ECB - Annual report 2017

2018/2101(INI) - 05/12/2018 - Committee report tabled for plenary, single reading

The Committee on Economic and Monetary Affairs adopted the own-initiative report by Gabriel MATO (EPP, ES) on the ECB annual report 2017.

The report recalled that the euro remains unchallenged as the second most important currency in the international monetary system.

According to the Commission’s summer 2018 forecast, the GDP of the EU and the euro area grew by 2.4 % in 2017, outperforming the US. GDP should increase in 2018 and 2019 by 2.1 % and 2.0 % respectively.

The latest economic figures in 2018 reflect a certain slowdown in growth from the high levels of 2017, owing to a weaker impetus from external trade and higher oil prices.

The current broad-based economic expansion is mainly being driven by exports and domestic consumption in the Member States. Last year investment grew at the fastest pace since 2007, backed by the global upswing and the Investment Plan for Europe. The role of EFSI in bridging the investment gap in the EU, mobilising a total investment of EUR 256.9 billion and providing financing to almost 550 000 SMEs benefiting from EIF funding.

The economic performance of those Member States which are outside the single currency and which enjoy exchange rate flexibility for their own currencies has been uneven. The economies of those Member States which have adopted the single currency in the last ten years have performed better than those of the countries with flexible exchange rates.

The ECB expects **inflation to gradually pick up** over the medium term, supported by the impact of the current monetary policy stance, continuing economic expansion, rising wages and the absorption of economic slack.

The euro area banks have accelerated their reduction in the number of non-performing loans (NPLs), from 8 % of total loans in 2014 to 4.9 % in the fourth quarter of 2017.

General overview

Members welcomed the fact that popular support for the euro has increased by 8 percentage points in 2017 vis-à-vis 2016, with almost two-third of respondents (64 %) thinking that the single currency is a good thing for their countries. The stressed the requirement for every Member State with the exception of the UK and Denmark to adopt the single currency once it has met the Maastricht convergence criteria. Participation in the Banking Union being regarded as a key criterion for those countries wishing to join the euro area.

The report noted that the EU economy grew at its fastest rate in ten years in 2017 and that all Member States saw their economies expand. Unemployment in the EU is at its lowest level since 2008, although continuing to dramatically affect young people.

Challenges

Members warned of the rise of ***uncertainties*** stemming from factors including:

- the threat of increased protectionism;

- the Brexit negotiations;

- potential asset bubbles;

- the emerging markets crisis;

- historic levels of private and public debt;

- general volatility in the financial markets linked in particular to the political risks in some Member States which are impairing the euro area's growth prospects;

- rising populism, isolationism and ethnocentrism across the political spectrum;

- the backlash against globalisation;

- growing divergences between Member States over the future of European integration.

Overall, Members emphasised the great importance, at this juncture, of maintaining a favourable environment for public and private investment, which are still lagging behind pre-crisis levels.

Members considered that monetary policy alone is not sufficient to achieve a sustainable economic recovery. They urged policymakers to maintain the current economic upswing beyond the short term by implementing a mix of socially balanced, ambitious and growth-friendly productivity-enhancing structural reforms and fiscal policies, within the framework of the Stability and Growth Pact (SGP), including its flexibility provisions.

Brexit

Members called on the ECB to continue its efforts to ensure that banks are well prepared for all possible contingencies relating to Brexit and for it to undertake all necessary preparations to ensure the stability of EU financial markets, including in the case of a no-deal Brexit.

They stressed the need for euro area Member States to pursue a joint regulatory strategy for the financial sector in the wake of Brexit, rather than engaging in harmful downward competition.

Accountability and transparency

The report stressed the importance of the ECB being accountable to Parliament. It welcomed, in this respect, the permanent dialogue between the ECB and Parliament. Members stated that the ECB has improved its communication and should continue its efforts to make its decisions available and understandable to all citizens, as well as its actions to maintain price stability in the euro area and therefore preserve the purchasing power of the common currency.

Members also congratulated the ECB on the efforts it has made thus far to improve transparency and democratic accountability vis-à-vis European citizens and the European Parliament.