


# Procedure file

Basic information		
COS - Procedure on a strategy paper (historic)	<a href="#">2002/2092(COS)</a>	Procedure completed
European Central Bank ECB. 1st annual report 2001		
Subject 5.20.03 European Central Bank (ECB), ESCB		

Key players			
European Parliament	Committee responsible	Rapporteur	Appointed
	<b>ECON</b> Economic and Monetary Affairs	PPE-DE <a href="#">KAUPPI Pii-Noora</a>	23/11/1999
Council of the European Union			

Key events			
18/04/2002	Non-legislative basic document published	N5-0196/2002	Summary
13/05/2002	Committee referral announced in Parliament		
04/06/2002	Vote in committee		Summary
03/06/2002	Committee report tabled for plenary	<a href="#">A5-0220/2002</a>	
02/07/2002	Debate in Parliament		
03/07/2002	Decision by Parliament	<a href="#">T5-0358/2002</a>	Summary
03/07/2002	End of procedure in Parliament		
12/11/2003	Final act published in Official Journal		

Technical information	
Procedure reference	2002/2092(COS)
Procedure type	COS - Procedure on a strategy paper (historic)
Procedure subtype	Commission strategy paper
Legal basis	Rules of Procedure EP 142
Stage reached in procedure	Procedure completed
Committee dossier	ECON/5/16212

Documentation gateway
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Non-legislative basic document		<a href="#">N5-0196/2002</a>	19/04/2002	ECB	Summary
Committee report tabled for plenary, single reading		<a href="#">A5-0220/2002</a>	04/06/2002	EP	
Text adopted by Parliament, single reading		<a href="#">T5-0358/2002</a> <a href="#">OJ C 271 12.11.2003, p. 0197-0364 E</a>	03/07/2002	EP	Summary
Court of Auditors: opinion, report		<a href="#">N5-0034/2002</a> <a href="#">OJ C 259 25.10.2002, p. 0001-0004</a>	12/09/2002	CofA	Summary

## European Central Bank ECB. 1st annual report 2001

**PURPOSE :** European Central Bank (ECB) Annual Report 2001. **CONTENT :** This Annual Report summarises the activities of the European System of Central Banks and the Eurosystem in 2001. It also reports on monetary policy in 2001 and early 2002 and highlights the many issues, sometimes of a technical nature, that arose in establishing and consolidating the Eurosystem as the central bank of the euro area. The President of the ECB praises the euro cash changeover, which went far more smoothly than could have been expected. The changeover followed a year in which inflation in the euro area, measured in terms of the Harmonised Index of Consumer Prices (HIPC) was 2.5%, 0.2% higher than in 2000. The slight increase in inflation was mainly due to developments in the more volatile components of the HIPC, energy and unprocessed food. The inflation rate reached its peak in May 2001 (3.4%) and declined to 2.0% in December. This turnaround was due to the unwinding of factors that had generated inflationary pressures in late 2000 and early 2001. Overall risks to price stability gradually declined. The terrorist attack of September 11 prolonged the downturn. Against a background of declining inflationary risks, the ECB lowered the key ECB interest rates four times, by a total of 150 basis points. At the turn of the year, the first signs emerged of renewed growth in the euro area economy. The level of long-term interest rates in the euro area indicates that financial markets have confidence in the ECB to maintain price stability in the medium to long term. The economic downturn in the euro area in 2001 also presented challenges for fiscal policy. The average budget deficit of the countries that have adopted the euro increased to 1.3% of GDP, as a result of both the working of automatic stabilisers and major tax cuts in some countries. It was the first time since 1993 that the overall fiscal position of the euro area has deteriorated. Most countries failed to meet the targets laid down in their stability programmes, submitted late in 2000. On average, these targets were missed by 0.7% of GDP. The rules of the Stability and Growth Pact allow, in principle, for automatic stabilisers to work if economic growth deviates from its trend rate. If countries have achieved over the medium term a balanced budget or a surplus, it is very unlikely that normal business cycle fluctuations would lead the budget deficit to exceed 3% of GDP, the threshold laid down in the Treaty. Thus, it is important that those countries that have not achieved a balanced budget in the medium term should try to do so. The Pact was put under strain last year and early this year, but it kept working. If countries do not adhere to the Pact and were to fail to use the economic recovery to improve their fiscal position substantially, the credibility of fiscal policy would be seriously impaired, entailing adverse consequences for medium term growth and price stability. The rate of potential growth in the euro area, estimated at 2% to 2.5% per annum, can be raised only by structural reforms to improve the functioning of markets. A more flexible labour market and continued wage moderation are also of paramount importance in reducing the unacceptably high level of employment, which amounted to 8.3% last year. Overall progress has to be accelerated. This is the main challenge in the years to come. At the beginning of 2002, all information supported the view that annual HIPC inflation should stabilise at levels below 2% over the medium term. The replacement of national currencies by the euro raises important issues concerning the distribution of monetary income in the Eurosystem, i.e. the ECB and the national central banks of the euro Member States, which collectively perform the central banking functions for the area as a whole. The ECB decided on the issuance of euro banknotes and the allocation of monetary income. It will issue, as from 2002, 8% of the total euro banknote requirement, while the issuance of the remaining 92% is to be divided between NCBs of the Eurosystem in accordance with their shares in the ECB's capital. The seigniorage income earned by the NCBs on euro banknotes issued will be included in the monetary income, which has to be pooled and redistributed in accordance with the provisions laid down in the Statute of the European System of Central Banks and of the ECB. In order to mitigate its impact on the relative financial positions of the NCBs, the new regime will be phased in progressively during a transitional period ending in 2007. As from 2008, all monetary income earned will be distributed among the NCBs in accordance with their shares in the ECB's capital.?

## European Central Bank ECB. 1st annual report 2001

The committee adopted the report by Piia-Noora KAUPPI (EPP-ED, FIN) on the ECB's 2001 Annual Report. It congratulated the ECB on its role in the euro changeover and the pragmatism of its monetary policy, and supported the priority given to price stability. It also recommended continued wage moderation and acceleration of structural reforms in Member States to achieve more flexibility in product and labour markets. The committee's report noted that consumer prices for some articles of everyday use had 'risen unjustifiably and exorbitantly in 2002' and that the public was linking such increases to the introduction of the euro. As for transparency of the ECB, the committee called again for the publication of minutes which would, in an anonymous way, include voting figures and dissenting opinions as well as an annual publication of productivity, wage and prices trends in each country. MEPs also welcomed the declaration by the President of the ECB that voting in the Governing Council may become a more normal procedure in future, especially in the light of enlargement. They added, however, that the need for an efficient voting system should not exclude smaller Member States from ECB decision-making. ?

## European Central Bank ECB. 1st annual report 2001

The European Parliament adopted the resolution by Piia-Noora KAUPPI (EPP-ED, Finland) on the ECB's Annual Report. (Please refer to the summary dated 04/06/02.) Parliament praised the brilliant implementation of the euro cash changeover and the swift reaction of the ECB after September 11. The latter provided the financial system with ample flexibility and cut its main interest rate on September 17 by a significant

amount. The reduction of 150 basis points was entirely appropriate. The ECB's behavior should defuse unfair criticism that the ECB is obsessed with short-term inflation monitoring. Parliament welcomes the fact that the ECB increasingly takes into account a wide array of business and economic indicators and has not reacted mechanically to one-off events like the acceleration in food and energy prices. Financial indicators show that market participants remain confident in the ECB's capability to keep inflation under the 2% limit in the medium term. Parliament reaffirmed the overriding importance of maintaining price stability, since this is a prerequisite for sustainable growth. With regard to the Stability and Growth Pact, Parliament recalls that this is an essential element of the euro area's credibility. A balanced fiscal position is a prerequisite for the full functioning of automatic stabilisers. The correct policy mix between monetary and fiscal policy presupposes sound public finances. Allowing national budgets to "breathe" in connection with the pace of economic activity is fully understandable so long as the budget is balanced over an entire economic cycle. Member States that have not yet reached a balanced fiscal position must avoid any dramatic shift in their current budgetary position. Parliament approves the ECB's open attitude in its monetary dialogue with the Parliament. It accepts that interest rate decisions will be taken only at its first meeting each month in order to defuse excessive tensions on financial markets. With regard to enlargement, for candidate countries some form of "hard peg" to the euro, such as currency board arrangements, presuppose a domestic political consensus on this type of measure and a very strong discipline in every other respect of economic policy. There needs also to be a total commitment to take structural measures to bring the country up to euro area standards.?

## European Central Bank ECB. 1st annual report 2001

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**PURPOSE :** to present the report by the Court of Auditors on the audit of the operational efficiency of the management of the European Central Bank (ECB) for the financial year 2001. **CONTENT :** the Court has already published three reports for the financial years 1998, 1999 and 2000 which reviewed the budget management and monitoring, the internal audit systems, the project management and monitoring systems and human resources management of the European Central Bank. In 2001, the Court reviewed budgetary management and internal audit. As regards the budgetary reviews, the Court's report shows that the final budget amounted to EUR 511 million (plus 52%, EUR 175 million above the initial budget). The final expenditure amounted to EUR 431 million or 84% of the revised budget. The largest expenses were EUR 118 million on the banknote contingency reserve, EUR 106 million for staff and staff related expenditure and EUR 78 million for consultancy and external costs (mainly related to the Euro 2002 information campaign). During 2001, six supplementary budgets were approved. One budget transfer and a mid-year review were also adopted. At the same time a new budget-reporting scheme reducing the number of the number of yearly budget monitoring reports from four to two was introduced. EUR 45 million were carried over to the ECB's 2002 budget (EUR 8 million are related to projects and EUR 37 million to the Banknote Contingency Reserve). There is no written rule covering such carry-overs. The accounts show an overall underspending of 16%. The ECB Business Units underspending amounted to 8%, ECB projects underspending to 13% and the ECB Banknote Contingency Reserve to 28%. The year 2001 was a crucial year for the ECB as it assumed the responsibility for the launch of the fiduciary euro. Budget revisions and underspending are thus understandable if related to this unique historical event. The Court recommends that the ECB adopt rules on carryovers. Concerning the internal audit, the Court obtained reasonable assurance that the Directorate is properly independent and that its performance is in accordance with professional standards. Concerning the reply of the European Central Bank, the report states that the ECB welcomes the report and takes note of the various points raised by the Court. The ECB states that it conducted a first and very limited budget carry-forward exercise from the financial year 2001 to the financial year 2002. The guiding principles for the first implementation of this exercise were approved by the Executive Board in early 2002. At the same time, the Executive Board concluded that, for future years, a formalisation of the carry-forward practice should be considered, on the basis of experience gained and after further consideration of the tools required to support a carry-forward routine, e.g. a centralised system for the registration of financial commitments.?