European Central Bank - annual report 2022

2022/2037(INI) - 16/02/2023 - Text adopted by Parliament, single reading

The European Parliament adopted by 376 votes to 96, with 35 abstentions, a resolution on the report on the European Central Bank - Annual Report 2022.

General overview

Members are concerned about Russia's war of aggression against Ukraine and its severe, unpredictable and long-lasting repercussions on the European economy and society, especially for the most exposed and vulnerable groups such as small and medium-sized enterprises (SMEs) and low-income households. They stressed that unprecedented crises require **unprecedented, innovative and bold monetary policy decisions**.

Parliament recognised that the ECB could bring down prices by strongly reducing aggregate demand via its monetary policy tools, while acknowledging that this would increase the risk of a negative impact on growth and employment.

Members noted that fiscal and monetary policies reinforced each other during the pandemic, thus preventing a repeat of the 2008 financial crisis. They stressed that maintaining price stability now requires even **closer coordination of fiscal and monetary policies**. They shared President Lagarde's warning that it is essential that fiscal support used to shield households from the effects of rising prices is temporary and targeted, thus limiting the risk of fuelling inflationary pressures and ensuring price stability, while helping to preserve debt sustainability. Members welcomed President Lagarde's statement that the current geopolitical crisis obliges us to make progress in the EU's fiscal integration. They stressed the risks of significant delays in completing the banking union.

Monetary policy

Members are alarmed that euro area inflation has reached record levels with average inflation for **2022 at 8.4 %**. Energy is by far the most significant driver of inflation (40.8 %), followed by food prices (11.8 %). Inflation, mainly driven by supply, is currently well above the ECB's target rate of 2% (core inflation is currently 5.2%). The ECB's main mandate is to ensure price stability.

The ECB's strategy review reconfirmed the medium-term orientation of the inflation targets, setting a **symmetric inflation objective of 2% in the medium term**. Members called on the ECB to respect this medium-term inflation target as far as possible, including in the current crisis.

Parliament noted President Lagarde's statement that the ECB intends to **raise interest rates further** at future meetings until inflation reaches its target level.

It asked the ECB to consider a more **balanced and gradual adjustment of policies**, given the high level of uncertainty, and called for more justification of any future policy rate decisions.

The Russian aggression in Ukraine and dependence on imported fossil fuels are largely responsible for the recent substantial increase in prices. The resolution pointed out that **traditional monetary policy instruments have limited influence in combating inflation**, which is mainly driven by energy and food prices. They noted that the ECB has repeatedly acknowledged that raising interest rates would not bring down energy prices and would not affect inflation in the short term.

Members are concerned about the **risk of fragmentation** given the divergences in inflation levels among euro-area countries, from 25.2 % in Estonia to 6.6 % in France in August 2022. They believe this imperils the singleness of the ECB's monetary policy and its transmission.

The ECB is called upon to develop a credible **communication strategy**, backed up by swift and concrete measures to signal to European citizens that inflation will fall in the medium term.

Parliament noted that the IMF, in its World Economic Outlook for 2022, concluded that the risks of a wage spiral are limited. It notes that resilient labour markets and some degree of catching-up to compensate for the loss of purchasing power are likely to contribute to strong wage growth. The ECB is invited to monitor this risk very closely.

Tackling climate change

Stressing that price stability and a stable macroeconomic environment are necessary to encourage green investment, Parliament invited the ECB to assess the extent to which climate change affects its ability to maintain price stability. It noted the Governing Council's decision to take **further steps to integrate climate change considerations** into the Eurosystem's monetary policy framework.

Members welcomed the ECB's announcement to further enhance the Eurosystem's risk assessment tools and capabilities to better take into account climate and environmental risks, for example through its in-house credit assessment systems. They welcomed the ECB's action plan and its detailed roadmap of climate change actions to further incorporate climate-change considerations into its policy framework and models.

Members noted the ECB's announcement to decarbonise its corporate bond holdings by 'titling' its portfolio. They welcomed:

- the ECB's announcement to further enhance the Eurosystem's risk assessment tools and capabilities in order to better include climate- and environment-related risks, such as through their in-house credit assessment systems;

- the ECB's action plan and its detailed road map of climate-change-related actions to further incorporate climate-change considerations into its policy framework and models;

- the ECB climate risk stress test developed to assess the resilience of banks and corporations in the face of climate transition risk.

Transparency, accountability, gender equality

Members reiterated their call for the ECB to be **more accountable to the European Parliament** and for current accountability practices between the ECB and the European Parliament to be formalised in writing.

The ECB is asked to:

- better report on the positions it adopts in the Basel Committee on Banking Supervision;

- pursue its new **communication policy**, which provides for more accessible ways of explaining and presenting ECB policy decisions to citizens and stakeholders;

- better monitor the development of **crypto-currencies** and the related risks of cybersecurity, money laundering, terrorist financing and other criminal activities linked to the anonymity provided by crypto-assets.

Members regretted that only two of the members of the ECB's Executive Board and Governing Council are women and that the **gender imbalance** also persists in the ECB's organisational structure. They welcome the ECB's new strategy to improve the gender balance, including the objective of increasing the share of women to between 40% and 51% by 2026. The ECB is invited to report on its progress in this area in its annual report.