

IN-DEPTH ANALYSIS

Requested by the ECON committee

Monetary Dialogue Papers, September 2020



How Can the European Parliament Better Oversee the European Central Bank?



Policy Department for Economic, Scientific and Quality of Life Policies
Directorate-General for Internal Policies
Authors: Grégory CLAEYS, Marta DOMÍNGUEZ-JIMÉNEZ
PE 652.747 - September 2020

EN

How Can the European Parliament Better Oversee the European Central Bank?

Monetary Dialogue Papers
September 2020

Abstract

This paper assesses how the European Parliament (EP) holds the European Central Bank (ECB) accountable. The same exercise is done for the Bank of Japan, in order to identify possible lessons for the ECB and the EP. Possible improvements to the ECB accountability framework include procedural changes to the Monetary Dialogue to increase its effectiveness, the release of detailed minutes and votes from ECB governing council meetings, and the establishment of a ranking by the EU legislators of the ECB's secondary objectives.

This document was provided by Policy Department A at the request of the Committee on Economic and Monetary Affairs (ECON).

This document was requested by the European Parliament's Committee on Economic and Monetary Affairs.

AUTHORS

Grégory CLAEYS, Bruegel
Marta DOMÍNGUEZ-JIMÉNEZ, Bruegel

ADMINISTRATOR RESPONSIBLE

Drazen RAKIC

EDITORIAL ASSISTANT

Janetta CUJKOVA

LINGUISTIC VERSIONS

Original: EN

ABOUT THE EDITOR

Policy departments provide in-house and external expertise to support EP committees and other parliamentary bodies in shaping legislation and exercising democratic scrutiny over EU internal policies.

To contact the Policy Department or to subscribe for updates, please write to:

Policy Department for Economic, Scientific and Quality of Life Policies
European Parliament
L-2929 - Luxembourg
Email: Poldep-Economy-Science@ep.europa.eu

Manuscript completed: September 2020

Date of publication: September 2020

© European Union, 2020

This document is available on the internet at:

<https://www.europarl.europa.eu/committees/en/econ/econ-policies/monetary-dialogue>

DISCLAIMER AND COPYRIGHT

The opinions expressed in this document are the sole responsibility of the authors and do not necessarily represent the official position of the European Parliament.

Reproduction and translation for non-commercial purposes are authorised, provided the source is acknowledged and the European Parliament is given prior notice and sent a copy.

For citation purposes, the study should be referenced as: Claeys, G. and Domínguez-Jiménez, M, *How Can the European Parliament Better Oversee the European Central Bank?*, Study for the Committee on Economic and Monetary Affairs, Policy Department for Economic, Scientific and Quality of Life Policies, European Parliament, Luxembourg, 2020.

CONTENTS

LIST OF ABBREVIATIONS	4
LIST OF FIGURES	5
LIST OF TABLES	5
EXECUTIVE SUMMARY	6
1. INTRODUCTION	8
2. HOW DOES THE EUROPEAN PARLIAMENT HOLD THE ECB TO ACCOUNT?	9
2.1. ECB Mandate	9
2.2. ECB Transparency	10
2.3. The ECB's relationship with the European Parliament	11
3. LESSONS FROM THE BANK OF JAPAN AND THE JAPANESE DIET	14
3.1. Mandate of the BoJ	14
3.2. BoJ Transparency	15
3.3. Relationship of the BoJ with the Diet and the government	16
4. RECOMMENDATIONS TO IMPROVE ECB ACCOUNTABILITY BEFORE THE EUROPEAN PARLIAMENT	20
4.1. Improving the monetary dialogue	20
4.2. Pushing for even more transparency in decision making	21
4.3. Ranking the ECB's secondary objectives	22
5. CONCLUSION	24
REFERENCES	25

LIST OF ABBREVIATIONS

ECB	European Central Bank
EP	European Parliament
MEP	Member of European Parliament
BoJ	Bank of Japan
ESCB	European System of Central Banks
ECON	European Parliament's Committee on Economic and Monetary Affairs
Fed	Federal Reserve System
BoE	Bank of England
GDP	Gross domestic product
MPM	Monetary Policy Meeting
MEPs	Members of the European Parliament
TEU	Treaty on the European Union
TFEU	Treaty on the functioning of the European Union
BVerfG	Federal Constitutional Court for the Federal Republic of Germany

LIST OF FIGURES

Figure 1:	Headline and core inflation in the euro area (LHS) and in Japan (RHS), year on year change in %	15
-----------	---	----

LIST OF TABLES

Table 1:	Comparison of the ECB and BoJ in term of accountability	18
----------	---	----

EXECUTIVE SUMMARY

- **In the wake of the successive crises that have affected the euro area over the last twelve years, the role of the European Central Bank (ECB) in managing the euro-area economy has expanded considerably.** Its use of less-conventional monetary tools and various asset purchase programmes has increased its footprint in financial markets and in the real economy. Although we consider that this development has been warranted by the situation, it increases the need to ensure effective accountability to the European Parliament (EP), the only directly-elected EU institution.
- **This paper assesses the current ECB accountability framework, and compares it to that of the Bank of Japan (BoJ).** Even if the functioning and degrees of independence of the BoJ and ECB differ significantly, some useful lessons can nonetheless be drawn from the Japanese experience.
- **To be more accountable, the ECB's primary and secondary objectives should be clarified and transparency about decision-making should be increased.** Moreover, in contrast to parliaments of other jurisdictions, the European Parliament's competences are very limited: it can neither appoint nor sanction the ECB's Executive Board members, while fundamental changes in the functioning of the ECB would require a change to the EU Treaties, which must be approved unanimously by EU Member States.
- **The BoJ Act of 1997 intended to increase BoJ independence, but the BoJ remains much less independent than other major central banks, and in particular the ECB.** There is a high degree of government involvement in monetary policy decisions in Japan, as "close contact" and coordination are written into law and established in practice. For instance, while the main objectives of the BoJ are enshrined in Japanese law, the quantitative definition of price stability (which evolved over time) is determined by the BoJ, but the most recent change has been heavily influenced by the government. The Japanese Parliament is also much more powerful than the EP as it can modify the law governing the functioning of the BoJ and veto appointments to the BoJ Policy Board. BoJ decision-making processes are also more transparent than those of the ECB, as the BoJ publishes detailed minutes of monetary policy meetings with details of individual votes and reasons for dissent.
- **We make three main recommendations to improve the ECB accountability framework.** First, the EP can, and should, **improve the Monetary Dialogue**, to transform it into a real hearing aimed at evaluating the ECB's effectiveness in fulfilling its price stability mandate and in contributing to the achievement of EU objectives. The EP should also look into the proportionality of the tools used by the ECB to fulfil its mandate in order to ensure that the ECB does not overstep its treaty-based competences. The Monetary Dialogue would also benefit from a reduction in the number of MEPs participating, to give participants the chance to engage genuinely with the ECB President and to ask follow-up questions (as is the case in Japan). The ECON Chair should also ask at each meeting a fixed set of questions related to the ECB's performance.
- Second, **the EP should push the ECB (using in particular the ongoing strategy review) to publish more detailed minutes of Governing Council meetings**, which would include the votes of the members (as is the case for the BoJ), as this is legally at the discretion of the ECB. This would enable more effective scrutiny, create the right incentives at the individual level for Governing Council members, and, by allowing easier identification of the pros and cons of its policies, it would also alleviate concerns raised in some euro area countries about the proportionality of the ECB's actions.

- Finally, **amid calls for the ECB to 'green' its monetary policy, additional clarity on the role and ranking of secondary objectives is required.** However, ranking of goals is a political task, so it should preferably be decided by elected bodies and not by unelected technocrats. The EU's legislators should thus reveal their preferences. This clarification about the ECB's objectives would in turn facilitate parliamentary scrutiny.

1. INTRODUCTION

From a democratic perspective, an effective accountability framework is a pre-requisite for central bank independence, which many countries introduced in the 1980s and 1990s when they amended their monetary frameworks to insulate monetary policy from day-to-day politics in order to avoid high inflation episodes. As unelected officials, to whom responsibilities for managing the currency have been delegated by political bodies, central bank decision-makers need to be guided by clear mandates and to be accountable to citizens or the institutions representing them.

This is particularly true in Europe, given the considerable expansion of the role of the European Central Bank (ECB) in managing the euro area economy, and the development of its toolbox away from basic short-term interest rate changes, first with the global financial crisis, then the euro crisis and now the COVID-19 crisis. With the introduction of its various asset purchase programmes and of other so-called unconventional policies, the ECB's direct involvement in particular segments of the financial market and its role in credit allocation have increased dramatically. This increases the need for strong democratic oversight of these activities.

For central banks to be accountable, three main elements are generally considered crucial¹: first, that the objectives of the central banks are well-defined (legally established and clear) so they can be monitored easily by a responsible political body; second, that the central bank is highly transparent in its decision-making and in the implementation of monetary policy (so that there is no information asymmetry between the agent, the central bank, and its principal, the citizens); and third, that the political body to which it is accountable is able to question, and preferably to sanction in some way, the central bank if it does not fulfil its mandate.

We use this simple framework – focusing mainly on these three elements – to assess the accountability of the ECB. We also compare this framework with that of the Bank of Japan (BoJ). We make recommendations, which do not necessitate unrealistic treaty changes and could be implemented immediately, on how the European framework could be improved without compromising the independence and effectiveness of the ECB. In particular, we focus on how the European Parliament (EP) could better scrutinise the implementation of monetary policy in the euro area.

¹ See for instance Briault et al. (1997), De Haan, Amtenbrink and Effinger (1999), Eijffinger and Geraats (2002), De Haan and Amtenbrink (2003), Fry et al. (2000).

2. HOW DOES THE EUROPEAN PARLIAMENT HOLD THE ECB TO ACCOUNT?

ECB independence is clearly enshrined in the European Treaties, with Article 130 of the Treaty on the functioning of the European Union (TFEU) stipulating that ECB decision-making bodies (i.e. the ECB Governing Council and Executive Board) shall not “seek or take instructions from Union institutions, bodies, offices or agencies, from any government of a Member State”, while TFEU Article 282 adds that the ECB “shall be independent in the exercise of its powers and in the management of its finances”.

As a result, the ECB enjoys a very high level of independence: it is target-independent, as the ECB sets its own quantitative definition of price stability; it has full operational independence, as ECB decision-making bodies can take fully autonomous decisions in their areas of competence; and it is financially independent, as the ECB has sufficient own resources to conduct its activities (Chiacchio et al., 2018). In addition, given that its autonomy is legally ensured by Treaties that can only be changed by the unanimity of European Union Member States, the ECB is often considered as the most independent central bank in the world. This makes effective accountability before a democratically elected institution even more crucial. In this section we discuss how accountable the ECB is by taking a look at the three elements necessary to successfully make a central bank accountable: a clear mandate, a high level of transparency and a political body able to undertake effective oversight.

2.1. ECB Mandate

Well-defined and legally enshrined objectives are paramount if a central bank is to be held accountable because these objectives are yardsticks against which to assess a central bank’s performance. As far as the ECB is concerned, its objectives derive from the EU Treaties. Article 127 of the TFEU stipulates that: “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”. The EU objectives are very broad and include “peace”, “freedom, security and justice”, “balanced economic growth”, “a highly competitive social market economy”, “full employment and social progress”, and “improvement of the quality of the environment”, etc.

Two main issues arise concerning the objectives of the ECB. First, the European Treaties do not provide a specific numerical definition of price stability, which means that the ECB has the competence to set its own quantitative target in order to comply with its mandate. In 1998, the Governing Council adopted the quantitative definition: “price stability is defined as a year-on-year increase in the Harmonised Index of Consumer Prices (HICP) for the euro area of below 2%”. In 2003, this definition was clarified by the Governing Council, which announced that the ECB objective was to maintain inflation rates “below, but close to, 2% over the medium term”.

The fact that this quantitative objective was not set through a legislative process is not a problem per se, but it is crucial that there is a comprehensible quantifiable benchmark in order to assess the ECB’s performance. In the case of the ECB, we believe that the current definition of price stability has led to some confusion among market participants and the broader public. In particular the expression “below but close” suggests that the ECB targets a smaller number than 2%. Even though former ECB chief economist Otmar Issing (2003) explained that the ECB should be comfortable with inflation expectations between “1.7 percent and 1.9 percent”, an indication that the ECB is targeting an inflation rate of about 1.8%, it is not obvious why there needs to be some room for interpretation of the inflation target. In our view, this lack of clarity adds unnecessary noise in the pursuit of price stability, negates

the coordination benefits of having a clear numerical target, and makes the assessment of the ECB's performance more difficult. In addition, the word 'below' can be interpreted to mean that the ECB has a downward bias in its definition. This forced former ECB president Mario Draghi to highlight on many occasions the ECB's commitment to symmetry in the inflation aim to avoid a downward drift in inflation expectations². That is why a clearer definition is desirable (Claeys et al., 2018).

Second, while the primacy of the price stability mandate is clearly established by the Treaty and should not be compromised in the pursuit of its secondary objectives, there is no ranking established between the latter objectives in case of a trade-off when the ECB intends to contribute to achieving these multiple objectives.

2.2. ECB Transparency

A high level of transparency is also essential to ensure the accountability of independent central banks, as it allows for close and effective monitoring by the competent authorities and by the general public. Explaining the central bank's decisions and their implementation, but also showing that it does not overstep its mandate, and that the tools used are proportional to the fulfilment of its mandate, is crucial. This can take various forms: to explain and justify their decisions, central banks around the world organise press conferences, they publish minutes of the discussions of their respective monetary policy committees, they prepare inflation reports, they participate in public hearings, give interviews to the media, and publish research papers.

Overall, the ECB is fairly transparent and uses many of these different avenues to explain its decisions. Beyond the regular press conference and the publication of the Economic Bulletin that follows each of its monetary policy meetings, members of the Governing Council also participate in public events, make speeches and give interviews to the press. In March 2020, they also started writing blog posts to provide insights on recent policy decisions and to discuss specific timely topics related to the euro area economy³.

However, the ECB, unlike other major central banks like the Fed, the Bank of England (BoE), and – as we will see in the next section – the Bank of Japan (BoJ), publishes neither the detailed minutes of its monetary policy meetings nor the votes of Governing Council members. The ECB started publishing so-called 'monetary policy accounts' in February 2015 after each meeting, but these accounts remain imprecise, and when disagreements (most often called "reservations") are mentioned, the points of view are kept impersonal. On this particular issue of the publication of the deliberations, the Treaties leave open the possibility of greater transparency, but the decision lies entirely with the ECB⁴. There is no legal obligation for the ECB to provide access to its deliberations, and so far the Governing Council has decided not to publish detailed minutes or the votes of its members.

Although full transparency on every issue is not a panacea for central banking (Demertzis and Hallett, 2007), we consider that this lack of transparency on the votes can be problematic. For instance, as shown by Claeys and Linta (2019), decisions on the eligibility criteria and haircuts applied to assets to be used as collateral in the refinancing operations of the ECB are very opaque, even though these decisions can have a major impact on which assets can be considered as safe assets by the market. Given the importance of these sometimes controversial decisions, the ECB should be more transparent

² See for instance: European Central Bank Press Conference on 25 July 2019, <https://www.ecb.europa.eu/press/pressconf/2019/html/ecb.is190725~547f29c369.en.html>.

³ See European Central Bank, The ECB Blog, available at <https://www.ecb.europa.eu/press/blog/html/index.en.html>.

⁴ Article 132 of the TFEU stipulates that "The European Central Bank may decide to publish its decisions, recommendations and opinions", while Article 10 of the Statute of the ESCB and ECB adds that: "The proceedings of the meetings shall be confidential. The Governing Council may decide to make the outcome of its deliberations public".

about how these decisions are taken, in particular when it concerns the sovereign bonds of euro area members.

The main reason for the secrecy is that the ECB considers that detailed discussions or votes could result in political pressure on members of the Governing Council, especially from their home countries, should the economic interests of a Member State be at odds with those of the euro area as a whole. This degree of privacy is seen by the ECB as a necessary safeguard of its independence.

2.3. The ECB's relationship with the European Parliament

As far as its monetary policy task is concerned⁵, the ECB is accountable to the European Parliament, as established in the TFEU, the Treaty of the European Union (TUE), and the Protocol on the Statute of the European System of Central Banks and of the ECB. These three legal documents, together with the European Parliament's Rules of Procedure govern the interactions between the two EU institutions.

The EU Treaties require the ECB to publish an annual report, to be presented at the European Parliament by the ECB president⁶. This publication and its presentation provide an occasion for the EP to adopt a resolution about the ECB⁷, allowing the EP to express its opinion on ECB monetary policy decisions, with the Committee on Economic and Monetary Affairs (ECON) as the responsible committee. It has become customary for the Vice-President of the ECB to present the ECB annual report to ECON on its publication (typically in April), providing time for the EP to draft the aforementioned resolution for the plenary session in which the ECB president presents the report.

In addition to this yearly requirement, the EU treaties allow for additional exchanges between the ECB and the EP, based on Article 284 of the TFEU: "The President of the European Central Bank and the other members of the Executive Board may, at the request of the European Parliament or on their own initiative, be heard by the competent committees of the European Parliament". Furthermore, given that Article 232 allows the EP to establish their own Rules of Procedure, the EP has used this opportunity to increase the intensity of its exchanges with the ECB through rule 135: "The President of the European Central Bank shall be invited to attend meetings of the committee responsible at least four times a year in order to make a statement and to answer questions [...] If they or Parliament so request, the President, Vice-President and other Members of the Executive Board of the European Central Bank shall be invited to attend additional meetings".

This rule establishes the legal basis for the meeting known as the Monetary Dialogue, the quarterly hearing of the ECB president by the European Parliament's ECON Committee. The ECB President typically makes an introductory statement followed by questions from Members of the European Parliament (MEPs). Before each meeting, the European Parliament also assembles a panel of external experts to prepare and present reports on relevant monetary policy topics, published on the EP's website⁸.

⁵ Concerning the ECB supervisory role (which is not discussed in this briefing note), the interactions between the ECB and the European Parliament are established in the EU regulation 1024/2013 (<https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32013R1024>) and formalised in detail in an Interinstitutional Agreement concluded in 2013: [https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32013Q1130\(01\)&from=EN](https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32013Q1130(01)&from=EN).

⁶ Article 284 of the TFEU states that: "The European Central Bank shall address an annual report on the activities of the ESCB and on the monetary policy of both the previous and current year to the European Parliament, the Council and the Commission, and also to the European Council. The President of the European Central Bank shall present this report to the Council and to the European Parliament, which may hold a general debate on that basis."

⁷ See for instance the EP report on the ECB annual report for 2018: https://www.europarl.europa.eu/doceo/document/A-9-2020-0016_EN.html.

⁸ Reports are available at: <https://www.europarl.europa.eu/committees/en/econ/econ-policies/monetary-dialogue>.

The Monetary Dialogue represents the primary channel for ECB accountability. However, whether these hearings provide effective oversight is debateable. MEPs' questions are often unfocused, and many questions are not related to monetary policy or financial issues, but focus on other topics, often of national or even personal interest. There is little specific scrutiny of the ECB's recent track record in fulfilling its mandate. Perhaps as a result, these hearings receive little media attention, and their market effect is negligible (Fraccaroli et al., 2018). This is in contrast to other speeches or interviews given by the President of the ECB.

Finally, the EP Rules of Procedure provide MEPs with another way to interact with the ECB by allowing them to submit written questions to the ECB⁹, a possibility that has been used quite extensively in recent years by MEPs (the number of letters sent per year peaked in 2015 at 152).

While all these tools allow MEPs to monitor the ECB's activities and to question the ECB President and other members of the Executive Board, the EP does not have the power to sanction the ECB, or to initiate legislation to change the ECB framework, should MEPs consider that the ECB is not fulfilling its mandate.

Indeed, to amend fundamental aspects of the ECB's mandate or its accountability framework would require the approval of all Member States. It is true that the European Parliament can participate in the amendment of certain sections of the ESCB/ECB statute¹⁰. However, there are two caveats: first, the articles that can be modified mainly relate to less fundamental issues, and, second these amendments must be done under the EU's ordinary legislative procedure, meaning that the EP does not have the right of initiative, which belongs to the European Commission, and that the Council needs to agree with the EP.

The appointment of decision-makers could provide another way for the EP to influence the policy adopted by the ECB in the future. But on that front, the role of the European Parliament is also very limited. The European Parliament only participates in the appointment of the members of the ECB's Executive Board in an advisory capacity, as it can only provide a non-binding opinion, similarly to the current ECB Governing Council members¹¹. In practice, the EP holds a hearing for prospective Executive Board candidates and has a vote. If this vote is negative, the EP can ask European Council for a new candidate, but the Council has no obligation to comply¹². The EP's influence over the choice of ECB Executive Board members relies exclusively on peer pressure. These appointments are a prerogative of the Council. This is not a problem per se, as the Council is also a legitimate institution representing European Member States and their citizens. However, it could be considered inconsistent to give the responsibility for oversight and the responsibility for appointments to different institutions. That said, even if the Council is able to choose Executive Board members, its influence over their decisions of is

⁹ Rule 140 states that: "Any Member may put a maximum of six questions for written answer per month to the European Central Bank [...] If a question for written answer has not received a reply within six weeks, it may, at the request of its author, be included on the agenda for the next meeting of the committee responsible with the President of the European Central Bank".

¹⁰ Article 129 of the TFEU: "Articles 5.1, 5.2, 5.3, 17, 18, 19.1, 22, 23, 24, 26, 32.2, 32.3, 32.4, 32.6, 33.1(a) and 36 of the Statute of the ESCB and of the ECB may be amended by the European Parliament and the Council, acting in accordance with the ordinary legislative procedure. They shall act either on a recommendation from the European Central Bank and after consulting the Commission or on a proposal from the Commission and after consulting the European Central Bank".

¹¹ Article 283 of the TFEU: "The President, the Vice-President and the other members of the Executive Board shall be appointed by the European Council, acting by a qualified majority, from among persons of recognised standing and professional experience in monetary or banking matters, on a recommendation from the Council, after it has consulted the European Parliament and the Governing Council of the European Central Bank".

¹² Rule 130 of the EP Rules of Procedure: "1. The candidate nominated as President, Vice-President or Member of the Executive Board of the European Central Bank shall be invited to make a statement before the committee responsible and to answer questions put by its members. 2. The committee responsible shall make a recommendation to Parliament as to whether the nomination should be approved [...] 4. If the opinion adopted by Parliament on a nomination is unfavourable, the President shall ask for the withdrawal of the nomination and for the submission to Parliament of a new nomination".

also limited by the fact that board members' 8-year terms are not renewable. Given that re-appointment is not possible, this means that once someone has been appointed, they have no strong incentive to please those with the power to appoint. This was again decided in order to provide a high degree of independence to the Executive Board members, but the price to pay for that independence is that there exists no mechanism to incentivise them to do their jobs properly and fulfil their mandates after they have been appointed.

Furthermore, the European Parliament does not have the ability to sanction central bankers for their actions, in particular for the failure to fulfil their mandate. The ESCB/ECB statute contemplates the possibility of the EU Court of Justice retiring a member of the ECB's Executive Board. However, this process cannot be initiated by the EP but only by the ECB itself, and it would require either a serious allegation of misconduct or a medical reason making it impossible for a board member to perform his or her duties¹³. Therefore, it is highly unlikely that this could be used as a credible threat to incentivise Executive Board members to fulfil their mandates more diligently.

Finally, it is also interesting to note that even though the ECB is accountable to the EP, the possibility for other institutions (for members of the European Commission or the president of the Council) to be present during the ECB's Governing Council meetings is not offered to MEPs¹⁴.

Overall, the power of the European Parliament to discipline the ECB is very limited. There is rather little the EP can do to incentivise the ECB to fulfil its mandate beyond monitoring its activities and asking questions to the ECB President in the Monetary Dialogue. That is why it is crucial that this occasion is well used to increase the European Parliament pressure on the ECB to do its job well. We will come back to this in our final section.

¹³ Article 11 of the Statute stipulates: "If a member of the Executive Board no longer fulfils the conditions required for the performance of his duties or if he has been guilty of serious misconduct, the Court of Justice may, on application by the Governing Council or the Executive Board, compulsorily retire him".

¹⁴ Article 284 of the TFEU states that: "1. The President of the Council and a Member of the Commission may participate, without having the right to vote, in meetings of the Governing Council of the European Central Bank. The President of the Council may submit a motion for deliberation to the Governing Council of the European Central Bank. 2. The President of the European Central Bank shall be invited to participate in Council meetings when the Council is discussing matters relating to the objectives and tasks of the ESCB".

3. LESSONS FROM THE BANK OF JAPAN AND THE JAPANESE DIET

In Claeys et al. (2014) we discussed the Fed's and the BoE's accountability frameworks and compared them with the ECB. In this paper, we complete our study of the accountability of major central banks around the world by discussing how the Bank of Japan (BoJ) is accountable to the Japanese National Diet – i.e. the bicameral legislature of Japan consisting of the House of Representatives and the House of Councillors. The BoJ is interesting because its functioning is very different to its counterparts in Europe and North America.

The Bank of Japan was created in 1882, following the Meiji restoration and shortly after the establishment of the yen as the new decimal national currency, but its current functioning was primarily determined by the 1997 Bank of Japan Act. The Act represented a move towards greater independence – to increase the credibility of the central bank both domestically and in the eyes of international capital markets (Dwyer, 2004) – and towards more transparency – to ensure the accountability of the central bank in the light of its greater autonomy¹⁵. The BoJ Act also set the BoJ's main objectives and the functioning of its decision-making body, a Policy Board of nine members, including the Governor and two Deputy Governors.

In this section, we assess how the BoJ is held to account, based on the three criteria highlighted before: 1) clarity of its mandate and objectives enshrined in law; 2) transparency of decision-making and implementation of monetary policy; and 3) degree of responsibility held by the political body holding the central bank accountable (in appointments, monitoring, possibility to change the law or to sanction the central bank, etc.).

3.1. Mandate of the BoJ

As explained before, enshrining specific and clear objectives into law is essential to ensure the accountability of the central bank, as it provides a benchmark that aids political bodies in monitoring and assessing the central bank's performance. This is done in Article 1 of the BoJ act: "(1) The purpose of the Bank of Japan, or the Central Bank of Japan, is to issue banknotes and to carry out currency and monetary control. (2) In addition to what is prescribed in the preceding paragraph, the Bank of Japan's purpose is to ensure smooth settlement of funds among banks and other financial institutions, thereby contributing to the maintenance of stability of the financial system", while Article 2 adds that: "Currency and monetary control by the Bank of Japan shall be aimed at achieving price stability, thereby contributing to the sound development of the national economy".

In theory, this means that the BoJ has a double mandate: it is responsible for ensuring both financial and price stability. However, there is neither a clear ranking between the two main objectives nor a numerical target for price stability in the BoJ Act. This means that in practice the BoJ should determine its own quantitative definition of price stability and would need to rank its objectives if a trade-off between the two were to arise.

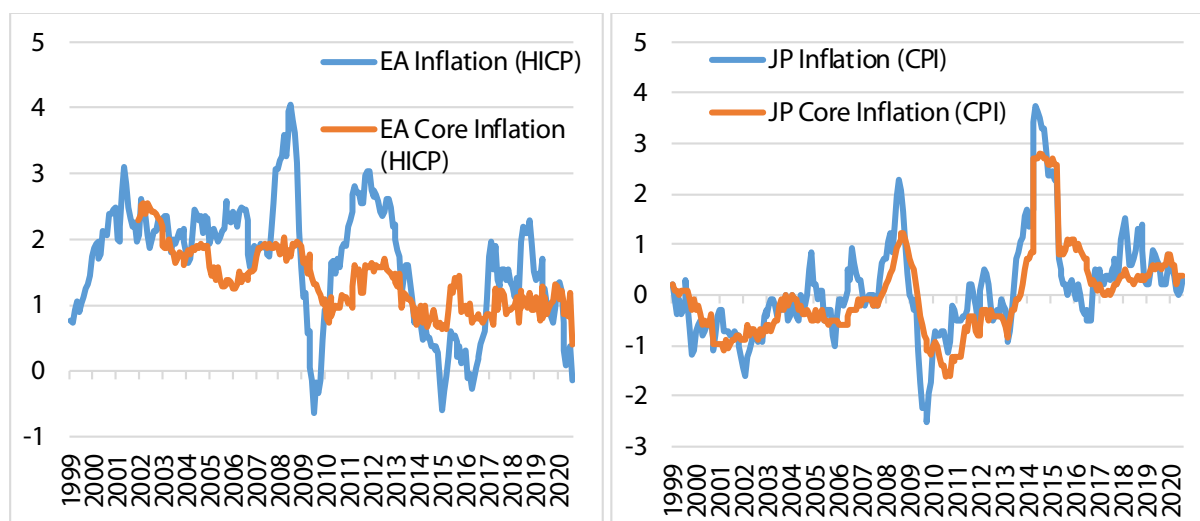
As far as price stability is concerned, the Bank of Japan has established its own quantifiable target which has evolved over the years. Between 2006 and 2012 the BoJ had an implicit target of 1 percent, which was the level considered by Policy Board members as consistent with price stability in the medium to long term. In February 2012, the BoJ announced an official inflation target "within a positive range of 2

¹⁵ Article 3(1) of the BoJ Act stipulates that: "The Bank of Japan's autonomy regarding currency and monetary control shall be respected", while Article 3(2) adds that: "The Bank of Japan shall endeavor to clarify to the citizen the content of its decisions, as well as its decision-making process, regarding currency and monetary control".

percent or lower" while setting the goal at "1 percent for the time being" (BoJ, 2012). However, less than a year later, in January 2013, it introduced a new price stability target "at 2 percent in terms of the year-on-year rate of change in the consumer price index" (BoJ, 2013b). We see this as a positive development not only because a clearer target should act (at least in theory) as a better focal point to anchor inflation expectations (Blinder et al., 2008) but also in terms of accountability. While the new target is not enshrined in law and has not been determined directly by an elected assembly, the 2 percent target finally provides a precise and understandable quantitative benchmark against which the Diet can judge the BoJ's performance.

The fact that the adoption of the new target coincided with the election of prime minister Shinzo Abe in December 2012 – who publicly called for such a change before the election – did not escape observers (e.g. Neely, 2013), who interpreted this as a sign of political influence over the BoJ's decision. Another strong indication that this change might have resulted from the political pressure from the new government is that this move was executed in parallel to the issuance of a joint statement between the BoJ and the government in which the BoJ pledged to "pursue monetary easing and aim to achieve this target at the earliest possible time" (BoJ, 2013a). This seems to indicate, at least on that occasion, some form of political involvement in setting the BoJ target. Pressuring the BoJ to adopt a higher and more precise target might have been justified, given the BoJ's underperformance leading to two decades of mild deflation from the BoJ Act of 1997 to Abe's election at the end of 2012 (Figure 1). However, the new target was hardly the result of a transparent review of the BoJ target by the Diet, but of indirect pressure from the new government, and was done in a rather opaque manner.

Figure 1: Headline and core inflation in the euro area (LHS) and in Japan (RHS), year on year change in %



Source: Bruegel based on Eurostat and Statistics of Japan. Notes: Euro area core inflation excludes energy, food, alcohol and tobacco; Japanese core inflation excludes fresh foods and energy.

3.2. BoJ Transparency

The need for transparency is enshrined in the Bank of Japan Act¹⁶. In practice, in Japan this entails that the BoJ Policy Board releases its monetary policy decisions, the detailed guidelines for its open market

¹⁶ See previous footnote.

operations and, more generally, its views on economic and financial developments. As for other central banks, this takes various forms.

First, to fulfil its legal obligations¹⁷, after each Monetary Policy Meeting (MPM), held eight times per year, the BoJ releases a 'Statement on Monetary Policy' containing the decisions taken by the Policy Board, and the BoJ governor usually holds a press conference later on the same day. This is followed by the publication of a 'Summary of Opinions' a few days later. In addition, the main report in which the BoJ explains its policies and describes the state of the Japanese economy in detail, the Outlook for Economic Activity and Prices, is published quarterly (immediately after every second MPM).

Second, the minutes of the monetary policy meetings are published around one month later. In contrast to the ECB, these minutes are very precise and include the votes cast by each member of Policy Board on each decision, as well as the reasons for dissent from those not who have voted against the majority. Exact transcripts of MPM discussions are also released after ten years.

Finally, the BoJ Governor and the other members of the Policy Board also make regular speeches to explain the decisions of the BoJ and provide their views on the situation of the Japanese economy.

3.3. Relationship of the BoJ with the Diet and the government

Parliamentary hearings have become an essential tool in holding central banks accountable, and this is also the case in Japan. In that regard, to fulfil its legal accountability obligations to the Diet¹⁸, the BoJ submits twice a year a 'Report on Currency and Monetary Control' to the Parliament, in June and December. These publications are accompanied by hearings in each of the two chambers of the Diet to explain the main points of the reports, resulting in practice in a minimum of four annual hearings on monetary policy matters. The BoJ Governor also frequently attends other sessions of the Japanese parliament¹⁹. As far as we can see²⁰, the hearings lead to a courteous interaction between a limited number of Members of the Diet and the BoJ Governor. In these hearings, Japanese Parliamentarians typically intervene for around five minutes and can ask follow-up questions, in which lawmakers can respond or question the governor's response.

In addition, unlike the ECB, the Bank of Japan is more directly subject to the control of the Parliament, because the Bank of Japan Act was passed by both houses of Parliament in 1997. This means that the functioning of the BoJ could be amended with a new bill with a simple majority in both chambers, the House of Representatives and the House of Councillors. This provides the Diet with the power to alter many of the above-mentioned norms.

¹⁷ Article 20 of the Act: "(1) After each Board meeting for monetary control matters, the chairperson shall promptly prepare a document describing an outline of the discussion at the meeting in accordance with the decisions made by the Board, and make public the document following its approval at another Board meeting for monetary control matters. (2) The chairperson shall prepare a transcript of each Board meeting for monetary control matters in accordance with the decisions made by the Board, and make public the transcript after the expiration of a period of time which is determined by the Board as appropriate."

¹⁸ Article 54 of the Bank of Japan Act states: "(1) The Bank of Japan shall, approximately every six months, prepare a written report on the Policy Board [...] and conditions of business operations that the Bank has conducted based thereon and submit it to the Diet through the Minister of Finance. (2) The Bank of Japan shall endeavor to explain to the Diet the written report set forth in the preceding paragraph. (3) The Bank of Japan's Governor or the chairperson of the Policy Board, or a representative designated by them, shall attend the sessions of the House of Representatives, the House of Councillors, or their Committees when requested by them, in order to explain the state of the Bank's business operations and property."

¹⁹ For instance, Lepper and Sterne (2002) counted 34 appearances of Policy Board members in front the Diet in one year (from May 2000 to May 2001), placing Japan second (after Israel) in a list of 14 mayor central banks in terms of parliamentary appearances.

²⁰ To the best of our knowledge there are no transcripts available of these hearings (in English), but videos are available online. See for instance, recent hearings with the House of Councillors: <https://www.youtube.com/watch?v=xjCabZ2MIV4>, <https://www.youtube.com/watch?v=Sf24JLlbY6c>, <https://www.youtube.com/watch?v=w1uQFyTla6Q> and with the House of Representatives: <https://www.youtube.com/watch?v=zz5OL8V7560>.

The appointment (and possible reappointment) of Policy Board members is also a tool of parliamentary influence, given that these members will ultimately take monetary policy decisions²¹. In Japan, the Governor, two Deputy Governors and the six other Members of the Policy Board “shall be appointed by the Cabinet, subject to the consent of the House of Representatives and the House of Councillors”, as per Article 23 of the BoJ Act. This means that the Japanese Diet has the ability to explicitly veto appointments to the Policy Board²². In addition, all nine members, which are appointed for five years, can be reappointed, with no specific legal limit on the number of mandates. Reappointments are not that frequent: the current governor, Haruhiko Kuroda, is the first BoJ governor to serve more than one five-year mandate since Masamichi Yamagiwa who served for almost two full terms from 1956 to 1964. However, the option for the Diet to accept or reject a reappointment could provide a source of influence over future board members’ decisions.

In parallel to the BoJ’s relationship to the legislative branch, the Bank of Japan Act also established the need for permanent contact between the BoJ and the executive branch of the government, with Article 4 giving a greater role to the government than is customary in other independent central banks around the world: “The Bank of Japan shall, taking into account the fact that currency and monetary control is a component of overall economic policy, always maintain close contact with the government and exchange views sufficiently, so that its currency and monetary control and the basic stance of the government’s economic policy shall be mutually compatible”.

The degree of government involvement in monetary policy matters is reinforced by the fact that ministers and government officials can take part in monetary policy meetings²³. The BoJ Act even specifies that the government representatives present in the MPM can “submit proposals concerning monetary control matters, or request that the Board postpone a vote on proposals on monetary control matters”. Minutes from these meetings reveal the regular presence of between two and five government representatives (typically ministers and other high-ranking officials such as state ministers and vice-ministers). These government representatives actively participate in meetings, and minutes even contain a section titled “remarks by government representatives”, which covers the activities that “the government expect” the bank to engage in after the meeting²⁴. This leaves little doubt about the high degree of influence to government representatives in monetary policy matters.

There are even certain areas in which the government can directly instruct the BoJ to conduct specific operations. This is the case for actions to influence the exchange rate. The BoJ should not independently look to influence the exchange rate, but can be instructed to do so by the government, as stated within the BoJ’s own Functions and Operations of the Bank of Japan document²⁵: “When the yen becomes unstable in the foreign exchange market, the Japanese government (Finance Minister) may instruct the Bank of Japan, its agent, to conduct foreign exchange intervention by buying or selling yen against foreign currencies as needed”²⁶. This differentiates clearly the BoJ from other major central

²¹ Article 15 of the BoJ Act stipulates that “matters concerning currency and monetary control shall be decided by the (Policy) Board”. Article 18 further states that “matters shall be decided by a majority of votes cast by (Policy) Board members who are present”. The Policy Board also elects its own chairperson, who shall decide in case of a tie.

²² Indeed, while Article 23 further states appointment can occur without consent “if the Diet is out of session”, this appointment must be approved ex-post. Indeed, “if the Cabinet fails to obtain such ex post approval, it shall immediately dismiss the said Governor, Deputy Governor, or Member of the Policy Board”.

²³ Article 19 of the Act stipulates that: “The Minister of Finance or the Minister of State for Economic and Fiscal Policy [...] (in the case where the office is vacant, it shall be assumed by the Prime Minister) may, when necessary, attend and express opinions at Board meetings for monetary control matters, or may designate an official of the Ministry of Finance or the Cabinet Office, respectively, to attend and express opinions at such meetings”.

²⁴ See minutes from the last five MPM: BoJ (2020a, 2020 b, 2020 c, 2020d and 2020 e).

²⁵ Bank of Japan, *International Operations and Services*, available at <https://www.boj.or.jp/en/about/outline/data/foboj10.pdf>.

²⁶ The legal basis is Article 40 of the BoJ act, which states that the BoJ “shall buy and sell foreign exchange as an agent handling national government affairs”. It later goes on to specify that “when buying and selling foreign exchange on its own account” the BoJ will “conduct

banks as the exchange rate policy is very often, in practice, under the central bank’s responsibility and generally subordinated to monetary policy goals.

The influence of the government even appears to have increased (or at least to have become more visible) in after the election of Shinzo Abe in 2012, who served as prime minister until August 2020. His campaign touched heavily on monetary policy matters, advocating for “unlimited easing” (Dickie, 2012), which led the yen to depreciate by 15% against the US dollar between Abe’s nomination as head of the liberal party and his first months in office (even if other factors may have played a role). As mentioned previously, after the election, the BoJ and the government issued a joint statement, in which they pledged to “strengthen their policy coordination” (BoJ, 2013a). In practice, this was mainly done by increasing the role for the Council on Economic and Fiscal Policy, established in 2001 within the Cabinet, whose objective is to: “regularly review the progress in the conduct of macroeconomic policies including monetary policy, the current condition and future prospects of prices in the context of the price stability target under those policies”.

Overall, the Bank of Japan operates very differently to other major central banks, being subject to a much greater degree of government involvement in its decision-making. Our analysis indicates that, in the case of Japan, the balance between independence and accountability is clearly tipped towards a high degree of political accountability both legally and in practice, with the government having a significant influence over the BoJ’s decisions (in particular since 2013). This has even led some to argue that monetary policy in Japan can sometimes be the outcome of a bargaining process between the Ministry of Finance and the BoJ (Reszat, 2013). It is also worth highlighting that it is clearly the government that plays the greater role and not the Japanese Parliament – although, given that Japan is a parliamentary democracy, this still signifies a degree of indirect parliamentary power.

The ECB is at the opposite end of the spectrum between independence and accountability, and it is not clear that it would be desirable (especially in a multi-country union such as the euro area) to move very far in the direction of the BoJ. But there are still some lessons to be learned when looking at the Japanese framework, which we discuss in the next section.

Table 1: Comparison of the ECB and BoJ in term of accountability

	European Central Bank	Bank of Japan
Legal Basis	TEU, TFEU, Statute of the ESCB, international law (requires unanimity of member states to be altered)	1997 Bank of Japan Act
Accountability to	European Parliament	Japanese Diet (House of Representatives and House of Councillors). Permanent contact with the Government (see below).
Mandate	The ECB's primary mandate is 'price stability', enshrined in the treaties along with secondary objectives. No quantifiable objective is set in law, the ECB can set its own quantitative target for price stability: it is currently defined as a level of inflation, “below but close to” 2% in the medium term (since the 2003	The BoJ's objectives enshrined in the BoJ Act are 'price stability' and 'stability of the financial system'. There is no ranking of objectives, or quantifiable objective set by law. The BoJ can set its own quantitative target for price stability: it is currently defined as 2% inflation (since 2013).

the buying and selling for the purpose which the Minister of Finance specifies as constituting cooperation in the field of international finance, at the request, or upon the approval, of the Minister of Finance”.

	clarification). Secondary objectives are very broad and not ranked.	
Meeting Minutes	The ECB does not publish the minutes of its Governing Council monetary policy meetings, however since February 2015 they publish monetary policy accounts following meetings. The EU treaties give the ECB the competence to decide upon this.	The BoJ releases Monetary Policy Meeting (MPM) minutes after each session. While these do not entail a full transcript (these are only available after 10 years) they do include votes cast by each member and reasons for dissent.
Appearances before Parliament	The ECB President appears before the ECON Committee four times a year. At Parliament's request, the President, Vice President and other members of the Executive Board shall be invited to attend additional meetings.	The Governor and other members of the Policy Board shall attend sessions in the House of Representatives and House of Councillors or their Committees when requested by them (no specific number of hearings, subject of coordination).
Reports and written communication	The President presents the Annual Report to the plenary, previously presented to the ECON Committee by the Vice-President. The ECB answers written questions from MEPs	The Bank of Japan submits a 'Report on Currency and Monetary Control' to the Diet in June and in December, followed by a hearing with the Governor in each of the two houses of the Diet.
Appointment of Board Members	The President, the Vice-President and other members of the Executive Board shall be appointed by the European Council, after consulting the European Parliament and Governing Council.	The Governor, two Deputy Governors and the other six members of the Policy Board shall be appointed by the Cabinet, subject to the consent of the two houses of the Japanese Diet.
Sanctions/Removal from office	The President and other Executive Board members cannot be dismissed by politically elected bodies. On application by the Governing Council or Executive Board, the EU Court of Justice may remove an Executive Board Member from office.	Members of the Board may not be dismissed over Policy differences (Article 25 BoJ Act), only certain types of misconduct as well as failure to receive Parliamentary approval following appointment.
Government involvement	The ECB has full operational independence. The relevant Commissioner and the President of the Council may attend Governing Council meetings.	The BoJ maintains close contact with the government to ensure coordination between economic and monetary policy. Government members actively participate in the MPM. The government may instruct the BoJ to conduct foreign exchange interventions under certain circumstances.

Source: Bruegel based on ECB and BoJ.

4. RECOMMENDATIONS TO IMPROVE ECB ACCOUNTABILITY BEFORE THE EUROPEAN PARLIAMENT

With the COVID-19 pandemic, the euro area faces the worst contraction of GDP ever recorded, forcing the ECB to play again an influential role and introduce a wide range of new measures in 2020. This makes an effective oversight of the ECB more important than ever.

To make the ECB more accountable to the European Parliament, we make a series of recommendations that can be immediately implemented by the Parliament and do not involve changes to the European Treaties. Our recommendations can be divided into three main categories. First, the quarterly hearing of the president of the ECB, the so-called Monetary Dialogue, should be improved. The EP can do this unilaterally as its format is based on its own Rules of Procedure and general practices. Second, the EP should continue to push for greater transparency in ECB decision-making. As discussed before, under the current Treaty, this is largely at the discretion of the ECB, but this also means that the EP has some scope to lobby for a greater degree of transparency. Third, the EP could help the ECB rank its secondary objectives, as the treaties clearly enshrine the primacy of achieving price stability, but specify little else about the ECB's so-called secondary objectives. As these objectives remain eminently political, they should be ranked by political bodies and not by the ECB. This role should be played by the EU's co-legislators. The EP should also try during the on-going review of the ECB's strategy to push the ECB to adopt a clearer and better definition of price stability.

4.1. Improving the monetary dialogue

Article 284 of the TFEU provides the general framework of ECB accountability to the EP, but the details about the Monetary Dialogue, its format and frequency, actually come from the European Parliament's Rules of Procedure²⁷. As a result, the debates will typically contain a section when time is pre-allocated to speakers in accordance with the political groups. The debate may then have a second section where the Chair can call upon Members freely.

In practice, recent Monetary Dialogues have followed a similar procedure: a two-hour meeting that includes a 15 minutes introductory statement by the ECB President, followed by a Q&A session with around 15 initial slots pre-allocated to MEPs from different political groups (with two minutes maximum for the questions and three minutes maximum for the answers by the ECB President) and finally a 'catch-the-eye' (unallocated) session, if time allows at the end of the meeting, in which other MEPs present can ask questions, typically with no more than one minute allowed. In addition, before the meeting takes place, a preparatory meeting with a panel of experts is set up to provide expertise to MEPs, with topical reports and presentations, which also allows for informal exchanges between the experts and the MEPs or their assistants.

There are several procedural changes that could lead to a more effective dialogue that would strengthen the oversight role of the European Parliament:

First, the Monetary Dialogue rarely focuses on assessing the ECB's performance, either in fulfilling its price stability mandate by meeting its self-assigned quantitative target, or in supporting the EU to fulfil its objectives. Instead, MEPs ask questions on a broad range of issues, sometimes of national focus and sometimes even on issues that are not of the ECB's responsibility, as noted by Jean-Claude Trichet

²⁷ They are laid out in Rule 135, which specifies that there should be a "general debate", and the procedure is specified in Rule 216 and especially in Rule 171. This states that: "The Conference of Presidents may propose to Parliament that speaking time be allocated for a particular debate. Parliament shall decide on this proposal without debate."

during the Q&A during the June 2011 Monetary Dialogue²⁸. In order to ensure the focus of the EP on the ECB's mandate, it could become customary for the Chair of the ECON Committee to ask an agreed set of questions that remain constant at every hearing. Examples include inquiring about the reasons for the divergence of inflation from the ECB's target, the measures taken to remedy this, the reasons for the most recent decisions of the Governing Council and any secondary objectives that have recently been taken into account. This would allow the EP to effectively assess how the ECB is fulfilling its mandate, and put the ECB President in a position to justify all major decisions in front of the European citizens' representatives. Also, given the doubts raised by the German Constitutional Court about the proportionality of the ECB's actions in its 5 May 2020 ruling on the Public Sector Purchase Programme (BVerfG, 2020), the EP could pay particular attention to the issue of the proportionality of the tools used by the ECB. In general, fixed questions on these issues (performance and proportionality) in every meeting would also facilitate comparison over time. From a symbolic perspective, the setting of the Monetary Dialogue could also be changed so that it looks more like a hearing than a conference given by the ECB President.

Second, the number of MEPs that participate in the dialogue should be reduced, so that participants can have a real dialogue with the ECB President with the opportunity to ask follow-up questions. In the case of the Bank of Japan, members of the Diet have a proper conversation with the governor, with follow-up questions that allow them to reply or ask for additional details about answers given by the BoJ governor. The US Congress' system of hearings with the Fed also works more effectively at least in part because it involves a much smaller number of committee members. One way for the EP to do this could be to give all the allotted time to seven ECON coordinators, especially as these must express the view of their parliamentary groups. As such they would be less prone to ask questions that are of little value, in particular questions that are not related to the ECB's responsibilities but are of personal interest to a particular MEP.

Third, the experts participating in the preparatory meeting and writing briefings to advise MEPs on pertinent topics regarding monetary policy and recent ECB performance could be better used. While we believe that it is useful – given the technical nature of monetary policy – to help MEPs to provide effective oversight, in practice attendance at preparatory meetings is generally very low and thus their value reduced. More attention could be given to the topics chosen by the MEPs themselves for each dialogue and the briefing papers prepared, so that these relevant topics are discussed during the hearing.

4.2. Pushing for even more transparency in decision making

While the ECB was an early innovator as one of the first major central banks to introduce a press conference with a Q&A session after each of its policy decisions, and has also made substantial progress over the years when it comes to transparency, it still lags other central banks in some particular aspects. This is the case when it comes to publishing the minutes of its monetary policy meetings and disclosing the votes of the members of the Governing Council.

In this aspect, it differs from other major central banks such as the Bank of Japan, as seen above, and also the Bank of England and the Fed. Even if, since 2015, the ECB has published accounts after each monetary policy meeting that go through the main areas of discussion, the monetary accounts remain

²⁸ Jean-Claude Trichet in the June 2011 Monetary Dialogue: *"I would have expected a lot of questions on our monetary policy, on the level of inflation, on what inflation will be in two years' time, on whether our projections are right or wrong, and on whether we are right or wrong to have the present level of interest rates, taking into account other decisions taken elsewhere in the world. However, I see that you have such a confidence in my institution that these are not a problem or an issue at all! I have also had a lot of questions on issues for which we are not responsible."* (p.15, <https://www.europarl.europa.eu/cmsdata/174379/20110711ATT23762EN.pdf>).

mostly focused on assessing the economic situation (rather than laying out the different points of view of the members of the Governing Council) and, crucially, views are not attributed to the speakers. Similarly, the votes cast by each member remain private.

This could be changed by the ECB unilaterally. It is legally at the discretion of the ECB to decide to publish more detailed minutes²⁹. Trends would indicate the ECB has been moving in the direction of greater transparency for some time, not only by publishing accounts of meetings but also more generally issuing more and more details to back up their decisions.

This is not only possible, but also clearly desirable in our view. Without transparency on votes, incentives at the individual level become weaker, especially in a large decision-making body such as the ECB Governing Council. While the argument has been made in the opposite direction, with the ECB arguing that national central bank governors would be subject to national pressure, we believe that greater transparency in the vote would on the contrary allow for greater scrutiny of decisions and incentivise the governors to vote not with a national mind-set but according to the interests of the entire euro area, as they are supposed to do according to the TFEU. As argued by Buiter, (2014): "Voting in the national rather than the European interest is a lot easier if one cannot be held to account for such mandate-violating actions because these votes are not in the public domain. Any formal political or judicial sanctions against such mandate violations become impossible if there are no formal votes or if the individual votes remain a secret."

In addition, we believe that in the current circumstances publishing more detailed minutes of the discussions in the Governing Council would also be in the interest of the ECB. It would in particular help the ECB allay the concerns of the German Constitutional Court about the proportionality of its actions (BVerfG, 2020) by showing that there are frank and honest debates in the Governing Council in which pros and cons and alternative policies are discussed. Would that mean that the difficult negotiations between members of the Governing Council would move to another, more informal forum, before the actual meeting, to avoid exposing their disagreements to the world? This is not what we observe at the BoJ, the Fed or the BoE, where members of monetary committees have genuine discussions during their meetings, even if they know they are going to be quoted in the minutes. Knowing that they are going to be quoted in the minutes can give members an incentive to take their jobs seriously and to participate actively in the discussion.

Therefore, it is up to the European Parliament to use its political influence to push the ECB for greater transparency, so that it can best ensure the ECB remains accountable to its citizens. The EP should in particular use the occasion given by the on-going ECB strategy review to do that.

4.3. Ranking the ECB's secondary objectives

Finally, there is the question of the ECB's objectives. While its primary objective, price stability is clearly enshrined in the treaties, Article 127 of the TFEU adds that the ECB should also contribute to the achievement of the EU objectives (as long as it does not endanger price stability). The ECB is thus entitled to pursue these objectives as secondary aims, but has little guidance on their respective priority. This has become a particularly relevant aspect of the debate recently, due to widespread calls for the ECB to 'green' its monetary policy in order to participate to the fight against climate change.

²⁹ Article 132 of the TFEU states that the ECB may "decide to publish its decisions, recommendations and opinions", while Article 10 of the ESCB statute allows the Governing Council to "decide to make the outcome of its deliberations public".

In this context, it would therefore be useful to have additional clarity on the ranking of these secondary objectives. Such clarity would result in a more detailed mandate, and would help in the EP's assessment of the ECB's performance in meeting its objectives.

We believe this ranking should be decided at the political level and not by the ECB itself. There is no indication of what the ECB should do if these objectives require contradictory policies. These objectives remain at the core of the EU's purpose and cover highly political topics. Deciding between their relative importance is essentially a political endeavour and should be dealt with by political bodies. The ECB, which, under the EU treaties, has some discretion to determine how it views these objectives, should give back this task to the EU's legislators. The European Parliament as representative of European citizens and the Council of the EU as representative of EU Member States should take the primary roles in determining the ranking of secondary objectives. As far as the EP is concerned, its resolution on the ECB's annual report would be a clear medium for the Parliament to make this ranking.

Finally, as far as objectives are concerned, the EP should also use the occasion of the ECB strategy review to push the ECB to adopt a clearer and better definition of price stability, as Japan did in 2013 after tweaking its definition for a while. This would also facilitate its own job of assessing the ECB's performance.

5. CONCLUSION

Once again, the ECB is playing an important role in shouldering the burden of the current crisis, with programmes that will affect financial markets and the real economy. Even if we think that these actions are welcome and warranted by the current situation (Claeys, 2020), it becomes even more important for the ECB to be effectively and democratically held accountable. As the only directly-elected EU institution, the European Parliament has a central role to play. This report has assessed the ECB accountability framework based on three criteria: 1) clarity of mandate and objectives enshrined in law, 2) transparency in decision-making and 3) the degree of responsibility ultimately held by political bodies (power of appointment, instruction and sanction, etc.). The same analysis has also been applied to the practices of the Bank of Japan, in order to identify possible lessons for the ECB.

While the ECB already performs quite well in terms of accountability, there are evident improvements to the process that could be made, some of which can be inspired by BoJ practices. For example, the current version of the Monetary Dialogue does not focus enough on assessing the performance of the ECB in fulfilling its mandate. A hearing with a smaller number of participating MEPs (like in Japan), a set of fixed questions on the ECB's performance (and possibly on the proportionality of the instruments used) and better use of the material produced by the panel of experts could be substantially more effective. It is well within the EP's competences to alter the format of the Monetary Dialogue, as it depends exclusively on the EP's Rules of Procedure. Additionally, while some of our recommendations lie outside the EP's explicit competence, such as the release of Governing Council meeting detailed minutes and votes, the EP should still use its power to call for greater transparency in order to reinforce its own ability to scrutinise the ECB's decisions. Furthermore, it would also be beneficial to clarify several issues surrounding the ECB's mandate, including the ranking of secondary objectives. This is an inherently political decision, and the EP should establish a ranking of secondary objectives to help the ECB decide which secondary objective it should prioritise in case trade-offs arise.

REFERENCES

- Amtenbrink, F. (1999), *The Democratic accountability of central banks: A comparative study of the european central bank*, Hart Pub Limited.
- Bank of Japan Act, available (in English) at <http://www.japaneselawtranslation.go.jp/law/detail/?id=92&vm=02&re=01>.
- Bank of Japan, *Functions and Operations of the Bank of Japan*, available at <https://www.boj.or.jp/en/about/outline/data/foboj10.pdf>.
- Bank of Japan (2012), *The Price Stability Goal in the Medium to Long Term*, 14 February 2012, available at: https://www.boj.or.jp/en/announcements/release_2012/k120214b.pdf.
- Bank of Japan (2013a), *Joint Statement of the Government and the Bank of Japan on Overcoming Deflation and Achieving Sustainable Economic Growth*, 22 January 2013, available at https://www.boj.or.jp/en/announcements/release_2013/k130122c.pdf.
- Bank of Japan (2013b), *The "Price Stability Target" under the Framework for the Conduct of Monetary Policy*, 22 January 2013, available at: https://www.boj.or.jp/en/announcements/release_2013/k130122b.pdf.
- Bank of Japan (2020a), *Minutes of the Monetary Policy Meeting of January 20th and 21st 2020*, available at https://www.boj.or.jp/en/mopo/mpmsche_minu/ minu_2020/g200121.pdf.
- Bank of Japan (2020b), *Minutes of the Monetary Policy Meeting of March 16th 2020*, available at https://www.boj.or.jp/en/mopo/mpmsche_minu/ minu_2020/g200316.pdf.
- Bank of Japan (2020c), *Minutes of the Monetary Policy Meeting of April 27th 2020*, available at https://www.boj.or.jp/en/mopo/mpmsche_minu/ minu_2020/g200427.pdf.
- Bank of Japan (2020d), *Minutes of the Monetary Policy Meeting of June 15th and 16th 2020*, available at https://www.boj.or.jp/en/mopo/mpmsche_minu/ minu_2020/g200616.pdf.
- Bank of Japan (2020e), *Minutes of the Monetary Policy Meeting of July 22nd 2020*, available at https://www.boj.or.jp/en/mopo/mpmsche_minu/ minu_2020/g200522.pdf.
- Blinder, A., M. Ehrmann, M. Fratzscher, J. De Haan and D. Jansen (2008), *Central Bank Communication and Monetary Policy: A Survey of Theory and Evidence*. *Journal of Economic Literature*, 46(4), pp 910-945.
- Briault, C., A. Haldane and M. A. King (1997), *Independence and accountability*. In: *Towards more effective monetary policy*. PalgraveMacmillan, London, pp. 299-340.
- Buiter, W. H. (2014), *Central banks: powerful, political and unaccountable?*, British Academy's Keynes lecture in economics, 18 September 2018, *Journal of the British Academy*, 2, pp 269–303.
- BVerfG (2020), *Judgment of the Second Senate of 05 May 2020*, 2 BvR 859/15, paragraphs 1-237, available at http://www.bverfg.de/e/rs20200505_2bvr085915en.html.
- Chiacchio, F., G. Claeys and F. Papadia (2018), *Should we care about central bank profits?*, Policy Contribution 12/2018, Bruegel.
- Claeys, G. (2020), *The European Central Bank in the COVID-19 crisis: Whatever it takes, within its mandate*, Policy Contribution 09/2020, Bruegel.

- Claey's, G., M. Hallerberg, and O. Tschekassin (2014), *European Central Bank accountability: how the monetary dialogue could be improved*, Policy Contribution 04/2014, Bruegel.
- Claey's, G. and T. Linta (2019), *The evolution of the ECB governing council's decision-making*, Bruegel blog, 27 June 2019 available at: <https://www.bruegel.org/2019/06/the-evolution-of-the-ecb-governing-councils-decision-making/>.
- Claey's, G., M. Demertzis and J. Mazza (2018), *A monetary policy framework for the European Central Bank to deal with uncertainty*, Policy Contribution 21/2018, Bruegel.
- De Haan, J., F. Amtenbrink and S. Eiffinger, (1999), *Accountability of central banks: aspects and quantification*, BNL Quarterly Review, vol. 52, issue 209, pp. 169-193
- De Haan, J. and F. Amtenbrink (2003), *A Non-Transparent European Central Bank? Who is to Blame?*, available at <http://dx.doi.org/10.2139/ssrn.1138224>.
- Demertzis, M., and A. H. Hallett (2007), *Central bank transparency in theory and practice*. Journal of Macroeconomics, 29(4), pp. 760-789.
- Dickie, M. (2012), *Abe calls for 'unlimited' easing from BoJ*, Financial Times, 15 November 2012, available at <https://www.ft.com/content/7e64027c-2f04-11e2-b88b-00144feabdc0>.
- Dwyer, J. (2004), *Explaining Central Bank Reform in Japan*, Social Science Japan Journal, 7(2), pp. 245-262.
- Eijffinger, S. and M. Hoeberichts (2002), *Central bank accountability and transparency: Theory and some evidence*, International Finance 5, no. 1, p. 8.
- Eijffinger, S. and P. Geraats (2002), *How transparent are central banks?*, CEPR Discussion Paper, Centre for Economic Policy Research, London.
- European Parliament Rules of Procedure, available at https://www.europarl.europa.eu/doceo/document/RULES-9-2019-07-02_EN.pdf.
- Fraccaroli, N., A. Giovannini and J. Jamet (2018), *The evolution of the ECB's accountability practices during the crisis*, ECB Economic Bulletin 05/2018.
- Interinstitutional Agreement between the European Parliament and the European Central Bank on the practical modalities of the exercise of democratic accountability and oversight over the exercise of the tasks conferred on the ECB within the framework of the Single Supervisory Mechanism (2013/694/EU), available at <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32013Q01130%2801%29>.
- Issing, O. (2003), *Press seminar on the evaluation of the ECB's monetary policy strategy*, 8 May, available at: https://www.ecb.europa.eu/press/pressconf/2003/html/is030508_1.en.html.
- Lepper, J. and G. Sterne (2002), *Parliamentary scrutiny of central banks in the United Kingdom and overseas*, Bank of England Quarterly Bulletin, Autumn 2002, available at <https://www.bankofengland.co.uk/-/media/boe/files/quarterly-bulletin/2002/parliamentary-scrutiny-of-central-banks-in-the-uk-and-overseas.pdf?la=en&hash=397883EC19EAA9F38825212656398D561B05A1CB>.
- Neely, C. J. (2013), *Political pressure on the bank of Japan: interference or accountability?*, Economic Synopses 07/2013, Federal Reserve Bank of St. Louis.

- Protocol on the Statute of the European System of Central Banks and of the European Central Bank, available at <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A12016E%2FPRO%2F04>.
- Reszat B. (2013), *Central bank independence in Japan – not what you would expect*, 1 January 2013, available at <https://reszatonline.wordpress.com/2013/01/27/central-bank-independence-in-japan-not-what-you-would-expect/>.
- Treaty on European Union, available at <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A12012M%2FTXT>.
- Treaty on the Functioning of the European Union, available at <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:12012E/TXT&from=EN>.

This paper assesses how the European Parliament (EP) holds the European Central Bank (ECB) accountable. The same exercise is done for the Bank of Japan, in order to identify possible lessons for the ECB and the EP. Possible improvements to the ECB accountability framework include procedural changes to the Monetary Dialogue to increase its effectiveness, the release of detailed minutes and votes from ECB governing council meetings, and the establishment of a ranking by the EU legislators of the ECB's secondary objectives.

This document was provided by Policy Department A at the request of the Committee on Economic and Monetary Affairs (ECON).
