

(Source: Designed by the researcher)

2.Phase Two: The Savior of the Euro (2010-2015)

The real politicization started with the sovereign debt crisis. The monetary transmission mechanism ceased to function as spreads on Greek, Irish and Portuguese bonds blew out. The ECB was the first to respond with the SMP which bought peripheral debt. The controversy led to the resignations of Axel Weber and Jürgen Stark at the ECB, showing a split within the organization. The turning point was Mario Draghi's London speech in July 2012 where he stated that "Within our mandate, the ECB is ready to do whatever it takes to preserve the euro. And believe me, it will be enough." A performative speech-act theory helped the markets calm immediately. It was realized through Outright Monetary Transactions.

OMT altered the ECB's role radically. The plan termed unlimited purchases of sovereign bonds if the country entered an ESM (European Stability Mechanism) adjustment programme. An ECB political enforcer emerged as the guard that linked monetary assistance to austerity and risk of assistance. It was no longer managing money; it was managing the national budgets of countries. According to Jones the ECB had increasingly become a "paramount player" in negotiating national governance conditions.

The SMP (Securities Markets Programme) represents the ECB's first direct intervention in sovereign bond markets and was launched in May 2010. After initially buying Greek, Irish and Portuguese bonds, the programme began purchasing Italian and Spanish debt by August 2011 as contagion spread. SMP was, however, of limited scope (€210 billion all-in) and the ECB sterilised its purchases to withdraw equivalent liquidity and avoid increasing the money supply. The impact of the program was mitigated as markets were aware that the purchases were temporary.

Disagreements within the ECB came to the fore. Axel Weber the Bundesbank president, tipped to succeed Jean-Claude Trichet, announced his resignation in February 2011, as he opposes purchases of sovereign bonds In September 2011, Jean-Claude Trichet's successor, who was the chief economist, The resignation of senior ECB officials reflected deep internal divisions regarding sovereign bond purchases and the limits of monetary intervention. The ordoliberal resistance that arose within Germany pointed to a fundamental tension within the institutional design of the ECB. It assumed consent, while during time of crisis it required decisionism in the backdrop of dissent.

Mario Draghi's "whatever it takes" statement on 26 July 2012 marked a tipping point. Mario Draghi said, "Within our mandate, the ECB is ready to do whatever it takes to preserve the euro. And believe me, it will be enough." Importantly, to markets that was the same as saying, "we will take unlimited action". The bond spreads of Spain and Italy which had reached unsustainable levels (7% for Spain and over 6% for Italy) fell sharply within days. Policy was the promise itself, and the promise was the intervention, of the speech.

On September 6, 2012, OMT action was announced. Unlike the SMP, OMT involved potentially unlimited purchases of sovereign bonds with maturities ranging from one to three years. Central to OMT is conditionality: a country could only access the programme if under an ESM adjustment programme; this indicates their acceptance of fiscal consolidation, structural reforms and external monitoring. The ECB became a gatekeeper through this.

Deciding on the grant of market access to governments was a fundamentally political function. OMT's defeat is quickly challenged legally. In 2014, the German constitutional court referred the OMT to the CJEU. It was worried whether it was outside the mandate of the ECB or exceeds the prohibition on monetary financing.

The CJEU ruled in its 2015 “Gauweiler” judgment that OMT is monetary policy which aims to restore transmission. The ECB was afforded a wide margin of discretion according to the Court who applied a limited control. But the German Court would later reject that deference in “Weiss” revealing ongoing tensions with constitutional implications.

OMT, ironically, never got activated. Following the announcement of the ESM no country requested for any support. The credibility of unlimited intervention itself reduced the necessity for the programme’s activation. This raises an important question: was OMT’s power in its non-use or does its non-use suggest OMT’s power is not-the-ECB’s political transformation relies on bluff not action? According to Brunnermeier et al [26], OMT is an example of “strategic ambiguity” just the announcement already changed market expectations hence implementation was not needed.

Italy's experience during 2011-2012 illustrates the ECB's political leverage. Unlike Greece, Italy was systemically important; its economy was the third largest in the Eurozone, and its debt market was the world's third-largest sovereign bond market. A default would have been catastrophic for the Euro and for European banks holding Italian debt. Yet by mid-2011, Italian 10-year bond yields approached 7%, a level widely considered unsustainable. The ECB intervened not only through bond purchases but through a remarkable political intervention. On August 5, 2011, ECB President Trichet and his designated successor Draghi sent a confidential letter to Italian Prime Minister Silvio Berlusconi, detailing specific structural reforms Italy must implement in exchange for ECB bond purchases. The letter demanded pension reforms, labour market liberalization, and constitutional fiscal rules. This was unprecedented: an unelected central bank dictating domestic policy to a sovereign government.

When Berlusconi failed to implement reforms quickly, political and market pressure mounted. By November 2011, Berlusconi resigned, replaced by Mario Monti, a technocratic economist and former European Commissioner. Monti's government implemented the ECB's demanded reforms, and the ECB resumed bond purchases. Critics termed this a "technocratic coup," where market pressure weaponized by ECB conditionality forced a change in government [27]. Defenders argued the ECB merely stabilized markets, while political failures in Rome necessitated intervention. The Italian case reveals the distributional politics embedded in ECB decisions. Northern European taxpayers, represented by their governments, opposed bailouts. Italian citizens resented externally imposed austerity. The ECB, positioned between these conflicting interests, made allocative choices who bears adjustment costs, typically reserved for elected bodies. This is the essence of politicization: technocratic institutions making distributive decisions without electoral authorization.

3.Phase Three: The Pandemic and Unbounded Intervention (2020-2022)

The COVID-19 pandemic precipitated the most radical shift. Unlike the debt crisis, this shock was exogenous and symmetric. In March 2020, after an initial communication error by Christine Lagarde ("We are not here to close spreads"), the ECB launched the Pandemic Emergency Purchase Programme (PEPP) totalling €1.85 trillion. PEPP differed qualitatively from previous programs. It abandoned the "capital key" restrictions that previously limited how much debt the ECB could buy from a single country relative to its GDP. This allowed the ECB to disproportionately support Italy and Spain. By effectively guaranteeing government debt issuance to fund fiscal stimulus, the ECB engaged in de facto monetary financing. While legally justified as necessary to prevent deflation, functionally, the ECB was underwriting the fiscal response of the entire Eurozone, blurring the line between monetary and fiscal policy to an extent never before seen[28]

Christine Lagarde's presidency began in November 2019, just months before the pandemic. Her initial communication misstep in March 2020 stating "we are not here to close spreads" during a press conference triggered a sharp sell-off in Italian bonds, demonstrating the market's reliance on ECB backstops. The ECB quickly reversed course, announcing PEPP on March 18, 2020, initially sized at €750 billion and later expanded to €1.85 trillion by December 2020.

PEPP's flexibility was unprecedented. Unlike PSPP, which adhered strictly to the "capital key" (buying bonds proportional to each country's ECB shareholding), PEPP allowed "flexibility" across time, asset classes, and jurisdictions. In practice, this meant the ECB could buy disproportionately more Italian and Spanish debt, countries hardest hit by COVID-19 and with higher debt burdens. By mid-2021, the ECB had purchased over 40% of net Italian government debt issuance during the pandemic.

This flexibility raised profound questions about Article 123 TFEU. Was the ECB directly financing governments, or merely ensuring monetary policy transmission? The distinction became semantics. Functionally, PEPP enabled governments to borrow at historically low rates to finance massive fiscal stimulus (Italy's deficit reached 9.5% of GDP in 2020). Without PEPP, peripheral countries would have faced prohibitive borrowing costs, constraining their fiscal response precisely when stimulus was needed.

Analytically, PEPP represents the culmination of the ECB's transformation. It demonstrated that in extremis, the bank would prioritize systemic stability over legal formalism. The German Constitutional Court's *Weiss* judgment, issued in May 2020 amid the pandemic, complicated matters. The Court ruled that the ECB's PSPP required proportionality assessment to ensure it did not exceed monetary policy competences. However, the Court explicitly did not address PEPP, leaving its legal status ambiguous. This judicial forbearance likely reflected recognition that

challenging PEPP during a pandemic would be politically untenable, yet the underlying constitutional questions remain unresolved.

As inflation surged in 2021-2022, driven by supply chain disruptions and energy price shocks following Russia's invasion of Ukraine, the ECB faced a new dilemma: how to tighten monetary policy without triggering sovereign debt crises. Raising interest rates would increase borrowing costs for highly indebted countries like Italy (debt-to-GDP ratio of 150%). Simultaneously, unwinding PEPP risked widening spreads between core and peripheral bonds—fragmentation that could undermine monetary policy transmission.

In July 2022, the ECB introduced the Transmission Protection Instrument (TPI), an unlimited bond-buying tool explicitly designed to prevent "unwarranted" spread widening. TPI's announcement acknowledged that even as the ECB raised rates, it might need to simultaneously purchase sovereign bonds to prevent fragmentation. This seeming contradiction—tightening and easing simultaneously—illustrates the impossible position of a central bank managing a currency union without fiscal integration.

TPI also revealed the path-dependency created by earlier interventions. Once the ECB established itself as backstop, markets expected continued support. Withdrawing that support risked self-fulfilling crises. As Gabor notes, the ECB became trapped in a cycle where its interventions created expectations requiring further interventions[29]. This dynamic undermines the temporary, emergency nature of unconventional policies, they become permanent features of the institutional architecture.

Table N ° 2: Sovereign Bond Spreads During ECB Interventions (10-Year vs. German Bunds, basis points)

Country	Pre-OMT (July 2012)	Post-OMT (Dec 2012)	Pre-PEPP (Feb 2020)	Post-PEPP (June 2020)
Italy	536	312	162	183
Spain	629	399	70	93
Portugal	1109	496	65	78
Greece	N/A (under bailout)	1287	178	216
Ireland	647	301	31	44

(Source: Bloomberg data; ECB Statistical Data Warehouse. Note: Spreads represent difference between each country's 10-year government bond yield and German 10-year Bund yield.)

Fifthly: Implications for European Integration

The transformation of the ECB has profound implications for the structure and future of European integration, centering on tensions between efficacy and legitimacy.

1.Democratic Accountability and the "Deficit"

The primary implication is the exacerbation of the EU's democratic deficit. Central bank independence is designed for technical tasks (inflation targeting), not for allocative decisions with huge distributional consequences. When the ECB decides to buy Italian bonds but implies austerity measures, it is making political choices without electoral accountability. As Mabbett and Schelkle argue, this creates a "technocratic concentration of authority" where vital macroeconomic decisions are insulated from the voter. The European Parliament holds "Monetary Dialogues" with the ECB President[30], but these lack sanctioning power, rendering accountability weak and procedural rather than substantive.

2. Legal and Constitutional Tensions

The increased scope of the role of the ECB has resulted in a constitutional clash between the European legal system and national judiciaries. The GFCC has been questioning the competence of the ECB on multiple occasions. In its decision in the case *Weiss* of May 2020, the GFCC held that the PSPP could be considered as “ultra vires” (i.e., beyond the powers granted to the ECB) in case there had been no convincing proportionality justification for the programme. Although the constitutional conflict was temporarily resolved, it revealed the vulnerability of the European integration process. If a national court has the right to declare the measures adopted by an EU institution void, then the supremacy of EU law is jeopardized.

3."Integration by Stealth" vs. Treaty Reform

The ECB’s actions represent "integration by stealth." Because political leaders in the European Council were often unable to agree on fiscal union or Eurobonds (prior to the Next Generation EU fund), the ECB stepped in to fill the void[31]. This saved the Euro but relieved political pressure on member states to reform the institutional architecture formally.

This dynamic creates a moral hazard for European integration. It suggests that the EU can muddle through crises by relying on unelected technocrats to stretch the rules, rather than engaging in the difficult democratic process of Treaty revision to create a genuine fiscal union. The ECB has essentially bought time for politicians, but that time has rarely been used to build the necessary political union to support the monetary one.

Conclusion

The transformation of the European Central Bank from a narrow price-stability institution into a central political actor represents one of the most significant

developments in contemporary European governance. Through successive crises, including the Global Financial Crisis, the Sovereign Debt Crisis, and the COVID-19 pandemic, the ECB progressively expanded its mandate beyond conventional monetary policy in order to preserve the stability of the Eurozone.

This study demonstrated that the ECB's unconventional interventions, particularly OMT and PEPP, contributed to a gradual process of "integration by stealth," whereby deeper integration emerged through crisis management rather than formal treaty reform. Although these measures were effective in stabilizing financial markets, they also intensified concerns regarding democratic accountability, constitutional legitimacy, and the growing overlap between monetary and fiscal policy.

The analysis further showed that the ECB's evolution can be explained through both neofunctionalist spillover dynamics and intergovernmental political constraints. Functional pressures generated by the incompleteness of the Economic and Monetary Union pushed the ECB toward broader intervention, while member states relied on the institution to compensate for the absence of deeper fiscal integration.

Ultimately, the long-term sustainability of the Eurozone depends on reducing the structural imbalance between centralized monetary authority and fragmented fiscal governance. Without stronger democratic accountability mechanisms and a more coherent fiscal framework, the ECB will likely remain under continuous political and constitutional pressure.

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