

European Central Bank annual report 2016

Parliament will discuss the European Central Bank's (ECB) annual report for 2016 during its February I plenary session and is due to debate an own-initiative report on the policies of the ECB. Besides providing information about the euro-area economy and the ECB's policies, in this report the ECB also gave feedback on Parliament's 2016 resolution on the 2015 ECB annual report.

Background: euro-area economy, monetary policy and financial supervision

Economic and financial conditions were marred by uncertainty at the start of 2016, with strong deflationary pressures. Annual inflation averaged 0.2 % in 2016 (core inflation: 0.8 %), well below the ECB definition of price stability, which is an annual rate of inflation close to but below 2 % over the medium term. Economic growth was 1.8 % in 2016, down from 2.1 % in 2015, but it gained momentum in the last quarter.

The primary objective of the ECB is to maintain price stability, so the risk of deflation required an **expansive monetary policy**. In March 2016, the ECB lowered [its key interest rates](#) and increased monthly purchases under [the assets purchase programmes \(APP\)](#) from €60 billion to €80 billion. At the same time, it included corporate bonds in the APP and introduced a second series of [targeted longer-term refinancing operations \(TLTRO II\)](#). In December 2016, the ECB prolonged the APP until December 2017, but, as the economy was improving, decided to scale it back to the former level of monthly purchases of €60 billion as from April 2017. In October 2017, the programme was extended until September 2018 and the monthly purchases further lowered to €30 billion, as of January 2018. In spite of the efforts of the ECB, [the Harmonised Index of Consumer Prices \(HICP\)](#) shows that inflation in the euro area remains subdued. The latest ECB staff projections (December 2017) forecast 1.4 % in 2018, 1.5 % in 2019 and 1.7 % in 2020, citing weak wage dynamics as a reason. Moreover, if the rise in wages assumed in the projections (2.4 %) does not materialise, inflation could be even lower. Therefore, the ECB intends to maintain its accommodative monetary policy in the medium term.

The ECB [report](#) identifies four key risks to the **financial stability** of the euro area. Risks are moderate, and stem from a rise in global risk premia due to political uncertainty, low bank profitability in a context of low growth, the sustainability of sovereign and corporate debt, and liquidity risks in the investment-fund sector.

European Parliament position

On 21 November 2017, Parliament's Economic and Monetary Affairs Committee (ECON) adopted its own-initiative [report](#) on the ECB annual report for 2016. It emphasises that the independence of the ECB as the monetary authority of the Union has to be mirrored by more transparency towards the public, and higher accountability vis-à-vis the Parliament. In the framework of the dialogue between the two institutions, it welcomes the feedback given by the ECB on the previous Parliament resolution, and suggests ways to improve the monetary dialogue. It values the contribution of the ECB to the economic recovery by means of lower interest rates and the purchase of assets. The report expresses concerns about the effects of non-conventional monetary policies on individuals' savings, pension funds and insurance schemes, and warns about redistributive effects towards the strongest actors of the economy, such as big corporations or bank stockholders. It regrets that inflation is well below the target and is not expected to reach it in the medium term, and that economic growth and unemployment rates remain uneven across the euro area. Parliament requests the ECB to include in its next reports research about the distributional effects of monetary policy, as well as an analysis of the changes in its theoretical framework in the wake of the crisis. Finally, it calls for the full completion of the capital markets union and the reinforcement of the banking union. The report is due to be voted during the February I plenary session.

Own-initiative report: [2017/2124\(INI\)](#); Committee responsible: ECON; Rapporteur: Jonás Fernández (S&D, Spain).

