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Table of Contents

Summary..... 4

How has the Monetary Panel worked in the past 5 years and what improvements do you envisage? 9

Professor Dr. Peter Bofinger..... 9

Monetary Dialogue with the President of the ECB 11

Guillermo de la Dehesa..... 11

How has the Monetary Panel worked in the past 5 years and what improvements do you envisage? 15

Sylvester C.W. Eijfinger..... 15

How has the Monetary Panel worked in the past 5 years and what improvements do you envisage? 19

Gustav A. Horn 19

The European Parliament's Monetary Dialogue with the ECB and its Panel of Experts 21

Anne Sibert 21

The Panel of Monetary Experts and the Policy Dialogue..... 25

Charles Wyplosz..... 25



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ECONOMIC AND SCIENTIFIC POLICIES
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Peter BOFINGER: How has the Monetary Panel worked in the past 5 years and what improvements do you envisage?

Interesting Comments:

Monetary Dialogue constitutes an improvement in terms of monetary policy transparency and accountability

unique role of Monetary Dialogue as the only occasion where the European public represented by the EP is entitled to address the President of the ECB directly

Problems identified:

- very low interest of the wider public, Dialogue has not been able to reach the public at large
- no visible impact of briefing papers on the questions raised
- questions usually address a very broad range of topics, hearings therefore seem to lack focus
- transcripts of the Dialogue available in "rainbow" version only
- ECON does not give a final assessment of the results of a Dialogue

Suggestions for Improvement:

- ECON to prepare written questions for the ECB which ideally would refer to the input provided in briefing papers, they should have a common topic, limited to 4 to 6 such written questions
- ECB President should focus on the written questions in his opening statement, ECB staff to prepare written answers for ECON
- ECON could prepare a resolution after a Dialogue, this should summarize the outcome of the hearing and express its assessment of the topics discussed
- one Dialogue per year to be reserved for assessment of the ECB's annual report, briefing papers could be commissioned to assess ECB policy ex post, ECB could comment on the assessment in writing
- a final assessment of each Dialogue by ECON should raise interest for the media

Guillermo de la DEHESA: Monetary Dialogue with the President of the ECB

Interesting Comments:

Effectiveness of the Monetary Markets to be evaluated by two tests with the market: 1) with the main agents of the financial markets – there is not much to hear from these agents, 2) with the media – very little interest.

Problems identified:

- "Dialogue" does not have the same connotations in terms of accountability as "hearing" or "testimony"
- ECB President does – in his opening statement – not say much more than is already known
- not much interest shown by markets and media, they prefer to follow the monthly ECB press conference

Suggestions for Improvement:

- transparency and predictability of the ECB strategy should be at the heart of ECON
- insist on need to publish a summary of the ECB meeting with the relevant arguments for every decision
- ECB should appear before ECON every time significant monetary action is taken
- reduce the initial statement of the ECB President as much as possible, thus allowing more time for questions
- questions should be more specific and detailed, use the Experts Panel for this and ask them to come up with potential questions
- change the name from Dialogue to Hearing
- establish an agreed agenda of questions to make meetings more efficient
- separate as much as possible from the ECB press conferences and concentrate on accountability issues.

Sylvester EIJJFINGER: How has the Monetary Panel worked in the past 5 years and what improvements do you envisage?

Interesting Comments:

The Monetary Dialogue can be used successfully to predict changes. Based on the analysis in the briefing note, the publication of anonymous minutes of the ECB is expected in some form or other in the near future.

Problems identified:

"Dialogue" does not have the same meaning as "Reporting"
no need for more but better hearings

Suggestions for Improvement:

- demand from the ECB to stick to its Statute and take votes making it possible to build a stronger case for the publication of minutes
- insist on setting up some sort of Monetary Policy Committee
- ECON should be more forceful during the Dialogue (follow-up questions)
- change the title from Dialogue to Accountability Hearing

- ECON should insist that the information given in the monthly press conferences be made public in the Parliament
- Members should refrain from asking question on "local themes"
- ECON must become more professional than it is now
- in the questions, Members should include possible alternatives and make the President explain why the alternatives are unsuitable for the ECB
- the ECB President contradicts himself over time giving the opportunity to confront him

Gustav HORN: How has the Monetary Panel worked in the past 5 years and what improvements do you envisage?

Suggestions for Improvement:

- each Panel Member should once a year have the opportunity to write a paper on the issues he/she considers the most important, giving Members new insights, unconventional comments or new ideas for research
- Panel Members should be asked if they would keep rates unchanged or not and give reasons for their decision, the Members could then select the reasons they find appropriate for the ECB to comment on.
- Organise one or two debates between the Panel at an ECON meeting
- Give feedback to Panel Members

Anne SIBERT: The European Parliament's Monetary Dialogue with the ECB and its Panel of Experts

Interesting Comments:

ECON seemed to be successful regarding the special role of M3 in the ECB's policy analysis, regarding the ECB's definition of price stability and in view of the publication of inflation forecasts. ECON was not successful as regards the publication of more details on the discussions, the minutes or the details of the vote and the engagement of the ECB in a dialogue on the role of the secondary objectives.

Suggestions for Improvement:

- Meetings should be more tightly focussed on issues of direct importance to ECON
- Briefing papers should be better related to the questions that are asked
- ECON should occasionally allow Panel Members to suggest topics
- Panel Members might be asked to provide ammunition for additional questions, to respond to previous meeting transcripts and to suggest follow-up questions
- Devote more time to more general issues such as improving transparency, rather than discussing the minutia of current monetary policy decisions.

Charles WYPLOSZ: The Panel of Monetary Experts and the Policy Dialogue

Interesting Comments:

The Monetary Dialogue falls short of true accountability. The EP has an important role to play to reconcile Europe's citizen with their Central Bank. The aim ought to be to put more structure into the debate, to focus on the details of monetary policy and to challenge answers that are sometimes controversial.

Problems identified:

- ECON is too large to set the stage for in-depth cross-examination
- debates are too general
- stark discrepancy between time allocated to the ECB President and time allotted to questions
- many questions do not deal with monetary policy
- link between Briefing Papers and questions is tenuous

Suggestions for Improvement:

- Delegate the task to a small number of Members
- Reduce the length of the ECB President's opening statement
- Questions should deal with particular aspects of monetary policy and financial stability
- link Briefing Papers to questions that could be put to the President including guesses for likely answers
- give feedback on Briefing Papers to the experts
- set-up of meetings with experts time-wise: is it adequate? (longer meetings? not so often?)
- Improve ownership of questions, experts could sharpen questions for the Members, even follow-up discussions on the telephone seem possible.

How has the Monetary Panel worked in the past 5 years and what improvements do you envisage?

Briefing Paper for the Monetary Dialogue of November 2005 by the Committee on Economic and Monetary Affairs of the European Parliament with the President of the European Central Bank

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1. Compared with the situation before the start European Monetary Union the monetary dialogue of the Parliament with the ECB constitutes an important improvement in terms of monetary policy transparency and accountability. This becomes obvious if one compares the present situation e.g. with the arrangements in Germany until 1998, the country with Europe's hegemonic central bank, where there was no institutionalized exchange of views between the Bundestag and the Bundesbank. It is obvious that the very high degree of political and economic independence which is assigned to the ECB by the EU-Treaty has to be balanced by a strong accountability vis-à-vis the European citizens.

Within the context of the very comprehensive communication strategy of the European Central Bank the monetary dialogue plays a unique role, since this is the only occasion where the European public represented by the European Parliament is entitled to address the President of the European Central Bank directly. Of course, the monthly Press Conferences with questions and answers after the introductory statement also provide a certain dialogue, but in this case the questions are put by journalists who cannot be regarded as perfect representatives of the European citizens.

2. So far the overall performance of the dialogue is certainly impressive. Eiffinger (2004) shows that the ECB has adopted several important policy recommendations that were raised by the Committee in the last few years. What is less satisfying is the very low interest of the wider public in the dialogue. As Gros (2004) has mentioned the attention that the media pay to the dialogue is very low. This becomes also obvious if one looks for "monetary dialogue" in Google where a astonishingly small number of entries can be found.

In other words, the dialogue has so far been mainly a platform for a discussion between the ECB's President and selected members of the Parliament but it has not been able to reach the European public at large. This may be partly due to the fact that some of the more specific issues of monetary and exchange policy are not of interest for a wider audience, but since monetary policy has a very direct impact on economic growth and employment this can also be related to some flaws of the dialogue in its present form. In my view four problem areas can be detected:

- There is no visible impact of the briefing papers on the questions raised by the members of the Parliament during the dialogue. It is very rare that a question refers directly to a briefing paper.
- The questions usually address a very broad range of topics so that the hearings often create the impression that they lack a clear focus.

- The transcript of the questions and answers as it is presented in the internet is written in the different Community languages. This makes it almost impossible for the interested public to follow the full dialogue ex post.

- The Committee does not give a final assessment of the results of a specific dialogue.

3. Given these deficiencies the dialogue could be improved along the following lines:

- For each hearing the Committee prepares several written questions for the ECB which ideally would refer to the input provided by the briefing papers. To give more focus to the hearing, most of the written questions should have a common topic. In order to leave room for individual questions during the dialogue the number of written questions should be limited to a maximum of four to six

- In its presentation the President of the ECB should focus on the written questions and refer less extensively than in the past to the general economic and monetary situation in the Euro area which he regularly presents in detail at the monthly press conference. In addition the ECB staff should be asked to prepare written answers to the written questions raised by the Committee.

- After the dialogue the Committee could consider to prepare a resolution in which it summarizes the outcome of the hearing and in which it expresses its assessment of the main topic(s) which was (were) discussed in the dialogue.

- Each year one of the dialogues should be reserved for the assessment of the ECB's annual report. For this occasion the Committee should ask the panel of experts for briefing papers with an ex-post assessment of the ECB's monetary policy decisions and projections in the preceding year. The ECB should be asked to comment on assessment provided by the experts in written form.

- With this structure each dialogue would provide a comprehensive output (briefing papers prepared by the panel members, written questions and written answers prepared by the ECB, a transcript of the questions and answers which should be in English only, and a final assessment by the Committee) which is related to relevant questions of monetary policy. Especially a final assessment by the Committee would increase its interest for the media. The focus on one specific topic would additionally increase the value-added for academics, and for professional central bank watchers.

4. In sum, there is no doubt that the monetary dialogue has contributed to a high degree of transparency and an unprecedented accountability of European monetary policy and that it has also induced important adjustments in the ECB's strategy. However, the interest of a wider public could be increased by a more focused approach as it is suggested by this short briefing paper.

References:

Eijffinger, Silvester (2004), Stocktaking of the Monetary Dialogue with the European Parliament and the ECB, Briefing Paper for the European Parliament, April 2004.

Gros, Daniel (2004), 5 Years of Monetary Dialogue, Paper for the European Parliament, April 2004.

Monetary Dialogue with the President of the ECB

Briefing Paper for the Monetary Dialogue of November 2005 by the Committee on Economic and Monetary Affairs of the European Parliament with the President of the European Central Bank

Guillermo de la Dehesa

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ECB's Accountability

In any true democracy, with the exception of the Judiciary Power no public institution or person can be truly independent of the representatives who have been elected. Everybody who has a public status and/or uses tax revenue, from the President and the Prime Minister to any public servant needs to be accountable to the democratic elected representatives of its citizens. The ECB should not be an exemption to this rule, even if it was created with the idea of being “the most independent of all central banks in the world”, which is clear by reading in the Maastricht Treaty that the ECB cannot receive any instruction from any European Union institution or organism, any member government or any other organ. This maybe the reason why the Treaty and the ECSB Statute only require its President to present an annual report to the European Parliament, while in other countries the President or Governor of the central bank needs to appear quite often before their Parliament to explain how is he performing his duties and to answer any queries from its members. Thus, it is understandable that many experts think that the ECB is not accountable enough to its Parliament. For instance, the lawyer B. Dutzler (2003) thinks that the ECB is rather an autonomous than an independent institution, because whereas independence and accountability are complementary, autonomy and accountability are not.

Similar views are that of de Grauwe (1998) economist and member of the Belgian Parliament, who says that the ECB is accountable to no one, because the Statute of the ECB can only be changed by revising the Maastricht Treaty, which requires unanimity of all member countries while in the US, when the Chairman of the Fed appears every quarter before Congress knows that its members on the opposite side of the table have the power to break the independence of the Fed and, at the same time, they perceive themselves as Fed stakeholders. Thus, the lack of true accountability of the ECB compromises its chance to be perceived as truly independent.

Bini-Smaghi and Gros (2003) define accountability as the act of listening to criticisms and responding to questions about the past and future behavior that may be put forward by a democratically elected body (Mervin King offers a similar definition, namely the need to justify and accept responsibility for the decisions taken). Accountability then is different from democratic control, which defines *ex ante* the rules, standards and principles laid down by a democratic elected body. Both economists believe that, even if the ECB is more transparent and accountable than other central banks, the best way to make the ECB even more transparent and accountable is to engage it in substantive discussions about its policy where it is pressed to provide the relevant information about the background analysis of that have led to policy decisions, for instance, to make its inflation forecast public and be more open about the arguments, both pro and con, that shape the debates that precede its decisions. They also believe that accountability cannot be ensured by the ECB alone and that an important role has to be played by its counterparts, notably the European Parliament, as it was expected by the hearings for the nomination of the ECB Executive Board held in May 1998.

Monetary Dialogue

The Monetary Dialogue has continued in this direction by trying to go beyond the Treaty and its Statute in terms of accountability by holding four sessions a year with the President of the ECB. Moreover, the Huhne Report, adopted by the Economic and Monetary Committee, asked the ECB to adopt measures to improve its transparency, such as the publication of summary minutes of the Governing Council's meetings reporting explicitly about the arguments for and against the decisions taken, without asking for the names of members who voted for and against to be published. Even more, the Report also called on the President of the ECB to be ready to appear before the Committee after each significant monetary action.

But, in reality, is the present Monetary Dialogue effective? The only answer that occurs to me is to test it with the market. There are two ways to conduct such a test. The first one is with the main agents of the financial markets: banks, investment banks, securities houses, funds, private investors etc. I have had the pleasure to being an expert for helping to prepare the meetings of the Monetary Dialogue for more than four years and I have not heard from almost any of these actors about their interest in following closely the discussions of Monetary Dialogue. The second one is with the media, which by definition tends to reflect the demands from their readers, listeners or viewers and to attract their interest in what they publish. The result is similar, very little interest in the Monetary Dialogue. By contrast, most financial agents and the media follow very closely Alan Greenspan hearings at the US Congress and Senate, get a copy of his speech and the answers to the queries and try to scrutinize and understand better what he said.

Which are then the problems with the Monetary Dialogue? First, that it is a "dialogue" and not a "testimony" and a dialogue has not the same connotations in terms of accountability than a testimony or hearing; Second, that the President of the ECB does not say much more, in his initial speech, of what we already know, from the previous ECB's monthly bulletins, at his quarterly meetings with the Economic and Monetary Committee, thus, there is not much interest shown by the market or the media, which prefer to follow his monthly appearances in front of the press, where he usually may give some signals about the ECB's monetary stance. Therefore there is apparently more "communication gap" in the monetary dialogue than in the press conferences, probably because of the different timings of each one.

It is not a question of being completely transparent. As Eijffinger et al. (2000) put it by defining a "good" central banker, as that who is predictable strategically, but not tactically. The *strategy* of the central bank in the medium and long term should be completely predictable and fully transparent for the financial markets, so, the intermediate targets and how the central bank aims to achieve them must be as clear as possible. However, that does not imply that its *tactics* in the short run should be fully predictable and transparent. A central bank needs some ambiguity in its open market operations and in its interventions in the foreign exchange market to be more effective because the immediate interaction of these monetary instruments with the financial markets or its anticipation to them if they are absolutely transparent. Then, the transparency and predictability of the ECB strategy should be the backbone of the ECON Committee.

What it can be done to improve the efficiency of the Monetary Dialogue? First to try to revive the Huhne Report, and try to insist on the need by the ECB to publish a summary of the ECB meetings with the relevant arguments in every decision and those which have been used in favor and against it, as well as on the need to appear before the ECON Committee every time after each significant monetary action to explain it in detail.

Second, to reduce to a maximum the initial speech by the President of the ECB and take much more time for questions by the ECON Committee members. Third, ECON Committee members should ask more specific and detailed questions in order to achieve more elaborated and less ambiguous responses by the President. For that, it is very important to use the help of the monetary experts and ask them to write in detail some potential questions, to be put before the President, about the issue that they have been asked to write. Fourth, the Economic and Monetary Committee should change the name Monetary Dialogue with the ECB President for ECB Monetary Hearings to make it more a accountability meeting than a dialogue meeting. Fifth, the ECON meetings with the ECB President should be more efficient, for instance ECON members should have a meeting before the hearings to establish an agreed agenda of questions to be asked by members to the President. Finally, there is an increasing need by the ECON Committee to separate as much as possible from the press conferences and to concentrate on accountability issues, which are its real duty in order to make it clear to the markets and to the public that the hearings are going to be of great importance for the ECB going forward.

How has the Monetary Panel worked in the past 5 years and what improvements do you envisage?

Briefing Paper for the Monetary Dialogue of November 2005 by the Committee on Economic and Monetary Affairs of the European Parliament with the President of the European Central Bank

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Executive Summary

In the euro area, the European Parliament has to hold the European Central Bank (ECB) to account. In this briefing paper we take a closer look at the most important part of the relation between the ECB and the European Parliament, namely the quarterly monetary dialogues between the Committee on Economic and Monetary Affairs (ECON) and the ECB. We investigate whether this monetary dialogue influences the ECB's transparency, communication policy and accountability by comparing the issues raised by the ECON and its panel of experts and the changes in ECB's procedures and arrangements. In this paper we approach this subject qualitatively. Based on our results we conclude that the ECB is highly responsive to the ECON. However, there is still some room for improvements of the monetary dialogues between the ECON and the ECB and of the ECB's accountability, communication policy and transparency.

Introduction

In the euro area, the European Parliament has the task to hold the European Central Bank (ECB) to account. In this briefing paper we take a closer look at the most important part of the relation between the ECB and the European Parliament, namely the quarterly monetary dialogues between the Committee on Economic and Monetary Affairs (further on ECON) and the ECB. We investigate whether this monetary dialogue influences the ECB's transparency, communication policy and accountability by comparing the issues raised by the ECON and its panel of experts and the changes in ECB's procedures and arrangements. In this paper we approach this subject qualitatively. Based on our results we conclude that the ECB is highly responsive to the ECON. This response of the ECB can be divided into two parts. We distinguish between *immediate* response (comments by the President of the ECB during the monetary dialogue) and *delayed* response (the degree to which the ECB incorporates points raised during the dialogue in its policy). However, there is still some room for improvements of the monetary dialogues between the ECON and the ECB and of the ECB's accountability, communication policy and transparency.

The background of the monetary dialogue

Besides the fact that the Treaty European Union gave the ECB a very high degree of independence, it also contains provisions regarding the issues of transparency and accountability. According to the Article 113 (3) of the Treaty and Article 15.3 of the ESCB Statute, the President of the ECB is required to present an annual report to the European Parliament. The same articles go on to state that, "the President of the ECB 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". Based on these requirements it was agreed that the President of the ECB would appear 4 times a year before the ECON. Each session of the monetary dialogue starts with the statement from the President of the ECB explaining in detail the central bank's assessment of economic and monetary developments at the time. After this introduction the 42 members of the ECON have the opportunity to ask their questions. Usually these sessions last approximately two hours. Shortly after they have taken place, verbatim transcripts of these sessions are published on the ECON's internet site.

Recommendations

The ECB appears more frequently than the average of appearances by other central banks before their parliaments. Based among others on this finding and in relation with how the ECON could improve the monetary dialogues, we think it is obvious that there is no need for more, but rather better hearings. *First*, we would recommend to the ECON to demand that the ECB sticks to its Statute and to take a formal vote each time it meets, even if during its meetings it becomes clear that consensus can be reached (in this situation the consensus could simply be replaced by the outcome of 18 votes for and none against). In this case, the argument that voting behaviour cannot be revealed as voting had not taken place would not be applicable any more, making it possible to build an even stronger case for the publication of minutes. *Second*, regarding the issue of restructuring the ECB's General Council, the ECON should get more involved and insist on setting up some sort of monetary policy committee. The reason is that the individual members of the Governing Council in that case would not share collective responsibility. This would also make it possible to build a stronger case for publication of minutes. It is a fact that one of the main reasons for ECON wanting minutes of the meetings is to be able to say something about the direction of monetary policy actions and that this wish is shared by the general public (as illustrated in press conferences). To avoid the

negative side effects, the ECON should request from the ECB (and we advise the ECB to implement this change) to indicate, after every meeting at which it assesses the stance of monetary policy, whether it has a neutral, tightening or relaxing bias, similar to what the Fed has been practising for some time. This would avoid the negative consequences of publishing minutes and increase the transparency and credibility of the monetary authority, while effectively extracting the same information. *Third*, the ECON should be more forceful during the dialogues, for example when the ECB repeats its mantra's for the umpteenth time. For example, when the ECB mentions "medium term", it should be pressed to define what this term means as far as the ECB is concerned. This would tremendously improve the bank's transparency and make it easier for the ECON to hold the ECB accountable. A good example is the subject of ECB inflation projections. Instead of being content with the President's remarks when he for example refers to "last available information" or states that the inflation could be higher or lower than expected, the ECON should hold onto this subject. This could be done by a number of follow-up questions demanding the ECB to disclose the last information the Governing Council used in its meeting, whether the members agreed with the staff projections and if not, why not and so on. So far, we have not been able to detect this practice during the monetary dialogues with the ECB. *Fourth*, a dialogue does not have the same meaning as reporting. The ECON could change the title from Monetary Dialogue to Accountability Hearings. This would most likely improve the image of the hearings, which would arguably be a small, but nevertheless not insignificant change. *Fifth*, the ECB holds, after every first meeting of the month, a press conference. The ECON should insist that the information given in these press conferences be made public in the Parliament, i.e. it should insist that the ECB scraps these press conferences and make them part of Accountability Hearings. *Sixth*, the members of the ECON should refrain themselves to ask questions on "local themes", i.e. country specific issues. Apart from giving the ECB an excellent chance to state the obvious, namely that it focuses on euro area wide developments, it also creates the impression that the ECON does not know what the ECB's task is and what the bank can and cannot do. To upgrade the hearings, the ECON must start by becoming more professional than it is now. *Seventh*, while asking questions, the members should include possible alternatives and make the President of the ECB explain why the alternatives they suggested are unsuitable for the ECB, instead of the current practice not to ask follow-up questions (this would of course mean that some procedural changes would be needed regarding these hearings). *Finally*, after we compared the President's remarks over time, we have noticed that he often contradicts himself. This gives the ECON a rather nice opportunity to confront him with this and demand more thorough explanation.

Concluding remarks

Analysis of the ECB's press releases and press conferences led us to conclude that some changes were implemented. When we related the changes to the changes requested by the ECON we concluded that the ECB has met most of the wishes expressed by ECON. We have found that the ECB in 71% of the cases has implemented changes the ECON requested. In addition, two other facts have been noted. *First*, the ECB did not always fully comply with the structure or form asked for by the ECON. The ECB could have acted as it did in order to avoid giving the impression that others can influence it. The only way to exclude one of these possibilities would be to take a look at the minutes of the meetings of the Governing Council, as there explicit statements or clues might be found. Not having access to these prevents the exclusion of either possibility at present. *Second*, we note that the monetary dialogue can be used to successfully predict changes.

The ECB seems to provide indications on changes that are to come, as for example in case of the publication of forecasts and redefinition of price stability. Extrapolating from this finding and assuming that the ECB's behaviour in this aspect will remain unchanged, we will most probably witness more changes in the future. Based on the results from our analysis in this paper we expect to see the anonymous minutes of the ECB to be published in some form in the near future. As a matter of fact, by deciding to provide arguments given for and against a certain decision, the ECB has made a great step towards publication of minutes. Based on this research we conclude that the ECB has showed a high degree of responsiveness to criticism from the ECON, in other words, there is some degree of influence running from Brussels to Frankfurt. It is important to note that although we use the word "influence", this should not be interpreted as meaning that the ECB has been put under formal pressure. However, we note that the ECON has taken the opportunity (in the form of discussions on EU Constitution and the review of the Treaty of Maastricht) to make clear to the ECB that its Statute could very well be changed in order to get the central bank to meet the remaining wishes of the ECON or to meet the partially met wishes in full. We define ECON (and therefore the European Parliament) in a broad sense as being the body representing citizens of the euro area and assume that its preferences reflect those of European voters, a valid assumption as the European Parliament is elected in a general election. Given that there is some evidence that, regarding the amount of pressure from other interest groups, the ECB is in a comfortable position, we conclude that the ECON is the most important factor that influences the ECB. One could criticize this by arguing that the European Parliament, although democratically elected, does not have much political influence, compared, for example to the ECOFIN Council. However regarding the issue of holding the ECB accountable, the ECON has shown itself to be a mature body. We might say that, owing to the fact that it has chosen a typical European approach to holding its central bank accountable and the fact that it goes to considerable length to prepare the monetary dialogues as thoroughly as possible, the role and influence of the European Parliament certainly has increased during past years. Nonetheless, there are various ways for improvement. We are convinced that the conclusion that the ECON influences the ECB in some degree, does not mean that the central bank is not as independent as its legal status implies. In this respect one thing should be pointed out: the ECB has shown a healthy attitude so far, indicating that it can deal with criticism and that it acknowledges the fact that it can learn from it. The price to pay for being independent is apparently, and quite rightfully we might add, the obligation to explain and give a full account of actions taken and their outcomes.

How has the Monetary Panel worked in the past 5 years and what improvements do you envisage?

Briefing Paper for the Monetary Dialogue of September 2005 by the Committee on Economic and Monetary Affairs of the European Parliament with the President of the European Central Bank

Gustav A. Horn
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Executive Summary

The paper contains a brief assessment of the present state of the process and round table debates and to a feed back by members of parliament to the members of the panel.

Before assessing the work of the panel one should define what could be done by them:

- Firstly, panel members can inform members of the monetary committee on the current state of monetary affairs.
- Secondly, they can help to analyse the current situation and assessing the prospects for the primary target of the ECB, price stability, and all other targets to be observed by the ECB.
- Thirdly, they can address special issues of interest to members of the committee that are defined by the members of parliament.
- Finally, they can raise issues of own interest to be assessed as important by the panel members themselves.

By these panel inputs members of parliament should be put into a position to properly question the ECB policy at the quarterly meetings with the ECB president. In particular they should be able to assess the answers given by the ECB president such that they can fulfil their duty as members of the monetary committee.

In the past five years at the beginning the first and second instruments were primarily used, whereas during the last years the third instrument had a more prominent role. The fourth instrument was not used at all. Predominantly panellists wrote papers, more rarely there were round table meetings mostly with only some of the panellists.

From a viewpoint of a panellist the applied procedure was generally appropriate. Especially writing the papers on special topics seemed to be extremely useful. The description of current issues of monetary affairs presented in earlier years was not so satisfying, since most of these issues were already discussed in business newspapers and it is difficult to add any more relevant informant information.

However one thing was good with these initial briefing papers, at the end people were asked to outline some questions they would like to ask the ECB president. This was a fruitful exercise since one was urged to focus on relevant issues in a precise way. It may also have helped members of parliament to phrase their questions at the meetings with the ECB president.

What should be changed in the future? Basically the present structure of the process should be preserved. But some fine-tuning may be useful. First of all one should refrain from the first two ways of comments altogether.

I think it is of no use for members of parliament to get this information a second or a third time. Secondly one should proceed giving topics to panellists members of parliament are interested in and then select those who should write on certain topics. But each member of the panel should have once a year an opportunity to write a paper on the issues he or she considers the most important. This can be a comment on current issues that highlights aspects generally neglected. It can also be an issue from current research considered relevant for the assessment of actual monetary policy. These papers may serve members of parliament to get new insights, because they get an unconventional comment or new ideas from research

Furthermore at the end of each paper of whatever kind panellist should be asked whether they would change interest rates or keep them unchanged. They should also be asked to give reasons for their decision in a few sentences. These statements may help members of parliament to find out quickly whether the panel agrees with the present state of monetary policy or not. And for what reason this is so. This may help members of parliament to find their own opinion with respect to actual monetary policy. This may also prove useful for preparing questions for the ECB president, because out of the opinions given by members of the panel they can select those that seem appropriate to ask the ECB president to comment on. This could give new insights into the reasoning and assessment of the ECB governing council.

A final way to improve the work of the panel may be to organise one or two debates between members of the panel at a meeting of the monetary committee. One should select members of the panel who may have opposing views on certain topics and invite them to a roundtable discussion. Then members of parliament could get a first hand insight into these views and discuss matters immediately with the panellists. This immediate confrontation may help members of parliament to form their own view on the issue and use their insight when questioning the ECB president.

These few and minor changes could help to improve an already very interesting process of counselling at least from the perspective of an economic adviser. But for the panellist it may also be helpful to get a feed back by members of parliament on how useful their advice really is and how it can be improved.

The European Parliament's Monetary Dialogue with the ECB and its Panel of Experts

Briefing Paper for the Monetary Dialogue of November 2005 by the Committee on Economic and Monetary Affairs of the European Parliament with the President of the European Central Bank

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In this note I consider the possible influence of the views of the European Parliament's Committee on Economic and Monetary Affairs (ECON) on the actions of the European Central Bank. I discuss how the opinions offered by the Committee's panel of experts may have shaped the beliefs of the Committee. I consider whether the Committee is making the best use of the panel.

As part of its oversight of the European Central Bank, and in accordance with Article 113 (3) of the Treaty establishing the European Community (consolidated version), the European Parliament's Committee on Economic and Monetary Affairs holds a quarterly dialogue with the President of the ECB. Prior to each quarter's meeting, the Committee commissions briefing papers from a panel of monetary experts. After five and a half years of interchange, it is interesting to speculate on the possible influence that the interaction between the Committee and the President of the ECB may have had on ECB policy and the effect of the briefing papers on the issues raised and questions asked during the monetary dialogue.

It is obviously difficult to assess the Committee's influence on the ECB. It is also difficult to measure the effect of the panel of experts on the Committee. During the monthly dialogues, Committee members frequently bring up topics addressed in panel papers. However, it is impossible to say whether the Committee members were influenced by the panel papers or by other commentators. In addition, the Committee typically chooses the topics of the panel papers so it is possible that the Committee members intended to bring up the topics before seeing the panel papers.

A lengthy earlier panel paper on the subject (Eijfinger (Apr. 2004)) presented a detailed statistical analysis; in this note I conduct a small event study, confining myself to analysing the evolution of ECB policy in four areas that the Committee appeared to regard as unusually important. In two of these areas the Committee appears to have successfully influenced the ECB and the panel may have played an important role. In the other two areas the Committee failed to achieve its desired goal. On both of the issues where the Committee was unsuccessful, the panel appeared to have been less useful than it might have been to the Committee. I close this note with a few suggestions for improvement.

Two issues where the Committee appears to have had success

One instance where the Committee may have influenced the actions of the European Central Bank and where the views of the Committee may have been shaped in part by the monetary experts panel is the May 2003 monetary policy reform. This reform removed the special role for the broad money aggregate M3 in the ECB's policy analysis and it made the ECB's definition of price stability more precise. It is uncertain to what extent the Committee

influenced the ECB but Mr. Duisenberg commented that the European Parliament's views had been taken into account when the reforms were enacted.¹

The academic panellists were, from the start, part of a wider criticism of the ECB's use of M3 in its analysis. Between April 1999 and February 2003 the panel papers became increasingly forceful and in their monetary dialogue with the ECB, Committee members repeatedly called for the ECB to reconsider matters with regard to M3.² It is difficult to know the role the panel played in shaping the Committee's opinion on this issue but it seems reasonable to suppose that the unanimity and vehemence of the panel's views and the detailed and substantial presentation of the arguments (especially in Svensson (Nov. 2000, May 2002)) must have had some influence.

Also from the start, the academic panellists criticised the ECB's definition of price stability. They may have been slightly less influential with the Committee on this topic than they were on M3's role as they presented a less unified front, with Svensson, for example, repeatedly arguing that the problem was that the goal was ambiguous and asymmetric and Wyplosz arguing that the perceived target band was too narrow.³ Nevertheless, the panel's complaints may have increased the Committee's interest in the matter and Committee members regularly queried Mr. Duisenberg about the ECB's inflation objective.⁴

Another instance where both the panel and the Committee may have been influential was the ECB decision to publish inflation forecasts. The panel repeatedly and from the beginning argued for the release of inflation forecasts.⁵ Panel papers were followed by Committee members asking Mr. Duisenberg for forecasts.⁶ As in the case of the role of M3, the unanimity of panel members on this issue and the seriousness of the arguments presented (for example, in Svensson (Sept. 2000)) suggests that it is likely that the panel played a role. In autumn 2000, the ECB announced it would publish staff forecasts. This was a limited success for the ECON committee as the forecasts are the projections of the staff, rather than the Governing Council, and they are not published at policy-making frequency.

Two instances where the Committee was not successful

A long-standing concern of the Committee is the lack of procedural transparency associated with ECB policy making. In April 1999 Mrs. Randzio-Plath pointed out that the European Parliament attaches great importance to transparency in monetary policy and she promised Mr. Duisenberg that the Committee would continue to press, not just for the reasons behind decisions, but for the opposing arguments as well. She kept her word and for years, she and others complained about the lack of transparency in the decision-making process and asked for more discussion, the minutes or the details of the votes.⁷ Unfortunately, the monetary dialogue has had little success in either changing ECB behaviour or even in engaging the

¹ Opening comments in the Jun. 2003 meeting.

² Relevant panel papers include Bofinger (Apr. 1999), Bean (Nov. 1999), Gros (Nov. 1999, May 2001), Svensson (Nov. 2000, Mar. 2001, May 2001, Jan. 2002, May 2002, Feb. 2003), de la Dehessa (May 2001), Mazier (Sept. 2001), Eijfinger (Sept. 2001, Feb. 2003), Boissieu (Feb. 2003), Wyplosz (Feb. 2003). Relevant comments and questions by ECON members include those of Mr. Katiforis (Apr. 1999, Jun. 2000), Mr. Pérez Royo (Sept. 1999), Mr. Goebbels (Jun. 2000), Mrs. Randzio-Plath (May 2001, Jan. 2002)

³ Relevant papers include Bofinger (Apr. 1999), Bean (Sept. 1999), Wyplosz (May 2001, Feb. 2003), Svensson (May 2001, May 2002, Oct. 2002, Feb. 2002)

⁴ Relevant comments and questions include those of Mr. Pérez Royo (Sept. 1999) and Mr. Huhne (Oct. 2002), Mrs. Beres (Nov. 2002).

⁵ See Gros (Apr. 1999), Thygesen (Jun. 2000), Svensson (Sept. 2000).

⁶ Mrs. Randzio-Plath (Apr. 1999, Sept. 2000), Mr. Huhne (Mar. 2000)

⁷ Mrs. Randzio-Plath (Jan. 1999, Apr. 1999, Nov. 1999, Mar. 2001, May 2001), Mr. Pérez Royo (Apr. 1999), Mr. Tannock (Sept. 1999, Nov. 2000), Mr. Huhne (Nov. 2000, May 2002), Mr. Skinner (Nov. 2000), Mr. Schmidt (Sept. 2003). Note that either the members (or the translators) sometimes confuse transcripts and minutes.

ECB's representative in serious discussion: Mr. Duisenberg usually countered the Committee by extolling the ECB's transparency or asserting that additional information would be useless or confusing.¹

The monetary experts panel appears not to have been of great assistance to the Committee on this issue. One reason is that while some panel members have called for openness about the decision-making process, others have not favoured the same degree of transparency that some of the Committee members have called for.² Another reason is that the panel as a whole appears not to have attached the same importance to this issue that the Committee has and the panel has provided little serious analysis of either transparency or committee decision making.³ There are a number of recent academic papers that address how the quality of information about committee decision making affects outcomes; if the Committee continues to have an interest in this issue it might solicit papers on this topic.

One issue that the European Parliament has been greatly interested in is the ECB's attitude toward its secondary goal. The ECB's primary mandate, stated in Article 105 (1) of the Treaty establishing the European Community is to maintain price stability. However, "without prejudice to the objective of price stability", the Eurosystem should also "support the general economic policies in the Community with a view to contributing to the achievement of the objectives of the Community". These objectives include a "high level of employment" and "sustainable and non-inflationary growth". For years the European Parliament has fruitlessly attempted to engage the ECB in a dialogue about the role of the secondary objective and about how and when the ECB might attempt to influence employment and growth.⁴ The representatives of the ECB have tenaciously refused to be drawn in. Mr. Duisenberg tirelessly repeated his stock response that monetary policy cannot influence real variables over the medium term and that the best thing that the ECB can do for employment and growth is to pursue price stability. Mr. Trichet typically responds that price stability is necessary for growth.⁵

On this issue, it may be that the Committee might have been more aggressive in pursuing the matter and might have made more use of the expert's panel. There is near consensus among academics that monetary policy cannot be used to increase growth and output in the long run, but that it does have real effects in the short run. There is no accepted definition of "medium run" and it is not clear how the ECB's definition of the term differs from the "short run" in the empirical literature; members of Parliament might have asked Mr. Duisenberg to be more specific.

Mr. Duisenberg's repeated assertion that the best thing that the ECB can do for employment and growth is to pursue price stability is certainly defensible. Monetary policy cannot systematically affect output and growth; the most it can do is smooth business cycle fluctuations if the central bank has an informational advantage over the private sector. But, even this is difficult. There are difficulties in observing shocks and formulating the optimal response to them; there are long, variable and uncertain lags associated with monetary policy;

¹ Apr. 1999, Nov. 1999, Sept. 2000, Nov. 2000, May 2001.

² Mazier (Jun. 2000) calls for the full publication of the internal debates and the publication of the minutes, but Eijffinger (Sept. 2000) claims that making votes public is of limited usefulness. Wyplosz (Dec. 2001) argues against publishing the minutes as long as there is national representation, however in Feb. 2003 he, Svensson and Boissieu ask for an (unattributed) summary of the discussion.

³ Wyplosz (Feb. 2003) is an interesting exception.

⁴ See for example the questions of Mrs. Randzio-Plath (Nov. 1999, Mar. 2001, Sept. 2001, Oct. 2002, Dec. 2003), Mr. Goebbels (May 2001), Mr. Abitbol (Dec. 2001), Mr. Katiforis (Feb. 2003), Färm (Feb. 2004).

⁵ See the transcripts of the meetings from Apr. 1999, Nov. 1999, Mar. 2001, May 2001, Dec. 2001, Oct. 2002, Feb. 2003, Dec. 2003, Feb. 2004.

there is a danger that monetary policy will be used opportunistically if not directed solely at attaining price stability. However, it is not the consensus of academics that the second objective specified in the Treaty should be ignored. In his Sept. 2000 briefing paper, Svensson advocates a regime that appears consistent with the two objectives: the central bank aims for price stability, but attempts to avoid excess variability in real variables. In practice, this may mean that if inflation deviates from its target it is brought back into line more slowly than if the central bank cared about inflation alone. The Committee might have argued the merits of such a regime.

Suggestions

There are a number of ways that the Committee might be more effective and might make better use of the panel.

First, it might be desirable for the meetings to be more tightly focussed on issues of direct importance to Committee. The quarterly dialogue is supposed to be a monetary dialogue, but no less than 22 of the panel briefing papers have been on the stability and growth pact and much of the discussion has been on this topic. It is true that the representative of the ECB tends to be more engaged in this topic than on other topics, but perhaps discussing public finances is a way to avoid discussing transparency of monetary policy.

Second, the briefing papers often appear to be not well related to the questions that are asked. If the Committee wants to ask about, say, the secondary objective of the ECB – discussed above – why not ask for a note on this point? That way, when, for example, the President asserts that monetary policy has no effect on real variables in the medium run he can be effectively challenged.

Third, the committee solicits papers on particular topics. Generally this is quite sensible, but the committee might occasionally allow panel members to suggest topics. Panel members might be able to raise issues that the committee has not thought of.

Fourth, the committee often asks questions of the ECB representative and receives answers that must not be satisfying. Panel members might be asked to provide ammunition – or even coaching – for additional questions. Panel members might also be asked to respond to the previous meetings transcripts and to suggest follow up questions.

Fifth, the committee should probably avoid spending too much time discussing the minutia of current monetary policy decisions. Rather they should devote time to more general issues, such as improving the ECB's transparency.

Finally, Article 113 (3) of the Treaty specifies that the European Parliament may request that the President of the ECB or other members of the Executive Board may be heard by the competent committees of the Parliament. Although the President usually insists that there is consensus, it might be interesting, on occasion, for the Committee to learn if there are alternative views.

The Panel of Monetary Experts and the Policy Dialogue

Briefing Paper for the Monetary Dialogue of February 2005 by the Committee on Economic and Monetary Affairs of the European Parliament with the President of the European Central Bank

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Executive Summary

The monetary dialogue falls short of true accountability. The widely perceived democratic deficit of the monetary union is mostly due to the Treaty's limited provisions for central bank accountability, but the European Parliament has an important role to play to reconcile Europe's citizens with their central bank.

Accountability does not mean criticism, it calls for an in-depth discussion of the many assumptions that lead the Eurosystem to draw its conclusions. The main limits of the monetary dialogue so far are:

- The Committee for Economic and Monetary Affairs is too large to set the stage for an in-depth cross-examination of the President of the ECB during his quarterly presentations.
- The debates are too general to challenge the President. - There is a stark discrepancy between the time allotted to the President and the time allotted to questions and follow-ups.
- Many questions brought up during the monetary dialogue do not deal with monetary policy. This evaluation calls for a serious re-appraisal. The aim ought to be to put more structure to the debate, to focus on the details of monetary policy, and to challenge answers that are sometimes controversial.

Given its limited in-house technical support, the Committee has been wise to seek the support of a panel of Experts. The questions presented to the Experts are consistently relevant and timely, but they do not orient the Briefing Notes sufficiently close to the questions that will be raised during the subsequent monetary dialogue; indeed, the link between the Briefing Notes and the questions actually put forward is tenuous.

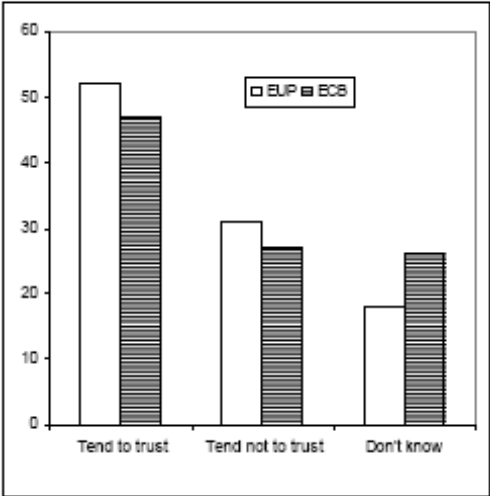
A better use of the Experts is possible. It should start with personal Committee Member ownership of the questions put to the Experts. It should promote the preparation of the questions that will be raised during the monetary dialogue. It could involve more personal and direct (including though telephone conversations) involvement of the Experts in the preparation of the monetary dialogue.

After having attended one monetary dialogue on 12 September 2001, I prepared a note that is attached to the present briefing notes. My opinion has little changed since then. I still believe that the relationship between the ECB and the Committee for Economic and Monetary Affairs has not reached maturity. I also feel that the Committee could make a better use of the Monetary Panel of which I feel honoured to have been a member since 2000.

1. The Monetary Dialogue: Assessment

There is a widespread feeling that the monetary union suffers from a democratic deficit. As Eurobarometer polls regularly show, trust in the ECB is limited. Governments routinely publicly criticize the Eurosystem, which adds to the misguided but widely held perception that the central bank is not serving the public interest. Part of the blame lies with the poor communication strategy of the Eurosystem – with little effort by most national central banks to address public opinions – but another part is structurally due to the Treaty. As set forth by Art. 113, accountability is limited to the presentation of an Annual Report. The monetary dialogue goes beyond this minimum requirement since it allows for quarterly meetings, but it is not structured as an accounting exercise. It takes the form of an exchange of views between all the members of the Committee for Economic and Monetary Affairs and the ECB President. Symptomatically, it is not called “testimony” or “evidence”. This situation is harmful as it feeds into the general estrangement between European citizens and their institutions, which is increasingly visible and which erodes the appeal of the “European ideal” that has played a significant role in the past.

Trust in European Parliament and in ECB



Source: Eurobarometer 63, September 2005

It seems to me that the Committee has not yet seriously challenged the ECB in a way that would enhance accountability. There are many potential reasons for that:

- There seems to exist no consensus within the Committee to hold the ECB accountable. A strict reading of the Treaty supports this view but the perception of a democratic deficit suggests otherwise. The European Parliament is the only institution that can make progress in this direction.
- The monetary dialogue is structured as a general presentation by the President, which usually repeats the statements published in the ECB's Monthly Bulletin, followed by questions and answers, with limited follow-up. The President of the ECB is given more time than the Committee members, who cannot ask for more than one follow-up question. In addition, the questions are sometimes repetitive and not bunched together, thus preventing a progressive deepening of the discussion.
- There seems to wide divergences of opinions within the Committee regarding the conduct of monetary policy (objectives, strategy, decisions). This is obviously normal within a political institution, but it allows the President, intentionally or not, to divide and conquer.
- Many questions refer to issues outside the scope of monetary policy. Recently, the Luxembourg strategy, the Stability and Growth Pact or the Constitution have absorbed most of the time. Since these issues are not the ECB's responsibility, the President of the ECB is given a podium to air his views while escaping tight questioning on matters for which he is responsible.
- As noted in my previous report, the ECB position rests on considerable preparatory work by skilled staff. Challenging the President, therefore, requires getting into detailed arguments. Such a challenge need not imply disagreement about the conduct of monetary policy. Bringing to accountability does not mean disagreeing, it requires spelling out the minutiae of the web of assumptions and analyses that lead to policy actions. Partisan disagreements are likely to be less severe on the details than on the "big picture".

2. The Monetary Dialogue: Proposals

The current setup in principle brings face to face some fifty Committee members and the President. With the President speaking from a podium, the very notion of accountability is absent. The natural solution would be to delegate the task to small number of members. This would allow for a deeper exchange, including the possibility of challenging through follow-up questions the numerous assertions of the ECB President that are controversial and therefore debatable.

The long introductory statement by the President of the ECB is largely uninformative. It follows the ritual presentation of the ECB analysis published in every issue of the Monthly Bulletin. Reducing the length of this statement would allow a firmer view of the key issues and more free time for detailed questions.

The questions are typically general, hence a tendency to revisit over and over again issues that have been previously covered. More importantly, it allows the President of the ECB to restate the bank's position without having to get into details. Yet, it is in the details that the ECB policy can be fruitfully discussed. Inasmuch as possible, the questions should deal with particular aspects of monetary policy and financial stability.

3.. The Panel of Experts

The idea of asking experts is excellent since the Committee does not have in-house experts, while the ECB's work is very carefully prepared by high-level professionals and its Board Members are in regular contact with outside experts. Yet, there is little overlap between the Briefing Notes and the questions raised by Committee Members during the monetary dialogue sessions. This discrepancy suggests that the Panel of Experts is not used optimally.

The questions put to us are generally highly relevant for accountability. They deal with timely issues and are usually precise. A brief review of recent Briefing Notes – including my own – indicates that they are sometimes too general to be directly usable. Truth is that we are not asked to link our reports to questions that could be put to the President, including guesses of what would be his likely answer and suggestions for follow-up questions. Gearing the briefing notes to actually planned questions might improve the usefulness of the Briefing Notes.

In addition, we receive no feedback on our Notes, so it is impossible to know whether they are useful and how they can be improved. Given the length of many Notes, I suspect that they are not studied in detail. I would strongly support any step that would help the Experts to learn how they can be helpful. It could include notes taken by the staff during a Committee meeting where the notes are discussed.

I have attended several meetings where Experts present their Briefing Notes. The attendance usually included between five and ten Committee Members, and about ten staff members. This supports the idea of delegating the monetary dialogue to some Members. On the other side, the discussions have always been of good quality, if sometimes rather general. We almost never discussed what questions could be asked and how the possible answers could be dealt with.

A key question is whether the Experts should be asked to meet the Committee each quarter. The advantage is that it would allow for a better understanding of the needs of the Committee and for personal contacts. Three questions arise: 1) Would enough Committee Members have time for a longer session? 2) To be useful, these meetings should be geared to preparing the monetary dialogue; would Committee Members be interested in such a drilling exercise? 3) Travelling to Brussels is time-consuming, and travel to Strasbourg even more so, which would require adequate compensation.

It is not clear to me whether the questions that we received originated from individual Committee Members who wished to prepare their interventions. Improving ownership of the questions could enhance the usage of the Experts' answers. Going further, the Experts could be presented with a question that a Committee Member intends to raise during the Monetary Dialogue, asked to sharpen it and to provide relevant background information. Even better could be a follow-up telephone discussion between the Committee Member and the Expert who prepared the relevant Briefing Note.

In the event that the Committee would delegate the task to a small number of its Members, it would be possible to envision a tighter relationship with the Experts, including a pre-monetary dialogue briefing session and, possibly, assistance during the monetary dialogue. In the current set-up, such a deeper involvement is difficult to organize.