IS THE ECB ACCOUNTABLE AND TRANSPARENT?*

by Lorenzo Bini-Smaghi and Daniel Gros

Abstract

Rightly or wrongly the ECB is widely perceived as in-transparent. Our analysis suggests that on formal criteria the ECB is more transparent and accountable than most other central banks. What could be done to improve the transparency of the ECB?

The best way to make the ECB more accountable is to engage it in substantive discussions about its policy where it is pressed to provide the relevant information about the background analysis that have led to policy decisions. For example, the ECB should be pressed to make its inflation forecast public and it should be more open about the arguments, both pro and con, that shape the debates that precedes decisions. Accountability cannot be ensured by the ECB alone. An important role has to be played by its counterparts, such as the European Parliament, the Council of EU Finance Ministers and the public at large.

Publication of detailed minutes of the ECB Governing Council meetings would not be useful. This would only result in shifting the true debate to informal meetings of the Governing Council, so that the formal meetings would only record pre-packaged consensus with no or little discussion.

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Introduction

The European Central Bank is formally, and also de facto one, of the most independent central banks in the world. Such an unprecedented degree of independence is considered by some, however, as a cause for concern unless it is accompanied by adequate accountability. The present paper examines the extent to which this is the case.

The paper is organized as follows: first two sections explore the concept of accountability. The third tries to define the acts and procedures through which central banks perform their accountability. The fourth section, which might be of most interest to most readers, compares the accountability of the ECB with that of three other central banks: the Federal Reserve Bank of the US, the Bank of Japan and the Bank of England. The aim is not to rank central banks according to a pre-determined index of accountability. Accountability can be performed in different ways and through different practices and procedures, depending on the interaction between the central bank and the other institutions of society, their respective roles and the environment within which they interact, in particular the structure of financial markets and the instruments used by the central bank in the conduct of monetary policy. There is thus no one single model of accountability that can be applied to all central banks in all cases and circumstances. It is nevertheless of importance to assess the extent to which the ECB gives an adequate account of its activities. Section 5 concludes with some ideas on how to improve the accountability and transparency of the ECB.

1. Democratic control, independence and accountability

This paper builds on the literature on central bank independence and legitimacy which has been widely developed in recent years. All caveats, related in particular to the limitations and simplifications of the theoretical underpinnings of this line of research, must be kept in mind in reading this study.

A couple of clarifications may be worth making as a preliminary step towards the analysis of central bank accountability: the first concerns the concept of accountability itself; the second, its relationship with independence.

The concepts of democratic control and democratic accountability[1] are often confused. Democratic control refers to the following three constraints on the exercise of government:[2]

- *Ex-ante* control defines the rules, standards and principles laid down in advance by a democratically elected body, to be followed by the accountable body in the exercise of its functions.
- Accountability is the act of listening to criticism and responding to questions about the past and future behavior that may be put forward by a democratically elected body.
- Popular mandate refers to the attribution of power through democratic procedures.

The above criteria, which define the way democratic control is generally exercised, cannot be fully applied to central banks. The third criterion, in particular, is not relevant in that independent central banks do not receive popular mandates nor do they choose their own policy objectives. This would imply that the central bank had become a new separate branch of democratic power. Instead, central banks receive their mandate from the government or through a legal act, to perform specific tasks in view of specific objectives. The first two criteria *(ex-ante* control and accountability) however, do apply to central banks.

The way in which accountability is exercised is closely related to the concept of independence of the central bank. The *ex-ante* control over a central bank which is not independent can be effected in the context of the general conduct of the government's economic policy. The rules and principles underlying such control may be constantly revised, depending on the circumstances faced by the executive branch of government and on its policy goals. For instance, monetary policy may be geared in turn towards the objective of price stability or towards stimulating economic growth, depending on the wishes of the government. There is no need in this case to precisely specify in advance the tasks and objectives of monetary policy. Before its recent reform, the Bank of England was not subject to precise rules or guidelines, as suggested by Roll et al. (1993):

> The so-called Parliamentary accountability for monetary policy connotes no more that the presence of the topic in a general and continuing Parliamentary debate about the government's economic performance, a debate whose real constitutional function is to furnish information relevant to the quinquennial popular control by elections.[3]

For an independent central bank, the way in which accountability is exercised needs to be precisely defined. Independence can be granted only if clear rules and principles are laid down to define the boundaries of central bank action. *Ex-ante* control is a necessary condition for delegating power. If the central bank could choose its own goals and policies, it would become a political body that could not be independent from government. The issue is thus to define the 'optimal contract' for the central bank in a satisfactory way.[4] Such a contract must ensure that the central bank is given the appropriate incentives to pursue its statutory goals. The rules and principles for central bank action can thus not be continuously changed by the government according to specific and changeable interests.

Accountability aims at verifying that the rules and principles laid down for the central bank are respected. The way in which accountability is performed is linked to the way *ex-ante* control is specified. If ex-ante control is defined with a low degree of precision, for instance including escape clauses, accountability can only be of poor quality. If the objective of a central bank is not clearly specified, the reporting will only be vague and will not allow any association between monetary policy decisions and the bank's final performance. When escape clauses are set, which allow the central bank under unspecified circumstances to deviate from its targets, bad performance can be easily justified *ex-post*. The public is not in a position to assess the effective contribution of the central bank to the achievement of the specific objective. This undermines the accountability of the central bank. When the mandate of a central bank is clearly and precisely defined, the public can focus on its performance. Accountability can be exercised on the basis of precise performance indicators.

In sum, contrary to the views expressed in some quarters, there is no *a priori* trade-off between independence and accountability, if the two concepts are appropriately defined. Accountability can be seen as a complement, if not a necessary requirement for independence. A central bank cannot be made fully independent if its objectives are not clearly and precisely defined; it cannot remain independent if it does not give a public account of its actions.

Another issue that has been discussed in the literature is whether accountability can be distinguished from transparency. Accountability refers to the legal obligation to give an account of a bank's actions and performance, which derives from the delegation of power.[5]

Transparency goes beyond the fulfillment of a given reporting requirement and refers to 'more subtle forms of accountability' related to the 'way of doing business'. This distinction is to some extent artificial, at least in the case of the ECB, since its objectives and tasks are clearly defined in the Maastricht Treaty. Although the ECB has precise reporting obligations, its accountability can be understood in a very general sense, to be exercised not only to the Council or the Parliament, but to the public at large. This interpretation is consistent with Article 2 of the ECB Statute, which specifies that 'the ESCB shall act in accordance with the principle of an open market economy with free competition, favoring an efficient allocation of resources...' A broad interpretation of the concept of accountability, not restricted to legal requirements but extended to the broader concept of transparency and openness of monetary policy, seems thus appropriate for the European Central Bank.

2. The economics of central bank accountability

Central bank performance can be assessed by observing the results of its policies. If the primary objective of monetary policy is price stability, the assessment of central bank performance can be based on the regular observation of inflation statistics. Given the time lag between the setting of monetary policy and its actual effect on price levels, however, observation of the latter enables us to assess actions taken about two years earlier. This of course is of little interest to market participants and the public at large.

Two further elements complicate the exercise of accountability. The first is that inflation is a monetary phenomenon in the long run, but not at each and every point in time. Inflation is affected by several variables, such as labor costs, import prices and taxes, which are beyond the control of the central bank and are difficult to forecast. The central bank can thus not be held accountable for temporary deviations from price stability which are not due to its own behavior. On the other hand, how can market participants know if such deviations are temporary or not, and whether they are due to monetary factors or to some other cause? These questions, which lie at the root of the problem of central bank accountability, can be regrouped into three main broad areas.

The first is the well known issue of time inconsistency of the optimal monetary policy[6]. lthough a price stability-oriented monetary policy is optimal in the long run, it is not optimal in the short term in the absence of unexpected shocks Welfare may temporarily increase if the central bank deviates from its long-term objective and conducts an unexpected monetary expansion that would bring about higher growth and lower unemployment, even at the expense of higher inflation. The incentive to deviate from the optimal long-term policy is known to economic agents, which anticipate this temptation. The central bank is thus led to conduct a more expansionary policy than desired, with a sub-optimal inflation result for society. The stronger is the reputation enjoyed by a central bank, the greater may be the gains obtained from temporarily deviating from its long-term objective.

The problem is made more acute by the fact that in the short term the rate of inflation may be affected by other factors than just monetary policy, such as wage shocks and changes in public expenditure or import prices. The simple observation of the price level does not enable market participants to understand whether the deviation from price stability, if and when it occurs, is temporary or permanent and whether it is due to a non-monetary shock or to the intention of the central bank to effect a surprise monetary expansion with a view to stimulating the economy.

In this context, the literature has analyzed the issue of central bank 'secrecy' or 'ambiguity'.[7] If only unanticipated monetary policy is effective in influencing output and employment, disclosing partial information may be interpreted by market participants as the wish of the central bank to keep some information private, so as to retain the possibility of springing inflationary surprises.[8] This line of reasoning has been used, in particular by the Federal Reserve, to justify the fact that information about the FOMC meetings should not be disclosed as requested by some market participants.[9] This view may be justified for a central bank such as the Fed, which is not fully independent and whose primary objective is not price stability but also to support economic growth. A central bank that is obliged to focus on price stability as its primary objective, and thus cannot conduct an active stabilization policy, should benefit from disclosing information that might be used by market participants to interpret current developments.

Accountability can be seen as a part of a commitment technology by which the central bank provides economic agents with symmetric information, and thus deprives itself of the possibility to follow a different policy from the one it has announced, with a view to enhancing the credibility of its action. It is noteworthy that the issue of accountability has been promoted in particular by central banks whose statutes have changed and that have no track record.

To summarize the above arguments, transparency increases the credibility of the central bank, especially when the latter does not enjoy a particularly high reputation. It thus enables the central bank to conduct a less restrictive monetary policy than would otherwise be required.[10] Transparency and accountability increase the overall welfare of the economy.

The second argument for accountability is linked to the previous one and arises from the distributive effects produced by monetary policy decisions, in particular unanticipated ones. Unexpected interest rate changes can produce a significant redistribution of wealth between debtors and creditors. The small increase in the fed fund rate decided by the Federal Reserve in early 1994 was sufficient to wipe out most of the profits of the large investment banks for that year. Such redistributive effects may take place not only across sectors and agents, but also across regions. They may be exacerbated if different groups of society have different information about the intentions and the behavior of the central bank.

If the central bank is dependent from the government, the distributive effects may be linked to explicit political decisions, and possibly compensated through other policy instruments. In this context, the secrecy surrounding central bank decisions can be justified as a way to achieve the desired income distribution objective. An independent central bank, which has no income distribution objective, must prevent a situation in which private information concerning its actions is made available to certain groups of society and not to others. This aspect is particularly relevant in a highly decentralized economy such as the European one, where the decision-making process may be seen as distant and may not be fully understood by some sectors of society. Without the necessary transparency, the suspicion may arise that the interests of some parties are given more attention than others.[11] This would clearly be to the detriment of European Central Bank's credibility. To avoid this suspicion, information should be disseminated with similar intensity, frequency and depth across the economy. This can be more easily done in an atmosphere of disclosure and accountability than one of secrecy.

The third reason for accountability is that it facilitates cooperative behavior between economic agents, thereby achieving Pareto-superior social welfare. In the presence of uncertainty, the availability of information from the central bank enables economic agents to extract information not only on aggregate developments but also on their own behavior, relative to the rest of society. Agents can thus modify their behavior or try to influence that of the other components of society. This argument applies in particular to decentralized economies, where agents have difficulty in coordinating their actions and expectations. For instance, if the ECB anticipated that the government of one of the large EU states was in the process of launching a major public expenditure plan, with potential inflationary pressures for the whole Union, it could consider increasing interest rates, possibly in a pre-emptive way. In this case, it would be desirable to publicly spell out such policy intentions, possibly in advance of the decision. This would give the government in question the opportunity to reconsider its policy action. The other countries would also have the opportunity to try to influence the undisciplined country, since the effects of the latter's policies would be borne by all. Indeed, the increase of the Union's interest rate would have restrictive consequences on all countries, including those 'that are fiscally disciplined'. The outcome of a re-consideration of the initial policy intention would lead to a more efficient solution than the one contemplated in the case of an *ex-post* reaction by the central bank.[12]

The same reasoning can be applied to other shocks, such as for instance asymmetric wage and price developments. Central bank transparency contributes to cooperative equilibrium between economic agents, which is a Pareto-improvement. Central banks are aware of this fact, and often use their communication channels with market participants to 'guide' them on possible policy developments. Central banks have at times even 'threatened' to increase interest rates if wage negotiations were concluded that were inconsistent with price stability or if budget projections were overshot.

3. How to assess central bank accountability?

The easy way to assess central bank accountability is to create an indicator as in the literature on central bank independence. Briault et al. (1996) have followed this route and created an accountability index based on four criteria: a) whether the central bank is subject to external monitoring by Parliament; b) whether the minutes are published of the meetings in which monetary policy is decided; c) whether the central bank publishes an inflation or monetary policy report of some kind, in addition to the standard central bank bulletins; and d) whether there is a clause that allows the government to override a decision of the central bank.

In our view, these criteria are unsatisfactory. They oversimplify the process and thereby give an incomplete picture of the framework within which accountability is exercised. In particular, the last criterion seems more appropriate for evaluating central bank independence than accountability. The possibility of overriding the central bank is unrelated to *ex-ante* control and thus to accountability. Cukierman (1992) includes this criterion in the index of legal independence. The third criterion is also dubious; it is not clear why an inflation report would necessarily ensure any more accountability than would be achieved through the regular monthly reports, if the latter contained the necessary information.

We examine a different set of criteria, derived from the concepts of *ex-ante* control and accountability discussed in the first section. Our aim is not to create a numerical index, but rather to examine the ways and opportunities that central banks use to interact with public opinion, market participants and the other institutions in society. We consider 15 criteria of central bank accountability, divided into three main groups (see Table 1):

- *Ex-ante* accountability,
- *Ex-post* accountability and
- Procedures.

The first criterion in the first grouping consists of a clear definition of the objective of price stability. This concerns in particular the way in which price stability is defined, the type of price index to be used as a final target, the precision of the target (a point estimate as opposed to a range) and the horizon of the target. The more precise is the target, the more accountable a central bank can be held. This criterion has to be viewed against the well known and documented difficulties to correctly measure inflation. There is clearly a trade-off between the simplicity of the public announcement, which enhances transparency, and the complexity of the inflation phenomenon.

Table 1 Accountability criteria

	Federal Reserve	Bank of Japan	Bank of England	ECB
Ex-Ante				
1. Clear definition of the objective of price stability	no	no	Government (2.5% CPIX inflation for 1998)	Treaty/ECB less than 2% CPI inflation
2. Announcement of the operational target	fed fund rate	overnight lending rate	repo rate	overnight rate
3. Announcement of intermediate target	no	no	direct inflation target	no
4. Announcement of indicators for assessing monetary policy	monitoring ranges for money and credit aggregates	no specific one	no specific one	reference ranges for monetary aggregates
5. Explanation of how monetary policy targets affect other policies & objectives	implicitly	implicitly	implicitly	implicitly
E*x-post*				
6. Publication of data on intermediate target or explanation of possible deviation	money and credit aggregates	no	yes, inflation report	no
7. Publication of inflation forecast and deviation from target	twice a year (for the HH reports)	no	yes, inflation report	no
8. Explanation of main policy measures (or absence thereof) and underlying reasons	yes	yes	yes	yes
9. Explanation of how these measures affect other policies	no	no	no	no

Table 1, cont. Accountabilitity criteria

	Federal Reserve	Bank of Japan	Bank of England	ECB
Procedures				
10. Regular (monthly, quarterly, yearly) public reports covering issues 1-8 above	monthly	monthly	quarterly inflation report	monthly
11. Hearings in parliament with Q&A	at least twice a year	at least twice a year	yes, regular	quarterly
12. Participation of government representative at meeting of the decision-making bodies (as observers)	no	Ministry of Finance and of Economic Planning Agency	Treasury representative	President of ECOFIN and Commission
13. Publication of summary minutes	7 weeks later	one month later	6 weeks later	no
14. Publication of detailed minutes	5 years later	to be decided	-	no
15. Publication of the votes of the members of the decision-making bodies	7 weeks later	one month later	6 weeks later	no

Nevertheless, complexity cannot be used as an excuse for not defining the target, as this would give rise to the suspicion by market participants that other policy targets are being followed. This would lead to a loss of credibility for the central bank.

The second criterion is the announcement of an operational target. A clear understanding by market participants of which operational target the central bank uses to conduct its monetary policy operations enables a frequent monitoring of a central bank's actions. Market participants should be able to clearly distinguish between the instruments of monetary policy, such as the 'official' or 'policy' interest rate, and the operational target that is affected by a central bank's actions but is ultimately determined by market conditions. If such a distinction cannot be made, market participants have less information about a central bank's actions.

The third criterion is the announcement of an intermediate target. Given the time lag, estimated to be around 18 to 24 months, between implementation of monetary policy and its effects on price levels, the inflation rate provides information only on past monetary policy. To assess current policy, one needs to compare it against inflation performance one or two years in the future, a statistic that is not available. An intermediate target is generally used to try to express future inflation developments in terms of contemporaneously observable variables. Several variables can be used for this purpose, such as the exchange rate, monetary or credit aggregates, or other indicators of future inflation, depending on their effective relationship to the price level. The announcement of the target enables the public to monitor how the central bank is reacting to inflationary pressures, as reflected in these indicators. It can thus check whether the central bank is sticking to its price stability objective. The setting of an intermediate target requires that there are variables that enable, with some degree of precision, to forecast future inflation. This is an empirical question. If there is no variable closely related to future price developments, the central bank may use its own inflation forecast as a target, as is done under a direct inflation targeting strategy.

The fourth criterion is the announcement of indicators for assessing the appropriateness of monetary policy. Given that it is generally difficult to find one single variable that enables the targeting of future inflation, central banks use indicators to interpret possible deviations from the intermediate target and to assess whether a policy reaction is granted. Disclosing information on these indicators helps market participants to understand how the central bank interprets inflation forecasts and deviations from the intermediate target. An excessive amount of indicators may however confuse the picture and give the impression that the central bank wants to pick the indicator it prefers, depending on circumstances, to justify its own behavior. The statement that central banks 'look at everything' is not very informative for market participants.

The fifth criterion is the explanation of how monetary policy targets affect other policies and objectives. Even if the primary objective is price stability, central banks may pursue secondary objectives, such as supporting the economic policies of the government. Providing a forecast and an assessment of inflationary trends may help the public to clearly distinguish between the responsibilities of the various policy-making institutions and to create transparency in the dialogue between them.

The second group of criteria defines the *ex-post* accountability of the central bank with respect to its pre-announced targets and indicators. They include the following:

- Publication of data on intermediate variables and explanation of possible deviation from target;
- Publication of an inflation forecast and possible deviation from the target;
- Explanation of the main policy measures, or absence thereof, and underlying reasons; and
- Explanation of how these measures affect other policies.

The publication of these data and the explanation of the main developments related to the target variables and the analysis leading to the policy decisions is a way to enhance the transparency of the decisions and thus the accountability of the central bank.

The third group of accountability criteria refers to the procedures followed by the central bank to meet the above criteria. The procedure may include the issuing of public reports in which the central bank provides data on its targets and indicators and explains its policies, their underlying reasons and how well it has performed in view of the pre-announced targets. Reporting also can be made through testimony presented in hearings before Parliament by members of the decision-making body. These presentations are generally less technical but allow, through the question and answer sessions, for a more articulated assessment. The participation of the government in meetings of the decision-making body is another opportunity through which institutions exchange information and views on each other's policies. Although market participants are not necessarily informed about such exchanges, it may be reflected in the respective policies.

Finally, the background analysis and reasoning for the central bank's decision-making can be made available through the publication of the minutes of the meeting of the decision-making body, in either an abridged or full version. This information can be disaggregated up to the level of each member of the decision-making body, by making public the votes of the individual members. This raises the question of whether accountability is required for the central bank as a whole or for each member of the decision-making body; it relates to the issue of collective vs. individual accountability, which is addressed in the next section.

As has already been mentioned, this list of criteria should not be used to construct an index of central bank accountability. Indeed, some of these criteria are complementary and cover overlapping issues. Furthermore, the list is not exhaustive nor has it been drawn up on the basis of a normative analysis of accountability but rather on the observation of certain practices in some central banks and the discussion that has taken place in academic and policy fora.

4. How accountable is the ECB?

There is as yet little literature that attempts to assess the accountability of the ECB.[13] There are at least two difficulties with such an exercise. The first difficulty is that, as mentioned above, the assessment can only be of a qualitative, rather than quantitative nature. The criteria outlined in the previous sections are to be considered as references to help understand the main issues at stake rather than pointers to rank central banks. Furthermore, these criteria need to be examined collectively, and in the broad institutional context within which the central bank operates. The second difficulty is that the ECB has not been operating for a very long time.

In light of these caveats, we try to examine the possible accountability of the ECB, in comparison with the experience of three other major central banks – the Federal Reserve in the US, the Bank of Japan and the Bank of England – the latter two having recently experienced a change in their statutes, in particular with a view to increasing both independence and accountability. Again, the comparison is not aimed at ranking the central banks, but at assessing the accountability of the ECB in the light of its counterparts' experiences.

Table 1 indicated the extent to which these three major central banks and the ECB meet the various criteria and in what length of time.

Concerning the first criterion, the ECB has publicly announced its definition of price stability, with a view to enhancing transparency and credibility: a rate of inflation lower than 2 per cent. The harmonized consumer price index, as calculated by Eurostat, is the measured variable. The reference level takes into account measurement problems encountered in measuring inflation. The ECB has also explained that the lack of a lower bound for inflation does not imply that a reduction in the price level is deemed to be consistent with price stability. Deflation is not price stability.

The ECB makes no explicit reference to time in its definition of price stability. It has only stated that price stability is an objective to be achieved over the medium run – a term that is clearly lacking in specificity with respect to the explicit objective. For instance, if a shock pushes inflation above the 2 per cent level, thus breaching the definition of price stability, what is the time frame in which the ECB is expected to restore price stability? The lack of an inflation forecast, as indicated below, leaves wide margins of discretion to the ECB to decide, without disclosing it to the public, the pace of disinflation.

The Federal Reserve and the Bank of Japan do not announce precise objectives for inflation rate. The Fed has developed a non-quantitative definition of the concept of price stability, being a rate of change of the price level which does not induce economic agents to modify their behavior. This concept does not make it easy for market participants to understand the policy intentions of the Fed. It should be recalled that the statutory objective of the Fed is not only to achieve price stability, but also to promote economic activity and employment.[14] The Bank of England has a clear target, in terms of price inflation, which is set by the government with the budget law, and can be modified year-by-year. The problem of time inconsistency of monetary policy has thus been shifted away from the central bank to the government. The time horizon of the policy objective is limited and can thus conflict with the constraints arising from political business cycle considerations.

Concerning the second and third criteria, related to the operational and intermediate targets, the ECB has set the overnight money market rate as its operational target. The instruments of the Eurosystem are: the overnight lending and deposit facilities, whose rates will determine the ceiling and the floor for the overnight rate; the weekly repurchase agreement, with bi-weekly maturity; and fine-tuning operations, largely based on repos. All operations of the ESCB have to be conducted against collateral.

Concerning the intermediate target, the ECB has not followed the advice given by its predecessor, the EMI. The latter suggested that among the indispensable elements of any strategy adopted by the ECB should be 'the public announcement of a specific target (or targets) against which performance can be assessed on an ongoing basis by the general public, thereby enhancing accountability'.[15] The ECB instead has chosen to refer to a reference growth rate for M3. No clear explanation has been given about the operational role that such a monetary reference should play in the ECB's strategy. It is obviously not an intermediate target, not even in the way the Bundesbank has intended it to serve in the past, that is, as a main explanatory factor for policy decisions.

The Fed and the Bank of Japan have no intermediate targets: the Bank of England publishes an inflation forecast, which de facto represents its intermediate target.

As for other indicators of the ECB monetary policy, they encompass all relevant financial variables (in particular, the money market yield curve, money and credit aggregates, credit market conditions, bond yields, exchange rates and other asset prices) as well as various non-financial variables (price and cost variables, indicators of aggregate demand and supply conditions, etc.). None of these indicators has been given particular importance, with a view to establishing a hierarchy of information variables for market participants. The impression that the ECB will look at everything, which is equivalent to not disclosing any information, has not being dispelled. The Fed uses monitoring ranges for money and credit aggregates, although their importance has been strongly downgraded in recent years. The Bank of England also uses a set of indicators to assess its own inflation forecasts, but no specific one is given particular importance.

Finally, the ECB has been requested, in particular by the European Parliament, to explain how the conduct of its policy interacts with other policies and affects economic developments in the European Community. This practice is undertaken more or less explicitly by all central banks, in the context of cooperation with other economic policy authorities and with a view to ensuring the consistency of the respective policy plans. The appropriateness of the policy-mix and its consequences on the economy as a whole, are often a matter of public debate. In the European Community, the interaction between monetary and other policies will be an input to the regular multilateral surveillance exercise. Once a year, broad guidelines are defined by the Council of EU Finance Ministers for the conduct of the economic policies of the member states. The Council then monitors the policies of the member states, with a view to ensuring their consistency with the above guidelines. The monetary policy conducted by the Eurosystem represents an important reference for the definition of policy guidelines.

Turning to the *ex-post* criteria, the ECB regularly publishes data on the relevant monetary aggregate. Given the unclear role that the latter plays in the monetary strategy, however, the explanation of its behavior is of doubtful relevance to market participants.

Concerning criterion 7, the ECB does not intend for the moment to publish its own inflation forecast. The justification offered is that:

There are conceptual difficulties in formulating forecasts conditioned on unchanged policies since some financial market indicators which provide input to these forecasts are typically influenced by the markets' anticipated stance of monetary policy over the forecasting horizon. Furthermore, there is a risk that publishing inflation forecasts may, at times, have adverse effects on financial markets and wage and price setting and that the credibility of the ESCB could be damaged in the medium-term if the conditional nature of the forecasts is not well explained. In this respect, it is seen as crucial that the ESCB be fully independent in its decisions on policy actions and not in apparent need of a published inflation forecast to convince the public about the appropriateness of its decisions. In view of such considerations, most EU central banks, including most of those targeting inflation directly, do not, at present, provide quantitative forecasts for future inflation rates to the public. Yet, even if quantitative inflation forecasts are not revealed it will be desirable to publish some form of information on inflation prospects, and this should include a discussion of the perceived risks around the central inflation projection' (EMI, 1997, p. 16).

This justification is not convincing. Producing an inflation forecast is undoubtedly a difficult exercise, especially at the start of monetary union in view of the wide uncertainties. Nevertheless, the ECB will have in any case to make its own forecasts for the purpose of taking policy decisions. Not revealing to the public the background analysis that has led to policy decisions suggests that the ECB wants to hide information. This is unjustified from any relevant viewpoint. As suggested in the previous sections, the public at large, social partners and the governments of the euro zone can only benefit from the information provided from the ECB. For instance, in conducting wage negotiations, social partners need to make reference to an inflation forecast. Such a forecast, prior to monetary union, was based on the national government targets or projections. In the Eurozone, national governments have lost competence on inflation. Without some indication from the ECB of the inflation forecast for the contract period, social partners have less information than in the past with which to conduct negotiations. This reduces efficiency in the European economy.

The explanation of policy decisions (criterion 8) is an important element of the accountability of a central bank. As shown in Table 1, all central banks conduct this exercise. This task may be simpler and better understood by the public, the more transparent are the targets and the operational functions of the central bank. The frequency and content of the decision-making process are also factors that may affect accountability. For instance, in the case of the Fed, given that the FOMC meets only every six weeks, the explanations to be provided to the public have to take into account the fact that the object of the decision is a policy guideline for the Fed fund rate for the following 6 weeks, a relatively long period of time. Such a guideline needs to take into account contingencies for unforeseen possible developments and has therefore to be rather complex in nature. This complexity is one of the main reasons why the Fed requests that the guidelines be kept secret for at least one month.[16]

Since the ECB Governing Council meets frequently, the decisions regarding the main refinancing operations and the interest rate corridor (rates on marginal lending and overnight deposit facilities) leave little scope for discretion in the interval between meetings. The announcement of the key rates thus contains nearly all the relevant information concerning the ongoing policy. It is certainly more transparent than a broad guideline for a market-determined rate to be implemented in the following month, as in the case of the Fed. In summary, the frequency with which the decision-making body meets and the operational framework adopted by the ECB ensures a relatively high degree of transparency on decisions, compared to other central banks.

Turning to the procedures for making information available to the public or the other policy authorities, there is a broadly similar situation across central banks with respect to regular public reports or hearings in Parliament or Congress. The quality of the reporting may vary, depending also on the requirements at the receiving end, that is, the needs of the public at large, the academic and market practitioner or the Parliament. A striking feature of the first ECB monthly reports is that not only do they not contain forecasts, but the analysis is mainly backward-looking. Little or no indication is provided as to future developments, which are those most relevant for monetary policy decisions. This is not a good sign for accountability and transparency.

It has also been pointed out that the accountability of the ECB may be impaired by the fact that the European Parliament is not sufficiently representative of the European constituency. Others have suggested that the ECB is not sufficiently challenged in the course of its hearings before the European Parliament, compared to the experience, for example, of the Federal Reserve with the US Congress. Only experience will whether how the European Parliament will live up to expectations.

Concerning criterion 12, the participation, but not the right to vote, of a member or a representative of the executive branch of government in the meetings of the central bank's decision-making body is foreseen for the Bank of Japan and the Bank of England but not for the Federal Reserve. For the ECB, the invitation is extended not only to the President of the Council of the EU Finance Ministers but also to the European Commission. This raises two problems.

The first is that the Presidency rotates every six months, which poses problems of continuity and of transmission of information across countries and across time. In addition, in periods when the Presidency is held by a country not participating in the euro area, a problem of confidentiality may arise. Furthermore, the choice of whether to attend is left to the Presidency of the Council, and may thus vary. When the President of the Council attends, he should keep the Finance Ministers of the other member states informed about the discussion in the ECB Governing Council, with a view to ensuring a level playing field.

The second issue is linked to the publication of the detailed minutes of the meeting of the ECB Governing Council, and in particular the voting record. Such publication is foreseen in the case of the Fed (7 weeks later for the voting, 5 years later for the detailed minutes), the Bank of Japan (one month later) and the Bank of England (6 weeks later). The Maastricht Treaty forbids the ECB from publishing the detailed minutes and votes, as Article 10.4 of the Statute states: 'The proceedings of the meetings shall be confidential. The Governing Council may decide to make the outcome of its deliberations public'. Only the outcome of the decision, not the procedure, may be made public. It is the ECB as a whole which is held accountable, not each of the individual components of its decision-making body.

Two questions arise. The first is whether the publication of the minutes really increases accountability. It certainly cannot reduce it, but what is really important here is that the discussions leading to a policy decision are as open as possible. If the impression were created that some arguments, if made public, could be used against the members of the ECB Governing Council or create distorted perceptions of financial markets, discussions would become constrained and not result in efficient decision-making. Ultimately, the true discussions would take place beforehand, in informal meetings, while the formal discussion would be largely 'sanitized'. The minutes of the FOMC meetings provide scant details of dissenting arguments.

The second question concerns the reason for collective, rather than individual accountability. This choice derives from several factors. The first is that the members of the ECB Governing Council are nominated through different procedures: the Governors of the NCBs through national procedures; the members of the Executive Board through a European procedure, specified in the treaty (Art. 109a2). This is a rather different situation than that of any other central bank. A second aspect is that the ECB's primary objective is that of maintaining price stability in the euro area as a whole. The ECB is not responsible for national price developments. Each member of the ECB Governing Council should thus in principle have the same "European" objective. This is confirmed not only by the provisions related to the personal and institutional independence of the ECB governing body, but also by the voting system: one man, one vote.

Considering the two aspects jointly, a tension can be observed between the expectation that the ECB has a 'European' objective (price stability in the euro area) and fact that the members of its decision-making body are not nominated on the basis of a fully 'European' procedure. A system of individual accountability, by which each member of the ECB Governing Council was individually accountable, would raise the problem of the body to which they should be accountable. It would not be consistent for an NCB Governor to account for his actions, in particular his vote, taken with a view to a 'European interest', to a body such as a national Parliament or a national government, which represents national interests. A national political body has no authority to judge how the accountee has performed in his 'European' task. The accountability of the ECB is not the sum of the national accountabilities of the members of its Governing Council.

It could be envisaged that the members of the ECB Governing Council are individually accountable only to the European Parliament or to the European Council. The European political bodies (Parliament and Council) however, play no role in the appointment of NCB Governors. Their membership in the ECB Governing Council is automatic, not subject to an act of confirmation by a European body (as in the case of the Court of Justice or the Commission). The European Parliament does not organize hearings to confirm the appointments of the Governors of the NCBs. It would thus be peculiar to request the NCB Governors to be accountable to the European Parliament.

Only the members of the Executive Board could be individually accountable to the European bodies that have nominated them. But it would not make much sense to publish only the votes of the ECB Executive Board members, while the others are kept secret; individual accountability would then be required of only some members. In summary, given the peculiar nature of the ECB and its decision-making bodies, its members cannot be individually accountable. The solution that has been chosen is to have a collegiate accountability for the whole ECB Governing Council to the European political bodies. Such collegiality makes confidentiality of proceedings necessary, as called for in the Maastricht Treaty.

The interplay between the fact that the President of the Council participates in the meetings of the ECB Governing Council and the requirement of confidentiality of the voting system in the latter may create the peculiarity that confidentiality on ECB deliberations is ensured only with respect to the public at large, and not with the Council of Ministers. Unless the requirement of confidentiality were extended to the President of the Council of EU Ministers, vis-à-vis the other EU Finance Ministers, there would be an asymmetry of information. That is, the governments of the member states, but not the public nor the market participants, would know how the various members of the Governing Council have voted. This might not be fully consistent with collegiate accountability and transparency, and would encourage the search for private information about the behavior of the various members of the ECB Governing Council.

5. Conclusions

On the basis of the treaty's requirements, one would think that the ECB is more accountable than most other central banks. For example, it must make regular reports to the European Parliament. In its early operations, however, the ECB has shown less accountability than one would have expected. Much effort is needed to improve on the present situation which looks unsatisfactory.

Contrary to some suggestions, the way to improve the accountability of the ECB is not to ask it to publish detailed minutes of the ECB Governing Council meetings. This would only result in shifting the true debate to informal meetings of the Governing Council, so that the formal meetings would only record pre-packaged consensus with no or little discussion. The minutes would become irrelevant.

One way to make the ECB more accountable is to engage it in substantive discussions where it is pressed to provide the relevant information about the background analysis that have led to policy decisions. For example, the ECB should be pressed to make its inflation forecast public.

Accountability cannot be ensured by the ECB alone. An important role has to be played by its counterparts, such as the European Parliament, the Council of EU Finance Ministers and the public at large. The hearings for the nomination of the ECB Executive Board held in May 1998 suggest that the European Parliament intends to give serious attention to this task. However, much more is required to counteract the impression of inadequate accountability, which would ultimately lead to constraints on the independence of the ECB.

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Notes

1. It is interesting to note that during the debate in the European Parliament on 'Democratic accountability in stage three of EMU', the French, Italian and Portuguese versions of the draft report initially used the term *contrôle démocratique, controllo democratico* and *controlo democrático*, respectively, while the Spanish version referred instead to *responsabilidad democrática*. The texts were later harmonized with the use of the word responsibility.

2. See Roll et al. (1993).

3. CEPR (1993), pp. 48-49.

4. See, in particular, Persson and Tabellini (1993), Walsh (1995) and McCallum (1995).

5. See Briault et al. (1996).

6. See Kydland and Prescott (1997) and Barro and Gordon (1983a and 1983b).

7. See Cukierman and Metzler (1986) and Garfinkel and Oh (1995).

8. See, for example, Canzoneri (1985).

9. Goodfriend (1986) presents in a critical way the arguments of the Fed in its case against Merrill.

10. See Faust and Svensson (1998) for a formal proof of these propositions.

11. The issue is already debated in the literature; see Dornbusch, Favero and Giavazzi (1998).

12. A formal derivation of this reasoning can be found in Demertzis et al. (1998).

13. See, in particular, Gorwley and De Haan (1996) and De Haan (1997).

14. As defined in the act establishing the Federal Reserve System, the tasks of the Fed is to 'furnish an elastic currency...so as to promote effectively the goals of maximum employment, stable prices and moderate interest rates'.

15. European Monetary Institute (1997), p. 10.

16. See Goodfriend (1996).