P8_TA(2018)0025

European Central Bank Annual Report for 2016


The European Parliament,

– having regard to the European Central Bank Annual Report for 2016,

– having regard to Article 284(3) of the Treaty on the Functioning of the European Union (TFEU),

– having regard to the Statute of the European System of Central Banks and of the European Central Bank (ECB), in particular Articles 3 and 15 thereof,

– having regard to Article 3 of the Treaty on European Union (TEU),

– having regard to the report of the High-Level Group on Own Resources (Monti report),

– having regard to the macroeconomic imbalance procedure (MIP),

– having regard to the ECB Economic Bulletin article entitled ‘MFI lending rates: pass-through in the time of non-standard monetary policy’ (Issue 1/2017),

– having regard to the 2017 European Economic and Social Committee report on European industry and monetary policy,


– having regard to the ECB’s explainer page entitled ‘What is money?’,

– having regard to the ECB’s Emergency Liquidity Assistance (ELA) agreement published on 19 June 2017,

– having regard to Commission recommendation 2010/191/EU of 22 March 2010 on the
scope and effects of legal tender of euro banknotes and coins\textsuperscript{1};

– having regard to Article 11 of Council Regulation (EC) No 974/98 of 3 May 1998 on the introduction of the euro\textsuperscript{2};

– having regard to Article 128(1) of the TFEU, on the legal tender character of the euro;

– having regard to the speech of 6 April 2017 by the President of the ECB,

– having regard to Article 127(5) of the TFEU,

– having regard to Article 127(2) of the TFEU,

– having regard to the ECB’s feedback on the input provided by the European Parliament as part of its resolution on the ECB Annual Report for 2015\textsuperscript{3},

– having regard to Rule 132(1) of its Rules of Procedure,

– having regard to the report of the Committee on Economic and Monetary Affairs (A8-0383/2017),

A. whereas at its meeting of 9 and 10 March 2016, the ECB Governing Council adopted further measures to achieve the primary objective of price stability and the secondary objective of supporting the economy through monetary policy, by: 1) a reduction in its key interest rates and a lower deposit facility rate of -0.4 %; 2) an increase in monthly purchases under the asset purchase programme (APP) to EUR 80 billion; 3) the inclusion of a new corporate sector purchase programme (CSPP) in the APP for purchasing investment-grade euro-denominated bonds issued by non-bank corporations established in the euro area; and 4) a new series of targeted longer-term refinancing operations (TLTRO) with a maturity of four years;

B. whereas at its meeting of 7 and 8 December 2016, the ECB Governing Council decided to extend the horizon of the APP at a lowered monthly pace (from EUR 80 billion to EUR 60 billion), from April 2017 to December 2017, or beyond if necessary, and in any case until the Governing Council sees a sustained adjustment in the path of inflation consistent with its inflation aim;

C. whereas the members of the ECB Executive Board have consistently emphasised the importance of implementing productivity-enhancing reforms in the euro area, as well as growth-friendly fiscal policies, within the framework of the Stability and Growth Pact;

D. whereas, according to the Eurosystem macroeconomic projection of September 2017, annual inflation in the euro area as measured by the Harmonised Index of Consumer Prices (HICP) is expected to be 1.5 % in 2017, 1.2 % in 2018 and 1.5 % in 2019;

E. whereas the primary objective of the European System of Central Banks (ESCB) is to

\textsuperscript{1} OJ L 83, 30.3.2010, p. 70.


\textsuperscript{3} https://www.ecb.europa.eu/pub/pdf/other/20170410_feedback_on_the_input_provided_by_the_european_parliament.en.pdf?384c7fc03ceda115fe0e9aa7cf378e07
maintain price stability, defined by the ECB’s Governing Council as a year-on-year increase in HICP for the euro area of below but close to 2% over the medium term; whereas the ECB’s forecasts have been significantly below its medium-term inflation target in each of the four years since 2013, and the ECB now forecasts that inflation will not reach the target level before 2020;

F. whereas the ECB considers that the weak inflation dynamic is the result of, among other factors, subdued wage growth and low energy prices;

G. whereas Article 127(5) of the TFEU requires the ESCB to help maintain financial stability;

H. whereas in 2016 the ECB’s net profit stood at EUR 1.19 billion compared with EUR 1.08 billion in 2015;

I. whereas higher net interest income earned on securities held for monetary policy purposes, including the APP and US dollar portfolios, is the main contributor to this net profit;

J. whereas growth and unemployment rates remain geographically uneven to a significant degree, causing dangerous fragility for the economy and endangering sound development;

K. whereas Article 123 TFEU and Article 21 of the Statute of the European System of Central Banks and of the European Central Bank prohibit the monetary financing of governments;

L. whereas a growing number of FinTech firms have a significant potential in terms of the widening of financial inclusion in the euro area, also increasing the need for supervision and monitoring on the micro- and macro-prudential levels;

General overview

1. Stresses that in accordance with Article 7 of the ECB Statute, neither the ECB, nor a national central bank, nor any member of their decision-making bodies shall seek or take instructions from Community institutions or bodies, from any government of a Member State or from any other body; underlines, therefore, the independence of the ECB in its role as the euro area’s monetary authority, as laid down in the Treaty; stresses, however, the need for more accountability and transparency, proportionate to its level of independence;

2. Acknowledges as well the federal nature of the ECB, which rules out national vetoes and governmental interference, enabling it to act decisively in various matters such as, for instance, contributing to addressing the crisis;

3. Notes the contribution of the accommodative monetary policy pursued by the ECB, including its low interest rates and assets purchase programme, in the period 2012-2016, to the cyclical economic recovery and employment creation, also by preventing deflation, preserving favourable financing conditions for companies and households, and maintaining financial stability and the proper functioning of the payment systems; is, however, concerned at the consequences of the unconventional monetary policy measures for individual savers and the financial equilibrium of pension and insurance
schemes as well as the build-up of asset bubbles, which should be carefully monitored by the ECB and minimised;

4. Is concerned that euro area banks did not use the advantageous environment created by the ECB to strengthen their capital bases but rather, according to the Bank for International Settlements, to pay substantial dividends sometimes exceeding the level of retained earnings;

5. Remains concerned at the still significant levels of non-marketable assets and asset-backed securities put forward as collateral to the Eurosystem in the framework of its refinancing operations; reiterates its request to the ECB to provide information on which central banks have accepted such securities as well as to disclose the valuation methods regarding such assets; underlines that such disclosure would be beneficial for the purpose of parliamentary scrutiny of the supervisory tasks conferred on the ECB;

6. Notes with concern that TARGET 2 imbalances are rising in the euro area again, despite a narrowing in trade imbalances, indicating continued capital outflows from the euro area periphery;

**Price stability**

7. Recalls that, according to Eurostat, average inflation in the euro area was 0.2% in 2016, while inflation excluding energy prices stood at 0.9%; notes in addition that, as stated in the 2016 ECB Annual Report, underlying inflation continued to lack a convincing upward trend in 2016;

8. Notes that inflation in the euro area is expected to remain below 2% until at least 2020, despite the very accommodative monetary policy followed by the ECB, which suggests that the euro area economy is not operating at full capacity, while, among other factors, the recent appreciation of the euro exchange rate makes it more difficult to achieve price stability;

9. Notes the ECB’s own assessment that without its policy package, inflation would have been almost 0.5% lower on average than the rate currently projected for the years 2016-2019;

10. Agrees with the ECB that a balanced mix of sound and growth-friendly national fiscal policies on a basis of full respect for the SGP, including its built-in flexibility, as well as socially balanced and ambitious productivity-enhancing reforms, are also required at Member State level in order to turn the current, cyclical recovery into a scenario of lasting, sustainable, and robust structural long-term economic development;

11. Considers that, given the current inefficiencies of the monetary policy transmission channels, the ECB must ensure that price stability, defined by the ECB Council of Governors as an inflation rate of close to but below 2%, is achieved; believes that the ECB should nonetheless carefully assess the benefits and side-effects of its policy, in particular as regards intended action to combat deflation in the future; believes that in order to create certainty and trust in the financial markets, the ECB should focus on a clear and concise communication of its monetary policy measures;

12. Believes that the ongoing crisis has highlighted the need to diversify the theoretical background underlying the policy framework within central banks; requests the ECB, in
its next annual report, to analyse the impact of the crisis on the evolution of its theoretical framework;

**Economic growth and employment**

13. Recalls that, in accordance with the provisions of Article 2 of its Statute and Article 127 of the TFEU and the further details set out in Article 282 of the TFEU, the ECB must, without prejudice to the primary objective of price stability, support ‘the general economic policies of the Union’, with a view to contributing to the achievement of the objectives of the Union as laid down in Article 3 of the TEU;

14. Notes that GDP growth in the euro area has been stable but modest, yet favourable compared to previous years and following a steady path, standing at 2 % in 2015 and 1.8 % in 2016; observes that the Commission’s Autumn 2017 Economic Forecast predicts GDP growth rates of 2.2 % in 2017 and 2.3 % in 2018;

15. Highlights that according to the ECB Annual Report for 2016, investment rose at a slightly slower pace than in the previous year; stresses that the ECB’s monetary policy efforts have not yet left a tangible impact on the investment side of the EU economy; notes that this lack of impact is having an especially adverse effect in the peripheral regions of the Union;

16. Highlights with regret that according to the IMF’s World Economic Outlook of April 2017, the euro area’s output gap was -1.2 % of potential GDP in 2016, a gap which is expected to remain negative until 2019, thus suggesting that euro area GDP will be below potential during the forecasting period;

17. Notes that according to the ECB, its monetary policy has been key to the cyclical economic recovery in the euro area, which has mainly been and continues to be driven, among other factors, by domestic demand, supported by favourable financing conditions and improving labour markets, and productivity and competitiveness-enhancing reforms in some Member States, while also benefiting from the fall in oil prices, which will add a cumulative 1.7 % to growth in the period 2016-2019;

18. Considers that, as noted by the ECB President, monetary policy is not sufficient to sustain economic recovery, nor can it contribute to solving the structural problems of the European economy, unless it is complemented by carefully designed, socially balanced and fair long-term growth- and competitiveness-enhancing policies at Member State level, in combination with sound fiscal policy and within the Stability and Growth Pact; agrees with the ECB, furthermore, that it is necessary to deepen the institutional architecture of EMU to support the above-mentioned reforms and to make the euro area more resilient to macroeconomic shocks;

19. Regrets that even though unemployment has decreased from 10.5 % in December 2015 to 9.6 % in December 2016, many euro area countries continue to suffer from a high level of unemployment, and aggregate demand in the euro area remains subdued, also bearing in mind that persistent inequality in the EU may be harmful to sound and inclusive economic development; calls, therefore, for implementing policies that are geared to increasing productivity, with a focus on skills that facilitate further creation of quality jobs, as well as wage increases;
20. Takes note of the ECB Annual Report’s analysis of the distributional consequences of the ECB’s policies; encourages the ECB to continue studying the distributional impact of its monetary policy, including on income inequality, and to take that research into account in the context of crafting monetary policy;

21. Stresses that in order to ensure the full effectiveness of monetary policy, current account imbalances must be corrected with appropriate fiscal, economic policies and productivity-enhancing reforms;

**Credit supply and banking supervision**

22. Points out that even though M1 grew at a rate of 8.8% in 2016, M3 continues to grow at just 5% per year, which shows that the transmission of monetary policy is not fully effective and indicates monetary abnormalities as well as lack of adequate credit supply; emphasises, therefore, the importance of the Capital Markets Union (CMU), which could offer an alternative means of financing the economy during times of banking distress;

23. Acknowledges that monetary policy has reduced to some extent the cost of credit and has helped to improve access to finance for companies and households in the euro area, with particular impact in certain Member States, as noted by the 2016 ECB annual report, which states that the cost of borrowing for euro area households continues to vary across countries; considers, therefore, that the effect of this policy is limited owing to subdued credit demand, the persistence of structural problems in the banking systems of some Member States, and lack of trust among financial institutions themselves;

24. Encourages further improvement of SMEs’ access to credit, thus enforcing inclusiveness in economic development;

25. Welcomes the fact that since 2015, rates for very small loans have continued to fall at a faster pace than those for large loans, contributing to a further narrowing of the spread between very small and large loans; notes, moreover, that the spread between rates for small loans and large loans is now similar across countries in the euro area;

26. Notes that a prolonged period of an almost flat yield curve of the interest rate could affect the stability and profitability of the banking system; agrees nonetheless with the ECB’s assessment that a bank’s profitability ultimately depends on its business model, as well as on its structure and balance sheet, low interest rates notwithstanding; notes as well that the EU’s banking sector is characterised by diversity, not least as a result of national specificities, which in turn contributes to the stability of the financial system;

27. Acknowledges that while the current policy of low interest rates has a temporarily positive effect on the level of nonperforming loans (NPLs), the high risks related to NPLs should be tackled effectively in a structural fashion; notes the ECB’s and SSM’s efforts in supervising and assisting banks in the euro area in order to reduce their NPL exposure, and in particular the guidance provided by the ECB to banks on tackling NPLs in March 2017 and its actions concerning individual banks, as well as the action plan approved by the ECOFIN Council of 11 July 2017, without prejudice to Parliament’s powers regarding level 1 legislation; points out that an orderly implementation of the Council Action Plan requires a joint effort by banks, supervisors, regulators and national authorities; calls for stress tests characterised by wide coverage,
methodological pertinence and robustness; recommends the careful monitoring of developments on the real estate markets; considers that any additional measures should ensure full respect for the prerogatives of the European Parliament;

**CSPP**

28. Welcomes the improvements made by the ECB in disclosing the list of securities held by the Eurosystem under the ECB’s CSPP, but notes that this programme directly benefits mostly large corporations;

29. Calls on the ECB to continue ensuring full transparency over disclosing the volumes of the purchases made under CSPP for each company after a reasonable time-period; calls the ECB also to publish all CSPP data in a single, user-friendly spreadsheet that can facilitate the programme’s public accountability; emphasises that in any case full transparency should be provided when the programme ends; furthermore calls on the ECB to make public the criteria applying regarding the eligibility of corporate bonds for purchase under the CSPP, in order to avoid possible distortions of market competition; underlines that the eligibility of bonds is subject to risk management criteria and not to the size of the issuing companies;

**Additional challenges**

30. Notes that the ECB as an EU institution is bound by the Paris Agreement;

31. Agrees that a well-functioning, diversified and integrated capital market would support the transmission of the single monetary policy; is of the opinion that the capital markets union (CMU) should play a key role in expanding the pool of capital in the EU; calls for the step-by-step, timely and full completion and implementation of the CMU;

32. Notes the positive opinion of the ECB regarding the establishment of a European deposit insurance scheme (EDIS) as the third pillar of the banking union; highlights the key role of deposit insurance for confidence-building and for ensuring the equal safety of deposits within the Banking Union; stresses that EDIS could further help enhance and safeguard financial stability; recognises that risk sharing and risk reduction need to go hand in hand;

33. Takes note of the Commission’s reflections on establishing a European safe asset for the euro area’s Banking Union;

34. Takes note of the decision of the ECB Governing Council regarding the Recommendation for a Decision of the European Parliament and of the Council amending Article 22 of the ESCB and ECB Statute, taken on 23 June 2017 in order to provide a legal basis enabling the Eurosystem to carry out its role as central bank of issue in the proposed reform of the supervisory architecture for central clearing counterparties (CCPs), thus giving the ECB the competence to regulate the activity of the clearing systems, including CCPs, with the objective of effectively countering the risks posed by those systems to the smooth operation of payment systems and the implementation of the single monetary policy; is currently assessing the recommendation, and looks forward to the discussions on this proposal;

**Physical money and digital currencies**
35. Agrees with the ECB on the importance of physical money as legal tender, given that the euro is the sole legal tender within the euro area, and reminds all euro area Member States that the acceptance of euro coins and banknotes should be the rule in retail transactions, without prejudice to the right of the said Member States to introduce upper limits to cash payments with a view to fighting money laundering, tax fraud, and the financing of terrorism and organised crime; suggests that the Eurosystem should issue commemorative Charlemagne banknotes that would also be legal tender;

36. Takes note of the ongoing discussions concerning a ‘central bank digital currency’ or ‘digital base money’ that would be made available to a wide range of counterparties, including households; encourages the Commission and the ECB to study such schemes with a view to improving public access to payment systems, alongside physical money, as well as the potential challenges entailed for the ECB’s monopoly of issuing money; stresses that progress in the field of virtual currencies must not lead to restrictions on retail cash payments or to the abolition of cash;

37. Underlines the importance of cyber-security for the financial sector; welcomes the ECB’s work in this area, including the launching of a pilot scheme for reporting significant cyber incidents in February 2016 and collaboration in the framework of the G7;

**Accountability and transparency**

38. Asks the ECB to continue providing the necessary support to Greece, and to any other Member State, in the review of the completion of the financial assistance programme; considers that such support could involve, without prejudice to its independent status, the inclusion of Greek sovereign bonds in the PSPP, on the basis of the eligibility criteria applied to all Member States, and the extension of the CBPP3 programme to Greek legal entities governed by public and private law, in accordance with the same eligibility criteria;

39. Calls on the ECB, in cooperation with the ESAs, to assess all the consequences of the UK’s withdrawal from the EU and to stand ready to prepare for the relocation of banks and their activities in the euro area; considers the strengthening of oversight for euro-clearing outside the euro area to be of the utmost importance, in order to avoid supervisory gaps and financial stability issues; is starting to debate the Commission’s proposal amending EMIR as regards the supervision of CCPs issued in June 2017 at committee level, with a view to achieving this strengthening;

40. Notes that the High-Level Group on Own Resources has identified ECB profits from seigniorage as one of the possible new own resources for the EU budget; stresses that turning these profits into an EU own resource would require a change to the Statute of the ESCB and the ECB, as well as adjustments to accommodate the specific situation of non-euro area Member States;

41. Considers that the ECB’s independence, and thus its degree of accountability, must be commensurate with its importance; emphasises that the ECB’s responsibilities and tasks require transparency towards the general public and enhanced accountability towards Parliament; stresses the need to submit shortlists of candidates so that Parliament can perform its institutional role in the appointment of the President, Vice-President and other executive board members of the ECB;
42. Points out that the Monetary Dialogue is an important tool for ensuring the transparency of monetary policy decisions vis-à-vis Parliament, and hence for the general public; welcomes the regular presence of and dialogue with the President of the ECB and other members of the Executive Board in the framework of the Monetary Dialogue and other formats; considers that the Monetary Dialogue could be further improved, including by revamping it in order to strengthen the focus, interactivity and relevance of the exchange of views with the ECB President and other members of the Executive Board in the framework of the Monetary Dialogue and other formats, on the lines of the recommendations and feedback from monetary experts commissioned by the Committee on Economic and Monetary Affairs in March 2014; also calls on the ECB’s officials to continue with the welcome practice of providing answers in writing when outstanding issues remain after the exchanges of views;

43. Welcomes the decision made by the ECB in 2016 to publish in its annual report its feedback on the input provided by Parliament, and encourages the ECB to continue its transparency efforts in order to better explain its monetary policy measures; recalls its request to the ECB to add a chapter or an annex to its annual report providing a comprehensive feedback on Parliament’s report on the previous year;

44. Asks the ECB to ensure the independence of the members of its internal Audit Committee; urges the ECB, in order to prevent conflicts of interest, to publish declarations of financial interests for its Governing Council members; urges the ECB to ensure that the Ethics Committee is not chaired by a former President or other past members of the Governing Council of the ECB, nor by anyone liable to conflict of interest; calls the ECB Governing Council to follow the EU Staff Regulations and Code of Conduct and require a two-year professional abstention period for its outgoing members after the conclusion of their mandate; stresses that the members of the Executive Board of the ECB should in principle abstain from being simultaneous members of forums or other organisations which include executives from banks supervised by the ECB, unless such membership is in line with established practice at global level and the ECB participates alongside other central banks such as the United States Federal Reserve or the Bank of Japan; considers that in these cases the ECB should take appropriate measures to avoid possible interference with its supervisory role and should not participate in discussions regarding individual banks under its supervision; takes note of the recommendations of the European Ombudsman of 15 January 2018 regarding the involvement of the President of the European Central Bank and the members of its decision-making bodies in the ‘Group of Thirty’;

45. Calls on the ECB to adopt a clear and public policy on whistle-blowing;

46. Notes that the ECB’s current employment policy regarding temporary agents, relying also on repetitive temporary contracts, may create instability in the working environment and undermine professional cohesion within the ECB; is concerned by the alleged cases of cronyism and the high level of dissatisfaction among ECB employees; notes and welcomes the ECB’s initiatives to address these issues, also through a strengthened dialogue with staff representatives, and encourages it to pursue this effort further; calls on the ECB to ensure equal treatment and equal opportunities for all its staff, as well as to guarantee decent working conditions within the institution;

47. Welcomes the ECB’s efforts to improve clarity and transparency in relation to the provision of emergency liquidity assistance (ELA) and the determination of its pricing.
in line with the agreement on ELA of May 2017; points out that the provision of central bank liquidity to institutions in the euro area could be further clarified;

48. Welcomes the ECB’s practice of publishing its decisions of general application, regulations, recommendations and opinions, thereby reducing the number of exemptions from disclosure; asks the ECB to increase its transparency towards the public, including via public consultations, where the publication does not significantly disturb the functioning of the markets;

49. Stresses that the ECB’s supervisory and monetary policy roles should not be confused and should not generate any conflict of interest in its execution of its principal functions;

50. Instructs its President to forward this resolution to the Council, the Commission and the ECB.