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## REPORT

on the 2004 Annual Report of the European Central Bank  
(2005/2048(INI))

Committee on Economic and Monetary Affairs

Rapporteur: Kurt Joachim Lauk

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## MOTION FOR A EUROPEAN PARLIAMENT RESOLUTION

### on the 2004 Annual Report of the European Central Bank (2005/2048(INI))

*The European Parliament,*

- having regard to the 2004 Annual Report of the European Central Bank,
  - having regard to Article 113 of the EC Treaty,
  - having regard to Article 15 of the Statute of the European System of Central Banks and of the European Central Bank,
  - having regard to its resolution of 2 April 1998 on democratic accountability in the third stage of Economic and Monetary Union (EMU)<sup>1</sup>,
  - having regard to its resolution of 26 October 2004 on the 2003 Annual Report of the European Central Bank<sup>2</sup>,
  - having regard to its resolution of 22 February 2005 on the European economic situation - preparatory report on the Broad Economic Policy Guidelines<sup>3</sup>,
  - having regard to the report by the Court of Auditors of 16 September 2004 on the audit of the operational efficiency of the management of the European Central Bank for the financial year 2003<sup>4</sup>,
  - having regard to the decisions of the European Central Bank of 19 February 2004<sup>5</sup> and of 17 June 2004<sup>6</sup> adopting the Rules of Procedure of the European Central Bank and of the General Council of the European Central Bank respectively,
  - having regard to the Statement of the ECB Governing Council on the ECOFIN Council's report on Improving the implementation of the Stability and Growth Pact of 21 March 2005,
  - having regard to Rules 106 and 112(1) of its Rules of Procedure,
  - having regard to the report of the Committee on Economic and Monetary Affairs (A6-0203/2005),
- A. whereas acknowledging the full independence of the European Central Bank (ECB) and the European System of Central Banks (ESCB),

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<sup>1</sup> OJ C 138, 4.5.1998, p. 177.

<sup>2</sup> P6\_TA(2004)0037.

<sup>3</sup> P6\_TA(2005)0034.

<sup>4</sup> OJ C 286, 23.11.2004, P. 13.

<sup>5</sup> OJ L 80, 18.3.2004, p. 33.

<sup>6</sup> OJ L 230, 30.6.2004, p. 61.

- B. whereas the main objective of the ECB is to maintain price stability, and otherwise to support the general economic policies of the European Community, as defined by Article 2 of the Treaty,
- C. whereas, in 2004, new excessive deficit procedures were necessary for Greece and the Netherlands, which are members of EMU, the United Kingdom and a number of new Member States, namely Malta, Poland, Slovakia, Czech Republic, Hungary and Cyprus,
- D. whereas part of the ECB annual report deals with the financial stability of the Member States and the reform of the Stability and Growth Pact (SGP), and whereas it also includes comments on the deficit procedures in relation to several Member States,
- E. whereas over the last ten years the average European growth rate was only 2.1% compared with a more dynamic global growth of 3.75% (WEO), and the average euro area public deficit was -2.6% (ECB, 1995-2003); whereas 2004 saw sustained international growth, which was mainly driven by the USA (4.4%) and China (9.5%); whereas the EU's real GDP grew by only 2.3% and the euro area's by 1.8%, up from 0.9% and 0.5% in 2003,
- F. whereas the fiscal situation remained unsatisfactory, with an average budget deficit of 2.7% of euro area GDP (2.8% in 2003); whereas credit to the private sector increased and unemployment remained broadly unchanged (8.8% compared to 8.7% in 2003),
- G. whereas the ECB's annual accounts for 2004 show a net loss of EUR 1 636 million, following a net loss of EUR 477 million in 2003, due to the continued strengthening of the external value of the euro and the ECB's continued use of conservative accounting principles,
- H. whereas national central banks within the ESCB are undertaking reform measures in order to adapt their structure to the new institutional framework,
- I. whereas Article 112(2)(b) of the Treaty provides that Members of the Executive Board are to be appointed from among persons of recognised standing and professional experience in monetary or banking matters,
- J. whereas Europe could not benefit equally from the strong world growth due to the increase in oil prices and the unfavourable exchange rate developments resulting in the euro reaching a record high of over USD 1.36 in December 2004,
- K. whereas Europe still focuses on export-driven growth while domestic and in particular household demand remained subdued; whereas the past few years have been characterised by wage moderation or even a decline in real wages in Germany, France and Italy, while productivity increases regained momentum in 2004,
- 1. Welcomes the 2004 Annual Report of the ECB and its new format, as well as the new member of the Executive Board, who, like all members appointed so far, is well known to favour price stability;

2. Believes that the ECB reacted correctly to economic and financial developments in 2004; stresses that it should continue to be vigilant as to oil prices, residential property prices and to the still prevailing excess liquidity;
3. Urges the ECB to act with regard to the prevailing high M3 values relative to the long term reference value of 4.5%; highlights the high growth in overnight deposits and currency reserves, and suggests that an assessment should be made of the possible impact on excess liquidity of very low interest rates; echoes the ECB's caution in relation to the probable consequence of increased rise in asset prices; accordingly calls on the ECB to review the growing imbalance;
4. Lauds the ECB's policy to concentrate on its prime objective of maintaining price stability and, thereby, contributing to achieving sustained economic growth; considers that the relative weakness of economic activity and the declining confidence of the private sector in the euro area in 2004 results from a lack of structural reforms and the fact that fewer hours are worked in Europe than in other parts of the world; asserts that a quicker pace of structural reforms is needed in order to enhance the growth potential of Member States; recognises that competition in EU markets is a driving force for economic growth and that its impact on efficiency gains and innovation should not be hindered;
5. Notes that the ECB is in favour of strengthening the preventive arm of the SGP, but has also repeatedly taken a critical position in relation to a possible relaxation of the corrective arm of the SGP, a position which is consistent with that of all the other central banks of the euro zone, some of which have voiced rather strong criticism in this context;
6. Applauds the publication of a broader range of more specific statistical information and the increased regularity of the ECB's publications, and urges the provision of support by the ECB to Member States for the stringent implementation of the ECB's guidelines on financial statistics;
7. Compliments the ECB under its President Trichet on the intensive and timely preparation for EU enlargement, in particular by including at an early stage the governors of the central banks of the ten new Member States in the General Council meetings, in order to make this enlargement a success;
8. Welcomes the entry of Cyprus, Latvia and Malta into the European Exchange Rate Mechanism (ERM II) on 2 May 2005; strongly believes that compliance with the Maastricht criteria as understood in 1997 for the first participants is necessary, i.e. the need to fulfil the convergence criteria as defined in the Treaty and spend a minimum period of two years in the ERM II; supports the introduction of the euro by all Member States; considers that with regard to compliance with the convergence criteria due attention should be paid to the accuracy and credibility of government statistics; welcomes the fact that no ECB foreign exchange operation with regard to ERM II was necessary in 2004;
9. Notes with satisfaction the general strengthening of Member States' currencies outside the ERM II against the euro in 2004, which were particularly weighted by trade flows; welcomes this greater convergence of exchange rates and considers that these trends will

smooth the future transition to the euro zone for non-euro-zone Member States;

10. Recalls the need for higher convergence within the euro area against the background of still differing inflation and growth rates;
11. Welcomes the ECB's clear commitment to the ratification of the Constitution, which lists the essential elements for the policy framework for EMU under both the monetary pillar and the economic and fiscal pillar;
12. Looks forward to the implementation of an integrated TARGET II system, which will ameliorate liquidity management across the ESCB and will generate considerable efficiency gains; urges the ESCB to draw up a comprehensive, transparent and robust legal framework for the future operation of TARGET II;
13. Welcomes the adjustment of the timing of the reserve maintenance periods, the shortening of the maturity of the main refinancing operations with a view to stabilising market participants' bidding behaviour and the overall strengthening of the market by means of regular communication of the ECB's intentions with regard to balancing liquidity conditions;
14. Welcomes the fact that the ECB has fully complied with the transparency provisions of the Treaty vis-à-vis the public and Parliament; believes that the monetary dialogue between Parliament and the ECB has been a success; urges the ECB to consider the possibility of publishing summary minutes; welcomes the fact that, since December 2004, the ECB has been making public on a monthly basis decisions taken by the Governing Council in addition to interest rate decisions; nevertheless, repeats the call for the annual publication of not only a country-by-country but also a regional and cross-border review of trends similar to the US Federal Reserve's 'Beige Book', which would give the ECB the chance to influence the debate on productivity trends and price and wage expectations;
15. Stresses the importance of basing the harmonised accounting policies for the ECB and the Eurosystem on the principles of prudence and of ensuring that central bank activities are not motivated by a desire to generate profit;
16. Confirms its view that the ECB should exercise prudential supervision on the banking activities of the European Investment Bank and should report to Parliament thereon;
17. Deplores the still high cost of cross-border retail payments in euro and asks the ECB to push for full implementation of the regulation thereof; supports the creation between now and 2010 of a Single European Payments Area;
18. Calls on the ECB to strengthen existing relations with those responsible for settlement operations outside the ESCB, in order to achieve greater compatibility with, and stimulate greater efficiency across, global transactions, thereby promoting EU competitiveness in international financial markets;
19. Urges the ECB to remain very alert to the counterfeiting of euro notes and coins, as their volume increased by 7.8% compared with 2003;

20. Draws the attention of the ECB to the problem created by its request to the CESR to act in the field of clearing and settlement, which sets matters in stone before the work of democratic institutions, including Parliament, can begin;
21. Welcome the decisive steps taken in 2004 with regard to the planning of the new ECB premises in Frankfurt am Main;
22. Instructs its President to forward this resolution to the Council, the Commission and the ECB.

## EXPLANATORY STATEMENT

The European Parliament would like to thank the ECB for the regular exchange of views between the members of its Executive Board and the Members of the Committee on Economic and Monetary Affairs. Besides the Monetary Dialogue, which takes place on a quarterly basis, a delegation of the Committee visits the ECB's premises in Frankfurt/Main on a regular basis. As part of the accountability exercise, Article 113 of the Treaty provides for a general debate to be held by the European Parliament on the ECB's annual report.

The Rapporteur welcomes the ECB's clear commitment to price stability with HICP inflation in the euro area remaining on historically low levels (2.1 %), appreciates the carefully conducted monetary policy, and disapproves of policies, such as suggested by some economists, which may or may not result in short term decreases in unemployment, but which are known to increase both inflation and unemployment in the medium and long term. The ECB should continue to be vigilant with regard to M3 growth which accelerated again in the second half of 2004 (annual year end M3 growth of 6.4% compared to the ECB's target of 4.5%) and to rising oil prices which had a negative impact on Euro area growth in the second half of 2004;

The year 2004 has been a very important year for the European Monetary Union. The ECB and the European System of Central Banks (ESCB) celebrated its fifth anniversary and looked back on a successful start and implementation of a common European currency. Furthermore, the accession of ten new member states to the European Union has enlarged the ESCB by ten new national central banks. The ECB has to be commended for its very constructive and early preparation of the EU enlargement and the smooth transition to an enlarged General Council.

However, despite these very positive events and with regard to the founding principles of the common European currency, 2004 has to be seen as a particularly difficult year. The discussion on the implementation of the Stability and Growth Pact gained ground and led to a much criticised reform of the Pact, i.e. to a less credible commitment to fiscal discipline. Furthermore, the decision taken by the Ecofin Council in January 2005 to suspend further measures in the context of the excessive deficit procedure for Germany and France, in particular their declaration that corrective measures implemented in both countries would be effective, at a time when it was already clear that they would not lead to a adequate correction of the budget deficit, further impaired the credibility of the whole exercise.

In the rapporteur's view, the reform of the Stability and Growth Pact (SGP) aims at a weakening of the commitment to budget discipline and contradicts the aims of the body of budgetary rules and regulations underlying the EMU in so far as the new concept of a medium term budget balancing requirement that takes into account country specific aspects and the newly added exceptions from the 3% deficit-to-GDP criteria does not sufficiently respect the criteria of budget discipline and gives more leeway to new public debt. The reform of the corrective arm of the SGP led to a higher complexity and it is to be expected that this implicate less transparency and will thus worsen the enforceability of the SGP; the ECB's

clear objection to the weakening of the corrective arm of the Stability and Growth Pact during the debate is therefore broadly welcomed and there is full agreement with its stance, as emphasised by the Vice President of the ECB on the occasion of the presentation of this annual report in the Committee meeting of 26 April 2005, that a possible exceeding of the 3% deficit-to-GDP limit can only be small and short-term in nature and that the promises made by the Council with regard to the strengthening of the preventive arm of the Stability and Growth Pact have to be taken very seriously by national governments and need to be translated into national fiscal policy.

Furthermore, the year 2004 brought the awareness that the EU member states failed to comply with the Lisbon agenda and its objectives. It became clear that the common objectives of much needed structural reforms did not translate into adequate national policies. The ECB's emphasis on the need for an ambitious pace of structural reforms as an indispensable prerequisite for growth and for achieving the goals laid down in the Lisbon agenda should be clearly endorsed.

Structural reform as a prerequisite for growth is also considered necessary from a global perspective as this would help to reduce the still prevailing global imbalances together with medium-term fiscal consolidation in the United States and greater exchange rate flexibility in emerging Asia as has been underscored repeatedly and since long by the G7, G20 and the International Monetary Fund.

The implementation of the services directive proposed by the European Commission is important in view of enhancing growth and accomplishing the European internal market. It has to be seen as an important prerequisite for growth and increasing welfare in the long run.

In addition, the year 2004 brought the awareness that government statistics in some EU countries lack accuracy which has contributed to the disappointment about the sincerity of national government in the context of the Stability and Growth Pact. In the case of Greece, a country has been admitted to the EMU on the basis of incorrect statistical data and thus without complying with the Maastricht criteria. Regarding the concerns about the reliability of government finance statistics, the initiative of the Commission for the enhancement of government statistics is welcome but might not be sufficient to exclude inaccurate data notification by EMU countries in the future. The Rapporteur welcomes the ECB's contribution to a further enhancement of the quality of euro area government finance aggregates via the Committee on Monetary, Financial and Balance of Payments Statistics.

Overall, the year 2004 worsened the political environment in which the ECB has to operate. The different pace of reforms within the euro area also translates into a lack of convergence. Whereas the real and nominal convergence of the new member states with the euro area gained pace, the convergence within the euro area remained a cause for concern.

Looking ahead, the current concern about the ratification of the European Constitution, which can partly be interpreted as a sign for an overall fatigue of further EU integration, has to be carefully assessed with regard to its impact on the European Monetary Union. It has to be re-emphasised that the European Monetary Union was based on the conviction that a common

European monetary policy requires a coordination of the still nationally determined fiscal policies.

## PROCEDURE

<b>Title</b>	2004 Annual Report of the European Central Bank			
<b>References</b>	2005/2048(INI)			
<b>Legal basis</b>	Article 113 EC and Article 15 of the Statute of the European System of Central Banks and of the European Central Bank			
<b>Basis in Rules of Procedure</b>	Rules 106 and 112(1)			
<b>Date forwarded to Parliament</b>	0.0.0000			
<b>Committee responsible</b> Date announced in plenary	ECON 12.5.2005			
<b>Committee(s) asked for opinion(s)</b> Date announced in plenary				
<b>Not delivering opinion(s)</b> Date of decision				
<b>Enhanced cooperation</b> Date announced in plenary				
<b>Motion(s) for resolution(s) included in report</b>				
<b>Rapporteur(s)</b> Date appointed	Kurt Joachim Lauk 7.3.2005			
<b>Previous rapporteur(s)</b>	Alain Lipietz			
<b>Discussed in committee</b>	9.3.2005	26.4.2005	9.5.2005	15.6.2005
<b>Date adopted</b>	15.6.2005			
<b>Result of final vote</b>	for: 22 against: 15 abstentions: 0			
<b>Members present for the final vote</b>	Pervenche Berès, Sharon Margaret Bowles, Udo Bullmann, Ieke van den Burg, David Casa, Jan Christian Ehler, Elisa Ferreira, Jean-Paul Gauzès, Robert Goebbels, Gunnar Hökmark, Benoît Hamon, Karsten Friedrich Hoppenstedt, Sophia in 't Veld, Othmar Karas, Piia-Noora Kauppi, Wolf Klinz, Guntars Krasts, Enrico Letta, Gay Mitchell, Cristobal Montoro Romero, Alexander Radwan, Bernhard Rapkay, Eoin Ryan, Antolín Sánchez Presedo, Peter Skinner, Margarita Starkevičiūtė, Ivo Strejček, John Whittaker			
<b>Substitutes present for the final vote</b>	Pilar del Castillo Vera, Jorgo Chatzimarkakis, Mia De Vits, Satu Hassi, Ján Hudacký, Syed Saleh Kamall, Jules Maaten, Tobias Pflüger			
<b>Substitutes under Rule 178(2) present for the final vote</b>	Antonio Masip Hidalgo			
<b>Date tabled – A6</b>	20.6.2005		A6-0203/2005	