

# Opening remarks by OeNB Governor Martin Kocher

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## United in diversity, constrained by heterogeneity?

### Inside the monetary policy village

Across liberal democracies, diversity is celebrated as a source of strength. The European Union has even made it part of its political identity: united in diversity – in varietate concordia. In European public life, heterogeneity is therefore valued and protected.

In all of European public life, you ask? Not quite. One small monetary policy village – not in Gallia, but on the river Main – has long held out against the general enthusiasm.<sup>1</sup> Over the last two decades, the inhabitants of this village – policymakers of the European System of Central Banks (ESCB) and their watchers – have acquired a “killjoy” reputation for viewing heterogeneity with concern.

In their defence, the villagers are suspicious of specific forms of heterogeneity – namely those believed to thwart the adequacy, the functioning and the transmission of monetary policy in the euro area.

The aim of my speech today is to take a closer look inside this village: to clarify where precisely its gloomy view of certain heterogeneities comes from, in which respects it is justified, and why some of the villagers may be taking their resistance a little too far.

### The village and its reputation

Let us begin by putting the conventional narrative to the test. Is the villagers’ “killjoy” reputation merely an unfounded myth? Evidence based on the ECB’s own speech record suggests otherwise.

Between 1999 and 2026, more than 330 speeches by members of the ECB’s Executive Board contained the words “heterogeneity”, “heterogeneities” or “heterogeneous”. Comparing these 330 statements with the remaining corpus of about 2,400 speeches by the ECB’s Executive Board since 1999 reveals a pattern. Speeches referring to heterogeneity are systematically associated with more negative interest rate surprises than other speeches.<sup>2</sup> Stock prices also tend to decline more in response to speeches about heterogeneity.

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<sup>1</sup> With apologies to René Goscinny and Albert Uderzo.

<sup>2</sup> This insight is based on high-frequency movements in risk-free rates and the EURO STOXX 50 around speeches by ECB Executive Board members.

These market reactions are consistent with what monetary economists would call a negative “central bank information” surprise.<sup>3</sup> Put more simply: when one part of the village – euro area policymakers – speaks about heterogeneity, the other part – financial markets – predominantly hears concern.

Now: why is this the case?

## The virtues of heterogeneous decision-making committees

We can comfortably rule out a first candidate explanation: excessive heterogeneity on the ECB’s main decision-making body, the Governing Council, is unlikely to be the culprit. This point is quickly made.

Decision-making by committee has become the modern standard in monetary policymaking.<sup>4</sup> Heterogeneity across committee members is the key prerequisite for committee decision-making to trump “one-person shows” in monetary policy.

Intuitively, under the condition that all members pursue the same overall goal – for example, a common, clearly-defined inflation target –, the classic benefit of diversification applies. If one resorts to common theorems of committee decision-making, for tasks that have an ex post evaluation criterion on their decision quality, the larger and the more diverse the committees are, the better are the decisions, as long as the cost of decision-making is not growing more quickly than the benefits of size.

The benefits of diversification provide a strong argument for institutional safeguards that preserve, cultivate and strengthen committee heterogeneity to protect the decision-making body from the pitfalls of groupthink, herding and polarisation.<sup>5</sup>

Seen in this light, the current composition of the ECB Governing Council makes a clear-cut case for more, rather than less, heterogeneity along several key dimensions – most urgently with respect to gender.

## Structural economic heterogeneity and monetary policy trade-offs

Since it is not about the committee’s composition: according to economic theory, it may be heterogeneity in structural macroeconomic conditions that unsettles markets most – an issue of concern also for the International Monetary Fund (IMF). For currency unions, we usually focus on unsynchronised national business cycles. After all, this form of heterogeneity can imply trade-offs for ECB monetary policy: It causes decisions taken to meet an aggregate, composite target to be temporarily inadequate for some member countries.

Are the trade-offs implied by structural heterogeneity a convincing explanation for the apprehension that the term is associated with in the context of euro area monetary policymaking? I do not think so, for at least two reasons.

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<sup>3</sup> See Jarociński and Karadi (2020).

<sup>4</sup> See Blinder (2004, 2007).

<sup>5</sup> See Rieder (2022).

First, this is yesterday's news. Monetary policy always faces trade-offs.<sup>6</sup> Trade-offs are the very bread and butter of monetary policymaking. Even a hypothetical, fully homogeneous currency area cannot escape the “mother of all monetary policy trade-offs”, that is, the short-run trade-off between inflation and unemployment embodied by the Phillips curve. It is the job of monetary policymakers to take decisions subject to the constraints of many trade-offs – and I can assure you that, after more than a quarter of a century, the villagers are accustomed to doing so.

Second, structural heterogeneity is anything but surprising. No existing currency area is perfectly homogeneous, let alone “optimal” in the textbook sense. Even small countries display meaningful differences across relevant structural dimensions – differences that citizens often value rather than lament. You would be hard pressed to find a person born in Salzburg (as I was) who embraces the idea that Vienna's more accessible housing markets fully compensate for Salzburg's natural beauty and tourist appeal. While Austria may not be the most dominant player in the world economy, very similar arguments hold true for the different regions of the USA, China or the UK.<sup>7</sup>

Heterogeneity in structural economic conditions is therefore not a “pathology” unique to the euro area. I would even argue that it is not a pathology at all. It is simply part of the euro area's DNA.<sup>8</sup> Besides, common monetary policy and the introduction of the euro have gradually diminished the relative weight of this part since 1999.<sup>9</sup> The correct macroeconomic performance benchmark for the euro area is not a hypothetical currency zone with perfect structural homogeneity, but rather a counterfactual Europe that remains fragmented across many separate monetary policies.<sup>10</sup>

## Heterogeneous monetary policy transmission: exit, voice and the magic potion

Turning to a third candidate explanation, and to the core of monetary policy, heterogeneity in the euro area is also inherently linked to the uneven transmission of monetary policy. Heterogeneous transmission can transform a policy decision that is, in principle, appropriate for all members into a blurred signal of varying strength across countries, regions, sectors and economic agents. Heterogeneous monetary policy transmission in a currency area is a key challenge.

First, it can amount to taking “economic hostages”. When this form of heterogeneity takes hold, the value of monetary area membership may fall for some constituencies. At the same time, the euro area offers little room to escape such adverse shifts. Leaving the currency area is virtually impossible for sub- or transnational regions and would be connected to high political, economic or social costs for countries, firms and households in the entire monetary union.

Second, when uneven transmission turns monetary policy into a cacophony of different signals, the communication of decisions becomes increasingly challenging. Preaching uniformity offers little reassurance when the impact of our decisions is felt to differ across the currency area.

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<sup>6</sup> See Kaplan et al. (2018, 2023).

<sup>7</sup> See, e.g. Carlino and DeFina (1998), Dow and Montagnoli (2007), Beraja et al. (2019), Margaritis (2024), BIS (2025), Andriantomanga et al. (2026).

<sup>8</sup> C.f. Coeuré (2019).

<sup>9</sup> See, e.g. Antonakakis and Tondl (2014) and Arčabić et al. (2024).

<sup>10</sup> See, e.g. Eichengreen and Ghironi (1997).

Third, in severe crisis scenarios, heterogeneity in transmission along national borders can turn into fragmentation. When differences in financing conditions are no longer justified by fundamentals but instead reflect self-reinforcing perceptions of break-up risk, the singleness of monetary policy in the euro area comes under threat.

In short, uneven transmission may well be the spectre we have been looking for. And yet, I believe it is time for the market people in the village to reconsider whether their gloomy assessment remains justified in 2026. Let me briefly mention two reasons behind my more positive assessment.

First, given that “exit” is not a viable response to heterogeneous transmission, “voice” becomes all the more important<sup>11</sup> – and the Eurosystem has been investing heavily in enabling “voice”. Research into the factors that shape heterogeneous monetary policy transmission provides a channel through which scientific evidence can be heard and taken into account in our deliberations and decisions.

The increased availability of confidential, granular and high-frequency data – for example, credit registries – allow us to look at monetary policy transmission under an ever more powerful microscope.<sup>12</sup> The ESCB’s ChaMP<sup>13</sup> research network – short for Challenges for Monetary Policy Transmission in a Changing World – is a great example for this strand of analysis. For instance, thanks to research conducted by ChaMP members, we know that, on average, only half of the variation in the interest rate pass-through to firms’ external finance premiums stems from country-level heterogeneity such as sovereign risk premiums. The other half comes entirely from bank- and firm-level heterogeneity that is independent of national borders.<sup>14</sup>

At the very least, evidence-based insights like these allow ECB policymakers to be more transparent about the causes and consequences of uneven transmission in our public communication efforts – fostering both the credibility and the understanding of our decisions.

Second, as you know, the villagers always have their magic potions. Thanks to the existence of the Transmission Protection Instrument (TPI) and Outright Monetary Transactions (OMT), the ECB is well equipped to address “unfounded fears of the reversibility of the euro”<sup>15</sup>. Recent research even suggests that we may have more tools to address fragmentation than commonly assumed. In particular, narrowing the ECB’s interest rate corridor appears to be highly effective in containing heterogeneous pass-through at the short end of the yield curve.<sup>16</sup> Hence the size of the rate corridor can be a potential policy instrument.

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<sup>11</sup> C.f. Hirschman (1970).

<sup>12</sup> See Holm et al. (2021) for a seminal contribution.

<sup>13</sup> See website of the ChaMP research network: <https://www.ecb.europa.eu/pub/research-networks/html/champ.en.html> (last accessed 7 May 2026).

<sup>14</sup> See Altavilla et al. (2026).

<sup>15</sup> C.f. Introductory statement to the press conference on 6 September 2012: [https://www.ecb.europa.eu/press/press\\_conference/monetary-policy-statement/2012/html/is120906.en.html](https://www.ecb.europa.eu/press/press_conference/monetary-policy-statement/2012/html/is120906.en.html) (last accessed 7 May 2026).

<sup>16</sup> See Ferstl et al. (2026).

## Conclusion: learning to live with heterogeneity

Let me conclude.

You may take my speech today as an argument for a more optimistic reinterpretation of heterogeneity in the context of euro area monetary policymaking. I have argued that the Eurosystem needs more, rather than less, heterogeneity when it comes to the composition of its main decision-making body; that structural economic heterogeneity involves trade-offs for monetary policy but that Eurosystem policymakers are accustomed to managing these trade-offs; and that, should uneven transmission become a serious challenge, we have the tools to address it.

Some may claim that there is too much unfinished business left before optimism is warranted. For example, the completion of the banking union and a savings and investments union remain work in progress and there is full support by the ECB Governing Council for the plans of the European Commission. Here, I want to believe in a mutually reinforcing process: If we Eurosystem monetary policymakers do our job well, we may be able to strengthen the case and consensus for stronger integration, further reducing structural heterogeneity and the uneven pass-through. And if not, history suggests that some future crisis will “lend us a hand” to do the job.<sup>17</sup>

Others may continue to dream of a fully homogeneous currency area as an ideal – but I would argue they tend to overlook the price that such perfect homogeneity entails. Alberto Alesina and Enrico Spolaore<sup>18</sup> famously framed the optimal size of political jurisdictions as a trade-off: larger jurisdictions allow societies to reap economies of scale, while smaller ones reduce the costs associated with heterogeneity across many dimensions. Alesina and Spolaore find that democratic societies may tend to create an inefficiently large number of small jurisdictions because voters do not fully internalise the aggregate efficiency losses of fragmentation.<sup>19</sup> The same logic may also apply to the design of the euro area. Heterogeneity seems a cost worth managing if we want to reap the benefits of scale and integration.

My point is not that the village should abandon its caution. Yet, not every form of heterogeneity should be treated as an invading army at the gates. Some forms of heterogeneity are useful, some are unavoidable, and some represent genuine challenges. The latter, however, can be defused with the right institutions and instruments. And paraphrasing Vitalstatistix, one of the original villagers: “I do not think that we have to fear that the sky may fall on our heads tomorrow!”

Thank you.

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<sup>17</sup> For the “crisis hypothesis”, see Olson (1982) and Gourevitch (1986).

<sup>18</sup> See Alesina and Spolaore (1997).

<sup>19</sup> Ibid.

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