European Parliament

European Central Bank annual report 2015

The European Parliament will discuss the European Central Bank's (ECB) annual report for 2015 in its first November plenary, and is due to debate an own-initiative report focusing on monetary policy and on banking supervision activities in the euro area.

Monetary policy

The economic and monetary context in 2015 (and 2016) was a difficult one. As outlined in the ECB 2015 annual report, growth and employment in the euro area gradually improved, but a deflationary threat remained. As stipulated in Article 127 TFEU, the ECB's primary objective is to maintain price stability. Given that the ECB missed its target of maintaining inflation levels below, but close to, 2 % over the medium term, it intensified its unconventional measures, which also helped boost growth and jobs. These measures included maintaining negative interest rates and launching an asset purchase programme (APP), with a monthly acquisition on the secondary markets of €60 billion in public sector securities, covered bonds and asset-backed securities. In 2016, the volume was raised to €80 billion, and now includes the purchase of non-financial corporate bonds. ECB President Mario Draghi hinted that decisions concerning the APP's future might be taken in December 2016; although he does not expect an abrupt end (it will run at least until March 2017). In addition, a second series of targeted longer-term refinancing operations (TLTROs) was introduced in March 2016, to help banks boost lending to businesses and consumers. The ECB expects inflation to pick up again, reaching 1.2 % in 2017 and 1.6 % in 2018.

Banking supervision

The euro area's financial sector remains frail in the wake of the financial and sovereign debt crises. In particular, a number of banks are still struggling with their non-performing loans. These persistent issues prompted the launch of the Single Supervisory Mechanism (SSM), through which the ECB performed macroprudential and microprudential tasks throughout 2015, the mechanism's first full year of operation. The SSM routinely assesses risks in the financial system and evaluates its resilience. Since June 2015, the euro system has provided the TARGET2-Securities (T2S) settlement service. The ECB is also involved in the Single Resolution Mechanism (SRM), which became fully operational on 1 January 2016.

The position of the European Parliament

The EP's Economic and Monetary Affairs Committee report (rapporteur Ramon Tremosa i Balcells, ALDE, Spain) notes the difficult economic outlook, and broadly welcomes the ECB's actions, especially its endeavour to return to a sound level of inflation. The report reiterates support for President Draghi's 2012 statement that the ECB is resolved to do 'whatever it takes' to defend the euro. It backs the ECB's calls for structural reforms in a number of Member States as necessary flanking measures to fiscal and monetary policies. However, the report also expresses caution in a number of fields. Persistently low interest rates are deemed a growing problem, given their potential to undermine monetary policy transmission mechanisms. Negative effects are feared: risks to private savings; a damaging reduction in bank profitability; impediments to the sound functioning of pension funds; inflation of asset bubbles; and governments feeling less pressure to carry out structural reforms. Concerning TLTRO II, the report criticises the reduction of incentives to lend to the real economy. The report calls for the completion of the banking union and the establishment of a capital market union. It cautions the ECB in its role as a financial supervisor, asking that it pay due attention to the principle of proportionality. The report lauds the improvement in the information provided by the ECB, including the publication of the minutes of the Council meetings, but requests additional information on the quality of assets put forward as collateral to the euro system. The report points to the possible risks for certain Member States and a number of frail financial institutions, should interest rates start to rise again.

EPRS | European Parliamentary Research Service

Author: Christian Scheinert, **Members' Research Service**

PE 593.522