European Central Bank annual report for 2016

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The European Parliament adopted by 479 votes to 126, with 78 abstentions, a resolution on the European Central Bank (ECB) Annual Report for 2016.

Members acknowledged the **federal nature of the ECB**, which enables it to act decisively in various matters such as addressing the crisis. They also noted the contribution of the **ECB's accommodative monetary policy** in the period 2012-2016 (including its low interest rates and assets purchase programme) to cyclical economic recovery and employment creation, also by preventing deflation.

Parliament is, however, concerned at the consequences of the unconventional monetary policy measures for individual savers and the financial equilibrium of pension and insurance schemes as well as the build-up of asset bubbles, which the ECB should carefully monitor. It also remained concerned at 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.

Price stability: Members recalled that, according to Eurostat, average inflation in the euro area was 0.2 % in 2016, (0.9 % excluding energy prices) and that inflation in the euro area is expected to remain below 2 % until at least 2020, which suggests that the euro area economy is not operating at full capacity, despite the very accommodative monetary policy followed by the ECB. The ECB must ensure that price stability (an inflation rate of close to but below 2 %) but should nonetheless carefully assess the benefits and side effects of its policy, in particular as regards intended action to combat deflation in the future. It should focus on a clear and concise communication of its monetary policy measures.

Economic growth and employment: GDP growth in the euro area has been stable but modest, and observed that the Commission's Autumn 2017 Economic Forecast predicts GDP growth rates of 2.2 % in 2017 and 2.3 % in 2018. However, the ECB's monetary policy efforts have not yet left a tangible impact on the investment side of the EU economy.

Members considered that **monetary policy is not sufficient to sustain economic recovery,** nor can it contribute to solving the structural problems of the European economy, unless it is complemented by socially balanced and fair long-term growth- and competitiveness-enhancing policies at Member State level, in combination with sound fiscal policy and within the Stability and Growth Pact.

Many euro area countries continue to suffer from a high level of unemployment, and aggregate demand in the euro area remains subdued. Members called, therefore, for implementing policies that are geared to increasing productivity, with a focus on skills that facilitate further creation of quality jobs, as well as wage increases.

Credit supply and banking supervision: Members considered that the effect of monetary policy is limited owing to subdued credit demand, the persistence of structural problems in the banking systems of some Member States, and lack of trust among financial institutions themselves. It encouraged further **improvement of SMEs' access to credit**.

The resolution welcomed the fact that since 2015, rates for very small loans have continued to fall at a faster pace than those for large loans, contributing to a further narrowing of the spread between loans.

Members acknowledged that while the current policy of low interest rates has a temporarily positive effect on the level of nonperforming loans (NPLs), the high risks related to NPLs should be tackled effectively

in a **structural fashion**. They called for robust stress tests and recommended careful monitoring of developments on the real estate markets. Any additional measures should ensure full respect for the prerogatives of the European Parliament.

Other challenges: Parliament called for the step-by-step, timely and full completion and implementation of the **Capital Markets Union** (CMU). It also pointed out that the European deposit insurance scheme (EDIS), as the third pillar of the banking union, could help strengthen and safeguard financial stability.

In addition, it stressed that progress in the field of **virtual currencies** must not lead to restrictions on retail cash payments or to the abolition of cash.

In the area of accountability and transparency, Parliament called on the ECB to:

- continue providing the necessary support to Greece, and to any other Member State, in the review of the completion of the financial assistance programme;
- assess, in cooperation with the ESAs, the **consequences of the UK's withdrawal from the EU** and to stand ready to prepare for the relocation of banks and their activities in the euro area. The strengthening of oversight for euroclearing outside the euro area should be of the utmost importance, in order to avoid supervisory gaps and financial stability issues;
- be **transparent to the general public and be more accountable to Parliament**. The latter should be able to exercise its institutional role in the appointment of the President, Vice-President and other members of the executive board of the ECB;
- ensure the independence of the members of its internal audit committee;
- adopt a clear and public policy on whistleblowers.