European Central Bank annual report for 2015

2016/2063(INI) - 18/10/2016 - Committee report tabled for plenary, single reading

The Committee on Economic and Monetary Affairs adopted an own-initiative report by Ramon TREMOSA i BALCELLS (ADLE, ES) on the European Central Bank Annual Report for 2015.

Members made the following observations as regards the current context:

- the euro area continues to suffer from a **high level of unemployment, excessive low inflation** and large macroeconomic imbalances, including current account imbalances;
- the euro area is facing a **very low level of productivity growth**, which is the result of the lack of investment – 10 percentage points below its level before the crisis –, a **failure to carry out structural reforms** and the weakness of internal demand;
- the **high level of public debt**, and particularly the huge number of non-performing loans and a still undercapitalised banking sector in some Member States, are still fragmenting the euro area financial market, thus reducing room for manoeuvre to support the most fragile economies.

Members acknowledged that, confronted with this very complex environment and the risks of a prolonged period of low inflation, the extraordinary measures adopted by the ECB to lift inflation back up to the medium-term objective of 2 % were consistent with the terms of its mandate and therefore not illegal.

Need for a sound budgetary policy and structural reforms: Members recalled that monetary policy alone is not the appropriate tool to solve the structural problems of the European economy. They emphasised that sound fiscal policies and **socially balanced structural reforms** oriented towards increasing productivity are the only way of bringing about sustainable economic improvements in these Member States.

The report insisted on the need to:

- **implement fully the banking union, as well as the building of a capital market union**, as this would be a decisive step towards improving the effectiveness of the single monetary policy and mitigating the risks arising from a shock in the financial sector;
- **solve the issue of non-performing loans** for the worst-affected national banking sectors in order to restore a smooth transmission of monetary policy for the whole area;
- ensure that **structural and socially balanced reforms** take full account of the demographic deficit in Europe, in order to tackle deflationary pressures and create incentives for a more balanced demographic structure that would make it easier to maintain an inflation target of around 2 %.

Unconventional measures: Members noted even though the impact risks and spillovers of unconventional measures has been significant, particularly as regards funding conditions for banks in the periphery, inflation is not expected to converge to the 2 % medium-term objective at the 2017 horizon.

The current recovery in bank and market lending is geographically **unevenly distributed** among the Member States and has not so far wholly produced the expected effect on the existing investment gap in the euro area.

Members deplored 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 recognised the limits of what monetary policy can achieve in this respect.

The report emphasised that **national economic policies should be coordinated, particularly within the euro area**. It underlined that the unavoidable process of exiting from unconventional monetary policy will be a very complex one which will have to be carefully planned in order to avoid negative shocks on the capital markets.

Negative interest rate policy: Members underlined the fact that a prolonged period of flat yield curve could **lessen the profitability of banks**, especially if they do not adjust their business models, and could create potential risks, in particular for **private savings** and pension and insurance funds. A decline in the profitability of banks could dampen their willingness to develop lending activity.

The report called therefore for **specific and continued monitoring** of the negative interest rate tool, its implementation and its effects.

The report called on the ECB to carefully assess the risks of a future resurgence of asset and housing bubbles owing to its ultra-low (negative) interest rate policy.

Non-marketable assets: Members remain concerned by the still significant levels of non-marketable assets and asset-backed securities put forward as collateral to the eurosystem in the framework of its refinancing operations. They reiterated their request to the ECB to provide information on which central banks have accepted such securities and to disclose valuation methods regarding such assets. Such disclosure would be beneficial for the purpose of parliamentary scrutiny of the supervisory tasks conferred on the ECB.

The report noted that the ECB's Asset Purchase Programme (APP) has lowered bond yields in most Member States to unprecedented levels; warns against the risk of excessively high valuations on the bond markets, which would be difficult to handle if interest rates start to rise again in the absence of a sufficiently robust recovery, particularly for the countries involved in the excessive deficit procedure or with high levels of debt.

The Commission is called upon to:

- come forward with proposals to **improve macroprudential oversight** and the policy tools available for mitigating the risks in shadow banking;
- examine the need for legislative proposals enabling the current Capital Requirements Directive and Regulation (CRR/CRD IV) to be equipped with certain measures which could effectively **address specific types of systemic risk**.

Lastly, on a **possible withdrawal of the UK from the EU**, Members recalled that President Draghi correctly stated that 'the extent to which the economic outlook will be affected depends on the timing, development and final outcome of the upcoming negotiations and that 'regardless of the type of relationship that emerges between the European Union and the United Kingdom, it is of utmost importance that the integrity of the single market is respected. Any outcome should ensure that all participants are subject to the same rules'.