European Central Bank annual report for 2011

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The Committee on Economic and Monetary Affairs adopted the report by Marisa MATIAS (GUE/NGL, PT) on the 2011 Annual Report of the European Central Bank.

The report commends the proactive stance of the ECB during 2011 and 2012 both in regard to its monetary policy and its actions to stabilise the financial markets, in a context in which risks to eurozone stability increased considerably.

Members consider that the decisions of April and July to increase the key ECB interest rates may have contributed, among other factors, to increasing the policy-induced risk premia of financial intermediaries and, therefore, to slowing down credit growth, weakening further the already anaemic economic recovery observed in early 2011. They welcome the subsequent decision to reverse these decisions at the end of 2011.

ECB initiatives: the report looks at the **efforts taken by the ECB to help stabilise markets**, in particular the Securities Markets Programme (SMP), the Longer-term Refinancing Operation (LTRO) and the Outright Monetary Transactions (OMT), but **points out that a structural solution to the crisis is not yet in sight**. However, while the two three-year LTROs have been effective in avoiding a credit crunch, Members consider that **questions remain as to the ability of the financial sector to return the loans received by the ECB**.

The report points out that the results, **in terms of credit growth**, have been **unsatisfactory** and note that the decision to launch the first three-year LTRO in December 2011 coincided with the winding down of the SMP programme, hinting at the existence of a **trade-off between the support of financial institutions and that of sovereign creditors**.

Members highlight a number of issues of concern in relation to the situation in 2011:

- **transfer of risks from struggling banks and governments to the ECB's balance sheet**, which is now worth more than 30% of the eurozone's GDP. Members stress that the three-year LTROs **do not provide a fundamental solution to the crisis**;
- **rising levels of excess liquidity** observed through 2011 which is due to a lack of confidence between banks and a lack of lending to the real economy. Members point out that this situation, which is indicative of risks conducive to a liquidity trap, damages the efficiency of monetary policy efforts;
- **swap lines with other central banks, as well as the recourse to the main refinancing operations:** this signals a severe impairment of the monetary transmission mechanism and the eurozone interbank lending market;
- **high levels of Emergency Liquidity Assistance (ELA) lines** provided by **national central banks** in the course of 2011: Members demand further disclosure of, and complementary information on the precise extent of such lines and the underlying operations, and on the conditions attached to them;
- **significant levels of non-marketable assets andasset-backed securities put forward as collateral to the Eurosystem in the framework of the ECB's refinancing operations:** the ECB is asked to provide information on which central banks have accepted such securities, and to disclose detailed information on the valuation methods regarding all assets, including impaired ones.

Credit available to businesses and households: Members note that the credit available to businesses and households is still far below the pre-crisis levels and has slowed down its growth in 2011. They take note of the measures of the ECB on the lowering of collateral requirements and the stance on collateral rules for asset-backed securities (ABS), as these are deeply correlated with loans to households and SMEs.

Collateral: Members are worried about the significant levels of non-marketable assets and asset-backed securities put forward as collateral to the Eurosystem in the framework of its refinancing operations and ask the ECB to **provide information** on which central banks have accepted such securities, and to disclose detailed information on the **valuation methods regarding all assets, including impaired ones**. They believe that, on collateral rules, the same standards should apply for sovereign as for regional government bonds in those cases where regions have legislative and tax powers, as both types of bond have relevant influence on the good transmission of the ECB monetary policy.

Conditionality: Members underline that institutions which have benefited from extraordinary central bank liquidity support should be subject to conditionality, including the **commitment by institutions benefiting from such support to increase the levels of credit** by establishing **loan targets** to the real economy, and **especially to SMEs and to households**.

The ECB is asked to explore, in close cooperation with Member State governments, competent national supervisory authorities and the Commission, the possibility of implementing a framework, such as the MERLIN programme elaborated by the Bank of England in partnership with the UK treasury, regarding conditionalities attached to the access to central bank non-conventional facilities such as targets on loans granted to SMEs.

The economic crisis and the ECB: Members call on the ECB to make public the legal decision concerning the OMT programme in order to be able to analyse more deeply its details and implications.

They point out that the ongoing crisis is a matter of concern as it threatens the substantial efforts made by Member States regarding their budgetary consolidation and crisis response strategies. They note that the current severe economic downturn in several eurozone Member States has negative economic and fiscal consequences, further deteriorating their public debt problems.

Members point out that **sovereign bonds and financial institutions** show persistent vulnerabilities and that the **negative feedback loop** between sovereign bonds and banks can only be broken through **fiscal consolidation and banking sector capitalisation** in an economic growth environment. Members consider that a cause of **public accounts unsustainability** in some countries of the eurozone is the ongoing economic recession, causing rising unemployment and falling tax revenues. They affirm, therefore, that **policies to foster growth and job creation** must be a key priority for the Union.

The report encourages ECB President Mario Draghi to resume a tradition initiated by his predecessor, who at the Eurogroup meetings persistently raised the issue of macroeconomic imbalances, **especially the differentials between productivity and wage increases**, which led to a marked divergence between competitiveness levels between the Member States.

Members point out that Parliament has called for an **increased budgetary capacity for the EMU**, in the framework of the EU budget and based on **specific own-resources**. It considers that such a budgetary capacity would significantly improve the policy-mix in the EMU.

Members note that the economic situation in some economies is generating severe capital flows that worsen those economies' funding difficulties and that are unsustainable in both the short and long term. These imbalances can only be dealt with if a comprehensive and far-reaching solution to the eurozone crisis is implemented that is built on **an approach combining solidarity and responsibility**.

Banking union: Members consider it **urgent** to create the banking union. In their view, to overcome the structural deficiencies inherent in the EMU, and to effectively curb the pervasive moral hazard, the proposed banking union should draw on the earlier reform of the Union financial services sector and on the strengthened economic governance, and new budgetary framework, of the European Semester to ensure **greater resilience and competitiveness of, and increased confidence in, the Union banking sector**, and to secure enhanced capital reserves in order to **prevent Member States' public budgets from having to bear the costs of future bank bail-outs**.

Members welcome the current impetus aiming at building a **single supervisory system** (SSM) which should increase the credibility of the Eurozone banking system. They point out that **enhanced proposals** on banking recovery and a single European resolution authority, and on deposit guarantee schemes, are necessary in order to complete the broad set of legal instruments required for a banking union.

They call on the Commission to put forward proposals for a **new European resolution fund and a European deposit guarantee scheme** that complement the supervisory functions of the ECB.

Members deem that it is of the utmost importance that **effective safeguards** are introduced to avoid that **conflicting agendas** are reflected in the ECB's monetary policy and its supervisory powers. They stress that any possible erosion of the ECB's authority for monetary policy, as well as any erosion of its supervisory powers due to monetary policy imperatives, need to be addressed by means of **a suitable mechanism set up to identify and resolve potential conflicts**.

Institutional matters: Members regret the **lack of transparency** of the working method as well as the lack of accountability of and democratic control over the Troika. They believe that any such body, current and future, involving the ECB and/or the Commission should be accountable both to the European Parliament and to national parliaments at their respective levels. They stress the importance of making the regular monetary **dialogue** between the ECB and Parliament much more effective. Members stress that **Parliament will fully play its role as legislator** in all matters involving a banking supervision.

In this context, Members consider that **a Treaty revision**, including a revision of the ECB statutes reflecting the ECB's new tasks, should not be excluded.