European Central Bank

Proposal on resolution on the Annual Report 1999

- Député européen (Verts, France) - Économie - Le contrôle de la Banque centrale européenne -

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European Parliament resolution on the Annual Report 1999 of the European Central Bank (C5-0195/2000 - 2000/2118(COS)).

Proposal

The European Parliament,

- having regard to the Annual Report 1999 of the European Central Bank (C5-0195/2000),
- having regard to Article 113 of the Treaty on European Union,
- having regard to Article 15 of the Statute of the European System of Central Banks and of the European Central Bank,
- having regard to Rule 40 of its Rules of Procedure,
- having regard to its resolution of 2 April 1998 on democratic accountability in the third stage of EMU(OJ C 138, 4.5.1998, p. 177),
- having regard to its resolution of 27 October 1999 on the 1998 Annual Report of the European Central Bank (OJ not yet published),
- having regard to the report of the Committee on Economic and Monetary Affairs (A5â€”0169/2000),

whereas

A. whereas the Annual Report submitted by the European Central Bank is the first to cover the period after the introduction of the euro and at the same time the first full calendar year after the establishment of the European Central Bank,

whereas the mean annual rate of inflation in 1999 was just over 1% and thus fell well below the upper limit of 2% which the ECB regards as compatible with the objective of stability,

C. whereas the single currency has brought about a lasting improvement in transparency of pricing and convergence of prices in the participating Member States,

D. whereas pursuant to the Treaty on European Union the ESCB enjoys political independence in pursuing its task of maintaining stability and it is not permitted for either the ECB or national central banks to be given any instructions on this subject,

E. whereas independence is not to be equated with inadequate accountability but rather presupposes ample information and a large measure of transparency,

F. whereas freedom from instruction is justified on the grounds that the ECB has a clear task which it is required to carry out, namely that of maintaining monetary stability,

G. whereas both the rise in oil prices and the fall in the value of the euro pose increasing risks to price stability,

H. whereas the ECB's contribution to promoting growth and employment lies primarily in adopting credible and lasting measures to ensure price stability and whereas the EU's arrangements for coordinating economic policy must not result in any blurring of political responsibilities,

I. whereas an important reason for the creation of the euro was to insulate the eurozone economy from the effects of volatile exchange rates, and noting that the trading range for the euro's predecessor currencies has been as low as 69 cents in 1985 and as high as $1.70 in 1979,

J. whereas pursuant to the Treaty on European Union the ESCB bears special responsibility for the stability of the financial system, which is closely linked to its task of maintaining price stability,

K. whereas supervision of individual financial institutions, which remains a national responsibility, is increasingly relevant to aspects of the stability of the system,

L. whereas the Treaty provides for the possibility of conferring upon the ECB 'specific tasks concerning policies relating to the prudential supervision of credit institutions and other financial institutions with the exception of insurance undertakings', and whereas the ECB could usefully play a greater role in coordinating prudential supervision,

M. whereas the increasing use of electronic money must not jeopardise the maintenance of price stability and whereas banks of issue must therefore have a measure of control over issuers of electronic money, including those which are not banks,

N. whereas the Commission and the European Parliament have expressed themselves in favour of Greece's participation in monetary union as of 1 January 2001,

O. whereas a recently established institution such as the ECB particularly needs the public to trust it to pursue the stability policy consistently and whereas the building of such trust is a decisive precondition for both the internal and external stability of the euro,

P. whereas the ECB's accountability to the European Parliament is particularly valuable because, among the institutions referred to in the Treaty, Parliament is the only one which possesses direct democratic legitimacy,

Q. whereas the monetary dialogue between the President of the ECB and the European Parliament's Committee on Economic and Monetary Affairs has developed into one of the cornerstones of the ECB's accountability and thus provides a democratic guarantee of the Bank's independence,

The Parliament

1-Congratulates the ECB on its convincing stability policy, as a result of which in the first year of its existence the rate of inflation in the euro zone has already fallen to an all-time low;

2-Notes that the success of the ECB's policy in meeting its objective of price stability and establishing market credibility is demonstrated by the continued low interest rate at which eurozone governments are able to borrow money over a ten-year period, a rate which has been consistently some 1 percentage point below the rate required by the financial markets from the United States government;

3-Welcomes the fact that the ECB does not interpret its responsibility for stability policy one-sidedly but that, in addition to inflation, it also monitors any deflationary tendencies;

4-Welcomes the improvement in information policy by means of publication of discussion documents and reports on selected topics;

5-Welcomes the commitment made by the ECB both to publish economic forecasts, including an inflation forecast, on a regular basis, and to publish details of its econometric model or models of the eurozone economy, and urges the ECB to proceed quickly to meet these commitments;

6-Urges the ECB to adopt the two further transparency measures supported by the European Parliament: the publication of a minute with due delay after each meeting giving considerations for and against a monetary policy action (but not the votes), and the publication of a regular report on the economic situation (including productivity growth and sustainable earnings increases) in each Member State of the eurozone;

7-Considers it desirable to step up the direct dialogue with the public in order to foster a tradition of stability throughout Europe;

8-Calls on the ECB to continue its pursuit of stability in order to avert the risks of inflation;

9-Calls on the Member States, in accordance with their obligations arising from the Stability and Growth Pact, to use the cyclical upturn to reduce budget deficits consistently and accelerate the reduction of debt and support the ECB's stability policy by speeding up structural reforms in the markets for goods, services and capital, labour markets and social insurance systems;

10-Calls on the member countries, in this connection, to take the opportunity afforded by the currently favourable revenue situation to achieve balanced budgets or surpluses in the coming year, i.e. earlier than originally planned;

11-Is concerned, not so much about the fall in the value of the euro in itself, but about the reasons for the weak euro, such as structural problems in the economy of the euro zone; considers the weakening of the euro to be due to structural problems and lack of dynamism within the EMU economy; stresses moreover that the competitiveness of the euro zone must be increased and expresses its concern at recent decisions by certain countries in the euro zone, for example with regard to working hours, which has rendered labour markets more rigid instead of more flexible; considers that these decisions have contributed to a weakening of the economy on which the euro is based and hence the common currency;

12-Welcomes the so far moderate wages policy in the euro zone and calls on the two sides of industry to continue on the same course in order to use the current growth phase to create new jobs and to prevent a wages/prices spiral from being triggered;

13-Welcomes the progress that Member States within the eurozone have made in reducing their short-term indebtedness and hence their vulnerability to a financial shock, and urges those with high levels of short-term debt to continue to reduce it to the low levels of most eurozone Member States;

14-Calls on the ECB to keep a careful eye on possible risks to stability such as trends in energy prices, the euro exchange rate and share and real estate prices, while at the same time, however, also taking account of possible easing of pressure as a result of increased efficiency in the field of the 'new economy' and improvements in price transparency and market liberalisation (particularly in energy, transport and telecommunications);

15-Calls on the ECB, in order to promote public acceptance of the euro, to work actively to improve international mass and retail payment transactions, in so far as no lasting progress is achieved by the end of the year, and reiterates its call for regular progress reports to be submitted;

16-Observes that entry to monetary union in conjunction with enlargement of the EU is a three-stage process, which will comprise, in sequence, membership of the EU, participation in the exchange rate mechanism and full participation in monetary union, and that progress from one stage to another is not automatic but depends entirely on strict compliance with the convergence criteria laid down in the Treaty;

17-Stresses, in connection with the enlargement of monetary union, the desirability of a high level of convergence in the real economy in order to limit the strain involved, both for the Community and for the applicant countries;

18-. Welcomes the precautions taken by the euro system to deal with crises of liquidity in the euro zone, and endorses the ECB's view that, in view of the moral hazard risk, temporary injections of liquidity by the central bank should be granted only in exceptional cases and after case-by-case examination to overcome a short-term liquidity squeeze;

19- Observes that various international bodies constantly work to further improve exchanges of information through multilateral cooperation; considers, nonetheless, that a further stepping-up of multilateral cooperation is called for, particularly with reference to the increasingly important issue of stability of the system;

20- Welcome the reports by the ESCB's Banking Supervisory Committee, which make clear the links between the micro- and macroprudential aspects of banking supervision, and calls on the ECB to extend its work in accordance with the mandate pursuant to the Treaty on European Union in the field of macroprudential analysis in order to contribute to the stability of the financial system;

21- Considers that there is a need to further intensify cooperation between the supervisors and central banks of all EU States - including the ECB - in order to be able to exploit mutual synergies between on the one hand the operations of the central bank as the body responsible for stability of the system as an observer of the market and supervisor of payment transaction systems and on the other hand the work of supervisors of banking systems; considers however that at present it would be premature to transfer microprudential banking supervision responsibilities to the ECB (or to a central European supervisory authority);

22- Calls on the ECB to advocate vis-à-vis the Basle Committee on Banking Supervision that the new version of the Capital Accord take account of the heterogeneous structure of the European banking system, that neutrality from the point of view of competition should continue to be assured both for banks in different countries and for smaller institutions operating locally and regionally, and that the planned new rules should not result in a worsening of financing conditions for small and medium-sized businesses;

23- Instructs its President to forward this resolution to the European Central Bank, the Commission and the Council.

Ecplanatory statement

Re Paragraph 2: the ESCB's responsibility for maintaining price stability, as laid down in Article 105 of the Treaty on European Union, entails not only combating inflation but also preventing persistent falls in prices. While this point has increasingly tended to be forgotten, since in the past 50 years European central banks have mainly had to deal with inflation, sometimes proceeding at alarming rates, the fact remains that deflation also poses considerable risks to the economy. In reducing interest rates in April 1999, at a time when price indicators continued to suggest a falling trend, the ECB showed that it did not regard its duty with regard to stability policy as being purely to prevent inflation but that it took the risks posed by deflation to growth and employment just as seriously.

Re Paragraphs 3 and 4: freedom from political instructions, as referred to in Article 108 of the Treaty, does not mean freedom from political responsibility: on the contrary. The high degree of independence which the Treaty accords to the ECB can be democratically justified only if the Bank, in accordance with its legislative remit, assigns clear priority to ensuring monetary stability and at the same time provides a maximum of information and transparency concerning the rationale underlying its monetary policy.

Against this background, the ECB's obligation to pursue general economic-policy goals seems not entirely free of problems. The ECB's independence under the Treaty arises from the consideration, based on historical experience, that the maintenance of monetary stability ought to be kept outside the sphere of everyday politics. Thus it should be regarded as an institutional guarantee of a long-term monetary policy. To extend this guarantee to the pursuit of general economic objectives would mean removing it at least partially from direct democratic control by the electorate and would for this reason at the very least be incompatible with the prevailing interpretation of democracy. The restrictive interpretation of Article 105(1) advocated by the ECB thus takes account of the fact that an unconditional obligation to pursue general goals of economic policy would directly threaten its Treaty-based independence. Moreover, the instruments at its disposal - namely control over interest rates on the money markets - can do only very little to promote growth and employment, as corporate investment is determined mainly by long-term capital market interest rates, over which the Central Bank has no direct influence.

The ECB's accountability, which is likewise provided for by the Treaty, should be regarded as a direct correlative of its independence with regard to monetary policy and accordingly interpreted broadly. This particularly applies to its accountability to the European Parliament, the only directly elected and directly democratically legitimised European institution. The ECB President's quarterly dialogue with Parliament's Committee on Economic and Monetary Affairs is of proven value as an information and discussion forum. It should be expanded and enhanced in the years ahead, particularly with regard to information about the parameters for monetary policy decisions. It may reasonably be assumed that, as a new institution, the ECB does not yet have sufficiently sound data sets or reliable information about how monetary stimuli operate, which places natural limits on the comprehensive provision of information to the public. However, it goes without saying that, as such information gradually becomes available, the public should be allowed access to it. It is, incidentally, also in the ECB's own best interests to improve its information policy: only if the Bank succeeds in consolidating its position in the public consciousness by means of maximum information and transparency will it ultimately be in a position to guarantee its independence politically. The publication of economic and inflation forecasts, as promised for the current year by Mr Duisenberg, is therefore to be welcomed.

Re Paragraph 5: in addition, long-term guarantees of the independence of the bank of issue also require the idea of stability to take root in the public mind, and this has not yet been sufficiently achieved in all Member States. In order to build up a European tradition of stability it is therefore proposed that the direct dialogue between the ECB and the public should be expanded with the aim of making clear to the general public in a generally comprehensible form the advantages of a stable currency.

Re Paragraph 6: in order to guarantee the long-term success of the stability policy pursued by the ECB and ensure a persistent upward trend in the economy, coordinated efforts are called for from all the political protagonists concerned. This means firstly that consolidation of public finances must be pursued consistently, even if there has been more rapid progress in this respect in some Member States than originally anticipated, thanks to low interest rates and the accelerating upturn. Additional tax revenue ought therefore to be used not to pay for new, long-term expenditure programmes but to pay off debts more rapidly. The reduction in public indebtedness will firstly create additional financial scope for private investment, and will at the same time serve as a precaution against the impending overburdening of social insurance systems due to demographic trends.

Improved growth rates ought likewise not to blind policy-makers to the urgency of structural reform, for which the ECB has repeatedly called to provide backing for its own stability policy. The current upturn, which is due in significant measure to the low external value of the euro, will stabilise in the long term only if the international competitiveness of the European economy can successfully be improved by modernising goods, services and capital markets and by rendering the labour market more flexible (albeit in socially acceptable ways). In the light of the growth forecasts, which remain favourable, Member States have a unique opportunity to press ahead with such measures while at the same time providing social cushioning for any adverse effects.

Re Paragraph 7: the more effectively the two sides of industry manage, by means of a moderate wages policy, to control the impact of exogenous inflationary factors such as energy price rises or the consequences of imported inflation due to the weakness of the euro, the less pressure there will be on the ECB to counter such 'second-round' effects by raising discount rates and the better a position it will therefore be in to create the monetary preconditions to promote investment and create new jobs by making an appropriate volume of liquid funds available.

Re Paragraph 8: amongst its decision-making parameters, the ECB attaches special importance to the growth of the money supply. Apart from the price stability definition of the euro system - i.e. a rise of less than 2% in the harmonised consumer price index (HCPI) - the most important parameter for determination of the reference value is the anticipated real growth of GDP. In deciding on a reference value of 4½ % for the current year last December, the ECB was assuming that the real growth trend would be between 2 and 2½ %. After these estimates had been substantially increased in accordance with the consistent opinions of the experts, it was likewise necessary to adjust the reference value for growth of the money supply upwards. Even though this is unlikely to have any direct impact on the monetary policy decisions of the ECB, since the growth of the money supply has already exceeded the reference value of 4½ % for some time, a formal correction would be welcome in the interests of the predictability and credibility of monetary policy. By means of such a step, the ECB would also place on official record its readiness to make money available for the anticipated upturn.

Re Paragraph 9: if it is true that the money supply is a long-term predictor of inflation trends, and bearing in mind the well-known delayed action of interest-rate measures, it is hard to make sense of the recent quick succession of interest-rate rises of only 25 basis points. Rather, they give rise to a suspicion that ultimately the external value of the euro was the decisive factor. At the same time, such a policy of frequent small changes gives the impression that the ECB is in fact after all pursuing a policy of immediate responses to short-term inflation forecasts. After the initial phase, marked by numerous uncertainties as to what impact monetary-policy measures would have, a transition to more significant changes in interest rates at longer intervals would be welcome, in the interests of a reliable and predictable monetary policy. At the same time, this might make it possible to counter the danger of an overreaction by the markets in the expectation of further interest-rate rises.

Re Paragraph 10: whereas the US bank of issue devotes much attention to the wealth effect of securities and real estate markets, the ECB has not so far made any clear statement about possible risks to stability. The European Parliament calls on the ECB to inform the public what importance it attaches to these factors in connection with practical decisions on monetary policy. The same applies to possible easing of pressure on prices and interest rates as a result of liberalisation of the goods and services market, and to risks to stability arising from the current weakness of the euro. Even if, as the ECB itself has said, it does not pursue any direct exchange-rate objective, it ought to take account of the concerns felt by many members of the public regarding the external value of the euro. In addition, it would be of interest to know whether and to what extent a fall in financing costs due to integration and increased efficiency of financial markets will affect the ECB's interest-rate policy.

Re Paragraph 11: as the ECB itself admits, there are still substantial shortcomings in the field of international mass payment transactions, as regards both the time taken and the charges made by banks. At the latest when euro cash is introduced at the beginning of 2002, it will become virtually impossible for the public to appreciate what practical advantages the euro is supposed to have for them if individual cross-border payment transactions remain more expensive than payments within a Member State. The ECB's efforts to improve the situation are therefore to be welcomed, but it is still hard to see why the ECB wishes to restrict itself to a purely catalytic role. In view of the danger of lasting damage to public confidence in the single currency, the ECB ought to regard the specific duties of a bank of issue as comprising not only the creation of secure and efficient systems for payment of large sums but also improving mass payment transactions, and should participate actively in efforts to work out technical solutions. It must do this, at the latest, if no decisive progress has been made by the end of the year.

Re Paragraphs 12 to 15: to a significant extent market observers attribute the current weakness of the euro to uncertainties regarding the future development of monetary union. It is therefore necessary to ensure that new members are accepted only once all the preconditions laid down in the Treaty are fulfilled. It must be made clear in advance that there is no automatic link between membership of the Community and participation in monetary union and that in cases of doubt a substantial period of time should be allowed to elapse between the two. Further preconditions are successful participation in the exchange rate mechanism and strict compliance with the convergence criteria laid down in the Treaty; in assessing the latter, no political concessions of any kind must be made. While certain concessions to former founder Member States may have seemed politically acceptable when monetary union was first launched, they would be fatal in the eyes of the financial markets when it comes to the acceptance of new members and in the light of the forthcoming enlargement of the EU and would cause lasting damage to the stability of the euro. Thus the same generous interpretation of the margin of discretion permitted by the Treaty for the purpose of assessing compliance with the convergence criteria which has prevailed in the past will no longer be acceptable in future. In addition, in order to avoid tensions in an enlarge dmonetary union and to prevent excessive strain both on existing participants in monetary union and on applicant countries, a minimum of real convergence must be required, both as regards the building-up of and the form taken by State institutions and in relation to economic performance. A lasting consolidation of the external value of the euro will depend to a significant extent on success in dispelling the prevailing doubts on the subject on financial markets.

Re Paragraphs 16 to 19: the introduction of the euro has lastingly accelerated the integration of European financial markets, and the restructuring process is in full swing. Transparent and efficient financial markets on the one hand help to improve the conditions for financing of businesses while at the same time they are a decisive precondition for the efficient implementation of monetary policy. On the other hand, improved opportunities thanks to integrated and effective international financial markets are accompanied by a new quality of risk, which must be taken into account by amending existing legislation and supervisory arrangements, even if the existing system of banking supervision, based on the principles of national powers and international cooperation, has so far proved effective on the whole. However, it would be premature to transfer microprudential supervisory powers to the ECB or any other European institution in view of the differences of system which exist between Member States: besides differences in legal provisions, competitive conditions and taxation policy, there are also considerable differences as regards the structure of banking systems (e.g. degree of concentration, significance of the public banking sector) and as regards the organisation of financial supervision (e.g. the nature and extent of the involvement of national central banks in supervision). Before a decision is taken, it would therefore be desirable to await further experience. At the same time, however, all the scope which exists to intensify coordination and cooperation between national supervisory authorities, including the ECB, should be exploited. Clarification of the role of the ESCB in granting temporary injections of liquidity in the event of a crisis has helped to eliminate uncertainties on markets concerning the ECB's role as lender of last resort, and should therefore be welcomed, as should the limitation of such injections to short-term liquidity squeezes after previous examination of the individual case. This at the same time makes it clear that the central bank is not prepared to compensate for the consequences of business errors by means of generous injections of liquidity. In view of the current wave of banking mergers, it would also be worth considering whether to make it clear that in the financial field too, there cannot be any business which is regarded as 'too big to fail', and that the creation of large enterprises does not entail any guarantee of survival at the expense of the central bank or the tax-payer.

Re Paragraph 20: the revision of the Basle Accord on capital adequacy is intended to ensure differentiated cover of credit risks, including the required equity capital provision. This should ensure that banks and securities dealers have the capital cover appropriate to the nature and extent of their risk. At the same time, it is intended to provide incentives to improve credit risk management. This approach should be welcomed in principle, as should the proposed adjustments to the EU's provisions on capital adequacy to bring them into line with the new international standards. At the same time, however, it is necessary to ensure that the adoption of rules originally designed for large international banks does not place individual banks, groups of banks or credit institutions in different countries at a competitive disadvantage. To avoid this, it is necessary on the one hand that the internal ratings, of which greater use is to be made in future, can also be applied to the smaller institutions without disproportionate cost and that the conditions for the financing of small and medium-sized businesses do not deteriorate(for example by taking account of individual portfolio composition), as experience shows that such businesses contribute far more than large international corporations to job creation. In particular, the new rules must not encourage large international banks to withdraw and leave it to regional institutions to provide credit to SMEs, with the result that more stringent capital requirements would apply to these regional institutions. In the interests of competitive neutrality, the new Basle Accord on capital adequacy must also not enter into force before the corresponding EU provisions on the same subject enter into force in the Member States. As an observer member of the Basle Committee, the ECB should therefore exert influence to ensure that the new rules on capitalisation take appropriate account of the plural structure of the European banking system.

Voir la présentation de la situation.

Lire la proposition en français.

Tous mes rapports au Parlement européen.