

Monetary Dialogue 2009–2014: Looking Backward, Looking Forward

Sylvester Eijffinger*

Abstract

When comparing the transparency of the ECB now with the transparency of the ECB about one decade ago, we notice that transparency still can be improved in a few ways. In particular the disclosure related to the ways decisions are reached and the disclosure on its policy (what is the envisioned path of policy?) could be improved. We call for action and in particular we suggest to release minutes and voting records, while also engaging in more explicit and concrete forward guidance. At the same time, we call for a reflection on the institutional setup of the ECB. This is less urgent than the reform with respect to transparency, but in the medium term a necessary exercise. We believe that also in the 8th term of the European Parliament, the Monetary Dialogue will have a role in spurring the debate and possibly influencing the ECB, as it has done in the past.

Monetärer Dialog 2009–2014: Ein Rückblick und eine Vorausschau

Zusammenfassung

Wenn man die jetzige Transparenz der EZB mit der von vor einem Jahrzehnt vergleicht, dann stellt man fest, dass diese immer noch in einigen Punkten verbesserungswürdig ist. Insbesondere sollte verstärkt offengelegt werden wie die Entscheidungsfindung vorstattengeht und welche Politik verfolgt wird (wie stellt sich die EZB den zukünftigen Verlauf ihrer Politik vor?). Wir schlagen zur Verbesserung vor, dass ausführliche Protokolle und auch Wahlergebnisse veröffentlicht werden. Gleichmaßen soll die Vorausschau auf zukünftige Politiken („forward guidance“) expliziter erläutert werden. Zur gleichen Zeit rufen wir dazu auf, dass der institutionelle Rahmen der EZB überdacht wird. Dies ist zwar weniger dringend im Vergleich zu einer größeren Transparenz, aber auf mittlere Sicht dennoch notwendig. Wir glauben außerdem, dass in der achten Legislaturperiode des Eu-

* Prof. Dr. Sylvester Eijffinger, Tilburg University, E-Mail: S.c.w.eijffinger@tilburguniversity.edu

The author gratefully acknowledges the excellent research assistance of Dr. Louis Raes of Tilburg University.

ropäischen Parlaments der monetäre Dialog weiterhin die Debatte befeuern wird und damit Einfluss auf die EZB nehmen kann.

Keywords: Central Bank Transparency, Central Bank Communication, Macroeconomic Policy

JEL Classification: E58, G20, O11

I. Background

With the end of the 7th legislative term of the European Parliament in sight, this note reflects on the workings of the Monetary Dialogue. The Monetary Dialogue has its origins in the European Parliament Resolution on democratic accountability in the third phase of the EMU of 4 May 1998.¹ The Monetary Dialogue was founded to provide a platform for discussion between the European Parliament and the European Central Bank (ECB). At the same time the Monetary Dialogue supports democratic accountability. One of the hallmarks of modern Central Banking is the (political) independence of Central Banks.² In a democratic environment independence needs to be balanced by accountability. Accountability requires disclosure because correct and sufficient information regarding the behavior of the Central Bank is necessary to evaluate the performance. The dialogue is in this way conducive to accountability of the ECB.

In this note we reflect on the workings of the ECB and on potential improvements. In particular we emphasize issues related to accountability, transparency and communication. Communication is one way to achieve transparency which is, as argued above, necessary for accountability. Our assessment suggests that the ECB could improve with respect to the procedural dimension and the policy dimension. The former term refers to the way decisions are reached, the latter term refers to what the policy outlook is for the future and how the ECB expects its policy to influence interest rates.

We end our note with a call for reflecting on the institutional design of the ECB as well. While less urgent than the suggested improvement in terms of transparency, we feel that the Monetary Dialogue is an excellent

¹ European Parliament (1998), Resolution on democratic accountability in the third phase of EMU of 4 May 1998. <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:51998IP0110:EN:HTML>.

² There is an enormous academic and policy literature on this issue. See for example *Eijffinger, S./de Haan, J. (1996), The Political Economy of Central Bank Independence, Special Papers in International Economics.*

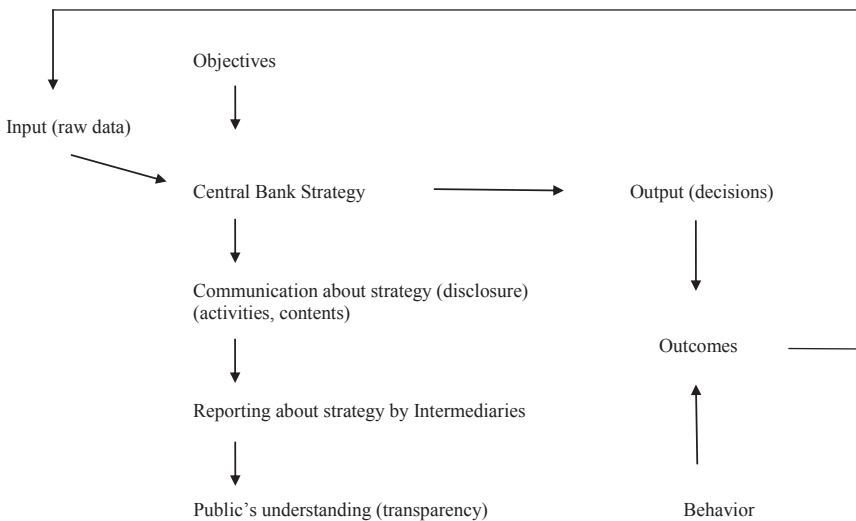
venue to reflect on the institutional setup of the ECB as the Central Bank is maturing.

II. Transparency and Disclosure

Before discussing the performance and evolution of the ECB in terms of transparency and disclosure, we develop some concepts.³

Central Bank disclosure (i.e. the information provided by the Central Bank) and transparency of monetary policy (i.e. public's understanding of the monetary policy process) are interrelated. Figure 1 provides a stylized account of this relationship.

The Figure shows how the Central Bank reaches a decision on the basis of its strategy which is communicated to the outside. The public receives its information primarily through the media which use the communication by the Central Bank as input. The effect of Monetary Policy is determined not only by the decisions but also by the expectations and behaviour of the public.



Source: de Haan, J./Eijffinger, S./Waller, S. (2005), p. 85; adapted from Winkler (2000)

Figure 1: Monetary Policy Strategy and Communication

³ A fully developed treatment of these issues can be found in *de Haan, J./Eijffinger, S./Waller, S. (2005), The European Central Bank: Credibility, transparency and centralization. Cesifo Book Series.*

Table 1
Dimensions of Disclosure

Five dimensions of disclosure:

<i>Dimension:</i>	<i>Meaning:</i>	<i>Enhanced by:</i>
political disclosure	openness about policy objectives explicit targets prioritization of goals	institutional arrangements
economic disclosure	economic information used models and methods used	
procedural disclosure	the way decisions are reached account of deliberations a policy rule	release of minutes, transcripts and/or voting records
policy disclosure	prompt announcement of decision explanation of decision, policy inclination	
operational disclosure	control errors in achieving the monetary policy targets	

Source: de Haan, J./Eijffinger, S./Waller, S. (2005), p. 86–87.

It is clear that communication is key in this story because it has a big impact on transparency. Transparency and disclosure are however multi-faceted concepts which could pertain to different aspects of economic policy making. Following *Geraats* (2000, 2002), we distinguish five dimensions of disclosure. An overview is given in Table 1.

A first dimension is political disclosure which refers to the preferences of the policy makers. Sufficient disclosure could reduce uncertainty about these preferences. Additionally, institutional arrangements like Central Bank independence and override mechanisms contribute to political transparency as they clarify the relationship between the government and the Central Bank. Secondly, we have economic disclosure which means transparency on the economic data and models used in guiding policy. In the past, academics have focused on disclosing economic shocks and forecasts. Thirdly, we have procedural disclosure which pertains to the way decisions are reached. Transparency in this dimension can be achieved by providing guidance on how decisions came about. The pub-

lication of minutes, transcripts or voting records can be instrumental in achieving procedural transparency. A fourth dimension is policy disclosure. This refers the prompt announcement of the policy decision. Finally we have operational disclosure. This relates to the implementation of Central Bank policy and in particular it involves a discussion of control errors in achieving the operating targets of monetary policy and macroeconomic disturbances affecting the transmission process.

de Haan/Eijffinger/Waller (2005) provide some evidence on the performance of several Central Banks on these different dimensions.⁴ With respect to political disclosure and economic disclosure the ECB scores historically very well and belongs to the best performing Central Banks. Also with respect to operational disclosure the ECB performed well. However, the performance with respect to procedural disclosure and policy disclosure was much worse and the ECB received the lowest score in a group of nine influential Central Banks.⁵

The question is then, to what extent has the situation improved? The low score with respect to procedural transparency was caused by the absence of publicly available minutes and voting records. On this aspect we have seen little improvement by the ECB. In 2013 there was some discussion on whether minutes (with voting records) should be published. Jörg Asmussen and Benoît Cœuré supported in a joint interview the idea of publishing these minutes and voting records, but their recommendation was not followed by the ECB. Some have argued that publishing the voting records in the ECB is a bad idea as secrecy shields the voting members from harmful influence of national governments. Secrecy in this regard can encourage behavior which promotes well-being of the whole union as a whole.⁶ There is also empirical evidence suggesting that transparency in the voting process induces behavioural changes, see for example *Meade/Stasavage* (2008).⁷

⁴ A detailed explanation on and discussion of the (empirical) performance of Central Banks with regard to transparency can be found in *Eijffinger, S./Geraats, P.* (2006) How transparent are Central Banks? *European Journal of Political Economy*.

⁵ *de Haan/Eijffinger/Waller* (2005), The European Central Bank: Credibility, transparency and centralization. *Cesifo Book Series*. P.94.

⁶ *Gersbach, H./Hahn, V.* (2009), Voting Transparency in a Monetary Union. *Journal of Money, Credit and Banking*.

⁷ *Meade, Ellen and Stasavage, David* (2008), The dangers of increased transparency in Monetary Policymaking. *Economic Journal*.

If we look at other Central Banks, we see that there is a tendency to become more open on this dimension with countries like Sweden or the Czech Republic now also releasing their voting records. Major Central Banks like the Federal Reserve or the Bank of England already did.

Our opinion is that improving the procedural transparency is warranted. It allows the ECB to be easier held accountable. Moreover, the secrecy surrounding the procedural dimension seems something from the past. The concerns expressed by authors such as *Gersbach* and *Hahn*⁸, should be dealt with directly rather than keeping an atmosphere of secrecy. A reform of the executive board and governing council could solve the concerns regarding national influences as well. We return to this issue in a next section.

Providing minutes and voting records allows ECB watchers (and by extension the general public) to analyze and understand decisions.⁹ Moreover, the increasing importance of the ECB (in part due to other developments) warrants some measures to hold the institution accountable. Transparency of the decision-taking process helps to overcome the democratic deficit created by the secrecy surrounding the decision-taking process.

With respect to policy disclosure we feel that there has been some improvements. In 2005, *de Haan/Eijffinger/Waller* (2005) reported that the ECB was lacking in communication on the policy inclination as well as giving relatively little policy explanation. Nowadays it seems the ECB tries to convey more information on its policy through press statements and speeches by executive board members. However, publishing inclinations regarding the path of future policy interest rates in the spirit of Norway, Sweden or New Zealand is not on the table (yet).

A higher degree of policy disclosure can be obtained by more actively engaging in forward guidance. Forward guidance is nowadays a hot topic

⁸ *Gersbach, H./Hahn, V. (2009), Voting Transparency in a Monetary Union. Journal of Money, Credit and Banking.*

⁹ We have recently analyzed the voting records of the Bank of England as well as the voting records of some continental Central Banks. Our analysis gave us insight into the different preferences of Central Bankers and how these are related to their professional background (e.g. internal vs. external). We could do such an analysis only because the voting records are publicly available. See *Eijffinger, S./Mahieu, R./Raes, L. (2013), Inferring hawks and doves from voting records. CEPR discussion paper; Eijffinger, S./Mahieu, R./Raes, L. (2013), Estimating the preferences of Central Bankers: An analysis of four voting records. CEPR discussion paper.*

in Central Banking and heavily debated among policy makers and academics.¹⁰ A key motivation for forward guidance is provided by *Woodford*: “Greater clarity within the policy committee itself about the way in which policy is expected to be conducted in the future is likely to lead to more coherent policy decisions, and greater clarity on the part of the public as to how policy will be conducted is likely to improve the degree to which the Central Bank can count on achieving the effects that it intends through its policy.”¹¹ While forward guidance and expectations management by communication is applied by different Central Banks to different extents, it seems often too vague to us. We feel that forward guidance should be explicit about the path of interest rates.¹² Specifically, the ECB should communicate the evolution of interest rates it envisions conditional on what the ECB knows. The ECB would then communicate the evolution it foresees for both short and longer maturities and this up to at least one year (or longer if feasible). The idea is that the ECB communicates in concrete terms, and clearly, coherently spells out what the envisioned policy is for the (near) future and the envisioned implications for the interest rates over different maturities and for different horizons.

III. The Role of the Monetary Dialogue

The Monetary Dialogue has played an important role in the past and we envision a (potentially) more important role in the future. The panel of monetary and economic experts that have been submitting briefing papers for the Monetary Dialogue, have influenced the workings of the ECB in the past. A well known example is the publication of inflation

¹⁰ An excellent overview can be found in “Forward Guidance Perspectives from Central Bankers, scholars and market participants” edited by *Wouter den Haan* (2013).

¹¹ *Woodford*, Michael (2013), Forward Guidance by Inflation-Targeting Central Banks. Manuscript prepared for the conference “Two decades of inflation targeting” at the Sveriges Riskbank, June 2013.

¹² An often cited study to demonstrate that statements (forward guidance) contains information not related to the announced target value of the policy rate is *Gurkaynak, R./Sack, B./Swanson, E. T.* (2005), Do actions speak louder than words? The response of Asset Prices to Monetary Policy Actions and Statements. *International Journal of Central Banking*. This article has spurred a large follow-up literature suggesting that statements indeed may matter. See for example *Eijffinger, S./Mahieu, R./Raes, L.* (2011), Can the fed talk the hind legs off the stock market? CEPR discussion paper.

projections by the ECB in December 2001 which was a response to the call by the Monetary Dialogue with the ECB president in 2000.¹³

With the increasing responsibilities of the ECB we feel that the Monetary Dialogue will preserve its relevance.

In the previous section we called for increased transparency with respect to the procedural and policy dimension. When discussing the procedural disclosure and calling for more openness with respect to the decision-taking process (publication of minutes and voting records) we mentioned that some feel that secrecy is warranted as to shield individual members from national pressures. Such a solution is aimed at a symptom and does not catch the underlying problem. Maybe it is time to rethink the design of the governing council (and executive board). As the ECB is maturing we feel that it may be warranted to rethink the institutional design. While certainly not a pressing issue, we feel that it may be wise to start discussing this in time. In our opinion it is clear that we should evolve to a system with representation on a regional level, perhaps with rotation (similar to Bank Presidents in the FOMC). Smaller economies could be represented by one vote (e.g. the Benelux countries) whereas large countries would be considered as a region on their own. Combined with a limited and non-renewable appointment national influences could be mitigated. We are open to other reform proposals. We only aim to start a debate on this matter.

IV. Conclusion

In this paper we have argued that going forward, the ECB could and should improve with respect to its procedural and policy disclosure.

The procedural disclosure can be improved by releasing minutes and voting records. With this call we support the proposal made by Jörg Asmussen and Benoît Cœuré in the summer of 2013. Improving in this respect would respond to an increased demand for transparency and accountability.

The policy disclosure could be improved by providing more explicit and detailed forward guidance. Our proposal follows the lines set out by

¹³ de Haan, J./Eijffinger, S./Waller, S. (2005), The European Central Bank: Credibility, transparency and centralization. Cesifo Book Series. P.94.

others¹⁴ and calls for more concrete and explicit communication about the path of policy and the envisioned evolution of interest rates.

Finally we mentioned that as the ECB is maturing, it may be warranted to reconsider the institutional setup.

Each aspect discussed above is feasible and in our opinion inevitable. The role of the Monetary Dialogue is to keep the debate going, also in the 8th term of the European Parliament.

References

- Cœuré, B./Asmussen, J.* (2013): Interview with *Suddeutsche Zeitung* and *Le Figaro*, July 29 2013.
- de Haan, J./Eijffinger, S./Waller, S.* (2005): The European Central Bank: Credibility, Transparency and Centralization. *Cesifo Book Series*.
- De Nederlandsche Bank* (2013): Overzicht financiële stabiliteit, najaar 2013.
- den Haan, W.* (2013): Forward Guidance Perspectives from Central Bankers, scholars and market participants, *Vox eBook* edited by W. den Haan.
- Eijffinger, S./de Haan, J.* (1996): The Political Economy of Central Bank Independence, *Special Papers in International Economics*.
- Eijffinger, S./Geraats, P.* (2006): How transparent are Central Banks? *European Journal of Political Economy*.
- Eijffinger, S./Mahieu, R./Raes, L.* (2011): Can the fed talk the hind legs off the stock market? *CEPR discussion paper*.
- (2013): Inferring hawks and doves from voting records. *CEPR discussion paper*.
 - (2013): Estimating the preferences of Central Bankers: An analysis of four voting records. *CEPR discussion paper*.
- European Parliament* (1998): Resolution on democratic accountability in the third phase of EMU of 4 May 1998.
- Geraats, P. M.* (2000): Why adopt central bank transparency? The publication of central bank forecasts. *CEPR discussion paper*.
- (2002): Central Bank transparency. *Economic Journal*.
- Gersbach, H./Hahn, V.* (2009): Voting Transparency in a Monetary Union. *Journal of Money, Credit and Banking*.

¹⁴ See *Woodford, Michael* (2013), Forward Guidance by Inflation-Targeting Central Banks. Manuscript prepared for the conference “Two decades of inflation targeting” at the Sveriges Riskbank, June 2013.

- Gurkaynak, R./Sack, B./Swanson, E. T. (2005): Do actions speak louder than words? The response of Asset Prices to Monetary Policy Actions and Statements. International Journal of Central Banking.*
- Meade, E./Stasavage, D. (2008): The dangers of increased transparency in Monetary Policymaking Economic Journal.*
- Woodford, M. (2013): Forward Guidance by Inflation-Targeting Central Banks. Manuscript prepared for the conference “Two decades of inflation targeting” at the Sveriges Riskbank, June 2013.*