



**COUNCIL OF
THE EUROPEAN UNION**



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Economic and Financial Affairs

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President

Mr Karl-Heinz Grasser
Federal Minister for Finance of Austria

P R E S S

Rue de la Loi 175 B - 1048 BRUSSELS Tel.: +32 (0)2 285 6083 / 6319 Fax: +32 (0)2 285 8026
press.office@consilium.eu.int <http://ue.eu.int/Newsroom>

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Main Results of the Council

*The Council gave notice to **Germany** to take measures to correct its excessive government deficit by 2007 at the latest. As regards **Italy**, it decided that no further action is necessary at this stage, although correction of the deficit will require full implementation of the 2006 budget and substantial further measures for 2007. It also gave its opinion on updated stability and **convergence programmes** presented by a third series of member states (the first two series were approved in January and February).*

*The Council prepared a number of dossiers to be referred to the spring **European Council**, in particular as concerns the Lisbon reform strategy and the European Investment Bank's contribution to growth and employment measures.*

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- Where declarations, conclusions or resolutions have been formally adopted by the Council, this is indicated in the heading for the item concerned and the text is placed between quotation marks.
- The documents whose references are given in the text are available on the Council's Internet site <http://ue.eu.int>.
- Acts adopted with statements for the Council minutes which may be released to the public are indicated by an asterisk; these statements are available on the abovementioned Council Internet site or may be obtained from the Press Office.

OTHER ITEMS APPROVED

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PARTICIPANTS

The Governments of the Member States and the European Commission were represented as follows:

Belgium:

Mr Didier REYNDERS

Deputy Prime Minister and Minister for Finance

Czech Republic:

Mr Tomáš PROUZA

Deputy Minister for Finance

Denmark:

Mr Thor PEDERSEN

Minister for Finance

Germany:

Mr Peer STEINBRÜCK

Federal Minister for Finance

Estonia:

Mr Aivar SÕERD

Minister for Finance

Greece:

Mr Georgios ALOGOSKOUFIS

Minister for Economic Affairs and Finance

Spain:

Mr Pedro SOLBES MIRA

Second Deputy Prime Minister and Minister for Economic Affairs and Finance

France:

Mr Thierry BRETON

Minister for Economic Affairs, Finance and Industry

Ireland:

Mr Brian LENIHAN

Minister of State at the Department of Health and Children, at the Department of Justice, Equality and Law Reform and at the Department of Education and Science (with special responsibility for Children)

Italy:

Mr Giulio TREMONTI

Deputy Prime Minister

Cyprus:

Mr Michalis SARRIS

Minister for Finance

Latvia:

Mr Oskars SPURDZIŅŠ

Minister for Finance

Lithuania:

Mr Zigmantas BALČYTIS

Minister for Finance

Luxembourg:

Mr Jean-Claude JUNCKER

Prime Minister, Ministre d'Etat, Minister for Finance

Hungary:

Mr János VERES

Minister for Finance

Malta:

Mr Lawrence GONZI

Prime Minister and Minister for Finance

Netherlands:

Mr Gerrit ZALM

Deputy Prime Minister, Minister for Finance

Austria:

Mr Karl-Heinz GRASSER

Mr Alfred FINZ

Federal Minister for Finance

State Secretary, Federal Ministry of Finance

Poland:

Ms Zyta GILOWSKA

Minister for Finance

Portugal:

Mr Fernando TEIXEIRA DOS SANTOS

Minister for Finance

Slovenia:

Mr Igor SENČAR

Permanent Representative

Slovakia:

Mr Ivan MIKLOŠ

Deputy Prime Minister and Minister for Finance

Finland:

Mr Eero HEINÄLUOMA

Deputy Prime Minister, Minister for Finance

Sweden:

Mr Pär NUDER

Minister for Finance

United Kingdom:

Mr Ivan LEWIS

Economic Secretary to the Treasury

.....

Commission:

Mr Joaquin ALMUNIA

Member

Mr Siim KALLAS

Member

.....

Other participants:

Mr Philippe MAYSTADT

President of the European Investment Bank

Mr Xavier MUSCA

Chairman of the Economic and Financial Committee

Mr Joe GRICE

Chairman of the Economic Policy Committee

.....

The Governments of the Acceding States were represented as follows:

Bulgaria:

Mr Plamen Vassiler ORESHARSKI

Minister for Finance

Romania:

Mr Sebastian VLĂDESCU

Minister of Public Finance

ITEMS DEBATED

PREPARATION OF THE SPRING EUROPEAN COUNCIL

– *Lisbon strategy for growth and jobs: key issues paper*

The Council reached agreement on a key issues paper, as a contribution to the European Council meeting on 23 and 24 March, on implementation of the strategy for growth and jobs laid down by the European Council at Lisbon in 2000.

The key issues paper follows on from an annual progress report by the Commission on the Lisbon strategy, assessing national reform programmes drawn up by the member states in response to economic policy and employment guidelines laid down by the Council.

In a mid-term review last March, the European Council agreed changes to the Lisbon strategy's governance provisions, with the aim of strengthening its contribution to growth and employment in the EU. The European Council should now reach a commitment to implement the agreed reforms and to effective actions at Community level.

The key issues paper identifies the following priorities:

- Using the opportunity of the evolving recovery to pursue fiscal consolidation, in line with the EU's stability and growth pact;
- Improving the sustainability and quality of public finances;
- Increasing employment in Europe as one of the top priorities for reform;
- Providing the right incentives for innovation;
- Creating a favourable business environment for small and medium-sized enterprises;
- Ensuring a coherent EU energy policy in a global context.

Other Council configurations are also contributing to the European Council with their own key issues papers.

– *EIB contribution to promoting growth and jobs*

The Council adopted a report on proposals by the European Investment Bank for reinforcing the contribution by the EIB and the European Investment Fund to promoting growth and employment in the EU, and agreed to forward it as a contribution to the European Council's meeting on 23 and 24 March (7106/06).

The Council's report identifies two broad areas where the EIB Group (EIB and EIF) will strengthen its contribution:

- research and development, innovation and skills and small and medium-sized enterprises;
- infrastructure investments including energy security and renewable energies and trans-European networks (TEN).

The EIB Group will pursue these objectives within the existing framework for its next capital increase, which should not occur before 2010 and should be self-financing. It will combine its resources with those from the EU budget, subject to the necessary decisions by its governing bodies and the economic and financial viability for projects.

The economic rationale for the bank's proposals depends on:

- the added value that it can provide in areas where the market cannot provide the required funding; and
- the catalytic effect that it can have in leveraging private investment.

The initiative builds on the European action for growth launched by the European Council in December 2003, under which the EIB has provided loan signatures under the "innovation 2010 initiative" for nearly EUR 24 billion and more than EUR 22 billion for TEN projects.

– ***Better regulation***

The Council held an exchange of views on progress under the EU's "better regulation" initiative, which is aimed at reducing unnecessary regulatory burdens for businesses, voluntary groups and citizens and at increasing competitiveness and productivity by simplifying legislation, improving transparency and cutting down on red tape.

It took note of progress made by the Commission and of a note from the presidency on reducing the administrative costs of Community programmes and measures and on experiences at national level (7054/06).

The Council agreed to return to the issue at a future meeting to review progress.

A number of steps have already been taken to improve the regulatory environment in the EU:

- the Commission has published revised guidelines on impact assessments to accompany draft legislation, including a competitiveness-testing element;
- the Commission announced in September the withdrawal of 68 items of pending legislation, and has set out a work programme to simplify 1400 rules and regulations over the next three years;
- agreement has been reached by the Commission and the Council on the measurement of the administrative costs of EU legislation. The Council has requested the Commission to explore ways of implementing the methodology and to consider options for setting targets in specific sectors for reducing the administrative burden on businesses;
- progress has been made on an inter-institutional agreement on a common approach to impact assessments.

– ***Social protection and social inclusion***

The Council welcomed the adoption, by the Employment, Social Policy, Health and Consumer Affairs Council on 10 March, of a joint Council and Commission report on social inclusion and social protection in pensions, healthcare and long-term care (6800/06 + ADD 1).

The report will be submitted to the European Council's meeting on 23 and 24 March.

STABILITY AND CONVERGENCE PROGRAMMES

- *Germany, Greece, Spain, France, Italy, Ireland, the Netherlands and Portugal*

- *Cyprus, Lithuania, Malta, Poland and the United Kingdom*

The Council adopted opinions on a series of annual updates of the member states' stability and convergence programmes, namely:

- updated stability programmes presented by Germany, Greece, Spain, France, Italy, Ireland, the Netherlands and Portugal;
- updated convergence programmes presented by Cyprus, Lithuania, Malta, Poland and the United Kingdom.

Under the EU's stability and growth pact, member states having the euro as their currency are required to present stability programmes and those not participating in the single currency to present convergence programmes.

The aim is to ensure sound government finances as a means for strengthening the conditions for price stability and for sustainable growth conducive to employment creation.

The pact requires programmes that set out the medium-term objective of the member state's budgetary position, the main assumptions about expected economic developments and important economic variables, a description of budgetary and other economic policy measures, and an analysis of how changes in assumptions will affect their budgetary and debt position.

EXCESSIVE DEFICIT PROCEDURE

– *Germany*

The Council adopted a decision, under article 104(9) of the treaty, giving notice to Germany to bring its government deficit below 3% of gross domestic product (GDP), the threshold provided for by the EU treaty, as rapidly as possible and by 2007 at the latest.

Germany's deficit amounted to 3.3% of GDP in 2005, according to the Commission on the basis of provisional data provided by Germany on 24 February.

The German government adopted on 22 February a draft federal budget for 2006 and a draft law aimed at raising the standard VAT rate from 16% to 19% as from 1 January 2007. In the light of this, the Commission expects the German deficit to stay slightly above 3% of GDP in 2006 and to drop clearly below the reference value in 2007.

The Council's decision requires Germany to report to the Commission by 14 July and on four subsequent occasions on measures taken to correct its deficit. It requires Germany to ensure a cumulative improvement in its structural balance of at least 1% of GDP in 2006 and 2007, and an annual reduction in its structural deficit of at least 0.5% after the excessive deficit has been corrected.

The EU's excessive deficit procedure was opened with regard to Germany in January 2003, when the Council adopted a decision under article 104(6) on the existence of an excessive deficit and a recommendation under article 104(7) on measures to correct it.

– *Italy*

The Council discussed a communication from the Commission assessing the action taken by Italy in response to the Council recommendation of 28 July 2005 with a view to bringing to an end the situation of an excessive government deficit.

The Council shared the view of the Commission that the measures taken by the Italian authorities following the Council's recommendation would, provided they are fully and effectively implemented, ensure adequate progress in 2006 towards the correction of the excessive deficit within the time limit set in the recommendation.

In addition, the Council shared the view of the Commission that the correction of the excessive deficit by 2007 relies crucially on both execution of the 2006 budget and the identification and implementation of substantial additional corrective measures for 2007. The Council confirmed its intention to continue together with the Commission to closely monitor the budgetary developments in Italy with a view to ensuring that adequate action continues to be taken.

The excessive deficit procedure was opened with regard to Italy in July 2005, when the Council adopted a decision under article 104(6) on the existence of an excessive deficit and a recommendation under article 104(7) on measures to correct it.

EU BUDGET

– *Priorities for 2007 - Council conclusions*

The Council adopted the following conclusions, which will serve as the basis for discussions with the European Parliament and the Commission on preparation of the EU's general budget for 2007.

- "1. The Council underlines the fact that the budgetary procedure for 2007 will be marked by two important elements, on the one hand the new Financial Perspective for 2007-2013 to be agreed, and on the other hand the forthcoming accession of two countries to the EU to be confirmed. This should clearly be reflected in the Preliminary Draft Budget (PDB) for 2007.
2. The Council reaffirms the importance of maintaining a framework of overall budget discipline. It reiterates its wish that the EU budget for 2007 should provide sufficient resources to implement the various policies of the EU effectively and efficiently. It emphasises that it should apply the same degree of budgetary constraint as exercised by the Member States of the EU for their own national budgets.
3. The Council is convinced of the importance of good collaboration between the two arms of the Budgetary Authority and the Commission, and looks forward to establishing a good spirit of cooperation for the 2007 budget procedure.
4. The Council confirms that the forthcoming Interinstitutional Agreement (IIA) on budgetary discipline and improvement of budgetary procedure covering the period 2007-2013 will constitute the basis for establishing the budget for 2007. It recalls its constant willingness to apply the IIA to the full. It lays great emphasis on compliance with the Financial Perspective, which requires that Community expenditure remains within the annual limits to be set therein.
5. For the purpose of sound financial management and to deal with unforeseen circumstances it is important that sufficient margins must be maintained under all the ceilings of the various Headings, with the exception of Heading 1b, especially in the first year of the new financial period.

6. The Council emphasises that the appropriations for 2007 should reflect real and well-defined needs and be compatible with the ceilings set in the Financial Perspective. Absorption capacity and past implementation should also be taken into account when establishing appropriations. It considers that all appropriations need to be reviewed in detail for each policy sector and in this context it reaffirms the importance of reallocation in order to allow the Budgetary Authority to make the necessary financial adaptations to meet present and future needs. For this purpose it points to the necessity of having high quality Activity Statements and financial information on spending proposals in good time.
7. The Council considers it important that the implementation of the EU budget is improved in 2007 so that the significant under-implementation of funds that occurred in the first years of the Financial Perspective 2000-2006 should be avoided. Therefore the Council stresses the importance of the adoption of implementing rules and guidelines where applicable by the Commission on the basis of the adopted regulations in due time in 2006 in order to enable implementation to start in an efficient way by 1 January 2007. In this context, the Council underlines the need for explicit and simple rules.
8. The Council stresses once again the importance of keeping a tight grip on payment appropriations. The level of payment appropriations entered into the budget should be sufficient but not overestimated, taking into account past implementation and the genuine requirements for 2007.

The efforts made by the Commission and the Member States to deliver better forecasts should continue. The Council considers that the Member States should present structural funds estimates that are as accurate as possible, while assessing the actual need for appropriations to be put into the Preliminary Draft Budget is the responsibility of the Commission.

9. The Council looks forward to continued improvement of the "Activity Based Budgeting" in 2007 assisted by the introduction of specific, measurable, achievable, relevant and timely objectives, appropriate performance indicators and full evaluation procedures into all Community programmes with implications for the EU budget, as specified in the Financial Regulation.

The Council calls on the Commission to take full account of Council delegations' comments following detailed examinations of various activity statements in the two previous years. It intends to continue an enhanced examination of a set of Activity Statements during the 2007 budget procedure and places particular emphasis on Activity Statements covering legal bases and financial envelopes that are being renewed and/or adopted.

The Council is also committed to improving the impact of the "Activity Based Budgeting" information during the discussion on the annual budget, in particular in terms of the justification for Community actions and explanations for the proposed variations of appropriations.

The Council calls on the Commission to improve the implementation of the ABB approach to its administrative expenditure so as to reflect the real administrative costs related to each policy area.

10. In order to facilitate the transition between the Financial Perspective 2000-2006 and the one for 2007-2013, the Council invites the Commission to present the appropriate information which allows the comparison between the implementation of the 2005 budget, the 2006 budget and the 2007 PDB, at the start of the budget procedure for 2007.
11. As regards certain specific issues of the budget, the Council identifies the following elements as important in preparing the 2007 budget:
 - The Council invites the Commission to continue its efforts together with Member States towards establishing an accurate level of payment appropriations for structural funds. Furthermore, the Council recalls the importance of simplification of procedures aimed at facilitating implementation.
 - The Commission is invited, as in previous years, to present realistic forecasts regarding CAP expenditure in its Preliminary Draft Budget. Particular attention should be given to ensuring that the payment appropriations for expenditure related to rural development are accurate.

- In relation to external actions the Council believes that sufficient margins within the ceiling are crucial in order to be able to respond to unforeseen actions and crises and emphasises the current principle that the institutions will ensure as far as possible that sufficient margins are left available. It considers that account should be taken of its priorities and recalls, in this connection, the importance that it has always attached to CFSP funding.
- The Council considers it important that institutional effectiveness is an increasingly important factor when allocating administrative resources. Savings and rationalisation benefits due to yearly growth in productivity and economies of scale should also be taken into account when setting the level of administrative spending. The objective should be to achieve a substantial efficiency gain mainly by further development of interinstitutional cooperation and targeted measures. It should also be achieved by redeployment and reorganisation of administrative structures of EU institutions. This would give a signal of improved efficiency to the EU citizens.

It invites the Institutions to present during the budget procedure for 2007 their plans for assessing and realising gains on administrative costs for the period 2007-2013 including all administrative expenditure.

It recalls the importance that the institutions should ensure that the recruitment process in the context of the enlargement is carried forward without delay.

- The Council underlines the need to ensure that pilot projects and preparatory actions are feasible and consistent with the EU's new priority actions and to examine their practical application. In this context it considers it appropriate that the Commission takes the relevant initiatives in the annual budget process to develop the various pilot projects and preparatory actions within the financial limits set in the IIA, in a comprehensive and co-ordinated manner.

12. The Council underlines the great importance that it attaches to these guidelines in the forthcoming budgetary procedure and expects them to be fully taken into account already in the Preliminary Draft Budget for 2007. These guidelines will be forwarded to the European Parliament and the Commission."

– *Discharge for 2004*

The Council approved by qualified majority a recommendation, to be forwarded to the European Parliament, on the discharge to be given to the Commission for implementation of the EU's general budget for 2004. The Netherlands delegation voted against.

The Council also approved, without discussion, recommendations to the European Parliament on the discharge to be given to the directors of the following Community bodies for execution of the 2004 budget:

- European Agency for Safety and Health at Work
- European Environment Agency
- European Training Foundation
- European Foundation for the Improvement of Living and Working Conditions
- European Maritime Safety Agency
- Eurojust
- European Food Safety Authority
- European Centre for the Development of Vocational Training
- Translation Centre for the Bodies of the European Union
- European Medicines Agency
- European Monitoring Centre on Racism and Xenophobia
- European Monitoring Centre for Drugs and Drugs Addiction
- European Aviation Safety Authority
- European Agency for Reconstruction

– ***Follow-up to the discharge for 2003 - Council conclusions***

The Council adopted, without discussion, the following conclusions on the follow-up to the discharge given to the Commission for implementation of the 2003 budget.

- "1. The Council takes note of the Commission's report on the actions taken in response to the Council's recommendation on the 2003 discharge. It notes with satisfaction the improvements in the presentation of this report, in particular regarding the inclusion of cross-references and links between the report itself and the related working document.
2. The Council acknowledges the Commission's work, together with Member States, to improve controls over funds in shared management and encourages it to pursue its efforts.
3. The Council notes the publication of the Commission's communication on a "Roadmap to an integrated internal control framework"¹, as well as the actions taken to improve sound financial management. It underlines the need for additional work to be done by the Commission regarding in particular the management of risk assessment.
4. The Council notes that most of the actions in the White Paper on "Audit, management and financial control" have been completed, including the internal control standards. It stresses again the need for the production of adequate indicators for activity-based management and urges the Commission to take the appropriate actions.
5. As regards the new accounting system of the Commission, the Council will carefully check that there are no significant delays or problems in meeting the remaining objectives of the modernisation. In this context, it invites the Commission to provide more adequate financial information on multi-annual projects.
6. More specifically, the Council wishes to make the following comments on the various sectors of activity:

Budgetary management

The Council notes the actions taken to improve budget estimates and to eliminate "abnormal RAL". In this context, it recalls the importance of providing three times a year to the Budgetary Authority clear analytical information on the cumulative state of implementation of the most important Community programmes in comparison to the initial implementation plan.

¹ 10326/05 COM(2005) 252 final

Own resources

The Council takes note that the Commission is working on proposals aiming at simplifying the procedural framework of agricultural tariff quotas and that it has adopted guidelines to have more efficient procedures governing the system of the rules of origin in preferential arrangements.

Common agricultural policy (CAP)

The Council welcomes the progress made in the control system for those categories of CAP expenditure with higher risk (animal premium schemes), as well as the fact that the Commission amended the IACS regulation in order to oblige Member States to review annually the efficiency of the risk factors used.

In this context, the Council encourages the Commission to take further steps to strengthen its control systems in areas that are not checked through IACS, as well as in the area of export refunds.

Structural measures

The Council acknowledges the Commission's actions to remedy the weaknesses in the supervisory and control system for structural measures. In this context, it reminds the Commission of the importance of strengthening collaboration with Member States, in order to optimize the effectiveness of the current control system through simplification and streamlining of the rules.

The Council notes the Commission's intention to propose a management and control framework for the 2007-13 period built on the experience of the past.

Internal policies

The Council takes note of the measures taken on board by the Commission to reinforce financial information regarding payment delays and to improve monitoring of budgetary implementation.

However, it notes with concern that insufficient action has been taken to develop an integrated IT system for the management and control system for the 6th Research and Technological (RDT) Framework Programme, even if it acknowledges that some IT tools have been deployed to provide the full range of support from evaluations of proposals through to contract payments and project monitoring.

The Council notes that the Commission has put in place a reporting system to assist the financial services in monitoring its recovery of undue payments, as well as further corrective actions to establish a coherent audit approach.

External action

The Council welcomes the measures taken to reform the External Aid management and takes note of the introduction of new tools (such as CRIS audit) to further improve the flow of information on audit results at central level. In this context, the Council continues to support the reform of the management of EU external assistance with the decentralisation of responsibilities to the EU delegations and encourages the Commission to work in a consistent way with the reform process.

Pre-accession aid

The Council takes note that the Commission is pursuing the full implementation of the Extended Decentralised Implementation System (EDIS), both in new Member States and candidate countries. It notes that for Phare the EDIS has been introduced in all ten new Member States and its introduction in 2006 remains an objective for the Romanian and Bulgarian administration.

As regards ISPA, the Council supports all measures aiming at preventing risks regarding tendering and contracting procedures and welcomes the initiatives taken by the Commission in this respect.

Administrative expenditure

The Council welcomes the actions foreseen to continue the effective implementation of the administrative and financial reform, including internal control standards, development of a common risk evaluation methodology, ex-post controls and internal audit, and invites the Commission to carry on in this way.

Financial instruments and banking activities

The Council welcomes the fact that all suggested measures regarding the financial instruments in favour of small and medium-sized enterprises have been applied and invites the Commission to act in the same way in similar financial sectors."

EVENTS IN THE MARGINS OF THE COUNCIL

– ***Macroeconomic dialogue at political level***

Representatives of the Council, the Commission and the European Central Bank met with representatives of the European Trade Union Federation and Employers Confederation for the 14th macroeconomic dialogue meeting at political level.

The meeting examined the economic situation and outlook and public policy, in particular as regards the challenges of globalisation.

– ***Meeting with the European Parliament on the broad economic policy guidelines***

The presidency troika (representatives of Austria, Finland and Germany) held a videoconference with representatives from the European Parliament to discuss, in particular, the EU's broad economic policy guidelines (BEPGs) for the 2004-06 period.

The Commission decided this year not to propose updating the BEPGs, so the existing guidelines remain valid.

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Over breakfast, ministers discussed the economic policy challenges of the EU's strategy for growth and jobs laid down by the European Council at Lisbon in 2000 and re-launched last year on the basis of a paper prepared by "Bruegel", a Brussels based think-tank, and presented by Mr Jean Pisany-Ferry.

OTHER ITEMS APPROVED

ECONOMIC AND FINANCIAL AFFAIRS

External auditors of national central banks - Austria

The Council adopted a decision approving the appointment of KPMG Alpen-Treuhand GmbH and TPA Horwath Wirtschaftsprüfung GmbH as external auditors of Austria's Österreichische Nationalbank for the financial year 2006, and Moore Stephens Austria Wirtschaftsprüfungsgesellschaft mbH and BDO Auxilia Treuhand GmbH as alternate auditors (6524/06).

The mandate may be renewed yearly, not exceeding a total term of five years.

The decision amends decision 1999/70/EC on the external auditors of the member states' national central banks.

DEVELOPMENT POLICY

European development fund - Discharge for the 2004 budget

The Council adopted recommendations regarding the discharge to be given by the European Parliament to the Commission in respect of implementation of operations under the 6th, 7th, 8th and 9th European development funds (EDFs) for the 2004 financial year (5677/06, 5679/06, 5680/06 and 5681/06).

The Council also approved a statement, to be forwarded to the European Parliament, concerning the statement of assurance of the Court of Auditors relating to the reliability of the accounts and to the legality and regularity of the underlying transactions of the EDF in 2004.
