

ABSTRACT

This Paper studies the strategic interaction between Euroland's national macroeconomic players and the European Central Bank (ECB) council under two alternative assumptions on central bank behaviour: (i) all members of the ECB council are concerned about Euroland's macroeconomic aggregates and (ii) the ECB council is composed of national central bankers who are mainly concerned about domestic macroeconomic conditions. Under the former assumption monetary policy can be used to impose some discipline on national macroeconomic players at the cost of higher inflation. Under the predominance of national interests, however, this trade-off can no longer be exploited. The persistence of national perspectives in the ECB council has an adverse impact on the relationship between key macroeconomic variables such as inflation and unemployment or inflation and the level of government debt.