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European Central Bank annual report for 2014

European Parliament resolution of 25 February 2016 on the European Central Bank Annual Report for 2014 (2015/2115(INI))

The European Parliament,

– having regard to the European Central Bank's Annual Report for 2014,

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

– having regard to the ECJ judgment in Case C-62/14 of 16 June 2015,

– 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 Rule 132(1) of its Rules of Procedure,

– having regard to the report of the Committee on Economic and Monetary Affairs (A8-0012/2016),

A. whereas, according to the Commission's latest autumn forecast, economic recovery in the euro area is expected to expand, with real GDP predicted to rise by 1,4 % in 2015, 1,7 % in 2016 and 1,8 % in 2017; whereas the foundations for growth are fragile; whereas strong political commitment to the implementation of sustainable and socially balanced structural reforms is key to enhancing economic growth;

B. whereas, according to the same forecast, unemployment in the euro area is expected to record a slow decrease, from 11,6 % at the end of 2014 to 10,5 % at the end of 2016; whereas there are major disparities between the unemployment rates in different Member States, with figures ranging from 6,4 % in Germany to 26,6 % in Greece; whereas unemployment rates remain at alarming levels in many Member States, hitting in particular the young and the long-term unemployed;

C. whereas, again according to the same forecast, the fiscal outlook in the euro area should exhibit an improvement, with decreases expected in the public deficit (from 2,4 % in 2014 to 1,7 % in 2016) and the public debt (from 94 % at the end of 2014 to 92,5 % at the end of 2016);

D. whereas low energy prices, while having a negative impact on inflation expectations, could potentially help the economic recovery;

E. whereas these processes are mainly supported by private consumption, exports and external factors such as low energy prices, particularly for crude oil, while private and public investment in the euro area is only gradually picking up and remains at levels significantly below those registered before the start of the crisis and the relative share of investment in GDP has been declining steadily over several decades;

F. whereas, according to the ECB projection of September 2015, the average inflation rate in the euro area, after remaining close to zero in the first half of 2015, is expected to pick up, rising to 1,1% in 2016 and 1,7% in 2017;

G. whereas Article 127(2) TFEU requires the European System of Central Banks to 'promote the smooth operation of payment systems';

H. whereas in 2014 the ECB lowered its key refinancing rates to the effective lower bound and reduced its deposit facility rate to -0,20 %; whereas lower real rates have not significantly translated into credit for either households or businesses, especially SMEs, and this has contributed to setting the ECB on the path to unconventional monetary policy measures;

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

J. whereas SMEs are the backbone of the European economy and the banking system is instrumental in ensuring their competitiveness and growth; whereas facilitating credit flow to Micro, Small and Medium-Sized Enterprises (MSMEs) is fundamental as they represent 99 % of all businesses and account for 80 % of jobs in the Union, thus having a key role in generating economic growth, creating jobs and narrowing social disparities; whereas bank lending volumes are slowly increasing;

K. whereas in 2014 the ECB implemented a series of targeted longer-term refinancing operations (TLTROs) and purchase programmes for selected private-sector assets aiming at supporting lending to the real economy;

L. whereas on 22 January 2015 the ECB launched an expanded asset purchase programme (APP) amounting to EUR 1,1 trillion and scheduled to run until September 2016, and at all events until there is a sustained adjustment in the path of inflation;

M. whereas by engaging in its programme of bond purchasing the ECB has loaded a substantial level of risk on to its balance sheet;

N. whereas the Single Supervisory Mechanism (SSM), the first pillar of the Banking Union, became fully operational on 4 November 2014 with the transfer to the ECB of direct supervision of the 122 biggest banks of the euro area; whereas, in parallel, a comprehensive assessment, consisting of an asset quality review and stress test, of these significant banks was carried out and finalised on 26 October 2014; whereas the Single Resolution Mechanism (SRM), the second pillar of the Banking Union, came into force at the beginning of 2015, while its third pillar, the Single Deposit Guarantee Scheme, has not yet been established;

1. Recalls that the geographically uneven and modest recovery expected for the coming years in the euro area will need to strengthen and potential economic growth will need to increase in order to reduce the high unemployment rates recorded in many euro area Member States and decrease the debt burden; stresses that many Member States are faced with macroeconomic challenges of a similar nature; stresses the need to improve the conditions for both public and private investment aimed at boosting growth and job creation, and calls for further efforts to ensure the financing of the real economy; believes that Member States have to deliver on the implementation of sustainable and socially balanced structural reforms;

2. Deplores the existing, albeit gradually decreasing, gaps between the financing rates granted to SMEs and those granted to bigger companies, between lending rates on small and large loans, and between credit conditions for SMEs located in different euro area countries, but recognises the limits of what monetary policy can achieve in this respect; notes, in this connection, the role of savings, cooperative and mutual banks, and stresses that the regulatory framework should accommodate their particular operating principles and respect their specific mission, and that the supervisory authorities should be aware of these aspects and take them into account in their practices and approaches;

3. Stresses that, despite the ECB pursuing its actions in order to maintain favourable financing conditions, private and public investment in the euro area remains significantly below the levels prior to the current crisis; welcomes, in this respect, the setting-up of the European Fund for Strategic Investments (EFSI), as well as the Commission's plan to establish a genuine Capital Markets Union (CMU), which should diversify sources of financing in the EU economy, boost cross-border investment and increase access to financing for businesses, particularly SMEs;

4. Notes that, in reaction to a complex environment of sovereign debt crisis, falling inflation, credit contraction and sluggish economic growth, and with its interest rates close to the zero lower bound, the ECB has resorted to non-conventional monetary policy instruments;

5. Notes the positive yet modest impact of the Asset Purchase Programme (APP) on money and credit dynamics, with loans to enterprises still weak but benefiting from a gradual easing of credit standards, a continued easing of the terms and conditions for new loans, a fall in rejected applications, an increase in demand for loans and a gradual picking-up of private investment in the first three quarters of 2015, while significant differences across euro area economies remain; notes furthermore that since the launch of the APP, medium-term inflation expectations have begun to rise, gradually converging towards the target of 2 %, while the risks of a deflation trap may have decreased; asks the ECB, where possible, to apply the APP to all Member States without discrimination while respecting the rules the ECB is bound by;

6. Expects the ECB to contribute to the general economic policies in the Union and to the achievement of their objectives, pursuant to Article 282 TFEU, provided its main task of price stability is not put in jeopardy;

7. Stresses that the ECB's contribution includes efforts aimed at increasing low-cost lending to the real economy and facilitating economic recovery in the direction of jobs, growth and stability;

8. Is concerned at the possible unintended consequences and long-term effects of the ECB's non-conventional monetary policy instruments; is aware that exiting from these measures

will be a complex matter which will have to be carefully planned in order to prevent unintended market disruptions, especially as regards the proper, prudent and timely management of the exit; asks the ECB to carefully monitor the risks associated with its purchase programmes; insists that monetary policy cannot resolve the fiscal and economic problems that exist in many Member States, and cannot be a substitute for the necessary sustainable and socially balanced structural reforms, fiscal consolidation and targeted investment;

9. Is cautious regarding the potential risks to financial stability posed by protracted low interest rates in certain Member States, which might have an adverse effect on life insurance and pension plans; recognises that long-term interest rates are a reflection of underlying macroeconomic conditions and monetary policy choices;

10. Asks the Commission to come forward with proposals to improve macroprudential oversight and the policy tools available for risk mitigation in shadow banking, in the light of the ECB's warning in its annual report that, given the steady expansion over the last decade – to EUR 22 trillion in assets – of non-bank credit intermediation, further initiatives are needed to monitor and assess vulnerabilities in the growing shadow banking sector;

11. Welcomes the ECB's categorical pledge of August 2012 to 'do everything possible' to defend the euro;

12. Concludes that the programme for purchasing public and private debt securities in secondary markets could be more effective;

13. Points out the concerns expressed the ECJ judgment of 16 June 2015 in Case C-62/14, which states that when the ECB purchases government bonds on secondary markets it is possibly exposed to a significant risk of losses as well as to the risk of a debt cut; notes that the same judgment clarifies that this does not alter the conclusion that the ECB is allowed to purchase government bonds on secondary markets and that such purchases do not contravene the prohibition of monetary financing of Member States;

14. Stresses that the high and divergent levels of public and private indebtedness in some Member States, in addition to the as yet resolved structural weaknesses in the banking sector, are obstacles to the correct transmission of monetary policy, and that the non-conventional monetary policy implemented by the ECB is not, by itself alone, capable of changing this situation;

15. Urges those euro area Member States which are subject to a macroeconomic adjustment programme to act, pursuant to Article 7(9) of Regulation (EU) No 472/2013 of the European Parliament and of the Council of 21 May 2013 in order to carry out a comprehensive audit of their public finances so as, inter alia, to assess the reasons that led to the build-up of excessive levels of debt, as well as to track any possible irregularities; stresses that the aim of this audit should be to achieve a better understanding of past mistakes, and not to start an ad hoc debt restructuring process that could reignite the debt crisis in some Member States;

16. Underlines that the rules of the existing economic governance framework should be properly respected and enforced, without differentiation between large and small Member States; reiterates that adherence to the medium-term objective of budgetary positions that are close to balance or in surplus in cyclically adjusted terms and net of one-off and

temporary measures will allow Member States to deal with normal cyclical fluctuations while keeping government deficit within the 3 % of GDP reference value; considers that all existing tools within the enhanced SGP should be applied in order to better sustain stability and growth;

17. Affirms its commitment to respecting the ECB's independence in the conduct of monetary policy, as enshrined in the Treaties; considers that central bank independence is crucial for achieving the objective of maintaining price stability; stresses that all governments and national public authorities should therefore refrain from asking the ECB to take specific actions;

18. Recalls that Article 127 TFEU states that the ECB, without prejudice to its primary objective of maintaining price stability, shall support the general economic policies in the Union, and that this is further specified in Article 282 TFEU;

19. Draws attention to Article 123 TFEU, Article 21 of the Statute of the European System of Central Banks, and Article 7 of Council Regulation (EC) No 3603/93 of 13 December 1993, which prohibit the direct purchase by the national central banks or the ECB of debt instruments issued by EU or national public authorities or bodies; recalls, however, that such purchases are allowed in secondary markets;

20. Welcomes the ECB's attempt to boost inflation to under but close to 2 %, since this can also contribute to the success of other EU policies and enhance competitiveness, economic growth and jobs in Europe, if implemented together with targeted investment, ambitious and socially balanced structural reforms and fiscal consolidation;

21. Welcomes the step forward taken by the ECB in publishing the summary minutes of its meetings, and looks forward to the announcement of further steps to improve the transparency of its communication channels; considers that further progress could still be made, especially with regard to the SSM;

22. Welcomes the now generalised tendency of major central banks to publicly explain monetary decisions immediately after they are taken, a practice that was spearheaded by the ECB; further welcomes the publication of clearer and more transparent emergency liquidity assistance (ELA) procedures for solvent financial institutions (mostly national banks) facing temporary liquidity problems;

23. Recalls its request that the annual ECB report should include feedback on the inputs provided in the annual report of Parliament; considers that it would be useful if, alongside its assessment of monetary and financial conditions, the ECB could provide, in its statement following the monthly meeting of its Council of Governors, its assessment of the extent of output gaps across the euro area;

24. Recalls that the quarterly monetary dialogue is important to ensure the transparency of monetary policy, vis-à-vis Parliament and the wider public; welcomes the practice by which ECB representatives give precise and detailed replies to questions by MEPs; also welcomes the ECB's practice of providing additional information in writing where answers given during the discussions are not fully satisfactory and/or comprehensive;

25. Stresses that the ECB's supervisory role and its monetary policy function must be clearly distinguished, and that the combination of both functions should not generate any conflict of interest for the ECB; recalls in this respect the guiding principle that the instrument

used for policymaking, whether monetary or supervisory, should be chosen depending on the objective pursued and the issue in question;

26. Underlines the need for democratic accountability in view of the new responsibilities conferred on the ECB regarding supervisory tasks, as well as its advisory role in Troika and Quadriga programmes;

27. Stresses the importance of the organisational independence of the European Systemic Risk Board, and calls on the ECB to consider ways of enhancing this board's independence;

28. Calls on the ECB to completely rework the proposal to set up a comprehensive Analytical Credit Dataset (Anacredit), taking particular account of the proportionality principle, and in doing so to focus on setting appropriate thresholds in an effort to minimise the administrative costs for smaller financial institutions in particular;

29. Welcomes the willingness expressed by Mario Draghi at the monetary dialogue of 23 September 2015 to 'inform the European Parliament of the positions taken by the ECB' within bodies such as the Financial Stability Board or the Basel Committee on Banking Supervision;

30. Recalls that the role of the ECB includes the protection of financial stability, and thus the need to ensure enough liquidity to avoid public bank runs on solvent banks connected to the Eurosystem network;

31. Recalls that the ECB's role in the Troika and Quadriga was codified in the 'two-pack' (Article 7 of Regulation (EU) No 472/2013); takes note of the ECJ judgment of 16 June 2015 in Case C-62/14, and calls on the ECB to take it into consideration in its actions; urges the ECB to reassess and, if necessary, reinforce its independence from political decisions;

32. Calls for a thorough assessment of the Troika's modus operandi and of the ECB's involvement in the Troika and Quadriga frameworks, with a view to clarifying the scope of responsibilities and ensuring greater democratic accountability in the adoption and implementation of bailout programmes;

33. Recalls the report of Parliament of 28 February 2014 on the inquiry into the role and operations of the Troika, which calls on the next Parliament to build on the work of this report, develop its key findings and investigate further;

34. Calls on the Member States, the Council and the ECB to make every effort to ensure gender balance within the ECB's decision-making bodies and to pay close attention to this factor when renewing the membership of those bodies, in particular of the Governing Council and of the Executive Board;

35. Notes that on 24 November 2015 the Commission proposed a euro area-wide deposit insurance scheme (EDIS) for bank deposits;

36. Welcomes the CMU project and its potential to rebalance funding channels, not by diminishing means of funding or keeping them at their current levels, but rather by increasing and diversifying them, thus contributing to reducing excessive dependence of euro area economies on the banking system and creating a crucial shock absorber for the Monetary Union; warns, however, that the CMU should not discourage real economy-

focused relationship banking, since this is the most appropriate form of financing for smaller firms;

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