

STRENGTHENING THE EUROPEAN PARLIAMENT'S ROLE IN ECB SCRUTINY

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KEY POINTS

- After the global financial crisis and the Covid-19 pandemic, the ECB, like other central banks, is increasingly navigating in uncharted territory, and at risk of **fainting legitimacy** in the eyes of the public. Central bankers are aware of their legitimacy crisis, but, for obvious reasons, they are not in a position to resolve it on their own.
- EU Treaties make the European Central Bank formally accountable to the European Parliament.** In practice, however, those accountability mechanisms rely on an informal understanding between the two institutions. These institutional weaknesses leave the ECB **at risk of facing unconstructive criticism** in the form of Court cases and populist attacks.
- The recent decision by the European Parliament to **start negotiations on an inter-institutional agreement** between the EP and the ECB presents a major opportunity to re-anchor the ECB's legitimacy and to reinforce the existing accountability mechanisms.
- Positive Money Europe argues that such inter-institutional agreement should focus on granting the EP a **stronger role in appointments processes**, improving the “monetary dialogue” and **formalizing a process for interpreting the ECB's secondary mandate**.
- In particular, while the primary mandate of the ECB is clearly defined, **the secondary objectives mentioned in Article 3 TEU are far-ranging and unfocused**. The European Parliament could play a much greater role in prioritizing secondary objectives for the ECB.
- A more central role for the European Parliament in the appointment process for the ECB Executive Board would also contribute to **greater diversity and legitimacy in the ECB's leadership**. The absence of new vacancies for the ECB Board until 2026 provides a unique window of opportunity to negotiate a future-proof appointment process together with the Eurogroup.

INTRODUCTION

Positive Money Europe is one of the very few EU-level nonprofit organisations dedicated to central banking in Europe. As a Brussels-based advocacy group, we have become a close observer of the exercise of parliamentary scrutiny by the ECON committee and have actively engaged with MEPs in parliamentary processes including the regular Monetary Dialogues, the appointments to the ECB's Executive Board, and the Annual Resolution on the ECB. Over the years, we have witnessed the many pitfalls and limitations of the current framework. While some of these limitations stem from weaknesses in the provisions of the Treaties (in particular the lack of formal sanctioning power in any dimension of ECB work), we also witnessed the ECON Committee not fully making use of its existing powers to actively hold the ECB to account.

As a result, there is an urgent need for improvement. The informal nature of the current accountability framework¹ renders accountability less visible and accessible for civil society. This may be one of the factors that fuel distrust in the ECB, as citizens gain the impression that the central bank is faced with no checks and balances, despite its far-reaching powers.²

Political scientists distinguish 'input' and 'throughput' legitimacy from 'output' legitimacy.³ The former two relate to how decisions are taken and by whom, while the

latter relates to the effectiveness of policy outcomes. The ECB has managed to maintain a respectable degree of output legitimacy, owing to the decisive actions it took to preserve the euro and, more recently, to avert a financial crisis on top of the ongoing public health crisis. By doing so, however, the central bank has incurred a sharp deterioration in its input legitimacy, given that it is increasingly perceived as acting beyond its remit. On top of this, the lack of diversity in the ECB's governing council and the informality of its accountability framework have undermined the central bank's throughput legitimacy as well. If the criticism against the ECB is not systematically channeled through formal accountability procedures, it risks leaving the ECB exposed to less constructive attacks in the form of Court cases and populist narratives.

Based on these observations, we published a detailed report outlining ways to improve the role of the European Parliament in scrutinizing the ECB,⁴ which was presented to the Parliament in April 2019.⁵ Our recommendations, which echo those among many members of the ECON monetary expert panel,⁶ have become more relevant than ever today, not least with a view to the ECB's current Strategy Review. This briefing summarizes and extends those recommendations, which could be formalized through an inter-institutional agreement.

1. On the basis of Art. 284(3) TFEU, the current accountability setup was specified through an *EP initiative report* led by former ECON Chair Christa Randzio-Plath in 1998.
2. According to Eurobarometer survey data, only 51% of citizens trust or tend to trust the ECB.
3. See Vivien Schmidt, 2020, *Europe's Crisis of Legitimacy*, and Corrado Macchiarelli, Mara Monti, Claudia Wiesner and Sebastian Diessner, 2020, *The European Central Bank between the Financial Crisis and Populisms*.
4. Stanislas Jourdan and Sebastian Diessner, 2019, Positive Money Europe, *From Dialogue to Scrutiny: Strengthening the Parliamentary Oversight of the European Central Bank*.
5. We presented the report at an event in the EP hosted by former MEPs Pervenche Bérès and Ramon Tremosa.
6. See, e.g., contributions to ECON, *Accountability Mechanisms of Major Central Banks and Possible Avenues to Improve the ECB's Accountability* (September 2020) and "*Monetary Dialogue 2009-2014: Looking Backward, Looking forward*" (March 2014).

1. BETTER APPOINTMENT PROCESS TO THE ECB EXECUTIVE BOARD

As we have seen repeatedly in the past, the current appointment process to the ECB's Executive Board is a real barrier to more diversity, especially with regard to gender.⁷ Contrary to commonly held beliefs and claims,⁸ Article 283 TFEU does offer room for innovation in terms of how the European Parliament should be consulted. It reads as follows:

“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.”

Noticeably, Article 283 TFEU makes no mention whatsoever of the Eurogroup, while in practice the Eurogroup Chair plays a central role in steering the process, for example by soliciting candidates from member states.

The absence of new vacancies for the ECB Executive Board until 2026 (except in case of unforeseen circumstances such as premature resignations) provides a unique window of opportunity and room for negotiation with the current Eurogroup Chair on this point.

Positive Money Europe recommends the following improvements:

- 🕒 **Longlisting by ECON.** The ECON committee could initiate the appointment process by providing the Eurogroup with a longlist of candidates of adequate standing. The Council/Eurogroup could commit to picking their shortlist of nominees from this list.
- 🕒 **Stronger role for ECON Chair.** The ECON Chair (or a delegation of ECON bureau members) should be directly involved in the Council/Eurogroup negotiations so that ECON can voice its preferences and criteria for the position upstream in the process.
- 🕒 **EP opinion to take precedence.** The ECB could commit to offer its opinion after the EP's opinion, thus giving prominence to the EP.
- 🕒 **Clear timetable.** The Eurogroup tends to start the process late and in an opaque manner which leaves little room for manoeuvre. A clear and early timetable should be provided so that all parties can have sufficient time for negotiations and consultation.



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7. Stanislas Jourdan and Sebastian Diessner, 2019, Euractiv, *ECB reshuffle: The EU can do better than gentlemen's agreements behind closed doors.*

8. Former Eurogroup Chair Mario Centeno once told the EP “there is no scope nor legal grounds for improvisation” (*Remarks to the ECON Committee*, 18 November 2019).

2. BETTER MONETARY DIALOGUE

As various members of the ECON panel of experts have stressed over the years, the setup and procedures of the Monetary Dialogue (MD) are not sufficient in terms of holding the ECB to account, not least because the Q & A format does not allow for an in-depth follow-up with the ECB president. The large and varying number of MEPs who take part in the Monetary Dialogues throughout the legislature also reduces the focus and consistency of MEPs' questions further.

Positive Money Europe recommends the following improvements:

- 🕒 **More flexibility in terms of time allocation to MEPs.** Allow for follow-up questions in case the ECB's responses are found to be too evasive or incomplete.
- 👥 **Create an ECON sub-committee.** A subset of ECON should focus more fully on preparing to hold the ECB to account. Members of this sub-committee should have priority participation in the MD.
- 📢 **Improve public communication on the Monetary Dialogue.** At the moment, MD announcements are published very late on the ECON website, which undermines the possibility for the public, media, and civil society organisations to monitor and engage in the process. The dates of the MD and a list of involved speakers (MEPs) should be announced two weeks in advance at the very least.
- 👥 **More diversity in the ECON expert panel.** The criteria for the ECON expert panel are currently very narrowly defined and geared towards think tanks and academics. Broadening the tender criteria to include experts from civil society organisations would increase the diversity of views on the panel and enhance the fields of expertise covered (for instance, in the realm of sustainable finance).
- 👥 **Alternate ECB representatives.** In total, there are six exchanges of views per year with the ECB,⁹ which is more frequent than in the UK or the US. However, quantity does not translate automatically into quality, and there is a risk that more frequency leads to more repetition and thus to less fruitful exchanges. In order to render the many hearings more productive, these could involve other members of the Executive Board. This would allow for a better oversight of the various areas of work of the ECB and to scrutinize the ECB leadership as a team instead of merely its (Vice-)President.
- 👥 **Involve national parliaments.** Occasional invitations of members of national parliaments could provide an effective means to broaden the audience of the Monetary Dialogues by attracting additional interest among national media and civil society. Conversely, the MD hearings could occasionally involve national central bank governors on matters that are of particular interest to more than one member state.

9. Four Monetary Dialogues with the ECB President, one exchange of views with the ECB Vice President in April for the Annual Report presentation, and a Q & A in the plenary with the ECB President preceding the adoption of the EP's INI resolution on the ECB.

3. BETTER PROCEDURES TO INTERPRET THE ECB'S MANDATE

The ECB's mandate provides ample ground for involvement and scrutiny by the European Parliament and is likely to be the subject of vitally important debates in the coming years. Article 127 TFEU defines the ECB's mandate as follows:

“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.”

This raises two key issues. First, the mandate is currently interpreted to confer near-total discretion upon the ECB over the formulation of price stability, which it has self-defined as inflation rates ‘below, but close to, 2% over the medium term’. While there are technical considerations underpinning the choice of the price stability definition, political validation is desirable in order to ensure that the proposed target is consistent with citizens’ expectations.

Second, while the hierarchy of the ECB's mandate is in theory clearly defined, an important recurring question arises from the breadth of possible objectives mentioned in Article 3 TEU, ranging from security, equity and economic growth to environmental protection, innovation and many other laudable EU objectives. This has resulted in a great deal of ambiguity, which makes it difficult for the ECB to operationalise its secondary mandate without running the risk of being criticised for not acting in

accordance with other objectives. This has so far largely led to inaction by the ECB due to potential trade-offs among its objectives and the perceived risk of politicization. As Benoit Cœuré once said: “Setting priorities between different objectives is the definition of policy [...] and that is what parliaments do”.



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Benoit Cœuré, French National Assembly, 15th May 2019

Positive Money Europe recommends the following improvements:

- 🕒 **Involve EP in validating changes to ECB's price stability definition.** The ECB should seek political validation of changes to the inflation target, in order to ensure that its definition is aligned with political preferences for price stability.
- 🕒 **Involve EP in specifying ECB's secondary objectives.** The ECB should consult the EP in defining the most relevant secondary objectives among those mentioned in Article 3 TEU, in order to specify and prioritize the policy areas where the ECB's monetary policy can be expected to deliver, without prejudice to price stability. In practice, the EP could vote on a ranking of at most three secondary objectives over a medium term horizon of five years, for example.

Both of these improvements could be integrated into the EP's annual resolution on the ECB. The annual resolution currently represents one of the best – but least appreciated – tools for ECB accountability, since it includes an amendment procedure and a final plenary vote that results in an institutional position by the entire EP (contrary to the Monetary Dialogue, which

only involves the ECON Committee). The ECB also responds in writing to the EP's input, which further strengthens the process. Yet, the INI Report remains among the least visible instruments of ECB accountability. To render the EP's INI Report a more pertinent instrument of accountability, it should have a clearer function in providing a political interpretation of the ECB's mandate.

CONCLUSION AND WAY FORWARD

Ever since the global financial crisis and in the aftermath of the COVID-19 pandemic crisis, central banks across the globe have been operating under a very different environment compared to twenty years ago, when the ECB's statutes first came into effect. These circumstances have forced the independent central bank to take decisions and to enact monetary policies which were deemed unthinkable back then. To navigate this new environment, the ECB needs renewed democratic legitimacy.

Central bankers are aware of their legitimacy crisis, but, for obvious reasons, they are not in a position to resolve it on their own. As such, they are in need of better and more structured exchanges with elected representatives. The European Parliament is well-placed to step up and offer a constructive way to bridge the ECB's legitimacy gap. By putting forward an inter-institutional agreement which formalizes and enhances the ECB's accountability framework along the lines suggested above, the EP can make a game-changing contribution towards this aim.



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ABOUT POSITIVE MONEY EUROPE

Positive Money Europe is a not-for-profit research and campaigning organisation whose mission is to build a diverse and powerful movement pushing for a progressive reform agenda of the European Central Bank and Eurozone institutions so they support a fair, democratic and sustainable economy.

EU Transparency register number: 224435319949-22

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