REPORT

on the European Central Bank Annual Report 2020
(2020/2123(INI))

Committee on Economic and Monetary Affairs

Rapporteur: Sven Simon
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MOTION FOR A EUROPEAN PARLIAMENT RESOLUTION

on the European Central Bank Annual Report 2020
(2020/2123(INI))

The European Parliament,

– having regard to the European Central Bank (ECB) Annual Report 2019,

– 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 2018’,

– having regard to the Statute of the European System of Central Banks (ESCB) and of the ECB, in particular Articles 15 and 21 thereof,

– having regard to Articles 123, 127(1), (2) and (5), 130, 132 and 284(3) of the Treaty on the Functioning of the European Union (TFEU),

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

– having regard to the Eurosystem staff macroeconomic projections for the euro area and measures adopted by the Governing Council of the ECB on 4 June 2020,

– having regard to the ECB survey on the access to finance of enterprises in the euro area for October 2019 to March 2020, published on 8 May 2020,

– having regard to the ECB staff macroeconomic projections for the euro area published on 10 September 2020,

– having regard to the monetary dialogues with the President of the European Central Bank, Christine Lagarde, of 6 February and 8 June 2020, and of 28 September 2020,

– having regard to its legislative resolution of 28 March 2019 on the proposal for a regulation of the European Parliament and of the Council on the establishment of a framework to facilitate sustainable investment¹,

– having regard to occasional paper No 247 of the ECB Crypto-Assets Task Force of September 2020 entitled ‘Stablecoins: Implications for monetary policy, financial stability, market infrastructure and payments, and banking supervision in the euro area’,

– having regard to its resolution of 14 March 2019 on gender balance in EU economic and monetary affairs nominations²,

– having regard to the ECB report of October 2020 on a digital euro,

– having regard to the ECB occasional paper No 201 of November 2017 entitled ‘The use

of cash by households in the euro area’,

– having regard to the 2020 update of the ECB’s Environmental Statement,

– having regard to Rule 142(1) of its Rules of Procedure,

– having regard to the report of the Committee on Economic and Monetary Affairs (A9-0002/2021),

A. whereas the Commission’s Summer 2020 Economic Forecast, taking into account economic shocks caused by the COVID-19 pandemic, projects that the euro area economy will contract by 8.7 % in 2020 and grow by 6.1 % in 2021, and the EU-27 economy will contract by 8.3 % in 2020 and grow by 5.8 % in 2021;

B. whereas, according to the ECB staff macroeconomic projections of September 2020, annual inflation for the euro area in the Harmonised Index of Consumer Prices (HICP) will be 0.3 % in 2020, 1.0 % in 2021 and 1.3 % in 2022 on average, while inflation projections show substantial variance across the euro area;

C. whereas, according to Eurostat, the unemployment rate in August 2020 was 7.4 % in the EU and 8.1 % in the euro area; whereas the unemployment rate is expected to increase; whereas the unemployment rate is uneven across the Union; whereas extraordinary regional inequalities persist in unemployment, both within and among the Member States; whereas a high youth unemployment rate remains a serious issue to be tackled in the EU;

D. whereas the ECB data on the HICP for 2020 shows a deflationary impact owing to the COVID-19 crisis in several member states;

E. whereas the ECB’s September projections for global real GDP (excluding the euro area) are for a fall of 3.7 % in 2020, followed by a rebound of 6.2 % in 2021 and of 3.8 % in 2022;

F. whereas, notwithstanding the repeated calls of the European Parliament to receive a gender-balanced shortlist of at least two names for ECB Executive Board positions, the shortlist for the appointment of a new member of the Executive Board to replace Yves Mersch was composed only of men; whereas women continue to be strongly underrepresented on the Governing Council of the ECB;

G. whereas in 2019, the ECB’s net profit amounted to EUR 2 366 billion, compared with EUR 1 575 billion in 2018; whereas this increase can mainly be attributed to the increase in net interest income on the US dollar portfolio and on the asset purchase programme (APP) portfolio;

H. whereas at the end of 2019, the size of the Eurosystem balance sheet had reached a high of EUR 4 671 425 million, the second-biggest high of all-time after the high of 2018;

I. whereas SMEs, which remain the backbone of the EU’s economy and societies, and which enhance economic and social cohesion, need further support;
J. whereas SMEs have been severely impacted by the COVID-19 crisis; whereas developments in the general economic outlook have negatively affected their access to finance;

K. whereas the TFEU defines the ECB’s mandate as being to maintain price stability and support the general economic policies of the Union, with a view to contributing to the achievement of the objectives of the Union;

L. whereas, according to the November 2019 Eurobarometer survey, public support for the European economic and monetary union with one single currency, the euro, was 62 % in 2019;

M. whereas on 18 March 2020, the ECB announced a Pandemic Emergency Purchase Programme (PEPP) as a new, temporary programme for public and private sector asset purchases with an envelope of EUR 750 billion, in order to counter risks to monetary policy transmission in the euro area caused by the coronavirus pandemic;

N. whereas on 4 June 2020, the ECB Governing Council decided to increase the PEPP envelope to EUR 1.35 trillion, to extend the horizon for PEPP net purchases until at least the end of June 2021, and that maturing principal payments under the PEPP will be reinvested until at least the end of 2022; notes, moreover, that net purchases under the APP will continue at a monthly rate of EUR 20 billion, together with the purchases under the additional EUR 120 billion temporary envelope until the end of 2020;

O. whereas other policy measures were taken to provide liquidity, such as targeted longer-term refinancing operations (TLTRO III) and PELTRO, a pandemic-specific liquidity facility;

General overview

1. Welcomes the role of the ECB in safeguarding euro stability; highlights that the statutory independence of the ECB, as laid down in the Treaties, is a prerequisite for it to fulfil its mandate, as well as to safeguard its democratic legitimacy; notes that independence requires that the ECB must not seek or take instructions from Union institutions or bodies, from any government of a Member State or from any other body; stresses that this independence must not be infringed on, and highlights moreover that central bank independence should always be complemented by a corresponding level of accountability; stresses that the TFEU states that, besides its primary mandate of maintaining price stability, the ECB must also support the general economic policies of the Union with a view to contributing to the achievement of the objectives of the Union, as long as they are not in conflict with the primary mandate; underlines that sustainable development, convergence, full employment, and social progress are general objectives of the Union as defined in Article 3 of the TFEU;

2. Stresses the irreversible nature of the single currency; emphasises that the euro is not only a monetary project but also a political one;

3. Is concerned about the unprecedented healthcare, economic and social crisis caused by the COVID-19 pandemic, with a sharp contraction of the euro area economy and rapidly deteriorating labour market conditions, including the rise of unemployment;
notes that euro area activity is expected to rebound, although the speed and scale of the rebound remains highly uncertain and uneven across Member States;

4. Is concerned, moreover, that the balance of risks to the growth outlook remains to the downside in a context of exceptional uncertainty where the extent of the contraction and the recovery will depend on the duration and effectiveness of the containment measures, the success of fiscal and monetary policies to mitigate the adverse impact on incomes and employment, and the extent to which supply capacity, domestic demand and international supply chains are permanently affected;

5. Calls for an urgent re-evaluation of systemic risk in the financial sector following the pandemic; welcomes, in this regard, the establishment of a working board relating to the pandemic at the European Systemic Risk Board; advises that a qualitative assessment of idiosyncratic risk be included in future stress tests;

6. Welcomes the ECB’s efforts at maintaining price stability; notes that the target for inflation has not been systematically attained and that further vigilance is needed; highlights that the euro area has registered deflation in the past months; highlights that deflation poses significant risks to the euro area economies, which might call for strong ECB intervention; 7. Welcomes the fact that the ECB is discussing the adaptation of its inflation measurements; notes that the HICP is a very narrow concept of inflation measurement which underestimates inflation in the euro area due to an inadequate share of housing costs in the HICP basket; calls for a re-adjustment of the basket to reflect the fact that European households spend 24% of their income on housing-related expenditure; encourages the ECB to also take into account the asset price inflation caused inter alia by low interest rates; acknowledges the challenges to the transmission of monetary policy;

8. Acknowledges President Lagarde’s strong call for ‘full alignment of fiscal and monetary policies’ as well as the commitment ‘to use all the tools that will produce the most effective, efficient, and proportionate outcome’ to support the euro area’s economic recovery; underlines that there are strong complementarities between fiscal and monetary policies; welcomes the ECB’s Pandemic Emergency Purchase Programme to support the economic recovery of the euro area;

**Monetary policy**

9. Welcomes the quick and substantial ECB monetary policy response to the COVID-19 crisis in a context of emergency; acknowledges the positive impact of this response on the economic situation of the euro area; expects that the ECB will maintain its support as long as it is needed; takes note of the statement of ECB Supervisory Board member Yves Mersch that such flexibility will not be extended to other operations;

10. Stresses that monetary policy alone will not suffice to achieve a sustainable economic recovery; emphasises that reforms that strengthen competitiveness and social cohesion are necessary to restore and enhance economic growth across the Union; believes that the potential of monetary policy alone to facilitate recovery is limited and, while

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respecting the independence of the ECB, calls on the ECB to study the possibility of using other policy measures that have the potential to stimulate the economy, within the confines of its mandate; stresses the spillover effects of a very accommodative monetary policy, such as the impact on savers or the risk of asset price inflation; warns Member States against taking the low-interest rate environment for granted, as a rise in interest rates could have an adverse impact on the servicing of public debt;

11. Warns, however, against the risk of excessive valuations on bond markets, which risk being difficult to handle if interest rates start to rise again, particularly for countries involved in an excessive deficit procedure or those with high levels of debt;

12. Notes the importance of active monetary policy in alleviating the pressure of financial constraints on small and medium-sized enterprises; acknowledges that the percentage of SMEs facing financial constraints decreased from 18% in 2009-12 to 8% in 2016-19; underlines that the COVID-19 crisis is having a strong impact on SMEs; recognises the importance of micro, small and medium-sized enterprises in the EU; points out, in this respect, the need to encourage private and public investments as well as reforms, and calls, therefore, for further efforts to ensure the financing of the real economy;

13. Asks the ECB to monitor the proportionality of quantitative easing to the risks in its balance sheets, asset price inflation and the potential misallocation of resources;

14. Notes the impact of long-term low interest rates; underlines that low interest rates, on the one hand, offer opportunities to consumers, companies, including SMEs, workers and borrowers, who can benefit from stronger economic momentum, lower unemployment and lower borrowing costs; recognises the diverging distributional consequences of the ECB’s policies; calls on the ECB to examine the impact of its policies on wealth inequality; regrets, on the other hand, the increase of unviable and highly indebted business, the reduced incentive for governments to pursue growth and sustainability-enhancing reforms, as well as detrimental effects on insurers and pension funds, and stresses the financial burden this places on many citizens across the Union;

15. Notes the linkage between monetary policy and increasing housing prices in the euro area; emphasises that the persistently high housing cost overburden rate of 9.6% in 2018 is expected to increase due to the pandemic, and calls on the ECB to evaluate the regional and sectoral impact and the inter-generational fairness of its quantitative easing programme on the cost of living across the Union;

16. Understands that the severity of the crisis has forced the ECB to shift attention away from its monetary policy framework strategy review; takes note of President Lagarde’s commitment during the monetary dialogue held on 28 September 2020 to interact closely with Parliament and to ensure regular dialogues;

17. Stresses that any monetary policy framework strategy review should acutely consider the nature of the European economy, which is increasingly services-bound and digitalised, and should assess the extent to which this impedes the transmission of monetary policies into the real economy;

Actions against climate change
18. Notes, respecting the independence of the ECB, the impact of climate change on inflation dynamics and transmission risks in monetary policy; recalls the impact of the ECB in maintaining price stability; recalls that the ECB, as a European institution, is bound by the Paris Agreement;

19. Takes note of President Lagarde’s commitment to examine climate-friendly changes to ECB’s operations and ‘to explore every avenue available in order to combat climate change’; calls on the ECB to align its collateral framework with climate change-related risks and to disclose its level of alignment with the Paris Agreement, as well as examining such alignment in the banking sector;

20. Welcomes the fact that the purchases of green bonds and their share of the ECB’s portfolio continue to increase;

21. Encourages efforts to increase research capabilities regarding the impact of climate change on financial stability and the euro area;

*Other aspects*

22. Calls on the ECB to continue its efforts to ensure the stability of financial markets for all possible contingencies related to the withdrawal of the United Kingdom from the EU;

23. Expresses concern about the steadily increasing divergence of TARGET2 balances within the ESCB; notes that the interpretation of these divergences is contested;

24. Takes note of the outcomes of the analysis of the ECB Crypto-Assets Task Force; calls on the ECB to address the risks of money laundering, terrorism financing and other criminal activities related with the anonymity provided by crypto-assets; calls on the ECB to increase its monitoring of the development of crypto-assets, including stable coins, and the increased risks to cyber-security;

25. Welcomes the ECB’s analysis and preparatory work towards the introduction of a digital euro; notes that a digital euro does not constitute a crypto-asset; underlines that a digital euro would have to satisfy a range of minimal requirements including robustness, safety, efficiency and protection of privacy; stresses that a digital euro must not endanger cash as a means of payment; supports the ECB’s recommendation that the issuance of a digital euro should be accessible outside the euro area, in a way that is consistent with the objectives of the Eurosystrem, in order to stimulate demand for the euro among foreign investors and thus to foster a stronger role for the euro internationally; calls on the ECB to ensure an adequate balance between allowing regulatory financial innovation in the FinTech area and ensuring financial stability;

26. Shares the ECB’s concerns regarding the rapid growth of the non-bank financial sector, also known as shadow banking; stresses the need for adequate regulation in this field; stresses the need for the ECB to mitigate the systemic risk that arises due to the increasing number of non-bank regulated entities clustered around banks for access to their payments system;

27. Welcomes the ongoing efforts of the ECB to further strengthen its response and recovery capabilities in the event of a cyberattack on its own organisation; notes with
concern the recent technical failures of the TARGET2 settlement system in October and November 2020; welcomes the subsequent investigation of these failures by the ECB and asks for disclosure of the results to Parliament;

28. Recognises the ECB’s success in anti-counterfeiting, as evidenced by the continuously low share of counterfeit banknotes in total circulation; welcomes the introduction of modernised 100 euro and 200 euro notes with enhanced security features in 2019; points out the importance of cash as a means of payment for EU citizens; calls on the ECB not to further reduce the amount of different banknotes in circulation;

29. Calls on the ECB to explore ways of strengthening the international role of the euro, as this would increase the EU’s ability to frame its policy stance independently vis-à-vis other global powers and is a key element in safeguarding European economic sovereignty; notes that making the euro more attractive as a reserve currency will further enhance its international use; underlines that strengthening the role of the euro requires the deepening of the European economic and monetary union; welcomes the repeated calls of the ECB for the completion of the banking union; stresses that the creation of a well-designed European safe asset could facilitate financial integration and help mitigate the negative feedback loops between sovereigns and the domestic banking sectors;

30. Welcomes Bulgaria and Croatia’s entry into ERM II in July 2020; supports a swift target date for the adoption of the euro in both countries; welcomes the comprehensive screening of Croatian and Bulgarian banks by the ECB in July and August 2019; draws attention to the requirement, laid down in the Treaties, for every Member State, except for Denmark, to adopt the single currency once they have met the Maastricht convergence criteria;

31. Calls on the ECB to continue its fruitful cooperation also with the non-euro area Member States;

Accountability

32. Echoes President Lagarde’s openness to greater dialogue and stresses the need to further enhance the ECB’s accountability and transparency arrangements; emphasises the need to reflect on how scrutiny of the ECB by the European Parliament as well as through dialogue with national parliaments may be enhanced; calls for the negotiation of a formal interinstitutional agreement to formalise and go beyond the existing accountability practices regarding monetary functions;

33. Expresses strong concern that only two of the 25 Members of the ECB’s Governing Council are women, despite repeated calls from Parliament and from senior figures in the ECB, including its President Christine Lagarde, to improve gender balance in EU economic and monetary affairs nominations; emphasises that Executive Board Member nominations should be prepared carefully, with full transparency and together with Parliament in line with the Treaties; calls on the Council to draw up a gender-balanced shortlist for any upcoming vacancies and to share this with Parliament, thus allowing Parliament to play a more meaningful advisory role in the appointment process; regrets that no satisfactory progress has been made to date; recalls that the equal treatment of men and women is a constitutional principle that must be strictly adhered to;
34. Welcomes the detailed, section-by-section and substantial feedback provided by the ECB to Parliament’s resolution on the 2018 ECB Annual Report; calls on the ECB to continue this commitment to accountability and to keep on publishing its written feedback to Parliament’s resolutions on the ECB Annual Report each year;

35. Takes note of the German Federal Constitutional Court decision of 5 May 2020 on the ECB, as well as the ECB Governing Council statement of the same day; acknowledges the ECB’s continuous proportionality assessment of all programmes; notes the ECB’s subsequent decision to disclose non-public documents related to the public sector purchase programme (PSPP) to the European Parliament, the German Federal Government, the Bundestag and the Bundesbank;

36. Acknowledges, and congratulates the ECB and President Lagarde on, the ongoing efforts to improve communication and transparency with Parliament; agrees with President Lagarde, furthermore, that the ECB has to enhance its communication to citizens on the impact of its policies; suggests, on the other hand, a regular dialogue in camera between members of Parliament’s Committee on Economic and Monetary Affairs and relevant ECB representatives following the publication of the latest available account of the proceedings of the Governing Council to assess ECB decisions ahead of and in parallel with the monetary dialogues;

37. Welcomes the publication of the ECB Ethics Committee’s opinions for cases of conflict of interest and post-mandate gainful employment by the members of the ECB’s Executive Board, Governing Council and Supervisory Board; calls on the ECB to emulate this transparency on potential conflicts of interest and post-mandate gainful employment;

38. Reinforces its call for the adoption of an enhanced whistleblowing policy and a revision of the ECB’s Staff Rules, aligned, as a minimum, with the standards and goals stated in Directive (EU) 2019/1937 on the protection of whistleblowers, to both protect and enable whistleblowers by helping them raise concerns confidently without fear of retaliation, including by providing anonymity where required;

39. Calls for a more detailed disclosure of social and employee matters as well as governance affairs inspired by the Directive 2014/95/EU on non-financial reporting;

40. Instructs its President to forward this resolution to the Council, the Commission and the European Central Bank.

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MINORITY POSITION (RULE 55.4)

Minority Position (Rule 55.4) on European Central Bank - annual report 2020 by MEP
Gunnar BECK, ID

I deplore the ECB's role in massively inflating the money supply and expanding its balance sheet up to almost 70% of euro area GDP. Banks in the northern euro area hold a disproportionately high amount of deposits with the ECB, and pay disproportionately high penalty interest to the ECB. By contrast, banks in the southern euro area benefit disproportionately from the negative interest rates on TLTRO loans. This suggests that weak banks in the southern euro zone may become a burden for banks in the north. In addition, certain Member States have profited disproportionately from the PSPP, since national central banks and the ECB no longer respect the capital key for the distribution of bonds purchases and have acquired disproportionately many bonds from more heavily indebted member states compared to those with as yet relatively sound public finances. The ECB's departure from the capital key reinforces suspicions that the main goal of the PSPP is fiscal stabilisation of over indebted Member States, which falls outside the scope of the ECB mandate. I regret that ECB shows less intention than ever to normalise interest rates and even rejects and I call on the ECB to normalize interest rates as soon as possible.
**INFORMATION ON ADOPTION IN COMMITTEE RESPONSIBLE**

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<td><strong>Result of final vote</strong></td>
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<td><strong>Substitutes present for the final vote</strong></td>
<td>Marc Angel, Manon Aubry, Gabriele Bischoff, Damien Carême, Chris MacManus, Margarida Marques, Andreas Schwab</td>
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### FINAL VOTE BY ROLL CALL IN COMMITTEE RESPONSIBLE

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<td><strong>EPP</strong></td>
<td>Isabel Benjumea Benjumea, Stefan Berger, Frances Fitzgerald, José Manuel García-Margallo Y Marfil, Enikő Győri, Danuta Maria Hübner, Othmar Karas, Aušra Maldeikienė, Siegfried Mureşan, Luděk Niedermayer, Lidia Pereira, Sirpa Pietikäinen, Andreas Schwab, Ralf Seekatz, Inese Vaidere</td>
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<td><strong>S&amp;D</strong></td>
<td>Marc Angel, Marek Belka, Gabriele Bischoff, Jonás Fernández, Margarida Marques, Pedro Marques, Csaba Molnár, Joachim Schuster, Pedro Silva Pereira, Paul Tang, Irene Tinagli</td>
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<td><strong>RENEW</strong></td>
<td>Gilles Boyer, Engin Eroğlu, Billy Kelleher, Caroline Nagtegaal, Dragoș Pîslaru, Stéphanie Yon-Courtin</td>
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<td><strong>GREENS/EFA</strong></td>
<td>Damien Carême, Sven Giegold, Claude Gruffat, Philippe Lamberts, Kira Marie Peter-Hansen, Ernest Urtasun</td>
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<td><strong>ECR</strong></td>
<td>Johan Van Overtveldt, Roberts Zile</td>
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<td>Derk Jan Eppink, Raffaele Fitto, Eugen Jurzyca</td>
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Key to symbols:
+ : in favour
- : against
0 : abstention