1. Introduction

For institutions that are so inclined to 'boring' policy-making as the Governor of the Bank of England once put it (King, 2000), central banks' recent adoptions of non-standard policies has been remarkable. And for a central bank that is often characterized as a particularly conservative institution, the embrace of non-standard policies by the European Central Bank (ECB) is, if possible, even more remarkable. Since the start of the crisis, the ECB has not only acted on the main refinancing rate, but it has also granted banks unlimited access to liquidity against a broadened and riskier range of collateral and intervened directly in some market segments through asset purchases. Furthermore, like several central banks in the advanced economies, the ECB has also revised its communication strategy by providing guidance on the expected future path of its monetary policy stance (see Lombardi and Siklos 2014 for a comparative analysis).

In spite of its forceful response, however, the ECB has not been spared from criticism. In particular, the ECB's unconventional monetary policies (UMPs) have been criticized for their limited scope and duration. For instance, commenting on the design of the ECB's bond purchase programme, the Securities Market Programme (SMP), Paul De Grauwe notes that the ECB 'structured this program in the worst possible way… By announcing the program would be limited in size and time, the ECB mimicked the fatal problem of an institution that has limited resources', thus hopelessly impairing its successfulness (De Grauwe, 2012). The ECB's modest use of its balance sheet to counteract the crisis has nurtured the view that it is reluctant to take assertive, pre-emptive actions. This image is further confirmed when its actions since the start of the crisis are compared with that of the United States (US) Federal Reserve (Geithner, 2014)

This paper investigates why the ECB's UMPs were relatively modest during the crisis. Specifically, we focus on the design of a specific set of balance sheet policies, government bond buying programmes, and attempt to explain their policy *settings*.[1] We answer the question of why the ECB engineered these programmes with well-defined operational features in terms of scope of application (market segment and extent of intervention), duration and eligibility criteria.

In order to address this puzzle, we build from available explanations of the ECB's behaviour in the political science and public policy literature. In particular, three explanations are identified in the literature and are extensively discussed below. The first explanation indicates that legal constraints are the most important determinants of the ECB's behaviour. From this perspective, the design of the ECB's policies is largely explained by its overarching price stability mandate and the interpretation of the prohibition of monetary financing, stipulated in Article 123 of the Treaty on the Functioning of the European Union (TFEU). The second explanation emphasizes the influence exerted by the ECB's economic doctrine. It is hypothesized that the ECB's policies are meant to secure monetary dominance, in order to ensure that fiscal authorities abide by the sound budget principle. Finally, the third explanation of the ECB's behaviour emphasizes the influence exerted by institutional factors, such as the composition and decision-making structure of the ECB's Governing Council. From this perspective, the dominance of national concerns in the policy process is one of the major determinants of the ECB's decisions.

In what follows, we apply these arguments to the bond buying policies adopted by the ECB since the start of the crisis in 2008-09. Specifically, for each explanation we extrapolate a number of testable propositions that may help account for the specific features of the policies under investigation. We then provide evidence for our propositions by evaluating the ECB's policy settings during the crisis. We also identify other factors that have shaped the design of the ECB's bond buying policies, namely the ECB's conception of its own independence.

The contribution of this study is to clarify the role of political and organizational factors in the design of the ECB's monetary policies during the crisis. In addition, by systematically focusing on the monetary policy crisis response, our analysis contributes to the literature on the European

[1] As will be explained at greater length below, we use the term 'policy setting' following on Peter Hall's disaggregation of policymaking in terms of policy instruments, goals and settings (Hall 1993).

Union (EU) economic policy response to the crisis. That is to say, our analysis complements other scholarly works that have examined changes in fiscal policy, economic governance and financial regulation in the EU over the past five years (e.g. Begg, 2009; Copeland and James, 2013; Hennessy, 2013; Hodson, 2013; Howarth and Quaglia, 2013; Moschella, 2011).

Before proceeding, some clarifications are in order concerning the scope of the analysis, the dependent variable and the methodology. In terms of scope, we focus solely on a specific type of balance sheet policy, government bond buying programmes, because these have been the most controversial due to their distributional consequences across national lines and the potential fiscalisation of monetary policy.[2] However, balance sheet policies are broader than the purchases of public securities[3] and the ECB has designed other types of balance sheet policies during the crisis, including private sector asset purchases. Although in this paper we use the terms 'balance sheet policies' and 'bond buying programmes' interchangeably, our aim is to investigate the operational features of the policy instruments through which the ECB purchases government securities.

Furthermore, this study does not provide an explanation of why the bond buying policies were adopted in the first place. For instance, we do not address the question of whether the ECB acted in anticipation to, or as a consequence of the fiscal and structural adjustment undertaken by eurozone member states (on this issue see, e.g., [Howarth, 2004]). Likewise, the paper does not take a position on whether the bond buying policies are better characterized as quantitative easing (QE) or credit easing.

The dependent variable in this paper is the 'settings' selected for the bond buying policies. By 'settings' we mean the distinct operational features that policymakers assign to a policy instrument. As Peter Hall (1993) famously put it, there are three central variables that are involved with policy-making: 'the overarching goals that guide policy in a particular field, the techniques or policy instruments used to attain those goals, and the precise settings of these instruments' (Hall,

[2] As will be discussed below, buying public assets may influence the financing conditions of public budgets.
[3] For instance, balance sheet policies include liquidity provision to funding and credit markets, bond purchases, large-scale foreign exchange intervention and credit provision to the private sector among other measures (see, e.g., (Stone, Fujita and Ishi, 2011).

1993, 278). Indeed, the same instrument may be designed in several different ways. To follow Hall's example: 'if the goal of the policy is to alleviate the financing problems of the elderly, the chosen instrument might be an old age pension, and the setting would be the level at which benefits are set' (Hall, 1993, 278). Applied to the policy under investigation, in designing bond buying policies, policymakers need to decide the scope of application, including the market segment in which to intervene, the extent of the intervention, the duration of the asset purchases, and the criteria to follow in deciding what securities to buy. The scope of application, duration, and eligibility criteria of bond buying programmes are thus our dependent variables.

Finally, in terms of methodology, it is worth reminding the reader that the ECB does not yet publish minutes of its policy meetings.[4] This means that we cannot ascertain how specific policy choices were derived within the meetings. However, we try to make up for this limitation by triangulating among different empirical data. The analysis draws on data from official documents (ECB statements and publications), financial press reports and semi-structured interviews with policymaking elites (central banking officials, politicians and academics). Furthermore, we examined the speeches of the ECB's Governing Council members from the Bank for International Settlements (BIS) database in order to detect the logic that has inspired the design of the ECB's monetary policy.

The rest of the paper is organized as follows. Section 2 reviews the main factors that are used to account for the ECB's monetary policy choices. For each of them, we extrapolate propositions that may help account for the policy settings of the ECB's balance sheet policies. Section 3 introduces the ECB's monetary policy response to the crisis and its evolution from 2008 onwards. In Section 4 we discuss the features of the ECB's balance sheet policies and bring to the surface the factors that account for their institutional design. Finally, section 5 concludes by reflecting on the findings and discussing their potential implications for future research.

[4] In July 2014 as part of the press conference after the ECB's Governing Council meeting, Mario Draghi announced that the council had committed to publishing 'regular accounts' of its monetary policy meetings starting in January 2015. See http://www.ecb.europa.eu/press/pressconf/2014/html/is140703.en.html.

2. Explanations of the ECB’s Behaviour

There is no shortage of academic studies on the ECB. In political science, attention has often focused on questions related to the central bank’s independence and accountability (Elgie, 1998; Jabko, 2003; Torres, 2013; Verdun, 1998) and to the contribution of the ECB to the functioning of the European Monetary Union (EMU) (Dyson, 2000; Hodson, 2011; Howarth, 2004; Howarth and Loedel, 2003). This literature also contains important insights that help explain the ECB’s bond buying policies by unveiling some of the sources of the ECB’s preferences. Specifically, we identify three strands of scholarship each of which emphasizes distinct fundamentals for explaining the ECB’s behaviour – namely, legal, doctrinal and institutional fundamentals. From each explanation, we extrapolate a number of propositions concerning how each explanatory factor influences the design of the ECB’s bond buying policies (Table 1). These propositions will be empirically tested in Section 4.

[Insert Table 1 around here]

2.1. The Legal Fundamentals

The ECB’s behaviour is often explained by the mandate and legal provisions that govern the central bank’s activity. The Treaty mandates the ECB to pursue price stability, and, without prejudice to this objective, it shall also support the general economic policies in the Union. The ECB’s mandate thus clearly prioritizes price stability over any other macroeconomic objectives.[5] As some ECB officials have put it, ‘The primary mandate of the ECB is enshrined in primary

[5] On the legacy of history for the ECB monetary policy strategy see also (Issing et al., 2001).

legislation (Article 282.2 TFEU) and has to be followed in whatever circumstances, be it in goldilocks or stormy times' (Salines, Glöckler and Truchlewski, 2012, 671). The traditionally strict interpretation of the mandate is reinforced by the dominant belief within the ECB that the maintenance of price stability is 'the best monetary policy can do to foster a high rate of growth of output' (Issing et al., 2001, 67; Jabko, 2003).[6]

The prohibition on monetary financing (Article 123 TFEU) is also expected to exert a constraining effect on the ECB's policy decisions (Yiangou, O'Keeffe and Glockler, 2013). According to Article 123, the ECB is not allowed to provide 'overdrafts or any other type of credit facilities' to public entities, nor can the ECB purchase directly 'debt instruments' from these public entities. Although most major central banks face the same restrictions, the ECB has interpreted this clause more strictly in that it refrains from designing policies that can be assimilated to the act of financing government spending through money creation. The strictness of the ECB's interpretation is related to heightened concerns over moral hazard because of the fact that it would involve distributing the burden of the debt over national lines.

From these insights we derive two propositions that help explain the ECB's behaviour when choosing the policy settings for its balance sheet policies.

Proposition 1: The ECB designs policy settings of bond buying programmes with the aim to reduce the deviation from the ECB's primary objective of price stability.

Proposition 2: The ECB designs policy settings of bond buying programmes with a view of reasserting a strict interpretation of the prohibition of monetary financing by limiting the risk of moral hazard from national governments.

[6] While this was the dominant view among central bankers at the turn of the century, since the crisis the idea that strictly targeting price stability is the best contribution monetary policy can make to growth has become more controversial because of the effects of monetary policy on financial stability (see, e.g., Brookings [2011];Woodford [2012]).

2.2. Economic Doctrine Fundamentals

The ECB's monetary stance is also often explained by the policy consensus at the origins of the EMU creation. In particular, a consensus gradually emerged, and was eventually incorporated in the Maastricht Treaty and the ECB Statute, according to which the EMU should be built around the concept of stable money (Issing et al., 2001, 3; McNamara, 1998). However, for the central bank to focus primarily on price stability, the corollary is the principle of fiscal rectitude, which was enshrined in the Stability and Growth Pact (SGP). In economic jargon, monetary dominance requires passive fiscal policy (see, for instance, Woodford, 2001). This means that domestic authorities should be ready and willing to use the fiscal levers (revenues and primary spending) in order to stabilize debt at any level of the interest rate that the central bank chooses – the opposite would imply fiscal dominance.

This dual approach centered on stable money and fiscal rectitude thus lies at the heart of the EMU and reflects what can be labeled as the 'German bias' of the monetary union. Indeed, Germany significantly shaped the design of monetary co-operation (Dyson and Featherstone, 1999), transposing German preferences for strict price stability, central bank independence and fiscal rectitude at the EU level (Blyth, 2013, 141). 'As a result, the current policy-making process and politics of the ECB bear a deep-seated teutonic flavor' (Howarth and Loedel, 2003, 52) which, in turn, stems from the events of the 1920s, and the subsequent experience of the 1970s and 1980s, when central banks were enlisted to finance budget deficits with inflationary consequences.

From this perspective, the expectation is that ECB policies aim at ensuring monetary dominance. This leads us to the following expectation:

Proposition 3: In deciding the settings of its bond buying policies, the ECB opts for mechanisms that actively push domestic authorities to achieve fiscal discipline.

It is worth noting that the logic here is different from that suggested by the legal provision against monetary financing discussed above. Whereas the prohibition of monetary financing implies that the ECB engineers policy settings that are meant to react to cases of fiscal indiscipline, the 'monetary dominance' argument suggests that the ECB designs settings that actively search to induce fiscal discipline.

2.3. Institutional Fundamentals

Finally, the scholarship on the ECB-EMU has recently drawn attention to the institutional factors that shape the ECB policy preferences (Hodson, 2011). According to this explanation, the most significant variable for explaining the ECB's behaviour is the composition and structure of the ECB's Governing Council and, in particular, the dominance of national interests. Indeed, only 6 out of 24 members of the Governing Council are appointed by the EU, the rest are the central bank governors of the 18 members of the eurozone. This is in stark contrast to the Federal Reserve System, for instance, where the 7 members of the Fed's Board of Governors represent a majority within the 12-member Federal Open Market Committee (FOMC), while only 5 of the 12 regional bank presidents have the right to vote at each meeting. This difference suggests that the Eurosystem decision-making structure is a relatively more decentralized central bank because it grants state interests a stronger role in the decision-making process. As a result, 'the positions taken individually by the regional Fed presidents are less relevant for the conduct of the US monetary policy than those taken in the eurozone by the national central bank governors' (Bini Smaghi, 2013).[7]

The fact that national voices play a prominent role in the ECB's decision-making has been used to demonstrate that the ECB has often been a reluctant player in the expansion of the

[7] However, it should remembered that according to Article 130 of the TFEU: 'neither the European Central Bank, nor a national central bank, nor any member of their decision-making bodies shall seek or take instructions from Union institutions, bodies, offices or agencies, from any government of a Member State or from any other body.'

community dimension of the EMU, in contrast to the supranational preferences of other EU institutions (Hodson, 2011, Ch. 2). These important insights can be extended to the design of the UMPs in order to explain why the ECB acted as a 'reluctant rescuer'.[8] This brings us to the following expectation:

Proposition 4: The ECB designs policy settings with the view to assuage political opposition within the monetary policy committee.

3. The ECB's Unconventional Monetary Policies

Since the start of the global financial crisis in 2007-08, the ECB has been at the front lines of repairing financial market dysfunctions and restoring the foundations necessary for sustained economic growth in the eurozone. In order to achieve these goals, the central bank has displayed both traditional and non-traditional weaponry.

To start, official interest rates were gradually cut, bringing the main refinancing rate from 3.75% to 1% within a span of less than seven months (from October 2008 to May 2009); it has since been furthered lowered to 0.05%.[9] Aside from the interest rate decisions, the ECB adopted a set of policies that it recognizes as being 'non-standard' and 'unprecedented in nature, scope and magnitude'.[10]

First and foremost, the ECB relied extensively on non-standard liquidity facilities in order to meet banks' increased demand for liquidity and to reduce uncertainty. Already in August 2007, the ECB provided liquidity to facilitate the orderly functioning of money markets. In December, the

[8] See e.g., The Economist (2011) and Filardo and Hofmann (2014) on the implications of decentralized policy decision-making committees for the formulation of forward guidance.
[9] In addition to the decision to cut the rate on the main refinancing operations, the Governing Council has also repeatedly cut rates on the marginal lending facility and the deposit facility.
[10] ECB website, available at http://www.ecb.europa.eu/mopo/decisions/html/index.en.html Accessed on 8 September 2014.

ECB took joint action with the Federal Reserve by offering US dollar funding to Eurosystem counterparties. In October 2008, the ECB decided to conduct all liquidity-providing operations through a fixed-rate tender procedure with full allotment.[11] By May 2009, the need for further stimulus led the Governing Council to further deviate from its standard liquidity operations by deciding to increase the frequency and size of its longer-term refinancing operations within the framework of the so-called Enhanced Credit Support, extending the maturity from its initial six months up to twelve months.

In December 2011, the ECB introduced its most aggressive non-standard liquidity facilities: two three-year long-term refinancing operations (LTROs).[12] The operations were conducted in December 2011 and February 2012 and provided €1 trillion to the financial system. Similar to the Enhanced Credit Support, access to these longer-term loans was unlimited and based on a fixed-rate full allotment tender procedure. To further improve banks' liquidity positions, with a view of resuming credit flows to the real economy, the ECB launched the targeted long-term refinancing operations (TLTRO) in June 2014 through which banks would be allowed to borrow up to €400 billion of cheap four year loans.

The adoption of forward guidance in July 2013 further added to the ECB's unconventional policy tools. Similar to other central banks in advanced economies, the ECB started stating the expected future path of its monetary policy rate. It is worth noting, however, that the ECB's forward guidance differs from those adopted by the US Fed or the Bank of England (BoE) in some important respects. Whereas the latter committed to a specific path of the policy rate anchored to specific thresholds, the ECB merely reasserted its views on the likely path of the policy rate given current economic projections (Campbell et al. 2012).

Finally, and particularly important for the purpose of this paper, the ECB discussed and adopted a number of policies that involved the purchases of private and public securities. In July

[11] This is in contrast to normal refinancing operations where the Eurosystem auctions a pre-set amount of central bank liquidity in a variable rate tender procedure.
[12] At the same time, the ECB reduced the reserve ratio from two percent to one percent and expanded collateral eligibility.

2009, the ECB introduced the Covered Bond Purchase Programme (CBPP); a second and third round of the programme was announced in October 2011 and June 2013, respectively. The goal of the CBPP is to improve liquidity in the banking sector by purchasing covered bonds, a major source of funding for European banks, both in the primary and secondary markets. In theory, these purchases improve banks' collateral positions, granting them access to longer-term loans and therefore stimulating lending to non-financial corporations and households. As credit flows to the real economy have remained anemic, the Governing Council has announced new actions that involve additional purchases of private securities. On top of a third round of the CBPP, in September 2014 the Governing Council reached a decision to start outright purchases of a broad portfolio of asset-backed securities (ABS).

In addition to these measures, the ECB has developed a number of policy instruments that involve the purchases of government securities; we will turn to them now.

4. The Policy Settings of the ECB's Public Bond Buying Programmes

Since the start of the crisis, the ECB designed two facilities involving the purchases of government securities. The first is the Securities Market Programme (SMP), through which the Eurosystem conducted outright purchases of private and public securities. The SMP was initially introduced in May 2010 and later resumed in August 2011. It has three main operational features: asset purchases were confined to the secondary market; purchases were sterilized – meaning the monetary base remains unchanged because the ECB sells assets equivalent to the assets purchased under the program, and; the program was temporary.

The second programme involving the purchase of public securities is the Outright Monetary Transactions (OMT) programme. The OMT programme was foreshadowed in ECB President Mario

Draghi's pledge to do 'whatever it takes' to save the euro in July 2012.[13] The technical details were then clarified by a Governing Council decision in August that same year.[14] As the ECB has forcefully indicated, the OMT programme was adopted to preserve the singleness of monetary policy and to ensure the proper transmission of the monetary policy stance throughout the euro area. The OMT programme shares several of the features of the SMP. First, it was designed as a temporary policy or, as one of the ECB Governing Council members put it, it was designed with 'a built-in exit strategy' (Cœuré, 2012). Second, the purchases are confined to government bonds with a maturity between one and three years and are sterilized, like with the SMP. Finally, purchases under the OMT programme are neither universal throughout the eurozone, nor automatic. Rather, the eligible assets are solely those of countries that participate in a macroeconomic adjustment program with the European Stability Mechanism (ESM), which envisage strict fiscal and structural conditionalities.[15]

The operational features of the SMP and OMT programme are largely explained by the ECB's legal mandate, as captured by proposition 1. For instance, the sterilization of its interventions has been instrumental in differentiating between the ECB's balance sheet policies from the QE programs pursued by other major central banks (see, e.g., ECB 2011: 53). In the words of the former ECB President, Jean-Claude Trichet, '[b]y contrast with what other major central banks have done, we are not purchasing government bonds in order to inject liquidity into the markets. What we are doing is fundamentally different: we sterilise' (Trichet, 2010c). In other words, in order to signal that its monetary policy stance was unchanged, the ECB sterilized its asset purchases to narrow the monetary impact.

The settings of the OMT programme also reveal the priority assigned to the ECB's price stability mandate, as proposition 1 would lead us to expect. As Draghi forcefully put it, in deciding

[13] This phrase was uttered in a speech by Mario Draghi at the Global Investment Conference in London on July 26, 2012. http://www.ecb.europa.eu/press/key/date/2012/html/sp120726.en.html
[14] With the adoption of the OMT programme, the SMP was terminated.
[15] A further feature of the OMT programme is that the ECB accepts the same (*pari passu*) treatment as private or other creditors with respect to bonds purchased. In contrast to the SMP, however, there are no ex ante quantitative limits on the size of OMTs.

on the OMT, ‘we act strictly within our mandate to maintain price stability over the medium term’ (Draghi, 2012). In particular, the choice to purchase bonds with maturities between one and three years reveals the Governing Council’s attempt to ‘normalize’ its asset purchases, that is, to use the same operational features that characterize its standard monetary policy. As Draghi explained in response to a question following the announcement of the vote on the OMT programme, ‘it is three years because it seemed to us the maximum most effective maturity to target: it is close to our short-term policy rates; it affects also the medium-term yield curve; it is close to the rates that are being used to lend to the private sector’ (Draghi, 2012).

The settings of the SMP and OMT programme also reveal that the ECB designed these policies with the view of avoiding a breach to the monetary financing prohibition and minimizing the risk of moral hazard as captured by proposition 2. In the words of the ECB, ‘[i]n defining the operational modalities for OMTs, particular care has been given to the need to comply with the prohibition on monetary financing laid down in Article 123 of the Treaty on the Functioning of the European Union (TFEU)’ (ECB, 2012, 7). Deciding to intervene only on the secondary market and to limit the impact of the purchases via sterilization also served to address moral hazard concerns. Indeed, as the former President of the ECB explained the rationale behind the SMP in front of the European Parliament he indicated, ‘[t]he Treaty prohibits the direct purchase by the ECB of debt instruments from governments. We are buying bonds on the secondary market only’ and these purchases ‘cannot be used to circumvent the fundamental principle of budgetary discipline’ (Trichet, 2011). In other words, the operational features of the bond buying programmes are meant to prevent the possibility of moral hazard from governments by signaling to them that the ECB’s interventions will be limited in scope and impact.

The empirical evidence also lends support to the expectation suggested by proposition 3: the ECB designed its bond buying programmes such that they do not simply remind governments of their fiscal obligations but also try to induce fiscal discipline. This is particularly evident in the choice of the time frame as well as the eligibility criteria that underpin such programmes. For instance, the temporary nature of the SMP was meant to ensure that member states not simply abide but step up efforts towards fiscal discipline in anticipation of the withdrawal of the ECB’s support. In the words of Trichet, ‘the first – and absolutely necessary – condition for success [of the SMP] is that governments *accelerate* fiscal consolidation and are unwavering in their implementation of the tough measures that are indispensable’ (Trichet, 2010b). The influence of the ECB’s monetary doctrine is also evident in the time frame and eligibility criteria that define the workings of the OMT programme. One member of the Governing Council presented it as, ‘[t]he design of OMTs has been inspired by the desire to affirm in a lasting manner “monetary dominance”, in compliance with the principles enshrined in the Maastricht Treaty’ (Cœuré, 2012). In particular, the OMTs will be terminated if there is non-compliance with the conditionalities established in the ESM program. In other words, the settings of the program are designed not only to prevent moral hazard as per proposition 2, but were also developed as a tool to induce member states to commit to fiscal discipline, lending further support to proposition 3 (see also Yiangou, O'Keeffe and Glockler, 2013, 234).

Institutional factors, captured by proposition 4, likely tightened the eligibility criteria of the purchases under the OMT programme, namely the sovereigns’ requirement to be part of a conditionality programme. Given the distributional implications of the asset purchases across national borders, it is likely that the former President of the Deutsche Bundesbank, Axel Weber, and the ECB’s former chief economist, Jürgen Stark, voted against the SMP as they both resigned shortly after its announcement, perhaps out of disagreement or to protest against the bond buying programme. The vote over the OMT programme was equally not unanimous. Although the President of the ECB, Mario Draghi, did not name the lone dissenter in the press conference held on 6 September 2012 when the operational details of the OMT programme were announced, there are few doubts that it was Jens Weidmann, president of the Bundesbank. Weidmann has been very public about his institution’s opposition to the OMT programme. In a speech released just one month after Draghi pledged to do ‘whatever it takes’ to save the euro, he noted that, ‘[w]hen the central banks of the eurozone purchase the sovereign bonds of individual countries, these bonds end up on the Eurosystem's balance sheet. Ultimately the taxpayers of all other countries have to take responsibility for this. In democracies, it's the parliaments that should decide on such a far-reaching collectivization of risks, and not the central banks.'[16] Although it is difficult to reach firm conclusions in the absence of the minutes of the meetings of the Governing Council, it would be naïve to think that the Bundesbank vocal opposition was not inconsequential in light of its influential role in the creation of the EMU (Dyson and Featherstone, 1999). Hence, it is likely that settings such as conditionality were used to satisfy opposing political forces within the Governing Council.[17] Despite such efforts, no purchases were made under the OMT programme as it was deferred for review by the German Constitutional Court, who later referred it to the European Court of Justice.

Although the influence exerted by the price stability mandate, the interpretation of the clause on monetary financing, the economic doctrine and the decision-making structure finds confirmation in the analysis, as per propositions 1 to 4, there are other factors that explain some of the policy settings of the ECB's bond buying programmes that have not already been accounted for. In particular, the need to reassert its independence is an important explanatory factor in the design of the bond buying programmes. Indeed, the ECB designed such programmes to demonstrate that it maintains an uncompromising stance towards member states. For instance, in the interview in Der Spiegel following the adoption of the SMP, Trichet rejects as 'ridiculous' the charge that the ECB's decisions were influenced by pressure from governments:

> '[w]e take our decisions completely independently and have a track record of taking positions contrary to those of the Heads of State and Government in refusing to decrease rates, in 2005 in increasing rates against their wishes, and throughout this period in fiercely

[16] This quote is from an interview that Der Spiegel conducted with Jens Weidmann on 29 August 2012 http://www.spiegel.de/international/europe/spiegel-interview-with-bundesbank-president-jens-weidmann-a-852285-2.html.

[17] Despite these efforts, however, the program was still met with dissent and no purchases have been conducted under the program as it continues to await judicial review.

defending the Stability and Growth Pact including defending it against the German Chancellor of the time. … If there has been any direction of influence, it has been more in the opposite direction, from the ECB to governments, when making recommendations to them' (Trichet, 2010a).

The operational modalities of the OMT programme clearly reflect the ECB's concerns over its independence. Specifically, the OMT programme was designed to be temporary and with conditional purchases in order to safeguard the ECB's operational independence. Indeed, as the ECB itself clarified, the Governing Council decides on the duration of the policy based solely on its 'monetary policy perspective'. Furthermore, it is up to the Governing Council to (re)assess the eligibility criteria of its purchases by closely monitoring developments in the countries under an ESM programme (ECB, 2012, 8-9). The design of the OMT programme was thus instrumental to reasserting that the central bank 'act[s] independently in determining monetary policy' (Draghi, 2012).

5. Discussion and Conclusion

Unconventional monetary policies have attracted a lot of attention, as well as criticism, to central banks. The purchase of government securities has been among the most debated and controversial policies. This controversy derives from many factors. To start, public bond buying programmes are often viewed with skepticism because they may create conditions that discourage fiscal discipline (Issing, 2013, 275). Furthermore, by pushing central banks into a quasi-fiscal territory (c.f. Bank of England, 2012; Cecchetti and Schoenholtz, 2011, ch. 18; Dobbs et al., 2013), bond buying programmes are considered risky to central banks' statutory independence (Orphanides, 2013). Since the distributive effects of the purchases of government securities in the eurozone largely follow national lines, it is not surprising that the ECB's interventions in the sovereign debt markets have grasped most of the public and scholarly attention.

This paper analysed the public bond buying programmes adopted by the ECB in response to financial turbulence in the eurozone. In particular, we examined how the ECB chose the policy settings of the SMP and of the OMTs. Designing the asset purchase schemes presents policymakers with a number of alternative choices including which markets to intervene in and the extent of the interventions. Furthermore, it requires policymakers to decide whether to limit purchases and how to define the criteria that guide these purchases, namely which securities are eligible to be purchased and which ones are not.

The stronger political implications of bond buying programmes make these policies an interesting case study in assessing the relative influence of the legal, intuitional and ideational factors identified by the literature on the ECB's policy preferences. The analysis systematically tested the findings of this literature and found support for the propositions that are derived from them.

The findings of this paper lend support to the proposition that the scope of application, the duration and the eligibility criteria of the ECB's bond buying policies were significantly influenced by the ECB's overriding mandate to ensure price stability and by its own interpretation of the Treaty's prohibition of monetary financing. Indeed, in designing the operational features of its bond buying policies, the ECB aimed first and foremost at devising mechanisms that safeguarded price stability and avoided any appearance that the ECB was acting in a breach of the Treaty. In the words of one of the members of the ECB's Governing Council, '[w]e have employed non-standard – not un-orthodox – monetary policy instruments precisely for the reason to achieve our orthodox monetary policy objective of price stability' (Asmussen, 2013). Confining purchases to the secondary markets, limiting the impact of the interventions by sterilizing assets purchases and defining their duration ex ante were all settings for minimizing the deviation from 'standard' policy.

The economic policy consensus that stands at the core of the EMU and the subsequent establishment of the ECB has also significantly influenced the policy settings of the SMP and OMT programme. In particular, the ECB designed these two policies with built-in mechanisms that explicitly push governments to step up their efforts to balance budgets. The eligibility criteria that underpin the purchases under the OMT program well itemize this point. Indeed, the ECB decided that the eligible assets would be based on no other consideration than abidance to fiscal and structural conditionalities. In other words, the selected policy settings were not simply designed with the aim of safeguarding its resources against the risk of moral hazard from national governments, but were also explicitly designed to ensure that they do not deviate from fiscal discipline. Finally, in line with the expectation that institutional constraints of the ECB's monetary policy committee influence its decisions, the subordination of purchases to conditionality is an operational feature that was likely selected to help forge a collegial decision within the Governing Council and, in particular, to assuage the Bundesbank's opposition.

In addition to the influence exerted by legal, ideational and institutional factors, the analysis also reveals that the design of the operational modalities of the SMP and the OMTs were also shaped by another factor that has not been sufficiently appreciated by existing studies on ECB policy preferences and behaviour. This factor can be defined as 'accountability culture', which refers to a specific organizational understanding of what the central bank is accountable for and to whom. As for the ECB, the central bank sees itself as the quintessential example of an independent agency responsive almost exclusively for price stability (Issing, 2011; Jabko, 2003). In other words, the ECB conceives of itself as being fully independent from government in that it is not responsive to national or supranational governments, but its actions should be solely responsive to what an essentially inviolable international treaty assigned it to do (Posen, 1993). Hence, the ECB can be considered as both *de jure* and *de facto* one of the most independent central banks in the advanced economies (Quaglia, 2008) and has demonstrated the ability to resist pressures to pursue monetary policy in the interests of certain member state governments (Howarth and Loedel, 2003). The crisis response has not been different. When the former ECB President forcefully defended the decision to raise interest rates as the crisis was gaining strength in July 2008, he stated '[t]he Governing Council of the ECB did not hesitate to increase rates … in a period of financial turbulence in order to ensure price stability. ... This is a measure of our inflexible determination' (Trichet, 2010a). That is to say, the ECB wanted to reassert loudly and publicly that it is fully independent from governments in its monetary policy decisions. The same logic can be detected in the policy settings of its bond buying policies. In particular, the pre-defined duration and the conditional criteria guiding the asset purchase choices were used to demonstrate the ECB's uncompromising independence in judgment and actions towards member states.

In this conclusion, it is worth reflecting on the broader implications of the ECB's choice to limit the scope of application, duration and eligibility criteria of its unconventional monetary policies. In the face of an enormous economic and financial crisis, what explains the decision of the ECB to shy away from more aggressive monetary policy interventions? The most common narrative is that the ECB is hamstrung by its political masters. According to such a narrative, the ECB's unconventional monetary policies are the result of a broader political climate in which member states are unwilling to give up their sovereignty to rescue the eurozone. Our analysis points to the validity of this argument. The legal mandate of the ECB and the latter's own interpretation of it, the prohibition of monetary financing and the decision making structure of the ECB account for the relatively modest quantitative easing policies of the central banks in response to the crisis. However, at the same time, our analysis does not portray the ECB as a helpless captor to its political masters. As we point out, the ECB's government bond buying program was designed in a manner to induce fiscal discipline by deficit countries. By restricting the OMT program to government bonds with one to three year maturities and to governments participating in the ESM, the ECB was deeply committed to instilling fiscal discipline and avoiding the moral hazard effects of bailing out national governments that demonstrated a lack of fiscal discipline before and after the crisis. This is where the ECB's internal institutional culture, embodied in the ECB's economic doctrine, plays an important and influential role. The ECB aims at ensuring the continuation of monetary dominance and the strict separation of fiscal and monetary policy responsibilities. This is important in explaining why it initiated a comparatively open-ended liquidity facility under the

CBPP and SMP and a narrow and conditional government bond purchasing program under the OMT. Accordingly, the ECB was willing to introduce quantitative easing policies to provide liquidity facilities to financial firms in response to the crisis but was unwilling to instill credit easing for sovereigns who were fiscally ill-disciplined. The ECB was reluctant to enter quasi-fiscal territory because of its expected impact on the independence of the institution, which it fiercely protected, and because the poor fiscal discipline that would have resulted would have had a negative impact on the monetary policy transmission mechanism going forward. The ECB's monetary policy decisions were certainly influenced by the political constraints it faced but it is important to recognize that the decisions it made were its own.

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Table 1. Factors and expectations for the choice of the policy settings of the ECB's bond buying policies

Factor	*Expectations*
Legal mandate	Settings that reduce the deviation from the ECB's primary objective
Monetary financing prohibition	Settings that prevent moral hazard from national governments
Economic doctrine	Settings that actively push domestic authorities to achieve fiscal discipline
Decision-making system	Settings that help assuage political opposition