TEXTS ADOPTED

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European Central Bank annual report for 2013

European Parliament resolution of 10 March 2015 on the European Central Bank Annual Report for 2013 (2014/2157(INI))

The European Parliament,

– having regard to the 2013 Annual Report of the European Central Bank,

– having regard to the Statute of the European System of Central Banks and of the European Central Bank, in particular Article 15 thereof,

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

– having regard to Rules 126 and 132(1) of its Rules of Procedure,

– having regard to the report of the Committee on Economic and Monetary Affairs and the opinion of the Committee on Employment and Social Affairs (A8-0011/2015),

A. whereas, according to the Commission services' spring 2014 forecast, GDP in the euro area fell by 0,4 % in 2013 after a decline of 0,7 % in 2012, and whereas the Commission services expect a recovery, with GDP rising by 1,2 % in 2014 and by 1,7 % in 2015; whereas the Commission services' autumn 2014 forecast revised growth projections downward, with GDP expected to have risen by only 0,8 % in 2014 and by 1,1 % in 2015, with prevailing downside risks;

B. whereas, according to the autumn forecast, unemployment in the euro area rose from 11,3 % at the end of 2012 to 11,9 % at the end of 2013, and remains at a high level in 2014;

C. whereas there are major disparities among the unemployment rates in different Member States, with figures varying between 5 % and 26 %; whereas the even higher youth unemployment rates are as much as some 50 % in some Member States; whereas the differences in unemployment rates are causing further economic divergence among Member States;

D. whereas the success of the announcement of the Outright Monetary Transactions (OMT) programme in lowering borrowing interest rates should not be used by Member States as an opportunity to avoid structural reforms aimed at enhancing growth potential and achieving fiscal sustainability in the medium term; whereas trends in respect of employment and poverty reduction are at risk of failing to reach the Europe 2020 national targets;

E. whereas in 2013 the European Central Bank (ECB) lowered its key interest rates in May and again in November, reducing the rate on the main refinancing operations to 0,25 %; whereas, further to the additional monetary policy measures announced since the beginning of 2014, the main refinancing rate now stands at 0,05 % and the deposit facility rate at -0,20 %;

F. whereas lowered real interest rates have not been translating into either increased credit for households and businesses or GDP growth and job creation;

G. whereas the consolidated financial statement of the Eurosystem reached EUR 2,285 trillion at the end of 2013, representing a decrease of approximately 25 % over the course of 2013;

H. whereas non-marketable assets represented the largest component of assets put forward as collateral to the Eurosystem in the course of 2013, amounting to around 25 % of the total; whereas non-marketable securities together with asset-backed securities represent around 40 % of the total assets put forward as collateral;

I. whereas, according to the Commission services' autumn 2014 forecast, the average inflation rate in the euro area was 1,4 % in 2013, down from 2,5 % in 2012; whereas inflation in the euro area has remained on a downward path since the beginning of 2014, with an estimated level of 0,5 % in 2014 and reaching a low of 0,3 % in September; whereas the overall Harmonised Index of Consumer Prices (HICP) inflation rate in some Member States fell to 0 % and below in September 2014 and will stay below target in 2015;

J. whereas low energy prices, particularly for oil, have been among the main contributors to the decrease in inflation rates in the euro area;

K. whereas the level of public and private investment in the euro area has been stagnating at levels significantly below those recorded before the start of the crisis; whereas it has been common for large companies to use the environment of cheap money to undertake self-serving buybacks instead of new investments; whereas the relative share of investment as a proportion of GDP was declining steadily even before the crisis and needed to be boosted as a matter of urgency;

L. whereas the annual growth rate of M3 has continued to slow down, from 3,5 % in December 2012 to 1 % in December 2013;

M. whereas credit to the private sector has moved further into negative territory, with an annual rate of change of -2,3 % in December 2013, compared with -0,7 % in December 2012; whereas the lack of credit affecting SMEs in some Member States is one of the main problems delaying the economic recovery; whereas there was a drop in lending to SMEs of around 35 % between 2008 and 2013; whereas it is essential to facilitate the flow of credit to SMEs, as they employ 72 % of the euro area's labour force and have higher gross job creation rates than large companies;

N. whereas financial fragmentation is still a major problem, with SMEs facing much higher borrowing costs, in particular in euro area countries already affected by severe economic conditions, and this is creating distortions in the single market, slowing the recovery and amplifying the divergences between countries; whereas the results of the comprehensive assessment of European banks should have a positive impact on current monetary policies and on banks' willingness to increase their lending activities, particularly to the real economy;

O. whereas the size of the Eurosystem's balance sheet declined steadily over the course of 2013, reflecting the reimbursement of long-term refinancing operation (LTRO) funds by banks;

P. whereas the ECB Governing Council decided in July 2013 to provide forward guidance, stating that it expected the key interest rates to remain at prevailing or lower levels for an extended period of time;

Q. whereas the effects of a possible quantitative easing in the euro area would probably be dampened by excessive credit intermediation in the banking sector;

R. whereas Article 282 TFEU states that the primary objective of the European System of Central Banks (ESCB) is to maintain price stability; whereas Article 127 TFEU states that, without prejudice to this primary objective, the ESCB must support the general economic policies in the Union; whereas Article 123 TFEU and Article 21 of the Statute of the European System of Central Banks and of the ECB prohibit the direct purchase by the national central banks or the ECB of debt instruments issued by EU or national public authorities or bodies; whereas this was a sine qua non for several Member States to enter the economic and monetary union; whereas such purchases are allowed in secondary markets;

Monetary policy

1. Welcomes the ECB's swift reaction in the face of a very challenging environment, and the fact that monetary policy has been aimed at reducing the level of stress in financial markets within the euro area, and at restoring investors' confidence in the single currency; welcomes the ECB's readiness to do whatever it takes to save the euro; notes the positive general reduction of long-term domestic yields – notably in the most indebted countries of the euro area – to unprecedented levels since the beginning of the crisis; notes that low yields have not resulted in job creation and growth, and that the lack thereof poses threats to financial stability;

2. Notes that recourse to the main refinancing operations, to medium and long-term refinancing operations with full allotment at fixed rates, to the marginal lending facility, to emergency liquidity assistance (ELA) and to the deposit facility all remained at significantly high levels throughout 2013, signalling ongoing impairment of the monetary transmission mechanism and of the euro area interbank lending market, although the situation improved significantly in comparison with previous years, as evidenced by the stabilisation of spreads, the gradual normalisation of interbank markets and the reduction of Target II imbalances;

3. Is encouraged by the stabilisation of the levels of Target II imbalances throughout 2013; emphasises that the Target II settlement system has played a crucial role in safeguarding the integrity of the euro area financial system;

4. Remains deeply concerned at the fact that economic activity continues to be sluggish, with the euro area posting negative GDP growth in 2013, for the second year in a row, with GDP growth being weak over the first three quarters of 2014, and with high unemployment rates in many euro area Member States, reaching levels that are threatening the stability of the euro area and undermining popular and political support for the European project;

5. Stresses its concern regarding the continuous fall in the inflation rate in the euro area since 2011, with inflation differentials between Member States; stresses the significant gap currently observed between the ECB's explicit target of keeping inflation rates below but close to 2 % in the medium term, and the current inflation rates, which are close to zero or even below zero in several euro area Member States; is worried that, as acknowledged by the ECB President, current deflationary trends could lead to the disanchoring of medium- to longer-term inflation expectations;

6. Acknowledges that the ongoing process of balance sheet adjustment in the financial and non-financial sectors, combined with high unemployment rates, continued to dampen economic activity in the euro area in 2013;

7. Is observing possible deflation risks attentively; recalls that an inflation rate of close to zero in the euro area hampers the effectiveness of monetary policy; understands that the ECB considers very low inflation to be the result of short-term effects, and hopes that the medium-term objective will be met without a deflationary phase; notes, however, that inflation forecasts for 2015 and 2016 were revised further downwards (by between 0,1 % and 0,2 %) by the ECB;

8. Points out that the below-target level of inflation expected for the coming years will have an impact on the debt reduction programmes of several Member States;

9. Points out that, given the perspective of further accommodative policies such as quantitative easing and having in mind the current legal challenges regarding the OMT programme, it is crucial to ensure legal clarity and certainty in order to allow these instruments to be effectively implemented, bearing in mind the opinion of Advocate General Pedro Cruz Villalón of the Court of Justice of the European Union delivered on 14 January 2015 in Case C-62/14;

10. Stresses that low borrowing costs for Member States are running hand in hand with rising public debts, close to or beyond 100 % of GDP in many cases, and warns that a new crisis could lead to a reassessment of risk by financial markets;

11. Points out that the ECB forecasts published in 2013 had not anticipated the present conjunction of flat growth with very low inflation and even deflationary signs; calls, against this background, for the current forecasts of stronger economic growth and higher inflation in 2015 and 2016 to be read with caution;

12. Believes that poor balance sheets not only affect banks, but also have a negative knock-on effect on businesses and other private-sector actors, given that a lack of capital and

finance inhibits a business's ability to remain competitive, grow and ultimately maintain and create jobs;

13. Considers it of the utmost importance to create conditions for a rebound in investment in the euro area, both public and private, taking into account that despite the ECB pursuing its actions in order to maintain favourable financing conditions, investment has not yet picked up; calls on Member States, in this context, to work on the underlying causes of the financial fragmentation such as diverging risk structures that make lending more costly in the respective countries; furthermore, asks Member States to put in place appropriate structural reforms in order to restore a favourable business environment, in particular by implementing the country-specific recommendations;

14. Encourages the ECB to consider in its balance sheet expansion policy the buying of EIB project bonds, which fund some of the more productive investments in the euro area, particularly from those projects chosen by the Commission as having European added value after a cost-benefit analysis, especially TEN-T projects in energy and transport and projects related to the digital single market;

15. Takes note that President Draghi, in his speech at the annual central bank symposium in Jackson Hole on 22 August 2014, stated that we need action on both sides of the economy, noting the following: that aggregate demand policies have to be accompanied by national structural reforms and policies; that on the demand side, monetary policy can and should play a central role, which currently means an accommodative monetary policy for an extended period of time; that there is scope for fiscal policy to play a greater role alongside monetary policy while sustainability of public debt needs to be taken into account; and that, while a revamp of public investment is needed to trigger further private investment and facilitate structural reforms, emphasis also needs to be laid on adequate fiscal policy measures;

16. Agrees with President Draghi that the existing flexibility within the Stability and Growth Pact rules could be used to better address the weak recovery and to make room for the cost of needed structural reforms;

17. Agrees with President Draghi that there is leeway to achieve a more growth-friendly composition of fiscal policies and to lower the tax burden in a budget-neutral way;

18. Agrees with President Draghi that complementary action at the EU level would also seem to be necessary to ensure both an appropriate aggregate position and a large public investment programme;

19. Notes that in addition to the lowering of its key interest rates and the increase in its refinancing operations, the ECB has adopted innovative instruments such as targeted longer-term refinancing operations (TLTROs) and new communicating strategies such as forward guidance;

20. Considers that the transmission mechanism is not functioning properly, and that the monetary policy tools used by the ECB since the beginning of the crisis, while providing welcome relief in distressed financial markets, cannot on their own be effective in terms of fighting financial fragmentation, stimulating growth or improving the situation on the labour market; encourages the ECB to ensure that its policies are better attuned to the real economy, in particular with regard to SMEs;

21. Considers that, because the monetary policy transmission mechanism is severely impaired, the benefits of decisions to reduce ECB key interest rates are limited; points out that very low interest rates lead in the long term to distortions in the business sector and might prove detrimental to private savings and pension plans;

22. Welcomes the measures announced by the ECB in June 2014 aimed at enhancing the functioning of the monetary policy transmission mechanism; notices that the TLTRO introduces, for the first time, a link between loans to the non-financial private sector granted by banks and the amount of refinancing the banks can claim; hopes that the results in the Asset Quality Review (AQR) will enhance the use of the TLTRO by European banks, hence promoting the transfer of liquidity to the real economy;

23. Notes that the ECB has announced that it will purchase asset-backed securities (ABS) and covered bonds in order to empower the credit-easing impact of the TLTROs; stresses that such interventions on the ABS market should be significant enough to have an effect on lending rates for SMEs and reduce fragmentation, and must be conducted in a transparent manner that does not create excessive risks for the ECB's balance sheet;

24. Stresses its concern regarding the considerable fragmentation of lending conditions for SMEs across the euro area countries, as well as the existing gap between financing rates granted to SMEs and those granted to bigger companies; insists that these long-standing problems are not appropriately addressed by the recent measures announced by the ECB to boost bank lending, and that the ECB should study the underlying factors hindering SMEs' access to credit; calls on the ECB to investigate whether this gap has any correlation with concentration in the banking sector;

25. Stresses that, with the measures announced in June and September 2014, the ECB balance sheet is expected to return towards the size it had at the beginning of 2012; notes that this projected increase calls for strong vigilance by the ECB with respect to the credit risks it ultimately bears;

26. Is of the opinion that the overall amount of implicit subsidies provided so far should be gradually recovered for the benefit of taxpayers once normal economic conditions return;

27. Notes that the ECB has repeatedly stated its readiness to use additional unconventional instruments within its mandate, and to alter the size or composition of its interventions, in the event of an excessively lengthy period of low inflation; remains open to the use of additional unconventional measures, but underlines that these measures will not be sufficient without the right mix of fiscal policy, investment and structural reforms;

28. Stresses that the impact on the real economy of the unconventional monetary policy measures currently in place should not be overestimated; stresses that these measures are transitory in nature and aim at giving Member States time to consolidate their fiscal situation and implement the necessary structural reforms in order to stimulate economic growth and improvements in the labour market;

29. Notes that conducting non-standard monetary policies for an extended period of time might exacerbate the distortions on the capital market; asks the ECB to strike the right balance between the risk of exiting its accommodative monetary policy prematurely and the risks and costs resulting from the distortions that such policies might carry; asks the ECB, therefore, to calibrate non-standard policies so as to limit such distortions;

30. Recalls that monetary policy alone cannot stimulate aggregate demand unless it is complemented by adequate fiscal and structural reforms and policies at national level;

31. Stresses, as is illustrated by the experience of the years prior to the crisis, that stable inflation rates, in line with the medium-term rate objective defined by the ECB, might be associated with unsustainable private debt dynamics, underlining the importance of managing asset bubbles and the growth of credit even when price stability is guaranteed;

32. Recalls that the independence of the ECB in the conduct of its monetary policy, as enshrined in the Treaties, is indispensable to the objective of safeguarding price stability, i.e. keeping inflation close to but below 2 %; recalls that all governments and national public authorities should also refrain from asking the ECB to take actions;

33. Recalls that all members of the ECB's General Council are committed to the decisions taken, which remain confidential unless it has been decided to make them public;

34. Calls on the ECB to take a step backwards in its role inside the Troika, in order to reinforce its independence from political decisions;

35. Recalls that Article 127 TFEU states that the ECB, without prejudice to its primary objective, shall support the general economic policies in the Union, as further stated in Article 282 TFEU; underlines in this respect the importance of the monetary dialogue;

36. Stresses that a clear separation between monetary and fiscal policy implies that the monetary authority should not provide subsidies to institutions benefiting from liquidity provision, as such subsidy provision amounts to fiscal policy;

37. Deplores the fact that the ECB has exceeded its Treaty-based mandate, as illustrated in the letters sent by the former ECB President to the Spanish, Italian and Irish governments;

38. Welcomes the step forward taken by the ECB in deciding to publish the summary minutes of its meetings, and welcomes the beginning of this practice in January 2015; welcomes the fact that this demand, made by Parliament in all its annual ECB reports, has been acted on by the ECB's Governing Council;

39. Believes that central banks worldwide should work actively to avoid any policy that would generate negative spillovers on to others; notes that some central banks call on other central banks to take on board potential negative spillovers of monetary policies long after they have unilaterally implemented their own policies;

40. Believes that the recent information that has come to light underlines the importance of a prudent use of ELA in the future; stresses that it cannot be accepted again that a Member State's banking sector indebts itself for a substantial percentage of its GDP in this way;

41. Encourages the ECB to keep improving its gender policy in its appointments in order to eliminate the current gap; welcomes the appointment of Danièle Nouy to head the supervision of the European Banking sector, particularly in view of her high merits and strong CV;

42. Believes that a greater focus on growth and public investment (such as the EUR 300 billion investment package proposed by Commission President Jean-Claude Juncker) would serve to complement the ECB's policy efforts to increase employment and growth in Europe;

Financial stability

43. Welcomes the fact that the Single Supervisory Mechanism (SSM), the first pillar of the Banking Union, became fully operational on 4 November 2014; notes that this major step in European financial integration was achieved thanks to the successful completion of the preparatory work, including the AQR; thanks the ECB for using its credibility to support the European Banking System; stresses that the supervisory and monetary policy functions of the ECB must not be mixed;

44. Notes that the AQR and the stress test conducted by the European Banking Authority (EBA) in cooperation with the SSM have revealed continuing fragilities in the European Banking System; hopes that the results have adequately taken into account all risks, in order to avoid the 'Japanification' of European banking and the evergreening of loans impossible to repay;

45. Considers that the ECB has a major responsibility in ensuring that future bank recapitalisations will be carried out through the bail-in scheme when access to markets is difficult or impossible;

46. Calls the ECB to ensure in its daily practices that there is a complete ring-fencing between monetary policy and its role as banking supervisor;

47. Emphasises that the SSM aims at ensuring confidence in the euro area banking sector, and thus financial stability; recalls that the democratic accountability of the new SSM before the European Parliament is crucial for ensuring the credibility of the new supervisory regime; stresses, therefore, the importance of the November 2013 interinstitutional agreement between Parliament and the ECB on the practical modalities of the exercise of democratic accountability over the SSM, and of its full implementation;

48. Supports the idea that in order to make bail-in more credible and effective, the European legislation should advance towards separating the more risky investment activities from traditional banking;

49. Is of the opinion that the latest stress tests deliver a clear-cut illustration of the limits of the current interinstitutional setting, since a scenario of deflation was not contemplated in those tests even though such deflation risks are far from being anecdotal;

50. Notes that, despite relatively low profitability, euro area banks have steadily continued to strengthen their capital positions through a combination of capital increases and reductions in risk-weighted assets and also public support; acknowledges that in several cases capital increases were effected in the context of financial assistance programmes from the Member States;

51. Is concerned at the continuing dependence on central bank funding in many banks of the euro area; considers it essential to create a well-regulated Capital Market Union in order to reduce the excessive dependence of the economies of the euro zone on the banking system;

52. Points out that consolidation of good governance in banks enhances confidence in the banking sector, thereby also contributing to financial stability;

53. Points out that activity on government securities continues to be a major source of profit for banks of the euro area, even though credit to the non-financial private sector remains

sluggish; considers that technical and legislative work on risks linked to sovereign debt should be accelerated; calls on the ECB to warn those banks that keep increasing their holdings of government bonds while decreasing credit to the private sector;

54. Welcomes the Commission's legislative proposal on banking structural reform; notes that similar reforms have already been introduced in several Member States; invites the ECB to collaborate with the other relevant institutions with a view to sustainable structural reform at European level that will end subsidies to trading activities of large financial institutions and will level the playing field for financial services;

55. Recalls that the Single Resolution Mechanism (SRM), the second pillar of the Banking Union, will come into force by the beginning of 2015; stresses the need to continue developing the third pillar of the Banking Union;

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