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European Central Bank Annual report 2017

European Parliament resolution of 16 January 2019 on the ECB Annual Report 2017 (2018/2101(INI))

The European Parliament,

– having regard to its resolution of 6 February 2018 on the European Central Bank Annual Report for 2016[1],

– having regard to the 2017 Annual Report of the European Central Bank (ECB),

– having regard to the Statute of the European System of Central Banks (ESCB) and of the European Central Bank, in particular Articles 2, 3, 7, 10(2), 15, 21, 32(5) and 33(1) thereof,

– having regard to Articles 129(3), 130, 138(2), 282(2), 282(3), 283(2) and 284(3) of the Treaty on the Functioning of the European Union (TFEU),

– having regard to the speech by the President of the ECB, Mario Draghi, delivered in Sintra on 19 June 2018,

– having regard to the ECB Economic Bulletin, Issue 5/2018,

– having regard to Article 11 of Council Regulation (EC) No 974/98 of 3 May 1998 on the introduction of the euro[2],

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

– having regard to the feedback to the input provided by Parliament as part of its resolution on the ECB Annual Report for 2016,

– having regard to the Annual Economic Report 2017 of the Bank for International Settlements (BIS),

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1 Texts adopted, P8_TA(2018)0025.
2 OJ L 139, 11.5.1998, p. 1.

– having regard to the report of November 2016 of the European Systemic Risk Board (ESRB), 'Vulnerabilities in the EU residential real estate sector', and its accompanying country-specific warnings issued to eight Member States,

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

– having regard to the report of the Committee on Economic and Monetary Affairs (A8-0424/2018),

A. whereas the euro remains unchallenged as the second most important currency in the international monetary system; whereas popular support for the euro was high in 2017 with close to three-quarters of respondents in the euro area (73 %) being in favour of the single currency, the highest score reached since autumn 2004;

B. whereas according to the Commission’s summer 2018 forecast, the GDP of the EU and the euro area grew by 2,4 % in 2017, outperforming the US; whereas according to the same forecast, GDP should increase in 2018 and 2019 by 2,1 % and 2,0 % respectively;

C. whereas the latest economic figures in 2018 reflect a certain slowdown in growth from the high levels of 2017, owing to a weaker impetus from external trade and higher oil prices;

D. whereas according to Eurostat figures from May 2018, unemployment in the EU and the euro area has now all but returned to pre-crisis levels, standing at 7,0 % and 8,4 % respectively; whereas the numbers of employed people and labour force participation in the euro area were at their highest levels since the start of the Economic and Monetary Union in 1999;

E. whereas despite some convergence, growth and unemployment rates remain geographically uneven to a significant degree, causing dangerous fragility for the economy and endangering sound and balanced development; whereas the youth unemployment rate remains more than double the average rate, standing at 16,8 % in the EU and 18,8 % in the euro area at the end of 2017;

F. whereas the current broad-based economic expansion is mainly being driven by exports and domestic consumption in the Member States; whereas last year investment grew at the fastest pace since 2007, backed by the global upswing and the Investment Plan for Europe; stresses the role of EFSI in bridging the investment gap in the EU, mobilising a total investment of EUR 256,9 billion and providing financing to almost 550 000 small and medium-sized enterprises (SMEs) benefiting from European Investment Fund funding;

G. whereas the economic performance of those Member States which are outside the single currency and which enjoy exchange rate flexibility for their own currencies has been uneven; whereas the economies of those Member States which have adopted the single currency in the last ten years have performed better than those of the countries with flexible exchange rates;

H. whereas according to the Eurosystem staff macroeconomic projections from June 2018, annual inflation in the Harmonised Index of Consumer Prices (HICP) for the euro area looks set to reach 1,7 % in 2018, 2019 and 2020, recovering from past lows and moving closer to the ECB's medium-term inflation objective of close to but below 2 %, but still falling short of that objective and with a large variance in inflation rates across the euro area; whereas the increase in headline inflation is mainly driven by higher energy prices, while underlying inflation recorded only a marginal increase to 1,0 % from 0,9 % in 2016, lacking signs of a sustained upward trend in 2017; whereas wage growth in line with productivity growth remains an important precondition for a sustained increase in underlying inflation;

I. whereas according to the Commission's spring 2018 forecast, the aggregated government deficit in the euro area is expected to fall from 0,9 % to 0,7 % of GDP in 2018, with a further decrease to 0,6 % anticipated for 2019, compared to expected deficits of 5,9 % of GDP in the US and 2,7 % in Japan;

J. whereas the ECB expects inflation to gradually pick up over the medium term, supported by the impact of the current monetary policy stance, continuing economic expansion, rising wages and the absorption of economic slack;

K. whereas the euro area banks have accelerated their reduction in the number of non-performing loans (NPLs), from 8 % of total loans in 2014 to 4,9 % in the fourth quarter of 2017; whereas the total volume of NPLs across the EU is still at the level of EUR 950 billion; whereas NPLs need to be either sold, (partially) written off or appropriately provisioned for in order to ensure financial stability and avoid negative consequences for current account holders, savers and investors; whereas there are significant differences between Member States in the numbers of NPLs; whereas NPL ratios in eight Member States are still well above 10 % and two of these have a ratio of over 40 %;

L. whereas there is a need for an enhanced secondary market for NPLs with the aim of enhancing market liquidity at European level and avoiding possible market opacity; whereas financial institutions active in the secondary market must be required to take into account the interests of consumers and comply with all relevant national and EU consumer protection requirements;

M. whereas at its October 2017 meeting the ECB Governing Council decided to continue its net purchases under the Asset Purchase Programme (APP) at a monthly rhythm of EUR 30 billion until September 2018; whereas at its June 2018 meeting it decided to prolong the monthly purchase for a reduced amount of EUR 15 billion until the end of 2018 and then to end purchases altogether, subject to incoming data confirming its medium-term inflation outlook, confirming that decision at its September 2018 meeting;

N. whereas the ECB Governing Council has confirmed its expectations regarding keeping the interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility unchanged, respectively at 0,00 %, 0,25 % and 0,40 %, until at least the end of summer 2019, and in any event until there has been a sustained adjustment in the path of inflation consistent with the ECB's medium-term objective;

O. whereas the last takeup of the Targeted Longer-Term Refinancing Operations (TLTRO) in 2017 showed an increasing demand by banks in the euro area; whereas the objective of the TLTRO is to stimulate bank lending to the real economy;

P. whereas at the end of 2017 the size of the Eurosystem balance sheet had reached an alltime high of over EUR 4,5 trillion, growing by EUR 0,8 trillion compared to the end of 2016 and constituting 41 % of the total GDP of the euro area; whereas the ECB has imported considerable risks into its balance sheet through its bond-purchasing programme;

Q. whereas in 2017 the number and value of euro banknotes in circulation grew by around 5,9 % and 4,0 % respectively while the number and value of euro coins grew by 4,2 % and 4,0 % respectively;

R. whereas in 2017 the ECB's net profit amounted to EUR 1 275 billion, compared to EUR 1 193 billion in 2016; whereas this increase can mainly be attributed to the increase in net interest income;

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

T. whereas Article 123 TFEU and Article 21 of the ESCB/ECB Statute prohibit the monetary financing of governments;

U. whereas hitherto when performing its supervisory role the ECB has not always taken sufficient account of the proportionality principle;

General overview

1. Welcome the fact that popular support for the euro has increased by 8 percentage points in 2017 vis-à-vis 2016, with almost two-third of respondents (64 %) thinking that the single currency is a good thing for their countries;

2. Emphasises that the euro is primarily a political project, rather than an economic one; stresses the irreversible nature of the single currency;

3. Draws attention to the requirement for every Member State with the exception of the UK and Denmark to adopt the single currency once it has met the Maastricht convergence criteria; takes the view that participation in the Banking Union must be regarded as a key criterion for those countries wishing to join the euro area;

4. Highlights that the statutory independence of the ECB, as laid down in the Treaties, is crucial for the fulfilment of its mandate of price stability and for protecting the institution as a whole from political interference;

5. Stresses that the ECB is responsible for monetary policy of the euro area as a whole; recalls that the ECB's rules state that board members do not represent their Member State, have no veto power and must not take instructions from any institution, government or other body, thus enabling it to act decisively;

6. Notes that monetary policy has contributed to preserving the single currency and the stability of the Economic and Monetary Union;

7. Reiterates that the independence of the ECB gives the members of its Executive Board the freedom to decide, responsibly and on the basis of respect for appropriate

accountability, whether to participate in fora, including those not open to the wider public, where they consider it necessary to ensure the best conduct of the ECB's monetary policy; notes the opinion of the Ombudsman of 5 July 2018;

8. Calls on the ECB to focus on its primary objective of price stability; recalls that, in accordance with the provisions of Article 2 of its Statute and Article 127 TFEU and the further details set out in Article 282 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 TEU;

9. Notes that the EU economy grew at its fastest rate in ten years in 2017 and that all Member States saw their economies expand; notes that unemployment in the EU is at its lowest level since 2008, although continuing to dramatically affect young people; welcomes the role of the ECB in the structural reforms designed to bring about sustainable and inclusive growth undertaken in some Member States as part of the ongoing recovery; recalls the importance of assessing the economic and social consequences of these reforms;

10. Warns, however, of the rise of uncertainties stemming from factors including: the threat of increased protectionism; the Brexit negotiations; potential asset bubbles; the emerging markets crisis; historic levels of private and public debt; general volatility in the financial markets linked in particular to the political risks in some Member States which are impairing the euro area's growth prospects; rising populism, isolationism and ethnocentrism across the political spectrum; the backlash against globalisation; and growing divergences between Member States over the future of European integration;

11. Warns that, according to the 2018 Annual Economic Report by the Bank for International Settlements (BIS), there have been signs of a buildup of financial imbalances, especially in countries largely spared by the global financial crisis because, in contrast to countries at the heart of the turmoil, no private sector deleveraging has taken place there; notes that the imbalances take the form of strong increases in private sector credit;

12. Emphasises the great importance, at this juncture, of maintaining a favourable environment for public and private investment, which are still lagging behind pre-crisis levels; encourages the ECB to pursue measures in line with its mandate to help realise this objective; recalls, however, that credit-driven expansion may lead to a misallocation of real resources;

Structural reforms

13. Considers that monetary policy alone is not sufficient to achieve a sustainable economic recovery; recalls the counter-cyclical impact of monetary policy in the post-crisis recovery, but believes that the structural contribution that monetary policy makes to sustainable growth is limited; therefore, urges policymakers to maintain the current economic upswing beyond the short term by implementing a mix of socially balanced, ambitious and growth-friendly productivity-enhancing structural reforms and fiscal policies, within the framework of the Stability and Growth Pact (SGP), including its flexibility provisions; echoes the words of the chair of the European Fiscal Board, addressing the Committee on Economic and Monetary Affairs on 5 November 2018, to

the effect that 'flexibility in the rules must be a practice that depends on the economic situation we are in', as well as the view expressed in the report of June 2018 that 'to safeguard the credibility of the Pact, its flexibility provisions should be applied in a symmetric way, not only when the economy goes south or is weak';

14. Stresses that in order to ensure the full effectiveness of monetary policy, excessive macroeconomic imbalances must be corrected with appropriate fiscal and economic policies and productivity-enhancing reforms; stresses that the monetary policy of the ECB cannot be a substitute for sustainable structural reforms, which are the responsibility of the Member States;

15. Notes with concern that the EU's share of global foreign direct investment flows has fallen significantly since the crisis;

16. Notes the opinion of the ECB calling for 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 safety of all deposits within the Banking Union; stresses that EDIS could help further enhance and safeguard financial stability; recognises that risk sharing and risk reduction should go hand in hand;

Asset purchase programme

17. Stresses that the ECB's non-standard monetary policy measures have contributed to forestalling the risks of deflation that were still present at the beginning of 2016 and initiating a recovery in credit to the private sector, for which annual growth was around 3 % in mid-2018 compared to 0 % in 2015;

18. Agrees with the ECB that reaching the inflation target will necessitate sustainably supportive fiscal policies as well as reforms enhancing competitiveness, productivity and growth and wage increases in line with productivity growth; calls, therefore, on the Member States to redouble their efforts following the principles of the 'virtuous triangle' of boosting investment, pursuing growth-friendly and socially balanced structural reforms, and ensuring responsible fiscal policies;

19. Is concerned about rapidly rising property prices in certain Member States; calls, therefore, for vigilance in the face of the risk of a resurgence in real estate bubbles and excessive household and private sector indebtedness in certain Member States;

20. Notes the comments of the chair of the ESRB, Mario Draghi,[1] to the effect that the main source of vulnerability leading to overheating property markets in the EU is the search for yield by international investors - largely in the field of cross-border financing and by non-banks - and that policymakers should investigate whether new macroprudential instruments should be introduced for non-banks, especially in relation to their commercial real estate exposures;

21. Agrees, without prejudice to the ECB's independence, with its decision to end the APP in a sustainable manner, subject to incoming data confirming its medium-term inflation outlook, and considers that this instrument should only be used on a temporary basis, as

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[1] At the hearing held with the ESRB in the Committee on Economic and Monetary Affairs on 9 July 2018.

it creates new risks to financial stability and reduces incentives to consolidate public finances and implement structural reforms; acknowledges that the reliance on monetary policy to support the post-crisis recovery has also had unintended consequences;

22. Stresses in particular that prolonged non-standard policy measures may have negative distributional effects; calls on the ECB, therefore, to include in its next annual report a comprehensive and detailed analysis of the side-effects of its monetary policy measures, including the potential risks to the insurance and pension sector;

23. Notes that with holdings of EUR 1,9 trillion at the end of 2017, the Public Sector Purchase Programme (PSPP) accounted for the largest part of the APP; emphasises the importance of following the issuer limit of 33 % in public sector purchases;

24. Notes that of all private sector purchase programmes, the corporate sector programme (CSPP) contributed the most to the APP in 2017, with EUR 82 billion in net purchases; welcomes the fact that since 2017 the ECB has been publishing the full list of all CSPP holdings, including the names of issuers, together with aggregated data on those holdings by country, risk, rating and sector; calls on the ECB to apply a similar transparency policy for all asset purchase programmes, including ABSPP and CBPP3, in addition to further measures, in order to disclose the operational procedures used in the choice of securities purchased by national central banks (NCBs); stresses that the CSPP must by no means lead to competitive distortions within the internal market;

25. Recalls that the ECB as an EU institution is bound by the Paris agreement; invites the ECB, in full respect of its mandate, its independence and the risk management framework, to integrate the commitment to the Paris agreement and economic, social and governance principles (ESG principles) into its policies;

26. Welcomes the transparency provided by the ECB through its forward guidance; acknowledges the ECB’s decision to keep interest rates low, in the light of uncertainties in the global environment at present;

27. Underlines that the proper sequencing and conduct of the phase-out of exceptional monetary policy measures will be key in order to avoid market disruptions; recalls that it is possible to proceed to rate increases while maintaining a stable balance sheet size for the Eurosystem if economic conditions so warrant;

28. Stresses the importance of communication and forward guidance for a successful normalisation of monetary policy;

29. Is mindful of the differentiated impact that normalisation of monetary policy is expected to have on Member States depending on the level and maturity profile of their debt;

30. Stresses the magnitude of the regulatory and structural changes that have taken place since the last economic crisis and their relevance to many areas relating to monetary policy; underlines the importance of research and studies in order to better understand the new environment resulting from the developments that took place over the last decades and their consequences for the conduct of monetary policy;

31. Notes the impact of the negative deposit facility rate imposed on banks since June 2014; considers that this measure, were it still to be pursued, might affect the profitability of the banking sector and that it should be phased out in the course of normalising

monetary policy in line with the current recovery;

32. Is aware of the possible continuation of the TLTRO, which provide banks with medium-term financing at attractive conditions on condition that the financing is actually used to grant new credit to the real economy; takes note of the increasing demand on the part of euro area banks reflected in the last TLTRO in 2017, which may be due to expectations of a hike in deposit rates and the possibility of cheap profits; calls on the ECB to closely monitor this development so as to ensure that the TLTRO are actually used for stimulating bank lending to the real economy;

33. Takes note of the increase in TARGET2 balances indicating continued capital outflows from the euro area periphery; notes that the ECB considers that changes in the TARGET balances largely reflect the liquidity flows arising in the context of the APP and are not a symptom of renewed stress on the financial markets; calls on the ECB to clarify the underlying factors and potential risks relating to the imbalances that this could cause;

Other aspects

34. Welcomes the adoption of the agreement on emergency liquidity assistance (ELA), which clarifies the allocation of responsibilities, costs and risks; notes that this agreement is to be reviewed in 2019 at the latest; is of the opinion that granting ELA should be decided at EU level;

35. Calls on the ECB to disclose the full amounts of profits made by the Eurosystem through the Agreement on Net Financial Assets (ANFA) and through the Securities Markets Programme (SMP) from 2010 up to its full expiration, with a specific breakdown per country for those Member States which have been subject to SMP purchases (Greece, Ireland, Portugal, Spain and Italy);

36. Welcomes the amendment of Article 22 of the ESCB/ECB Statute aimed at providing a clear legal basis for enabling the Eurosystem to carry out its role as central bank of issue 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;

37. Calls on the ECB to follow the recommendations of Transparency International, in particular as regards its role within the troika;

38. Calls on the ECB to continue its efforts to ensure that banks are well prepared for all possible contingencies relating to Brexit; calls on the ECB, moreover, to undertake all necessary preparations to ensure the stability of EU financial markets, including in the case of a no-deal Brexit;

39. Stresses the need for euro area Member States to pursue a joint regulatory strategy for the financial sector in the wake of Brexit, rather than engaging in harmful downward competition;

40. Agrees that a well-functioning, diversified and integrated capital market is conducive to the transmission of the single monetary policy; urges an acceleration of the Capital Markets Union (CMU) project in order to deepen financial integration, with a view to

helping build resilience to shocks and render the transmission of monetary policy across the monetary union more effective, fostering private risk-sharing within the Banking Union and within the Union as a whole; points out that the CSPP could have contributed to the easing of business financing conditions, in particular in the non-financial sector (i.e. to non-financial corporations (NFCs));

41. Considers that the deeper and better connected European capital markets which will result from moving towards an EU CMU and from the step-by-step completion of the Banking Union will contribute to the depth and liquidity of euro area financial markets, while fostering the international standing of the euro;

42. Calls on the ECB to continue to pay attention to access to credit for SMEs, in particular in the light of the slow improvement in their financial situation highlighted by the Survey on the access to finance of enterprises (SAFE) conducted in June 2018; stresses that a fully functioning CMU can, in a longer-term perspective, provide alternative financing to SMEs complementing that of the banking sector;

43. Believes that the fastest way to achieve a well-functioning CMU is to address the national regulations that prevent well-functioning capital markets from having a broader impact throughout the Union and to reduce the burden of new regulations;

44. Calls on the ECB to increase its monitoring vis-à-vis the development of Distributed Ledger Technology (DLT) and the increased cybersecurity risks of financial technology;

45. Notes that the ECB agrees that it is important to study the relevance and implications of issuing central bank digital currency (or digital base money (DBM)) for the general public; encourages the ECB to conduct and publish such a study;

46. Emphasises the importance of IT security for the financial sector and the payments system; calls on the ECB to continue to pay close attention to the matter, to highlight its importance in international fora, and to continue cooperating with the European Data Protection Supervisor;

47. 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 those 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;

48. Echoes the positions expressed by members of the Executive Board on the importance of developing truly European payment systems that are immune from external disruptions such as those of a political nature;

49. Draws attention to President Juncker's call in his State of the Union 2018 speech to address the international role of the euro and the need for it to play its full role on the international scene;

50. Stresses the importance of the ECB being accountable to Parliament; welcomes, in this respect, the permanent dialogue between the ECB and Parliament, and the regular appearances of the President of the ECB and, where applicable, other members of the

Executive Board, before the Committee on Economic and Monetary Affairs and the plenary; encourages the ECB to continue this dialogue; stresses that the ECB has improved its communication; believes that it should continue its efforts to make its decisions available and understandable to all citizens, as well as its actions to maintain price stability in the euro area and therefore preserve the purchasing power of the common currency;

51. Congratulates the ECB on the efforts it has made thus far to improve transparency and democratic accountability vis-à-vis European citizens and the European Parliament;

52. Asks the Committee on Economic and Monetary Affairs to take action to improve the set-up of the monetary dialogue with the ECB President;

53. Welcomes the improved, section-by-section, and substantial feedback provided by the ECB to Parliament's input on the 2016 ECB Annual Report; calls on the ECB to continue this commitment to accountability and keep on publishing its written feedback to Parliament's resolution on the ECB Annual Report each year;

54. Recalls that the coming months will see important changes in the Governing Council of the ECB, with several of the Executive Board members, including the President, concluding their terms; considers that these changes should be prepared carefully and in full transparency, together with Parliament in line with the Treaties; urges the Council to draw up a balanced shortlist of at least three candidates for all upcoming vacancies, thus allowing Parliament to play a more meaningful advisory role in the appointment process; reiterates its position that an improved gender balance is required, both on the Executive Board and in the ECB’s staff more generally; stresses that the members of the Executive Board must be selected solely on the basis of their recognised standing and professional experience in monetary or banking matters;

55. Agrees with the argument put forward by President Draghi in his speech of 13 September 2018 that the excessive number of inconsistent statements made and then not followed up in recent months have led in Italy to an increase in government bond yields and a widening of the spread, with negative consequences for enterprises and households;

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56. Instructs its President to forward this resolution to the Council and the Commission.