



*This note explores the monetary policy responses of the European Central Bank (ECB) and the US Federal Reserve (Fed) during major economic crises over the past two decades, focusing on how their differing legal mandates – the Fed’s **dual mandate** (price stability and maximum employment) versus the ECB’s **single mandate** (price stability) – have shaped their actions. Despite these institutional differences, the analysis finds that:*

- *In practice, both central banks often responded in **similar** ways to major shocks, particularly during the global financial crisis and the post-pandemic inflation surge.*
- *This convergence reflects the fact that their underlying objectives – controlling inflation and supporting employment – are closely aligned in effect, even if only one of them is formally enshrined in law.*
- *However, the ECB’s narrower mandate might have, at times, **constrained** its policy flexibility. A key example is the 2010–2012 sovereign debt crisis, during which the ECB raised interest rates despite persistently high unemployment in several Eurozone countries and overall monetary policy area – an approach that might have **differed** had its mandate explicitly included employment.*
- *Regarding the Fed, the so-called “Yellen rate hikes” between 2015 and 2018 were largely driven by concerns about an overheating labour market, with the employment side of the Fed’s mandate playing a dominant role in policy decisions during that period.*

Disclaimer: *The views expressed in this commentary are those of the authors and do not necessarily reflect those of the Bank of Lithuania or the European System of Central Banks.*

Introduction

It is certainly true that central banks are tasked with preserving price stability, yet the scope and interpretation of that mission can vary significantly across institutions. The US Federal Reserve (Fed) and the European Central Bank (ECB) serve as two of the world’s most influential monetary authorities, but their legal mandates differ quite notably (Table 1). The Fed operates under a dual mandate: to achieve both price stability and maximum employment. The ECB, by contrast, is legally bound to prioritize price stability in the medium term above all else, with support for broader economic goals permissible only if it does not conflict with that primary objective. These differing institutional foundations raise an important question: do legal mandates alone account for differences in central bank behavior, or have broader political, economic, and interpretive choices also shaped policy outcomes?

Table 1. Legal Definitions of the Central Banks' Mandates

Bank Legal Aspect	European Central Bank	Federal Reserve
Primary Legal Mandate	“The primary objective of the European System of Central Banks (hereinafter referred to as 'the ESCB') shall be to maintain price stability . Without prejudice to the objective of price stability, the ESCB shall support the general economic policies in the 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” (Treaty on the Functioning of the European Union, Article 127(1)).	“The Board of Governors of the Federal Reserve System and the Federal Open Market Committee 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 ” (Federal Reserve Act, Section 2A).
Specification of Powers	“The basic tasks to be carried out through the ESCB shall be: to define and implement the monetary policy of the Union; to conduct foreign-exchange operations consistent with the provisions of Article 219; to hold and manage the official foreign reserves of the Member States; to promote the smooth operation of payment systems” (Treaty on the Functioning of the European Union, Article 127 (2)).	“To require bonds of Federal reserve agents, to make regulations for the safeguarding of all collateral, bonds, Federal reserve notes, money or property of any kind deposited in the hands of such agents, and said board shall perform the duties, functions, or services specified in this Act, and make all rules and regulations necessary to enable said board effectively to perform the same” (Federal Reserve Act, Section 11(a)).

Source: Authors' Summary

This note investigates the extent to which the Fed and the ECB have adhered to—or moved beyond—their formal mandates in practice. Specifically, it examines how each institution has navigated major economic shocks, including the early 2000s recovery, the global financial crisis, the euro area sovereign debt crisis, and the post-pandemic inflation surge following the full-scale invasion of Ukraine. It mainly focuses on three dimensions: interest rate and other policy decisions, inflation forecasting (and its accuracy), and the evolving nature of central bank communication during times of uncertainty.

By comparing the policy trajectories of the Fed and the ECB during key moments over the past two decades, the note aims to ascertain not only the possible divergences in monetary strategy, but also whether those divergences can be traced back to institutional design—or whether they reflect broader discretion in interpreting mandates. While both central banks aim to preserve credibility and stabilize expectations, their paths suggest sometimes differing yet, in most cases, converging views on how much flexibility monetary policy should allow in addressing complex economic trade-offs. Understanding these differences and similarities is crucial, particularly as central banks face renewed challenges in a world of heightened geopolitical risk and persistent inflation uncertainty.

The structure of the note is as follows: Section 1 – Literature Review; Section 2 – Case Study: The European Central Bank in Light of Crises; Section 3 – Case Study: The Federal Reserve and its Reaction to Economic Turmoil; Section 4 – Concluding Remarks: Do the Institutions Diverge?

1. Literature Review

A growing body of comparative monetary policy research has examined how legal mandates shape central bank behavior, particularly in times of crisis. A lot of the literature agrees that institutional design—not just macroeconomic context—sometimes plays a role in determining whether central banks act preemptively, flexibly, or conservatively.

Ligthart et al. (2016), in *The ECB and the Fed: A Comparative Narrative*, provide a detailed account of how both institutions responded to the Global Financial Crisis and subsequent Eurozone debt turmoil. The study argues that the Fed's dual mandate—explicitly requiring attention to both price stability and maximum employment—enabled a faster and more aggressive policy response, including interest rate cuts, large-scale quantitative easing (QE), and direct attention to labor market slack. By contrast, the ECB's narrower focus on price stability and financial fragmentation, compounded by legal and institutional constraints inherent in a multi-country monetary union, resulted in a more cautious approach. The 2011 ECB rate hikes, viewed by scholars like De Grauwe and Ji (2013) as a policy error, underscored how the bank's mandate contributed to delayed and potentially harmful decision-making. Ligthart et al. suggest that a Fed-style framework might have enabled the ECB to act sooner and more comprehensively, thereby mitigating unemployment and the risk of a second recession.

Wessel and Milstein (2022) examine the Fed and ECB's updated strategic frameworks during the COVID-19 crisis. The Fed's move to Flexible Average Inflation Targeting (FAIT) allowed for a temporary overshoot of the 2% inflation target, explicitly linking policy to inclusive employment outcomes. The ECB, while updating its strategy to emphasize symmetric inflation targeting, retained employment as a secondary concern. These differences, they suggest, proved consequential: the Fed's broader framework enabled it to respond more assertively to labor market shocks through both rate policy and asset purchases, while the ECB remained legally and politically constrained. The paper reinforces the view that mandate flexibility directly influences crisis responsiveness.

Fontana (2006) provides a theoretical foundation for these empirical findings. Comparing the legislative mandates of the Fed and the ECB, he concludes that the Fed's dual objective allows for a more adaptable monetary stance in the face of labor market volatility. The ECB's pure inflation-targeting model, by contrast, leads to a constrained policy rule that often cannot accommodate prolonged unemployment or slow recoveries without jeopardizing legal credibility.

Derviş (2012) similarly argues in favor of employment targeting, emphasizing the Fed's use of explicit unemployment thresholds under Bernanke. He suggests that the ECB could, in times of extreme crisis, temporarily prioritize employment—even within the boundaries of its existing legal framework—to better manage the human and economic costs of mass joblessness. This notion of "constructive reinterpretation" of the ECB's mandate hints at a potential policy path not widely adopted up until 2012.

Bohl and Kanelis (2023) employ text-mining techniques to show how communication tone reflects mandate structure. Post-crisis, the Fed has increasingly emphasized unemployment expectations, while the ECB has remained focused on inflation in its public messaging. This highlights how mandates sometimes not only affect actions but also the narrative frameworks central banks use to justify policy.

In addition to that, the more empirical side of the topic concerning aspects like the Taylor rule literature provides crucial empirical foundations for understanding how the two central banks systematically respond to inflation and output variations. At first, Taylor's (1993) original formulation suggested policy rates should respond with coefficients of 1.5 to inflation and 0.5 to output gaps based on the formula defined below:

$$r_t = r^* + \pi_t + \phi_\pi(\pi_t - \pi^*) + \phi_y(y_t - y^*);$$

where r_t is the policy rate, π_t and π^* represent the actual and target inflation rates respectively, y_t and y^* are actual and target output levels respectively whereas ϕ_π and ϕ_y depict response coefficients on the inflation and output gaps respectively.

Regarding the two latter coefficients, pre-2008 estimates of these values illustrate institutional differences. Clarida, Galí, and Gertler (1999, 2000) found Fed inflation coefficients of approximately 2.15 and output gap coefficients of 0.93 during the Greenspan era. Castelnuovo and Surico (2003) refined these, showing Fed responses of 1.40-1.51 (backward-looking) and 1.15-1.17 (forward-looking), with output coefficients of 0.41-1.07. ECB estimates revealed more conservative responses: Gerlach and Schnabel (2000) found inflation coefficients of 1.3-1.6 and output gap responses of 0.2-0.5, reflecting its narrower mandate.

Post-2008 research highlights distinct Taylor rule coefficient profiles for the Fed and the ECB. Brand and Mazelis (2019) estimate Fed coefficients at 0.10 for inflation and 0.85 for output gaps, contrasting with the ECB's 0.03 and 0.86, indicating the Fed's stronger inflation responsiveness despite similar output focus. Castelnuovo and Surico (2003) further reveal the Fed's inflation coefficient (1.6-1.8) outpacing the ECB's (1.2-1.4), with output coefficients at 0.8-1.0 (Fed) versus 0.3-0.5 (ECB), underscoring the Fed's broader mandate prioritizing employment. BIS analysis (Hofmann et al., 2024) shows the Fed's response to demand-driven inflation at 3.8, significantly higher than the ECB's 2.6, while both react weakly to supply-driven inflation (0.77-0.8). This suggests the Fed's more insistent stance on demand pressures, reflecting its dual mandate, while the ECB's focus remains on price stability.

Over time, these differences sharpened. Pre-crisis (pre-2008), Smet and Wouters (2003) note Fed coefficients at 2.15 (inflation) and 0.93 (output), compared to the ECB's 1.3-1.6 and 0.2-0.5. Post-2008 (2008-2012), Fed coefficients rose to 2.2-2.8 and 1.2, while the ECB's stayed at 1.4-1.6 and below 0.4, reflecting greater Fed flexibility during the financial crisis. Post-pandemic (2021-2024), the Fed's coefficients surged to 4.2 (inflation) and 1.8 (output), dwarfing the ECB's 2.4 and 0.6, with Fed volatility (standard deviation reaching up to 0.8) exceeding the ECB's (0.3). Both banks maintain smoothing

parameters of 0.6-0.8, but the Fed's higher and more volatile coefficients highlight its dynamic response to crises, contrasting with the ECB's consistent, stability-focused approach.

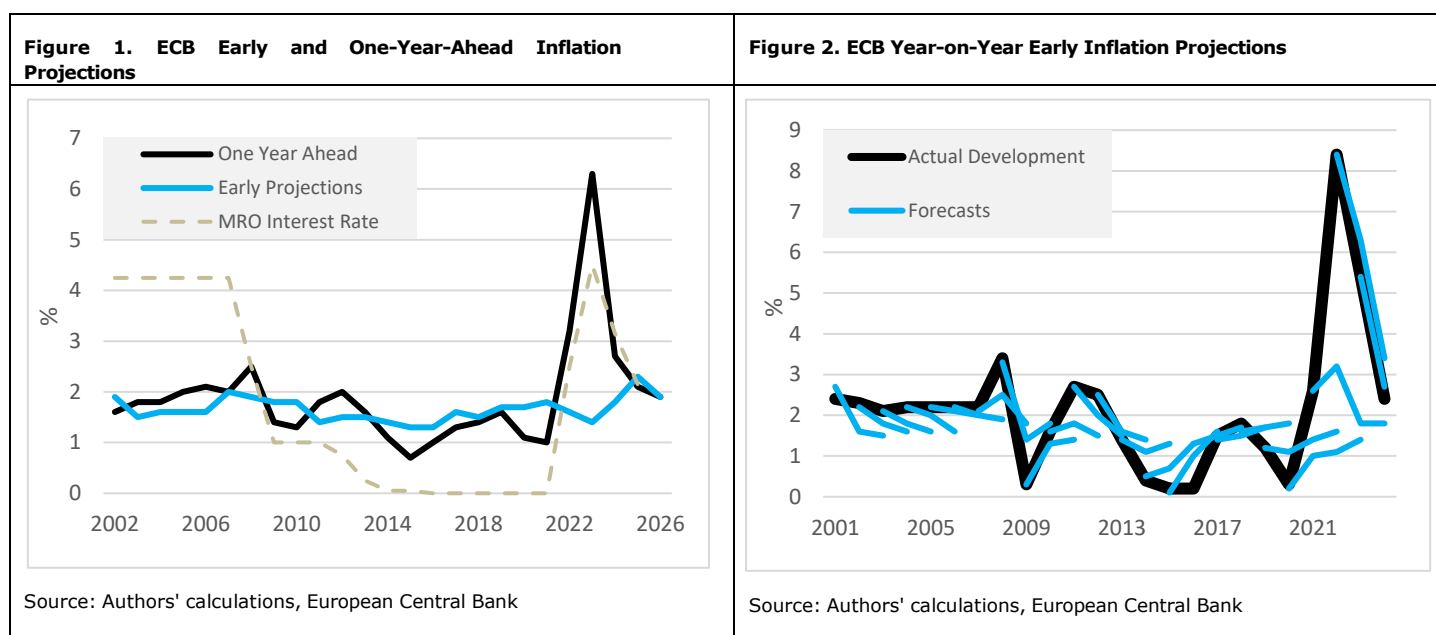
Together, these studies provide a complex picture: while macroeconomic shocks affect both institutions similarly, their responses are also shaped by mandate design, influencing interest rate policy, forecasting methods, communication strategies, and emphasis on different economic variables alike.

2. Case Study: The European Central Bank in Light of Crises

2002-2007

To begin with, it is important to assess the manner in which the ECB has governed the Eurozone since the last 25 years. Between 2002 and 2007, the ECB maintained relatively high interest rates—rising from 2% in 2005 to 4% by mid-2007—despite moderate inflation pressures. This approach reflected the Bank’s interpretation of its legal mandate: maintaining inflation “below, but close to 2%” over the medium term. Both its interest rate path and public communication emphasized credibility and preemptive inflation control over any countercyclical response to slow demand or unemployment.

For example, Figure 1 shows that in nearly every year from 2002 to 2007, ECB inflation projections—both early and one-year-ahead—cluster tightly around the 2% threshold. Even when actual inflation dipped below target like in 2003, forecasts continued to expect a return toward 2%. Figure 2 similarly reveals narrow inflation ranges in 2-3 year forecasts centered on the target rate that are often below the actual development path, reflecting a strong institutional commitment to anchoring expectations through projection consistency.



This predictive conservatism indirectly shaped policy. Rather than responding to realized data, the ECB prioritized preventing inflationary surprises—an approach rooted in its mandate and public messaging. As President Jean-Claude Trichet emphasized in 2004: “*We have one needle in our compass, and that is price stability.*” Employment or growth concerns, in contrast, were considered secondary outcomes of a stable price environment.

The result was a policy posture that remained solid even amid softening real activity and global disinflationary trends. The ECB’s mandate—and the way it used projections to reinforce it—limited flexibility. The cautious optimism embedded in forecasts justified delayed easing and shaped a communication strategy that consistently reaffirmed its inflation-first orientation.

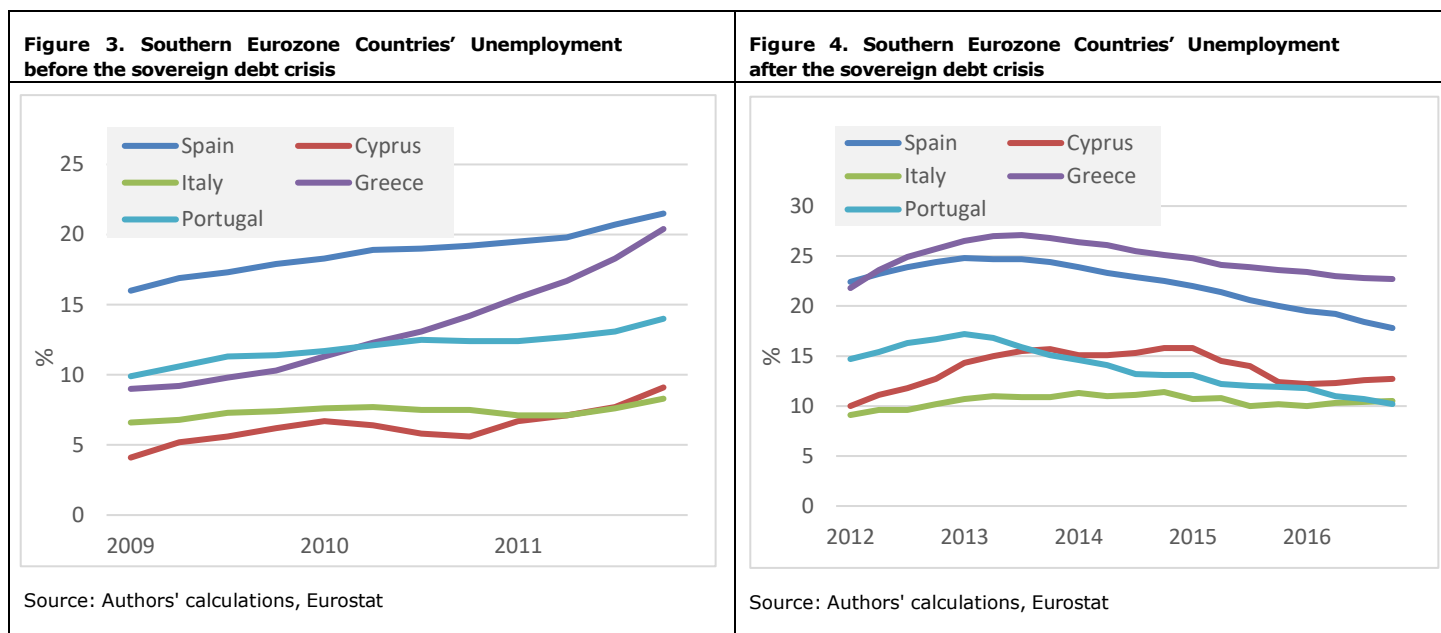
2008-2012

In the immediate aftermath of the 2008 financial collapse, the ECB was slower than the Federal Reserve to react with monetary easing. Although it did cut rates—from 4.25% in October 2008 to 1% by mid-2009—it did so gradually and with less urgency than the crisis may have required. The ECB’s continued reliance on its medium-term inflation projections helped justify this cautious approach.

Figure 1 once again shows that even amid collapsing output and financial market turmoil, ECB projections for one-year-ahead inflation remained relatively close to the 2% target. Similarly, Figure 2 demonstrates that ECB forecasts remained tightly bound (except the forecast of 2009 during the financial crisis), underestimating the depth of the disinflationary shock. This rigidity reflects institutional emphasis on credibility and price stability over adaptive easing.

At the time, President Jean-Claude Trichet consistently reinforced this mandate-centric stance, stating in 2009: *"Our primary mandate is to ensure price stability. We will do so in any circumstances."* Despite contracting GDP and rising unemployment across the Eurozone, monetary policy remained conservative compared to the Fed's more expansive QE and forward guidance strategy, although it should be acknowledged that the financial conditions in the two economies were different at the time.

The ECB's adherence to inflation targeting became more obvious during the 2010–2012 sovereign debt crisis. Despite weak economic fundamentals and rising bond spreads in Southern Europe, the ECB raised interest rates twice in 2011. These hikes were justified on the basis of inflation pressures, but occurred as, Figure 3 shows, unemployment in countries like Spain and Greece started to rise sharply, nearing 18% in 2011. Figure 4 shows it would later exceed 25% by 2013–2014.



The ECB's internal models again projected inflation returning to target, which, according to Figures 1 and 2, encouraged preemptive tightening. However, this did not put much emphasis on country-level fragmentation. As fiscal policy was constrained and structural reforms unfolded, monetary policy remained less accommodative to offset the regional collapse in demand.

It was with Mario Draghi's appointment in late 2011 that ECB communication began to shift. In his July 2012 London speech, Draghi declared: *"Within our mandate, the ECB is ready to do whatever it takes to preserve the euro. And believe me, it will be enough."* Though framed within the legal limits of the mandate, Draghi's statement signaled a broader interpretation—one that considered financial stability and market confidence as preconditions for price stability. The introduction of the Outright Monetary Transactions (OMT) program that year reinforced this subtle pivot, aiming to contain sovereign spreads rather than fight inflation.

While inflation targeting remained officially intact, ECB rhetoric and action between 2011 and 2012 increasingly acknowledged the multidimensional nature of stability in a monetary union. This marked the beginning of a more pragmatic phase in ECB policymaking, where price stability was still important—but not pursued in isolation from financial fragmentation or employment collapse. This suggests that in case of global or more isolated shocks, the ECB may become more flexible despite the narrower legal mandate.

2020-Today

In response to the COVID-19 pandemic, the ECB launched the Pandemic Emergency Purchase Programme (PEPP) in March 2020, a flexible asset-buying initiative totaling €1.85 trillion. It complemented existing QE tools and aimed to stabilize sovereign bond markets, particularly in vulnerable Southern economies. Interest rates remained unchanged, with the deposit facility rate at -0.5%, while inflation stayed below target. The ECB also eased collateral standards and supported bank lending through Targeted Longer-Term Refinancing Operations (TLTRO III). During this period, monetary policy remained accommodative, as ECB forecasts (Figures 1 and 2) consistently predicted subdued inflation below 2%.

The ECB's policy stance shifted following Russia's invasion of Ukraine in early 2022. After nearly a decade of ultra-loose monetary conditions, including negative interest rates and asset purchase programs, the Bank began its fastest rate-hiking cycle on record—raising the main refinancing rate from -0.5% in July 2022 to 4.25% by September 2023. The move was driven by a surge in headline inflation, which exceeded 10% in parts of the Eurozone due to energy and food shocks.

Figure 1 shows that ECB inflation projections remained well below actual outcomes throughout 2021 and early 2022, with one-year-ahead forecasts clustered near 2% . Figure 2 confirms a narrow forecasting distribution (although in some projections such as the 2020 one forecasted a lower than 2% inflation), underestimating the persistence of price pressures. These projection discrepancies may have contributed to delayed action, prompting the ECB to pivot more aggressively once it acknowledged that inflation was not transitory.

While the ECB continued to emphasize its primary objective, communication began to show greater awareness of trade-offs. In 2022, President Christine Lagarde stated: *"We have to bring inflation back to target in a timely manner, while limiting the cost to the economy."* This framing suggests a subtle balancing act—not a full departure from the mandate, but a recognition that credibility and economic damage are jointly relevant, establishing a parallel with the Fed's flexibility in the face of global shocks.

Unlike in 2011, the ECB did not raise rates prematurely during early signs of recovery. Instead, it acted decisively once inflation expectations shifted, suggesting lessons from past crises were taken into account. Still, the ECB's delayed tightening hinted at its reliance on inflation forecasts, which, as Figures 1 and 2 show, were not as successful to anticipate post-pandemic supply disruptions and war-related shocks.

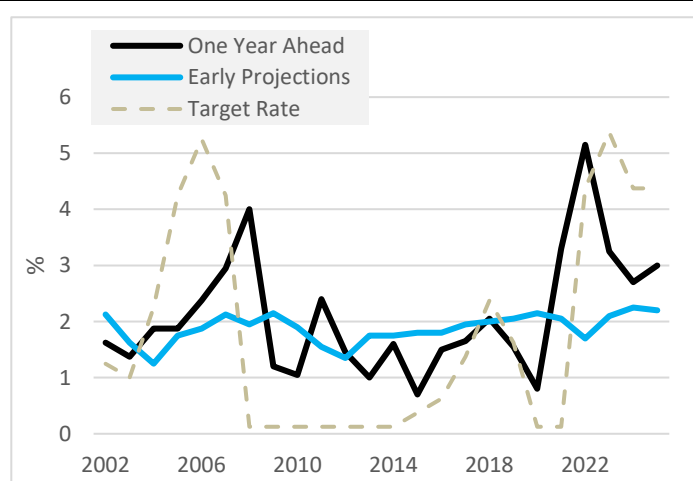
3. Case Study: The Federal Reserve and its Reaction to Economic Turmoil

2004-2007

At the same time, the Federal Reserve has taken similar positions in light of the same crises that the ECB has faced. From 2004 to 2007, the Federal Reserve pursued a gradual tightening cycle, raising the federal funds rate from 1% in mid-2004 to 5.25% by mid-2006. The Fed coupled this tightening with adaptive communication and forward guidance—anchoring expectations while maintaining flexibility in interpretation.

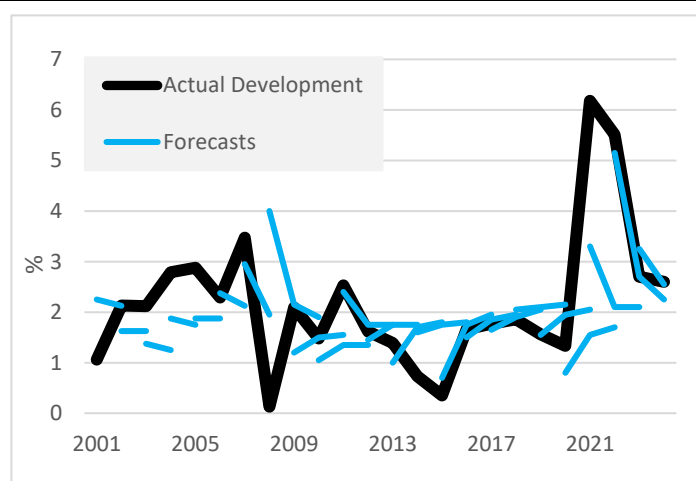
However, Figure 5 shows that Fed inflation forecasts during this period were more dispersed than the ECB's, and less consistently pegged to 2% , especially in the case with forecasts made one year before. Projections generally reflected a range of plausible inflation outcomes, rather than a single anchor point. Similarly, Figure 6 shows not only a wider distribution of forecast bands compared to Figures 1 and 2, but also forecasts that are rather dispersed and not necessarily similar to actual development trend. This reveals more tolerance for uncertainty and a readiness to adapt if conditions changed. Importantly, this allowed the Fed to communicate risks while maintaining policy optionality.

Figure 5. Fed Early and One-Year-Ahead Inflation Projections



Source: Authors' calculations, Federal Reserve Board

Figure 6. Fed Year-on-Year Early Inflation Projections



Source: Authors' calculations, Federal Reserve Board

Fed communication also diverged from the ECB's pre-2012 tone. Then-Chair Alan Greenspan introduced the concept of a "measured pace" of tightening—providing markets with a clear but non-rigid signal. This term appeared repeatedly in Federal Open Market Committee (FOMC) statements, emphasizing the Fed's responsiveness to evolving inflation and employment data. The dual mandate—price stability and maximum employment—underpinned this approach. Employment remained strong during this period, giving the Fed confidence to tighten, but labor indicators still shaped the pace and tone of its actions.

In contrast to the ECB, which presented inflation control as the singular driver of credibility, the Fed signaled a broader interpretation of its role at the time. While inflation concerns motivated tightening, the Federal Reserve's communication and modeling reflected greater openness to real-side variables and acknowledged uncertainty in forecasting—both of which helped preserve flexibility ahead of the 2008 crisis.

2008-2010

The Federal Reserve responded to the 2008 financial crisis with speed and flexibility. Beginning in September 2007, the Fed began cutting interest rates, eventually lowering the federal funds target to near-zero by December 2008. Simultaneously, it launched its first round of quantitative easing (QE), directly purchasing mortgage-backed securities and long-term Treasuries to stabilize financial markets and support aggregate demand.

Figures 5 and 6 show that inflation projections during this period adjusted downward in response to collapsing demand and commodity price declines. One-year-ahead forecasts dropped below 1%, and the Fed openly discussed the risk of deflation. In contrast to ECB's projections during the same period (Figures 1 and 2), the Fed's forecasts revealed greater reactivity to real-time data and anticipated disinflationary pressures more effectively.

Communication still differed from that of the ECB. Then-Chair Ben Bernanke emphasized the dual mandate frequently, stating in December 2008: "*The Federal Reserve will employ all available tools to promote the resumption of sustainable economic growth and to preserve price stability.*" In practice, employment stabilization became a central concern. The Fed's public messaging during this period acknowledged credit market dysfunction, labor market deterioration, and deflation risks—not just price stability.

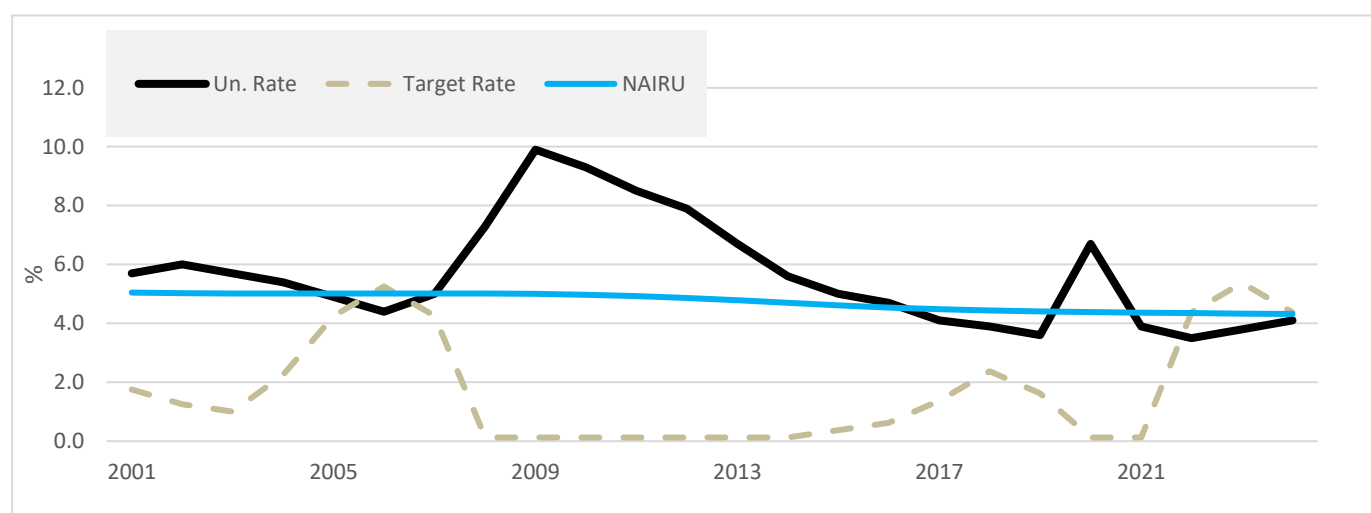
This period set a precedent for broader interpretive flexibility. The Fed maintained an explicitly accommodative stance even when inflation was near target. By prioritizing the employment leg of its mandate, the Fed positioned itself to support a faster recovery possibly at the cost of, critics argued, risking longer-term inflation credibility. But in hindsight, this decisiveness might have aided in avoiding a deeper or more prolonged recession.

2016-2018

Between 2016 and 2018, the Federal Reserve initiated a cautious but deliberate tightening cycle under Chair Janet Yellen and later Jerome Powell. Rates were lifted from near-zero in 2015 to 2.5% by December 2018—driven by robust labor market gains and a belief that inflation would gradually rise toward the 2% target. Yet, much like the ECB's 2011 hikes, this tightening cycle remains debated, particularly given muted inflation data.

Figure 5 shows that one-year-ahead inflation projections during this period hovered around, but not clearly above, 2%. Figure 6 reflects moderate yet accurate inflation forecasts with limited volatility that aligned with actual development tendencies—suggesting that the Fed's actions were driven more by labor market strength and financial stability concerns than by overheating prices. The unemployment rate fell steadily, reaching 3.9% by the end of 2018 (Figure 7), prompting policymakers to worry about tightening labor supply and the risk of future inflationary pressure even though this rate was lower yet close to the non-accelerating inflation rate of unemployment (NAIRU), the target variable of the Federal Reserve.

Figure 7. Unemployment Rate Indicators in the United States



Source: Authors' calculations, U.S. Congressional Budget Office

Public communication emphasized preemptive normalization. In 2017, Yellen defended the rate hikes by stating: *"Delaying action... could eventually require the FOMC to raise rates rapidly, which could risk disrupting financial markets and push the economy into recession."* While price stability remained a goal, the Fed increasingly justified hikes in terms of preventing financial imbalances and anchoring long-term expectations.

The Fed weighed labor and market conditions heavily—even at the risk of tightening prematurely. There was some discussion whether these measures were unnecessary, as inflation remained subdued and wage growth modest. In retrospect, the cycle might have constrained growth heading into 2019 without strong inflationary justification.

Nonetheless, this episode underscores how the Fed's mandate enables interpretive range. Rate decisions were influenced not only by inflation data, but by broader assessments of the economy's trajectory and stability—reflecting an institutional design more tolerant of discretion in a similar way the ECB was after the sovereign debt crisis.

2020-Today

The Federal Reserve responded to the COVID shock with monetary easing. By March 2020, it slashed the federal funds rate to 0–0.25% and launched unlimited QE, purchasing Treasuries and mortgage-backed securities at scale. It also introduced emergency lending facilities under Section 13(3) to support credit flow. In August 2020, the Fed unveiled its FAIT framework, committing to tolerate temporary inflation overshoots to support employment recovery. Inflation remained below target through 2020, and Figures 5 and 6 reflect the Fed's forecast that price pressures would remain subdued, allowing it to maintain accommodation into early 2022.

The Federal Reserve's response to the post-pandemic inflation surge and the economic shocks following Russia's invasion of Ukraine in 2022 marked its most aggressive tightening cycle since the 1980s. Starting in March 2022, the Fed raised the federal funds rate from near-zero to over 5.25% within 18 months. This was a clear shift in posture from the accommodative stance it had maintained throughout the pandemic.

Figures 5 and 6 help illustrate the Fed's late but forceful pivot. In early 2021 and much of 2022, one-year-ahead and especially the early inflation projections at first underestimated the persistence of rising prices. As shown in Figure 5, early projections initially clustered around 2%, even as actual inflation soared above 6%. Figure 6 reflects this underestimation—forecast bands were too narrow and slow to adjust, similar to the ECB's miscalculations in Figures 1 and 2. Once the Fed acknowledged this miss, its communication shifted decisively.

Chair Jerome Powell made clear that restoring price stability had become the Fed's overriding priority. In August 2022, at Jackson Hole, he stated: *"We will keep at it until we are confident the job is done."* Yet, Powell still regularly referenced labor market data and wage dynamics. While inflation motivated rate

hikes, the strength of employment figures—unemployment near record lows (approximately less than 4%—Figure 7)—provided the Fed with political and analytical space to act swiftly.

The Fed’s communication, just like the ECB one, also acknowledged potential risks to financial stability, particularly during the brief banking stress in early 2023. However, it chose to continue tightening, showing its willingness to prioritize inflation credibility even amid sectoral concerns.

This episode reinforced the Fed’s dual mandate in practice: while inflation was prioritized, decisions were still shaped by employment strength and macro-financial conditions—something the ECB’s mandate structure also permits but indirectly.

4. Concluding Remarks: Do the Institutions Diverge?

In conclusion, the ECB and the Federal Reserve have mostly shown similar approaches to monetary policy—not only in reaction to crises, but also in how they interpret data, communicate decisions, and prioritize objectives. When they face similar global shocks, their institutional mandates and operational philosophies result in differences that are rather subtle.

The Federal Reserve’s dual mandate—price stability and maximum employment—provides it with the flexibility to weigh trade-offs and adjust policy accordingly. As seen during the 2008 financial crisis, the Fed acted swiftly, employing rate cuts and unconventional tools like quantitative easing, with employment stabilization as an explicit objective. Similarly, in 2022–23, its inflation-focused tightening was shaped by labor market strength, which enabled a politically viable response. Across the decades, the Fed has openly acknowledged inflation forecasting uncertainty (Figures 5 and 6) and communicated in a way that allows space for discretion.

The ECB’s single mandate of price stability—legally constrained by the Treaty on the Functioning of the European Union—has sometimes translated into more rigid behavior. During the 2002–2007 period, the ECB has taken closely similar decisions of interest hikes as did the Fed. Yet, in the face of shocks that were different from that of the US, the ECB has taken different actions such as in the case of 2011 where it raised rates based on forecasted inflation near 2%, even as unemployment soared in parts of the Eurozone (Figures 3 and 4). Its communication historically emphasized credibility through strict inflation control, with relatively less room for labor market considerations. Nevertheless, it was under Draghi and Lagarde that a shift toward more flexible language made the two banks even more similar—though the legal structure remained unchanged.

Although the ECB’s narrower mandate limits its responsiveness, particularly in fragmented or asymmetric shocks and the Fed’s broader discretion enables more dynamic policymaking, the two banks differ in actions marginally when experiencing the same global crisis. As the latter grows more complex, the institutional divergence in how central banks define and pursue stability may continue to have relatively smaller influence on macroeconomic outcomes in the Eurozone and in the United States than one could assume at first.

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