ECB annual report for 2008

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The Committee on Economic and Monetary Affairs adopted the own-initiative report drafted by Edward SCICLUNA (S&D, MT) on the ECB Annual Report 2008.

Firstly, the report highlights that the financial and economic crisis has seen the worst global economic decline since the 1930s. In 2008, the real GDP of the euro area grew by only 0.7% owing to the crisis, and GDP is expected to have decreased considerably in 2009.

Members welcome the fact that the Treaty of Lisbon gives the **ECB the status of an EU institution**. They believe that this increases the responsibility of Parliament, as the primary institution through which the ECB is accountable to European citizens.

The ECB's response to the financial crisis: in response to the financial crisis, the ECB significantly enlarged liquidity provisions to banks in the euro area and took a number of non-standard measures to improve the impaired functioning of money markets. The report welcomes the fact that the **ECB has broadened its normal approach** to monetary policy and taken a number of special measures, such as gearing the provision of liquidity to actual demand and making liquidity available for longer periods. Members express disappointment that the extra liquidity injected by the ECB did not sufficiently ease the credit crunch faced by industry, particularly small and medium-sized businesses, and was instead used by some banks to improve their margins and cover losses.

The report notes that the ECB's interest rate cuts were less radical than those made by other central banks and recommends that any **moves to increase interest rates should be made with the utmost caution** so as not to endanger future economic growth.

Furthermore, it regrets that the Member States have not followed the ECB's advice to make bank support programmes subject to conditions jointly established at European level concerning dividend and bonus payments, support for economic activity, especially SMEs, and transactions effected in tax havens. The report considers that Member States should maintain their fiscal stimulus measures to protect jobs, encourage investment and stimulate growth and that they should revoke those measures once there is a sustainable return to growth, at which time they should address excessive public deficits.

Members welcome the steps taken by the ECB to propose a detailed **'exit strategy'** from its monetary easing, to be implemented as and when necessary. They insist that timing and policy coordination between Member States are essential in this regard. In this connection, the committee welcomes the fact that most of these measures will automatically cease to apply if the economic situation steadily improves.

Economic and monetary stability: Members concur with the ECB about the need to learn lessons from the crisis, in particular that management of risk and liquidity in the financial system, and the transparency of financial markets and institutions must be improved if a similar crisis is not to be repeated. They recall that global imbalances related to exchange rate fluctuations between the euro and third-country currencies, such as the US dollar and the renminbi-yuan, must also be addressed to avoid financial crises in the future. The committee shares the ECB's concerns about divergences between economies in the euro area and the way in which the crisis has affected different countries. Member States in the euro area are asked to take note that, for genuine economic and monetary union to exist, participation in the euro area cannot be regarded as an end in itself, and stress the need for structural reforms. The report adds that failure to undertake such reforms would jeopardise the credibility and sustainability of the Stability and Growth Pact.

Governance and decision making: the report points out that, during a period marked by a high degree of exchange rate volatility, the euro has increased its strength, particularly against the US dollar and the renminbi-yuan, and expresses concern that this could have a detrimental effect on the competitiveness of the euro area. The report recommends that the ECB enhance the transparency of its work in order to increase its legitimacy and predictability. It takes the view that such transparency is also needed as regards the internal models used to value illiquid collateral and as regards the valuations assigned to specific securities offered as collateral.

Members reaffirm their support for the **quarterly monetary dialogue between Parliament and the ECB** and add that this dialogue is an important mechanism for scrutinising the workings of the ECB and contributing to its public accountabilityand transparency.

They highlight the **independence of the ECB**, to which the procedure for appointing its Executive Board contributes and they consider that this could be enhanced by use of the **new legal status** conferred on the ECB under the Lisbon Treaty and the existing ECB Statute to make candidates proposed by the Council subject to a vote by the European Parliament. The report undertakes to set up a selection board made up of outside experts which would make it possible in 2010 to select a number of candidates for the post of Executive Board member. It points out that those selected would then be summoned to a hearing by the European Parliament's Committee on Economic and Monetary Affairs, which would formalise the European Parliament's consultative role in the evaluation of the candidates. This would lead to the adoption by the European Parliament in plenary sitting of a resolution to be forwarded to the Council before it issues its recommendation to the Member State governments.

In addition, Members considers that the crisis has demonstrated that markets are prone to systemic risks and welcomes the proposal to establish a European Systemic Risk Board (ESRB), which will provide early warnings about future risks and imbalances in financial markets. They call on the ECB to establish clear models and definitions and, more generally, to give full support to the effective functioning of the ESRB. They add that any new tasks conferred upon the ECB with regard to the ESRB should not compromise the independence of the ECB in any way.

The committee also welcomes the conferral by the Lisbon Treaty of legal personality on the Eurogroup and further recommends that the ECB continue to participate fully in the informal meetings between Eurogroup members.

The external dimension of the euro: the report notes thatthe status of the euro as an international currency continues to rise, with 26.5% of global currency reserves held in euro at the end of 2008. It is believed that the growing international status of the euro will offer advantages and responsibilities on the world stage. Members believe that this will continue to encourage Member States outside the euro area and third countries to seek membership of the euro area. They feel that the Parliament should work with the ECB and with the other EU institutions in order to continue to enhance the role of the euro area on the world monetary and financial stage.