European Central Bank annual report for 2015

2016/2063(INI) - 22/11/2016 - Text adopted by Parliament, single reading

The European Parliament adopted by 437 votes to 131, with 140 abstentions, a resolution on the European Central Bank Annual Report for 2015.

Current context: Parliament focused on the following issues:

- 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 in light of the current context, 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.

Since the launching of the **Asset Purchase Programme** (APP) in March 2015, and owing to targeted long-term refinancing operation (TLTRO) programmes targeted at the real economy, financial conditions have improved slightly, which has promoted a recovery in lending to firms and households in the euro area. Moreover, Parliament welcomed the European Central Bank's categorical pledge of July 2012 to '**do whatever it takes**' to defend the euro, which has been instrumental in ensuring the financial stability of the euro area.

Need for a sound budgetary policy and structural reforms: Parliament agreed that the single monetary policy alone cannot stimulate aggregate demand unless it is complemented by sound fiscal policies and ambitious and socially balanced structural reform programmes at Member State level. It stated that monetary policy alone is not the appropriate tool to solve the structural problems of the European economy.

Members insisted on the need to:

- **implement fully the banking union**, as well as the building of a capital market union;
- 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 reforms take full account of the demographic deficit in Europe, in order to tackle deflationary pressures.

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.

Banks have been able to access funding at virtually no, or very low, cost, which has directly subsidised their balance sheets. Members deplored the fact that the size of this subsidy, despite representing a clear fiscal spillover effect of monetary policy, is not monitored and published, and that it is free from strict conditionality.

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.

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

Parliament noted that the ECB's Asset Purchase Programme (APP) has lowered bond yields in most Member States to unprecedented levels. It warned 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 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'.