

# European Central Bank – annual report 2024

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The Committee on Economic and Monetary Affairs adopted the report by Anouk VAN BRUG (RENEW, NL) on the European Central Bank – annual report 2024.

According to the December 2024 Eurosystem staff macroeconomic projections for the euro area, HICP inflation is projected to decline to 2.1 % in 2025, 1.9 % in 2026, and to increase to 2.1 % in 2027. The ECB's primary objective is to maintain price stability, which it has defined as a level of inflation of 2 % over the medium term.

## *General overview*

The European Central Bank (ECB) plays a crucial role in safeguarding monetary and financial stability, which is essential for economic growth. It is responsible for maintaining price stability in the euro area. Members underlined that the ECB's independence is vital for fulfilling its mandate, contributing to economic growth, competitiveness, and job creation while refraining from taking political action.

The report invited the ECB and the European Parliament to make full use of the accountability and transparency arrangements while preserving the ECB's independence. The ECB has made efforts to reduce inflation to its 2% target, which is necessary to address the cost-of-living crisis, as high inflation disproportionately affects lower-income households and weakens purchasing power.

Despite progress, core inflation remains high (2.7% in November 2024), creating economic uncertainty and increasing living costs. While keeping interest rates too high may harm growth, lowering them too quickly could lead to rising inflation again. The ECB should carefully assess the impact of interest rate changes on various economic sectors.

Members acknowledged that monetary policy measures since the inflation crisis, driven by rising energy costs, have helped control inflation while preventing severe economic downturns. Prudent fiscal policies by EU Member States are necessary to complement the ECB's efforts, allowing responses to economic shocks and ensuring long-term stability. Prudent fiscal policies, debt reduction, and reforms are crucial to maintaining economic resilience. The ECB's policies are assessed for proportionality to ensure their broader economic impact aligns with its mandate.

## *Monetary policy*

The report noted that the ECB has successfully reduced headline inflation from a peak of 10.6% in October 2022 to 2.2% in November 2024, and core inflation from 7.6% in March 2023 to 2.7% in November 2024. However, concerns remain about persistently high core inflation and its potential impact on overall inflation.

Members stressed that supply shocks, primarily originating from external sources, were among the key drivers of the inflation surges. They recognised that monetary policy has a more direct effect on inflation levels when it stems primarily from demand factors rather than supply factors. Moreover, they invited the ECB to continue reviewing and improving its models and their role in its policymaking in light of the subpar performance of the models in recent years, in order to learn from previous crises, particularly to better distinguish between demand-driven and supply-side sources of inflation. The report highlighted that economic supply shocks can arise from many sources, among others geopolitical events, climate-related or natural disasters and cyberattacks.

The ECB has been reducing its asset purchase programmes to balance market liquidity and levels of inflation. The report underlined that interest on commercial banks' holdings of bank reserves resulted in the Eurosystem paying more than EUR 120 billion interest to credit institutions in 2023, amounting to at least 0.8 % of euro area GDP. It asked the ECB to mitigate this issue.

In addition, the report stressed that diverging interest rates in the euro area are – in the absence of any serious financial disturbances – generally the result of different risk premiums on government bonds reflecting, among other factors, different approaches to fiscal policy. Therefore, Member States are called on to conduct responsible fiscal policies and ensure sustainable debt levels, thereby ensuring their resilience against current and future shocks.

### ***Digital euro***

The ECB is making progress on the digital euro. This initiative offers clear benefits, including enhanced strategic autonomy and improved financial inclusion. However, Members stressed that the digital euro should complement, rather than replace, physical cash.

### ***International role***

Members underlined that a strengthened international role of the euro would lead to lower interest rates in the euro area, increased status for the EU on the international stage and enhanced macroeconomic stability. They called on the ECB to look into strengthening the international role of the euro with a view to enhancing its attractiveness as a reserve currency and support market-driven shifts in this direction.