ECB annual report for 2009

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The European Parliament adopted a resolution on the ECB annual report 2009.

Parliament welcomes the fact that the Treaty of Lisbon came into force on 1 December 2009 and gives the ECB the status of an EU institution, which increases the responsibility of Parliament as the primary institution through which the ECB is accountable to the European citizen.

Economic and financial stability: deeply concerned that substantial macroeconomic imbalances between the euro zone economies continue to exist, Members stress the need for reform **and for stronger coordination of the economic policies** within the euro area. They regret that in the Economic and Monetary Union the emphasis has largely been on the 'monetary' side.

The resolution calls for unrestricted and more coherent application of the **Stability and Growth Pact**. It deems that the Pact should be complemented by the development of an **early warning system** to identify possible inconsistencies, e.g. in the form of a 'European semester', in order not only to enhance surveillance and strengthen economic policy coordination so as to ensure fiscal consolidation but also – beyond the budgetary dimension – to address other macroeconomic imbalances and strengthen enforcement procedures.

Parliament urges that financial support to EU countries in a debt crisis must be designed to encourage repayment of loans, budgetary balance and economic reform, and stresses the danger of turning loans into financial contributions while encouraging borrowing and the creation of debts. The Commission is called upon to put forward proposals to strengthen the Stability and Growth Pact by including specific targets for **closing the competitiveness gap** between European economies, in order to stimulate job-creating growth.

Members believe the lack of a predefined crisis management mechanism and the behaviour of some governments has made a rapid solution to the sovereign debt crisis in some Member States of the euro area difficult and will weaken the EMU's ability to react quickly in potentially similar situations in the future. They call therefore for a **permanent crisis management framework**.

Governance and decision-making: highlighting the independence of the ECB, Members recommend that the ECB enhance the transparency of its work in order to increase its legitimacy and predictability.

Concerning the new legal status of the ECB under the Lisbon Treaty, Parliament considers that the candidates for the Executive Board proposed by the Council should be subject to special hearings by the relevant parliamentary committee and then to a **vote by the European Parliament**.

The resolution points out the determination of the European Parliament to continue the Monetary Dialogue as an important element in the democratic scrutiny of the ECB.

Exit from the crisis: the resolution recalls that the ECB adjusted interest rates down to 1% and continued substantial and unprecedented non-standard measures to support credit throughout 2009. It notes that the non-standard measures have been successful in avoiding a deeper recession and additional financial turmoil. Members reiterate that **lifting these measures needs to be well timed and carefully coordinated with national governments** and their activities, especially in view of the collective and simultaneous resorting to austerity measures in many Member States. Parliament is concerned, however, with the potential asymmetric impact of ECB's exit strategy, given the substantial differences between euro area Member States regarding the business cycle.

The resolution emphasises that a **gradual exit from public deficits** and the long-term sustainability of public finances are of crucial importance for the euro area as a whole. It notes that the crisis, together with subsequent 'bail-outs' and economic stimulus packages, has led to far-reaching austerity measures which are often overdue but which at the same time heavily constrain the capacity of governments to act. It warns that these austerity packages should not lead to measures which could seriously dampen the economic recovery. The resolution underlines the need for a decisive **increase in banks' capital buffers** and to enhance the quality of capital, and welcomes the Basel Committee's proposals for a narrower definition of core capital and the introduction of higher capital ratios.

In general, Members consider that the global financial system **needs to be made less fragile** and that lessons from the crisis must be drawn on a global level in order to reduce systemic risk, tackle financial bubbles and improve the quality of risk management and the transparency of financial markets, reaffirming that their basic role is to finance the real economy.

The external dimension: lastly, the resolution notes that the euro had gained status as an international currency throughout 2009, but was subject to heavy pressure in 2010. It points out that, during a period of high-level exchange rate volatility, the euro has increased its strength, particularly against the US dollar and the renminbi, and expresses concern that this could have a detrimental effect on the competitiveness of the euro area. Members share concerns about the expansion of the volume of money in the US and, to a lesser extent, in the EU. They underline that, regardless of the current global financial and economic crisis, the euro area should be further enlarged, but points out that meeting the Maastricht criteria is regarded as a precondition for euro membership. They welcome the quick adoption of the euro by all Member States which comply with these criteria. Members also believe that the adoption of the euro by Estonia shows the status of the euro, despite the public debt crisis.