European Central Bank - 2013 annual report

2014/2157(INI) - 27/01/2015 - Committee report tabled for plenary, single reading

The Committee on Economic and Monetary Affairs adopted an own-initiative report by Pablo ZALBA BIDEGAIN (EPP, ES) on the European Central Bank Annual Report for 2013.

The committee welcomed the ECBs **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.

Members remained 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.

The report noted the **possible deflation risks** in the eurozone and noted that 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.

In this context, Members considered it of the utmost importance to create conditions for a **rebound in investment in the euro area, both public and private**, in the eurozone.

Member States are called upon to:

- work on the underlying causes of the **financial fragmentation** which is still a major problem, with SMEs facing much higher borrowing costs, in particular in euro area countries already affected by severe economic conditions;
- put in place appropriate **structural reforms** in order to restore a favourable business environment.

Members agreed 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.

The ECB is encouraged 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;
- ensure that its policies are **better attuned to the real economy**, in particular with regard to SMEs.

The report noted 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.

According to Members, the unconventional monetary policy measures currently in place should be **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.

Overall, Members recalled that **monetary policy alone cannot stimulate aggregate demand** unless it is complemented by adequate fiscal and structural reforms and policies at national level. They stressed 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.

They considered 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 ECBs policy efforts to increase employment and growth in Europe.

Financial stability: stressing that consolidation of **good governance in banks** contributes to financial stability, the report welcomed the fact that the Single Supervisory Mechanism (SSM), the first pillar of the Banking Union, became fully operational on 4 November 2014. It recalled that the democratic accountability of the new SSM before the European Parliament is crucial for ensuring the credibility of the new supervisory regime.

Given that the stress tests conducted by the European Banking Authority (EBA) in cooperation with the SSM have revealed **continuing fragilities in the European Banking System**, Members considered 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. 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**.

Concerned about the continuing dependence on central bank funding in many banks of the euro area, Members called for the creation of a **well-regulated Capital Market Union** in order to reduce the excessive dependence of the economies of the euro zone on the banking system.

Lastly, recalling that the Single Resolution Mechanism (SRM), the second pillar of the Banking Union, will come into force by the beginning of 2015, the report stressed the need to continue developing the third pillar of the Banking Union;