

The accountability of the ECB

The accountability of the ECB and the transparency of its monetary policy are important elements of the institutional and policy framework of Economic and Monetary Union (EMU). In order to address and clarify these distinct and yet interrelated concepts, this issue of the Monthly Bulletin includes two articles on these topics. Whereas the second article deals with transparency in the monetary policy of the ECB, this article focuses on accountability, which is understood as the legal and political obligation of an independent central bank to justify and explain its decisions to the citizens and their elected representatives. Beginning with a general and abstract notion of the multi-faceted concept of central bank accountability, the article presents and explains how the ECB fulfils its duty to render account for its policy decisions. In this context, the ECB's relations with the European Parliament – the only European institution made up of directly elected representatives of the citizens – play a particularly prominent role and are described in detail. References are made to the accountability provisions and practices of other major central banks, such as the Federal Reserve System, the Bank of Japan and the Bank of England, wherever this appears useful or relevant.

I Introduction

A cornerstone of the monetary constitution of the euro area is the independence of the ECB and of the NCBs of the Eurosystem. Article 108 of the Treaty establishing the European Community (hereinafter referred to as “the Treaty”) safeguards this independence in a far-reaching manner, i.e. at the institutional, personal, functional and financial levels (see also the article entitled “The institutional framework of the ESCB” in the July 1999 issue of the Monthly Bulletin). At the same time, in modern democracies, independent institutions bestowed with a public function must be held accountable for their actions. Therefore, the high degree of independence granted to the ECB goes hand in hand with well defined ways of holding the latter accountable.

During the four years since its establishment, the ECB has, at times, been faced with discussions concerning the extent to which it is accountable and transparent. In this context, a certain degree of confusion with regard to the terms “accountability” and “transparency” has become apparent, not least because they are used interchangeably at times. While both terms are undoubtedly interrelated, they carry different meanings and should, therefore, be treated separately.

The accountability of the ECB is the subject of this article. First and foremost, it is understood as an obligation vis-à-vis the “political order” prevailing within the EU and as a crucial cornerstone of the legitimacy of the ECB and its policies. Transparency, on the other hand, is a notion stemming from the “economic order” and can be considered as an instrument aimed at enhancing the effectiveness of the ECB’s policy. While, as mentioned above, some aspects of accountability also relate to transparency, the latter is treated in the article entitled “Transparency in the monetary policy of the European Central Bank” in this issue of the Monthly Bulletin.

Holding the ECB accountable involves legal, institutional and practical aspects, and this article presents and explains existing provisions and practices. The focus is on *democratic* accountability, meaning that particular emphasis is placed on the ECB’s relations with elected bodies, most importantly the European Parliament as the EU institution composed of directly elected representatives of the European citizens. Wherever relevant, reference will be made to the accountability provisions and practices of other important central banks, such as the Federal Reserve System, the Bank of England and the Bank of Japan.

2 Accountability as a cornerstone of the ECB's legitimacy

Independent central banks in modern democracies

Accountability is a fundamental precondition for, and core element of, democratic legitimacy. In a democracy, all power emanates from the people. All decisions which bind and affect the community have to be legitimised by the will of the people. Typically, legitimacy is conceptualised as comprising two principal elements: first, public policy decisions are legitimate if they are, directly or indirectly, the expression of the will of the people ("government by the people"). This is often referred to as "input legitimacy" or "legitimacy by procedure". Second, decisions can be considered legitimate if they meet the justified expectations and needs of the people ("government for the people"), a notion which is also referred to as "output legitimacy" or "legitimacy by result".

By executing the specific powers conferred upon it by the Treaty, the ECB takes decisions which directly affect, first and foremost, the lives and welfare of over 300 million people in Europe. While not totally isolated from the political process, the decision-making of the ECB (and the NCBs within the Eurosystem) – through their guaranteed independent status – has been consciously kept free from any interference from Community institutions, governments of the Member States or any other body. Against this background, certain questions relating to the ECB's democratic legitimacy might well be raised; these can be answered with reference to the following three aspects.

First, the ECB enjoys "input legitimacy" as an institution established through an international treaty signed and ratified by all Member States in accordance with their constitutional requirements. It was the sovereign decision of the peoples of Europe (through their elected representatives) to transfer the competency for monetary policy and the other tasks enumerated in the Treaty

to a newly created European body, and to endow it with independence from political interference. While this was a singular act completed with the ratification of the Maastricht Treaty in 1992/93, this does not mean that from that point onwards the independent central bank has been deprived of any further "input legitimacy". The political process whereby national governments appoint the members of the ECB's decision-making bodies, i.e. the members of the Executive Board and the members of the Governing Council, confers further "input legitimacy" on the ECB.

Second, the ECB can derive "output legitimacy" from the successful performance of the tasks entrusted to it. The conduct of monetary policy and the performance of the other tasks have been made subject to independent decision-making for a specific purpose: the maintenance of price stability in the euro area. As the experience of a number of central banks in the post-war period has shown, an independent central bank, which successfully and consistently provides the "public good" of a stable and trusted currency, can earn the highest levels of public support, obtain the confidence of the citizens and enjoy full legitimacy in spite of its intentional distance from the normal political process.

Third, in addition to these two dimensions, the legitimacy of independent central banks rests on a comprehensive framework to hold them accountable. Independence and accountability are two sides of the same coin. Thus the ECB is called upon to explain and justify to the European citizens and their elected representatives how it uses the powers and prerogatives with which it has been entrusted to pursue its objectives.

In addition to these considerations of a more political and constitutional nature, the accountability requirement of central banks can also be conceptualised in terms of economic theory, namely as a principal-agent

relationship. The principal – “the people” and/or its elected representatives – delegates the task of conducting monetary policy to an independent agent, the central bank, and sets it a clearly defined mandate. An integral part of this contractual relationship between principal and agent are provisions on accountability, i.e. mechanisms by which the principal holds the agent responsible for its performance. To that end, a system of appropriately designed incentives must be in place. In abstract terms, this would involve, on the one hand, approval and reward if the mandate is successfully fulfilled, and, on the other hand, the application of sanction mechanisms in the event of sub-optimal performance.

While, in theory, sanctions may appear a suitable means for enforcing central bank accountability, the specific nature of monetary policy means that, in practice, certain qualifications should be added. The policy instruments under the direct control of the central bank (short-term interest rates, liquidity management) impact on prices via a complex web of economic interactions, known as the transmission mechanism (see the article entitled “Recent findings on monetary policy transmission in the euro area” in the October 2002 issue of the *Monthly Bulletin*). Given the time-lags in the transmission process, monetary policy can only affect the price level over the medium term. It is indeed impossible for the central bank to offset unanticipated shocks to the price level (such as those caused by changes in commodity prices) in the short run. Moreover, given the uncertainty surrounding the transmission mechanism and given that the appropriate response of monetary policy depends on the nature, duration and size of economic shocks, it does not appear appropriate to specify a fixed horizon over which monetary policy should be assessed. Therefore, a measurement of the central bank’s performance always requires a balanced and differentiated assessment. While the use of formal sanction mechanisms would be too blunt and would have potentially negative implications for the efficient

fulfilment of the central bank’s mandate, constant scrutiny of the central bank’s actions by the parliament and the public at large seems the appropriate method for holding an independent central bank accountable.

Further measures aimed at ensuring that the central bank acts within the limits of its mandate and legal framework include judicial review, i.e. ex post control of the legality of the central bank’s acts, provisions for the dismissal of members of the central bank’s decision-making bodies for clearly defined reasons (such as serious misconduct), disclosure of the audited accounts of the central bank and observance of standards of integrity for its internal governance and financial management, as, for instance, laid down and regularly reviewed by the IMF on the basis of the “Code of Good Practices on Transparency in Monetary and Financial Policies”.

These different provisions designed to ensure accountability derive from the same rationale: the ECB, just like any other independent central bank, is to subject its actions and decisions to public scrutiny and demonstrate that it “acts within the limits and the powers conferred upon it by the Treaty” (Article 8 of the Treaty). At the same time, it is also in the ECB’s enlightened self-interest to ensure that its decisions are properly explained and justified so as to legitimise its policy conduct and foster public support for its independent status.

The ECB and the specific constitutional context of the EU

The institutional set-up of the Eurosystem, with the ECB at its heart, is a reflection of conditions quite unlike those of other central banks in the world. In EMU, a central authority conducts monetary policy for an economic area consisting of 12 otherwise largely autonomous States. Not only do the Member States continue to hold responsibility for large fields of public policy (such as budgetary or structural policies, welfare and

social security, internal affairs and national defence), but also the respective political debate and public discourse are, to a very large extent, bound up in the different domestic systems, each with its own institutions and processes.

The sui generis nature of the EU's political system within which the ECB is embedded naturally has an influence on the operationalisation of central bank accountability. The ECB is a supranational institution, operating within an evolving European context. From a political and constitutional perspective, the ECB is therefore not a "conventional" central bank in a "conventional" nation state, such as the Federal Reserve, the Bank of England or the Bank of Japan. Indeed, there is no "EU government" in the same way as there are

national governments and the tasks and legislative powers of the European Parliament are different from those of national parliaments. For instance, while national parliaments have the possibility of changing the central bank act, the European Parliament's power with regard to substantive changes to the Statute of the ESCB (which is an integral part of the Treaty) is limited to consultation (in some specific cases the European Parliament's assent is required). In cross-country comparisons of accountability provisions found in the literature, this has, at times, not been taken fully into account. This does not imply that the ECB might be less accountable than the other central banks referred to above, it merely points to specific features of the European way of holding the central bank accountable.

3 Holding the ECB accountable

Accountability – a possible definition

Academic literature has for a long time grappled with the notion of accountability, its definition, content and scope. In fact, even the term "accountability" represents a semantic and linguistic challenge: the English word "accountability" carries a meaning rooted in the democratic and institutional conventions of English-speaking countries; a French translation might approximate the term, for instance, with "*obligation de rendre compte*" or "*contrôle démocratique*", which would invoke different connotations and state traditions; the German notion of "*Rechenschaftspflicht*" carries its own meaning, which might be difficult to compare with those in other languages.

For the purposes of this article, the notion of "being accountable" is understood as being held responsible for one's decisions and being required to justify and explain them. Democratic accountability necessarily refers to an ex post explanation and justification, for if any political body – such as the parliament or the government – were able to

intervene or influence directly the policy-making of the central bank, they would actually take part in the decision-making process itself and hence share the responsibility for the policy outcomes. This would not only contradict the independent status of the central bank, but it would also render the concept of accountability meaningless.

The concept of accountability can be broken down into four fundamental questions, namely:

- *Who is accountable?* Whenever decisions are taken by a collegial body, members can be held accountable for the decisions collectively or individually.
- *Accountable for what?* Accountability presupposes the existence of a mandate or task, for which the institution and/or its decision-makers can be held accountable.
- *Accountable to whom?* Accountability can be direct, i.e. vis-à-vis the citizens for whom the "public good" is provided, or to their elected representatives, i.e. parliaments or governments.

- *Accountable in what manner?* Accountability can be guaranteed in different ways: through openness about the decisions taken, through scrutiny of policy decisions and activities, and other means such as dismissal procedures and judicial review.

Who is accountable?

The ECB's main decision-making bodies are the Governing Council and the Executive Board, both of which are collegiate bodies in which all members share the collective responsibility for the proper fulfilment of the tasks and functions of the ECB. Unlike a number of national governments, for example, where individual ministers hold particular portfolios and hence are individually responsible for the activities and policy outcomes of their departments, the Governing Council acts as an entity, and its members are collectively responsible for the decisions taken. This collegiate responsibility corresponds to the particular set-up of the ECB, which can be justified on the grounds of both institutional structure and policy substance.

First, with regard to the institutional set-up, Article 112 of the Treaty stipulates that the "Governing Council of the ECB shall comprise the members of the Executive Board of the ECB and the Governors of the national central banks". While the Governing Council acts as a single and collegial body and all its members are of equal status (on the basis of the "one member, one vote" principle, with the President being "primus inter pares"), the members of the Executive Board and the NCB Governors are subject to differing appointment procedures. The members of the Executive Board are appointed through a special procedure specified in Article 112 of the Treaty. The NCB Governors, by contrast, are appointed in accordance with their respective national procedures. Their membership in the Governing Council of the ECB is automatic and is not subject to an act of confirmation at the EU level.

Second, in terms of policy substance, the primary objective of monetary policy is to maintain price stability in the euro area as a whole. The members of the Governing Council, regardless of whether they are Executive Board members or NCB Governors, take their decisions on the basis of conditions prevailing in the euro area as a whole, and not with reference to developments in any particular Member State.

Some observers have argued that individual responsibility of the members of a decision-making body would be preferable, as this would allow any member to signal their disagreement with decisions taken by majority. This, in turn, would also allow the individual performance of each member to be assessed. Provisions of this kind are in force, for example, in the Federal Reserve System, the Bank of England and the Bank of Japan. Since these central banks publish the votes of the individual members of the policy-making body, any disagreement of individual members with the majority decisions are known to the public. In all three countries, members may be requested to appear before the parliament not only in order to explain the decisions of the central bank, but also their personal positions.

However, in the light of the two aspects set out above, the ECB has taken the view that a system of individual accountability of the members of the Governing Council and the Executive Board would be inconsistent with the institutional structure and policy substance. For instance, a system whereby all the members of the Governing Council were held individually accountable by the European Parliament would be inconsistent in the case of the NCB Governors, since no EU body plays a role in their appointment. At the same time, neither would it be coherent for NCB Governors to give account of their actions as members of the Governing Council to their national parliaments, as national parliaments would lack the legitimacy to judge how NCB Governors perform their "European" duties – duties which explicitly preclude them from acting as defenders of national interests.

From this it follows that the decision-making bodies of the ECB are held collectively accountable for all decisions which they take and it is for the President of the ECB and the other members of the Executive Board to justify and explain the decisions taken collectively to the European Parliament.

Accountable for what?

In the absence of a definition of the mandate and a clear delineation of the tasks entrusted to an institution, the concept of accountability of that institution becomes meaningless. A clearly defined mandate lies at the very heart of the aforementioned “contract” between the people and the independent central bank. Moreover, there is also a direct relationship between the scope and magnitude of an independent central bank’s responsibilities and the need for it to be held accountable.

Under the Treaty, the primary objective of the ECB’s monetary policy is the maintenance of price stability in the euro area. Reporting on the fulfilment of this objective is central to the ECB’s provisions on accountability. By setting a quantitative definition of price stability, the ECB has created a benchmark against which its performance can be assessed. Indeed, the more clearly and precisely the objective is defined, the easier

it is to monitor whether the ECB complies with it. The ECB has also been granted the independence – within the framework principles laid down in the Treaty – to choose the instruments and the strategy with which to achieve this goal.

As illustrated in Table I below, the maintenance of price stability is an explicit, though not the only, objective of the ECB and the other three central banks referred to in this article. While the Treaty also assigns a further objective to the ECB, namely that of supporting the general economic policies in the Community with a view to contributing to the achievement of the objectives set out in Article 2 of the Treaty – where this is possible without prejudice to the objective of price stability – it does so with clear prioritisation.

While the Federal Reserve System has a dual mandate, an unambiguous hierarchy of statutory objectives exists for the Bank of England. In Japan, the legal provisions state that the Bank of Japan’s monetary policy is “aimed at, through the pursuit of price stability, contributing to the sound development of the national economy”. Indeed, there is today a general consensus, among both central bankers and academic economists, that in the medium and long term there is no trade-off between price stability

Table I
The mandate of central banks in the euro area, the United Kingdom, the United States and Japan

	ECB	Bank of England	Federal Reserve System	Bank of Japan
Objectives	<ul style="list-style-type: none"> • Price stability • Without prejudice to price stability, support of the general economic policies in the Community 	<ul style="list-style-type: none"> • Price stability • Subject to price stability, support of the economic policy of the Government, including its objectives for growth and employment 	<ul style="list-style-type: none"> • Stable prices • Maximum employment • Moderate long-term interest rates 	<ul style="list-style-type: none"> • Price stability, contributing to the sound development of the national economy
Primary objective	<ul style="list-style-type: none"> • Maintenance of price stability 	<ul style="list-style-type: none"> • Maintenance of price stability 	<ul style="list-style-type: none"> • No prioritisation 	<ul style="list-style-type: none"> • Maintenance of price stability
Specification of the price stability objective	<ul style="list-style-type: none"> • Quantified by the ECB 	<ul style="list-style-type: none"> • Quantified by the Treasury 	<ul style="list-style-type: none"> • Qualitative specification provided by the Federal Reserve 	<ul style="list-style-type: none"> • Qualitative specification provided by the Bank of Japan

and economic policy objectives, such as sustainable growth and a high level of employment. Hence, the best contribution that monetary policy can make to promote these objectives is, indeed, to maintain price stability.

Of the four central banks referred to in this article, all except the Bank of England have the option to quantify their statutory objectives; however, the ECB is the only one to have done so thus far publicly. In the United Kingdom, it is for the Chancellor of the Exchequer to define the inflation target for the Bank of England's monetary policy.

Like all central banks, the ECB also carries out other tasks in addition to monetary policy assigned to it by the Treaty. These tasks are an integral part of the ECB's duties and thus are included in the provisions on accountability. In this context, the competence of the ECB to adopt legal acts to the extent necessary to carry out specific tasks is of particular relevance, because regulatory powers are, in representative democracies, usually vested in an elected legislature rather than in an independent institution. This regulatory competence, which is complemented by the ECB's power "to impose fines or periodic penalty payments on undertakings for failure to comply with obligations under its regulations and decisions" (Article 34.3 of the Statute of the ESCB), calls for an appropriate method for holding the ECB accountable.

On the other hand, Article 14.4 of the Statute of the ESCB provides that "national central banks may perform functions other than those specified in this Statute unless the Governing Council finds, by a majority of two thirds of the votes cast, that these interfere with the objectives and tasks of the ESCB". Since such "functions shall be performed on the responsibility and liability of national central banks and shall not be regarded as being part of the functions of the ESCB", the ECB is not held accountable for them.

Accountable to whom?

As a body established by virtue of the Treaty, and acting within the limits of the powers conferred upon it, the ECB has the statutory task of providing the "public good" of price stability and of performing the other central banking functions for the euro area as a whole. Therefore, it is accountable first and foremost to the European citizens, from whom the Treaty's legitimacy derives. The Treaty contains a number of provisions (such as reporting obligations – see the following section) which provide a framework for the ECB to be under the direct scrutiny of the European public at large. Publications in all official Community languages as well as public speeches by the members of the ECB decision-making bodies in all euro area Member States provide opportunities to explain and justify the ECB's decisions directly to the public.

In addition, a more focused method of holding the central bank accountable is provided by the informed and competent dialogue which the elected representatives of the citizens, i.e. parliament, maintain with the central bank. In the EU, the Treaty assigns to the European Parliament primary responsibility for holding the ECB accountable. In the same vein, the national parliaments of the United States, Japan and the United Kingdom are the principal addressees of democratic accountability for the central banks of these countries.

It should be added that, since the euro area NCBs have retained certain tasks which are not part of the functions of the ESCB (see Article 14.4 of the Statute of the ESCB), national authorities also continue, in line with the legal and constitutional provisions of the respective Member States, to be the addressees of the NCBs' accountability for those specific tasks. There is a dense network of relations between NCBs and the political institutions of their respective countries. Without prejudice to their independent status, national legislation may require NCBs to present annual reports and empower the

respective parliament to ask NCB Governors to appear before the relevant parliamentary committees upon request, or at the Governors' own initiative.

Beyond that – and this does not strictly form part of the accountability provisions – the ECB is engaged in a continuous dialogue with all relevant institutions involved in the European political process. The existing comprehensive network of institutional and informal contacts is a reflection of the fact that the ECB – while fully independent in the discharge of its statutory tasks – is embedded in the overall institutional and political set-up of the Community. These relations give the ECB the opportunity to provide information on and explain the course of monetary policy, and to improve the outside understanding of the ECB's activities and the reasoning behind its decisions (for a detailed description of these contacts see the article entitled "The ECB's relations with institutions and bodies of the European Community" in the October 2000 issue of the *Monthly Bulletin*). Similarly, the contacts of NCBs with their national political authorities also offer prime opportunities to explain – within the framework of domestic communication conventions and using the local language – the ECB's decisions and inform national policy-makers of the conduct of the single monetary policy and the reasoning behind it.

Accountable in what manner?

At the heart of this question lies the issue of how best to discharge the obligation of accountability, i.e. through which procedures and methods, given the institutional context within which a central bank operates. A number of aspects should be considered in this context, such as reporting obligations and the scrutiny of central bank decisions by the parliament, e.g. through appearances of central bank officials before the relevant parliamentary committees. Beyond that, provisions to hold central banks responsible in areas other than policy performance (such as the legality of its decisions, the proper

conduct of the members of the decision-making bodies and the integrity of its internal governance) also need to be taken into account.

Reporting obligations

The Treaty lays down extensive reporting requirements for the ECB. Article 113 requires the ECB to present an Annual Report covering the activities of the ESCB and the monetary policy of both the previous and the current year. The report is addressed to the European Parliament, the Commission, the EU Council and also to the European Council. The Treaty also calls for the publication of quarterly reports.

The ECB actually exceeds these statutory obligations, for example, by publishing a *Monthly Bulletin* (rather than only quarterly reports) and by offering online access, via the ECB's website, to the ECB's press releases, working papers and other publications. These channels, as well as the obligation to make these publications available to interested parties free of charge, offer the broader public wide-ranging opportunities to be informed on the policies and activities of the ECB (see also the article entitled "Transparency in the monetary policy of the European Central Bank" in this issue of the *Monthly Bulletin*).

The ECB's reporting obligations are broadly similar to those of the other central banks referred to in this article, in that all three are requested to publish annual reports in one form or another (see Table 2). Moreover, the Federal Reserve System is required to publish semi-annual reports. The Bank of England has a statutory obligation to publish quarterly reports, and its Annual Report is sent to the Chancellor of the Exchequer who lays it before Parliament. In line with the provisions of the Bank of Japan Act, semi-annual reports have to be published by the Bank of Japan and are transmitted to the *Diet* via the Minister of Finance.

Table 2**Reports of the central banks to the public and to parliament**

	ECB	Bank of England	Federal Reserve System	Bank of Japan
Legally required reports	<ul style="list-style-type: none"> • Annual Report • Quarterly reports 	<ul style="list-style-type: none"> • Annual Report • Inflation Reports (quarterly) • Immediate statement after each meeting of the MPC • Minutes 	<ul style="list-style-type: none"> • Annual Report (on operations) • Semi-annual reports (on monetary policy) 	<ul style="list-style-type: none"> • Semi-annual reports • Annual Report (outline of business operations) • Minutes of monetary policy meetings
Selection of other principal communications by the central bank	<ul style="list-style-type: none"> • Monthly press conference of the President (immediately after the Governing Council meeting) • Monthly Bulletin 	<ul style="list-style-type: none"> • Quarterly Bulletin • Quarterly press conference on the launch of the Inflation Report • Financial Stability Review 	<ul style="list-style-type: none"> • Immediate statement after each meeting of the FOMC • Minutes • Monthly Bulletin 	<ul style="list-style-type: none"> • Immediate statement after each meeting of the Policy Board • Monthly Bulletin • Monthly press conference of the Governor

Two aspects of the reporting practices of the ECB which have frequently been the subject of public debate and questions from the European Parliament merit a more in-depth explanation. Unlike the Federal Reserve System, the Bank of England or the Bank of Japan, the ECB does not publish the minutes of the meeting of its main policy-making body, nor does it publish the votes of the members of the policy-making body. The merits and drawbacks of this method of fulfilling the ECB's reporting obligations should, however, be assessed in the light of the specific institutional context within which the ECB operates. Given that the Governing Council takes decisions for a multi-country economy, a publication of detailed proceedings – e.g. verbatim reports which include any dissenting views of Governing Council members – could lead to undue pressure on NCB Governors to deviate from a euro area perspective and to speculation regarding their determination to take such a perspective. The choice not to publish detailed proceedings is consistent with the clear stipulations of the Treaty concerning the personal independence of the members of the Governing Council, as well as with the provisions of the Statute of the ESCB, which state that “the proceedings of the meetings shall be confidential” (Article 10.4).

However, the same Article in the Statute of the ESCB also stipulates that “the Governing

Council may decide to make the outcome of its deliberations public”. The Governing Council has indeed decided to do so. In this respect, two aspects deserve particular attention. First, providing information to the public on the “outcome” of the deliberations should not be confused with the publication of minutes. Second, while the publication of some form of “summary minutes” may be a suitable way of presenting to the markets and the public at large the main arguments behind a particular policy decision, it is debatable as to whether this actually leads to a better understanding of monetary policy decisions than explanations given through other means of communication. The ECB's press conferences held immediately after the first Governing Council meeting of the month and the comprehensive regular assessments provided in the Monthly Bulletin appear, in terms of timeliness and detail, no less capable of explaining policy decisions than what other central banks would classify as “summary minutes” (see also the article entitled “Transparency in the monetary policy of the ECB” in this issue of the Monthly Bulletin).

With regard to the reporting of the individual voting behaviour of the members of the policy-making body, there are two reasons for the ECB's decision not to expose these details. First, similar to the reasoning presented above, it constitutes an additional

safeguard of its independence, as the publication of individual voting behaviour could lead to pressure and speculation about the motives behind the decisions of the individual members of the Governing Council, and could even allow the public to verify whether any attempts to exercise influence on voting behaviour had had the intended result. While such a concern might not be particularly relevant to the other three central banks surveyed – all of which operate in “conventional” nation states – it is relevant in the European context. Unlike in the United States, for example, where the link between individual States and the Presidents of the regional Federal Reserve banks is rather vague (Federal Reserve Districts are made up of groups of often rather heterogeneous States), in the euro area, NCB Governors are associated with their home countries as the NCB Governors’ membership of the ECB’s Governing Council derives from their national position as head of the respective NCB. In addition, economic policies in the euro area remain decentralised, which may foster a predominantly national (rather than euro area) outlook on the part of domestic policy-makers. This, in turn, harbours the danger of perceiving the respective NCB Governor as a “national representative” within the Governing Council and may lead to undue attempts to influence him or her.

Second, given that the members of the Governing Council are not individually accountable, for the reasons set out above, the publication of their individual votes is not warranted. Moreover, the focus on collective decision-making rather than an emphasis on differences in opinion among the members of the Governing Council turn the public’s attention on the outcome of the meetings rather than on the process.

Testimonies before Parliament

In line with the requirements of Article 113 of the Treaty, the President of the ECB presents the ECB’s Annual Report to the European Parliament at its plenary session.

This presentation is followed by the adoption of a European Parliament resolution, which provides a comprehensive ex post assessment of the ECB’s activities and policy conduct.

In addition, the President of the ECB appears four times a year before the Committee on Economic and Monetary Affairs of the European Parliament, which was designated, by way of the European Parliament’s Rules of Procedure, as the competent committee for relations with the ECB. These quarterly testimonies have become the mainstay of the Parliament’s activities in holding the ECB accountable. There, the President explains the ECB’s policy decisions, and thereafter answers questions posed by committee members. In addition to the direct interaction and exchange of views between the President of the ECB and the members of the Committee on Economic and Monetary Affairs at the testimony itself, the Rules of Procedure of the European Parliament (new Rule 40a “Written questions to the European Central Bank”) also allow all Members of the European Parliament – via the Chairman of the Committee on Economic and Monetary Affairs – to submit further questions in writing to the ECB, in so far as they relate to the fulfilment of the ECB’s mandate. These questions, together with the answers prepared by the ECB, are subsequently published in the Official Journal of the European Communities. Even though neither the Treaty nor the Statute of the ESCB contain any provisions or obligations in this respect, the ECB has undertaken to answer these questions on a voluntary basis. However, the ECB also emphasised that this should in no way lessen the importance of the regular testimonies, where the principal questions regarding the ECB’s policy decisions should continue to be discussed.

In addition, other members of the Executive Board of the ECB also appear before the Committee. Over past years, the Vice-President of the ECB has, as a rule, been invited to present the ECB’s Annual Report to the Committee on Economic and Monetary Affairs. Moreover, it has also become regular

practice for the Committee on Economic and Monetary Affairs to invite, on an annual basis, the Executive Board member who mainly deals with economics and research to present the ECB's views on the Commission's annual review of the EU economy and the draft Broad Economic Policy Guidelines. On occasion, the Committee has also invited and heard members of the Executive Board on other specific topics relating to the ECB's competencies and tasks (e.g. preparation of the Euro 2002 Information Campaign, contribution to prudential supervision, etc.).

The Committee meetings are open to the public and the transcripts of the testimonies by the President are published on the websites of both the European Parliament and the ECB after the testimony in order to make the exchange of views between the President and the committee members available to the general public as soon as possible. Moreover, the ECB's Annual Report devotes a separate chapter to accountability and the ECB's relation with the European Parliament highlighting the main issues discussed in the course of this regular dialogue.

For the sake of completeness, it may be added that the European Parliament has also organised hearings with ECB officials at the expert level, mostly relating to legislation initiated by the ECB or other issues on which the ECB's expertise is sought. As regards this latter aspect, compared with other countries where central banks may be frequently called upon to advise parliaments and to prepare reports and studies deemed necessary to support the latter's activity, the situation with regard to the ECB is somewhat different due to the fact that the legislative competence of the EU is clearly delineated by the Treaty. Parliaments in "conventional" nation states can address and legislate – within the boundaries set by the national constitution – on any issue they deem fit. Consequently, the central bank can be expected to be called upon to advise and report on a whole range of issues. In the EU, the European Parliament, despite the considerable broadening of the

scope of its powers over the past decades, is only involved in law-making where the Treaty so provides, and with due respect for the principle of subsidiarity. Hence the relationship between the ECB and the European Parliament is mainly concerned with the fulfilment of the ECB's mandate and tasks.

The ECB's legal requirements and established practices with regard to regularly scheduled appearances of central bank representatives before Parliament are similar to those of the other central banks referred to in this article. In the United States, only the Chairman of the Federal Reserve Board is required by law to appear before the committees of both the House of Representatives and the Senate in order to discuss the semi-annual reports. In practice, this means four appearances per annum, which are of great significance and attract substantial media interest. Moreover, there are annual hearings on monetary policy and the economic outlook before the Joint Economic Committee of the US Congress as well as annual appearances related primarily to fiscal policy issues before the Budget Committees of both chambers of Congress. The Governor of the Bank of Japan regularly appears before the competent parliamentary committees of both chambers of the *Diet* (House of Representatives and House of Councillors) in order to present the semi-annual reports. The Governor of the Bank of England and other members of the Monetary Policy Committee (MPC) regularly appear before the Treasury Select Committee of the House of Commons after the publication of the quarterly reports (except the August Inflation Report, because this is published during the Parliamentary summer recess). Moreover, the Governor of the Bank of England is required to write an open letter to the Chancellor if inflation strays by more than 1% either side of the set target.

Complementary aspects of accountability

To complete the picture of the main instruments of central bank accountability in a broader sense, a number of additional issues

would need to be considered, including the questions addressed below.

Judicial review: Articles 230-233 of the Treaty set out the general procedures for judicial review that apply to Community institutions. According to this procedure, the Commission, the EU Council or any Member State may start proceedings before the ECJ against acts of the ECB “on grounds of lack of competence, infringement of an essential procedural requirement, infringement of this Treaty or of any rule of law relating to its application, or misuse of power”. Moreover, any natural or legal person may, under the same conditions, institute proceedings against a decision of the ECB addressed to that person which is of direct and individual concern to that person. If the action is well founded, the ECJ shall declare the act to be void and shall require the ECB to take the necessary measures to comply with its judgement. An ex post judicial review of the legality of central banks’ acts is also foreseen in the legal frameworks of the United States, Japan and the United Kingdom.

Dismissal of the members of the decision-making bodies: The Statute of the ESCB also provides for an orderly dismissal procedure for the members of the ECB’s decision-making bodies, aimed at ensuring that the latter fulfil their duties in the proper manner. It should be clear, however, that dismissals cannot be undertaken in a discretionary manner on the grounds of past policy performance, but only in line with the clearly stipulated circumstances. This applies, for instance, if a member of the ECB’s decision-making bodies

no longer fulfils the conditions required for the performance of his or her duties or if he or she is found guilty of serious misconduct. In such cases, it is, however, for another independent institution – namely the Court of Justice of the European Communities (ECJ) – rather than for political authorities to decide whether the member concerned should be – in the case of Executive Board members – “compulsorily retired” (Article 11.4 of the Statute of the ESCB). NCB Governors can be “relieved from office” in accordance with the provisions of the statute of their respective NCB; however, the ECJ remains the final arbiter (Article 14.2 of the Statute of the ESCB). These orderly dismissal procedures are equivalent to those of the other central banks referred to in this article, where members of the decision-making bodies can only be dismissed for certain reasons which are distinct from past policy performance.

Audit and financial integrity: The ECB’s annual accounts are audited by an external auditor agreed by the EU Council and subsequently published in the ECB’s Annual Report. In accordance with Article 27.2 of the Statute of the ESCB, the Court of Auditors examines the operational efficiency of the management of the ECB. The legal provisions and practices developed by the ECB in this respect were deemed in conformity with the IMF’s “Code of Good Practices on Transparency in Monetary and Financial Policies”, most recently reviewed in 2001. The annual accounts of the other central banks referred to in this article are also subject to external auditing or approval.

4 Conclusion

The Treaty entrusts the ECB with a very high degree of independence to pursue its mandate, which is to maintain price stability and to perform other central banking functions with a view to providing a stable and trusted currency as a “public good” for all citizens of the euro area. This independent

status has its counterpart in a well-structured and functioning framework for holding the ECB accountable. The ECB views its duty to render account for its policy decisions as a necessary and welcome obligation since it allows it to explain and justify its policy decisions to the European citizens. Indeed, by

being accountable the ECB can contribute to fostering public support for the single currency.

Unlike central banks in “conventional” nation states, the ECB operates under special political, economic and institutional circumstances: it is a supranational central bank which executes its tasks for the multi-country economy of the euro area and which is embedded in the evolving constitutional order of the EU.

The Treaty provisions for holding the ECB accountable are adapted to the sui generis nature of this environment. The practices and procedures established over the past years – notably the active relations with the European Parliament and the statutory reporting requirements which the ECB seeks to exceed – also compare favourably in the international context and ensure that the ECB effectively and adequately fulfils its accountability obligations.