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REPORT

on the European Central Bank Annual Report for 2015
(2016/2063(INI))

Committee on Economic and Monetary Affairs

Rapporteur: Ramon Tremosa i Balcells

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MOTION FOR A EUROPEAN PARLIAMENT RESOLUTION

on the European Central Bank Annual Report for 2015
(2016/2063(INI))

The European Parliament,

– having regard to the European Central Bank Annual Report for 2015,

– having regard to Article 284(3) of the Treaty on the Functioning of the European Union,

– having regard to Article 123(1) thereof,

– having regard to the Statute of the European System of Central Banks and of the European Central Bank, in particular Article 15 thereof,

– having regard to Rule 132(1) of its Rules of Procedure,

– having regard to the report of the Committee on Economic and Monetary Affairs (A8-0302/2016),

A. whereas on a possible withdrawal of the UK from the EU, 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. So far, the euro area economy has been resilient, but due to this uncertainty our baseline scenario remains subject to downside risks'; 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';

B. whereas, according to the Commission's latest spring forecast, euro area real growth is expected to be modest and geographically uneven – 1.6 % in 2016 and 1.8 % in 2017, following 1.7 % in 2015;

C. whereas, according to the same forecast, unemployment in the euro area is expected to record a decrease, from 10.9 % at the end of 2015 to 9.9 % at the end of 2017; whereas disparities between the unemployment rates of the Member States continued to widen in 2015, with figures ranging from 4.6 % in Germany to 24.9 % in Greece;

D. whereas, again according to the same forecast, the government deficit in the euro area is expected to gradually decline from 2.1 % in 2015 to 1.9 % in 2016 and 1.6 % in 2017, and the debt-to-GDP ratio is also forecast to decline for the first time since the beginning of the crisis, even though there are still four euro area countries involved in the Commission's excessive deficit procedure: France, Spain, Greece and Portugal; whereas Cyprus, Ireland and Slovenia have implemented macroeconomic programmes which have enabled them to reduce their respective deficits to less than the threshold of 3 % of GDP;

E. whereas, according to the same forecast, the euro area is expected to exhibit an external surplus of around 3 % of GDP in both 2016 and 2017; whereas a hard Brexit may have an adverse impact on both the EU and UK trade balance, given that the UK is one of the euro areas main trading partners;

F. whereas Article 127(5) of the TFEU requires the European System of Central Banks to help maintain financial stability;

G. whereas Article 127(2) of the TFEU requires the European System of Central Banks 'to promote the smooth operation of payment systems';

H. whereas, according to the ECB projection of September 2016, the average inflation rate in the euro area, after being nil in 2015, will remain close to this level in 2016 (0.2 %) and reach 1.2 % in 2017 and 1.6 % in 2018; whereas the low inflation rates seen in recent years can inter alia be primarily attributed to low energy prices;

I. whereas the inflation target is getting harder to reach owing to consolidation of demographic trends, continuing low energy prices and the full impact of trade and financial globalisation on a high-unemployment European society; whereas these deflationary pressures are contributing to a lack of investment and the weakness of aggregate demand;

J. whereas in March 2015 the ECB launched an expanded Asset Purchase Programme (APP) amounting to EUR 1.1 trillion and initially scheduled to run until September 2016;

K. whereas this programme has since been upgraded, with the asset purchase scheduled to run until March 2017 for a total amount which should be close to EUR 1.7 trillion, and the list of eligible assets has been enlarged to include non-financial corporate bonds and regional and local government bonds; whereas concerns have arisen that the balance sheet of the ECB contains rising levels of risk;

L. whereas the ECB has bought EUR 19 094 million of asset-backed securities (ABS) since the beginning of its purchase programme;

M. whereas the ECB further eased its monetary stance by lowering its key intervention rates to unprecedented levels, with the main refinancing operations (MRO) and the deposit facility down to 0 % and - 0.40 % respectively in March 2016; whereas the ECB is offering banks incentives to grant loans and, with that aim in view, is carrying out a further series of targeted longer-term refinancing operations (TLTRO-II);

N. whereas, according to the ECB, the establishment of the Single Supervisory Mechanism (SSM) aimed at consistent application of microprudential supervision and enforcement across the euro area in order to ensure a level-playing field for bank operations and impose a common assessment methodology (SREP);

O. whereas the ECB's president has continued to stress the urgency of much-needed structural reforms in the euro area;

P. whereas the ECB is supportive of the Simple, Transparent and Standardised Securitisation framework and the resultant reduced capital requirements that will revitalise both securitisation markets and the financing of the real-sector economy;

Q. whereas Article 123 TFEU and Article 21 of the Statute of the European System of Central Banks and of the European Central Bank prohibit the monetary financing of governments;

1. Stresses that the euro area continues to suffer from a high level of unemployment, excessive low inflation and large macroeconomic imbalances, including current account imbalances, and that, in addition, 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; notes that 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; emphasises that sound fiscal policies and socially balanced structural reforms oriented towards increasing productivity are the only way of bringing about sustainable economic improvements in these Member States;

2. Underlines the federal nature of the European Central Bank, which rules out national vetoes, enabling it to act decisively in addressing the crisis;

3. Acknowledges that, confronted with this very complex environment and the risks of a prolonged period of low inflation, 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, as laid down in Article 127 of the TFEU, and therefore not illegal[1]; notes that, since the launching of the 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; notes that these measures have also contributed to a narrowing of the spread of some euro area governments' bonds; notes that improvements have not affected Member States equally and that credit demand in some Member States remains weak;

4. Emphasises that in June 2016 the ECB started a new series of four targeted longer-term refinancing operations (TLTRO II); points out that the incentive structure of the programme has changed in comparison with the original TLTRO, as certain banks will be able to borrow at negative rates even if they do not increase their net lending to the real economy;

5. Is concerned at the fact that by offering liquidity at negative rates, but eliminating the requirements for banks to return the funds if they do not achieve their lending benchmark, the ECB is weakening the link between the provision of central bank liquidity and lending to the real economy that was at the centre of the TLTRO concept;

6. Welcomes the European Central Bank's categorical pledge of August 2012 to 'do whatever it takes' to defend the euro, which has been instrumental in ensuring the

[1] As recently underlined by the European Court of Justice and the judgment of the German Federal Constitutional Court of 21 June 2016.

financial stability of the euro area;

7. Believes that the APP would have a higher impact on the European economy if it was accompanied by effective and socially balanced structural reforms designed to increase the competitiveness of the European economy and if it had a higher share of EIB bond buying, particularly related to the TEN-T and TEN-E (projects with proven added European value in social and economic terms), among others, and SME securitised loans; calls on the ECB to draw up a study analysing what would be the impact of the APP if it could buy in the secondary markets Member States' public debt directly linked to investment and research expenditure; is concerned that the outright purchases of bonds issued by non-financial corporations within the Corporate Sector Purchase Programme (CSPP), which could be justifiable in the current circumstances, may have distortive effects;

8. Agrees with ECB President Mario Draghi 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; recalls that, in accordance with its mandate laid down in primary law in the EU Treaties, the ECB's main aim is to safeguard price stability in order to guarantee a stable environment conducive to investment; considers that monetary policy alone is not the appropriate tool to solve the structural problems of the European economy; emphasises that the expected economic recovery is no substitute for essential structural reforms; draws attention to recent studies and discussions concerning a possible fall in the neutral interest rates observed all over the world over the last decade; points out that such a situation would result in monetary policy being more constrained and less effective, as it would more often run the risk of hitting the zero lower bound;

9. Agrees that a well-functioning, diversified and integrated capital market would support the channels of transmission of the single monetary policy; calls in this context for a step-by-step completion and full implementation of the banking union and full MS compliance with its related legislation, as well as the building of a capital market union, as this would be a decisive step towards improving the effectiveness of the single monetary policy and mitigating the risks arising from a shock in the financial sector; considers it crucially important to 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;

10. Stresses that structural and socially balanced reforms in the economy and the labour market should also take full account of the demographic deficit in Europe, in order to tackle deflationary pressures and create incentives for a more balanced demographic structure that would make it easier to maintain an inflation target of around 2 %; points to the risk of negative investment expectations where demographic trends are unfavourable;

11. Notes, however, that 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; notes that 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; stresses that a lack of investment is caused not only by a lack of access to funding, but also by low demand for credit, and that it is necessary to promote structural reforms that directly facilitate investment and jobs; draws attention to the decrease in availability of high-quality assets that are internationally accepted by institutional investors;

12. Points out that, while the effects on the real economy have been very limited, banks have been able to access funding at virtually no, or very low, cost, which has directly subsidised their balance sheets; deplores 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 in terms of whether or how it is invested; insists that any extraordinary measures of this kind should be accompanied by measures to mitigate distortions to markets and the economy;

13. Deplores 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, but recognises the limits of what monetary policy can achieve in this respect; stresses that the persistent need for adjustment of banks' balance sheet is affecting, inter alia, the availability of credit for SMEs in some Member States; points to the risk, moreover, of further possible distortions of competition as a result of ECB corporate bond buying on the capital market, in which the underlying eligibility criteria should not create further distortions, particularly in view of the risk framework, and from which SMEs should not be excluded;

14. Underlines 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; warns that a decline in the profitability of banks could dampen their willingness to develop lending activity; points particularly to the negative effect of such an interest rate policy on local and regional banks and savings banks with little funding from financial markets, and to risks in the insurance and pensions sector; calls therefore for specific and continued monitoring of the negative interest rate tool, its implementation and its effects; emphasises the need for proper, prudent, timely management of the winding-down of this ultra-low (negative) interest rate policy;

15. Understands the reason why negative rates have been implemented, but emphasises its concern about the potential consequences of a negative interest rate policy for individual savers and the financial equilibrium of pension schemes and in terms of the development of asset bubbles; is worried about the fact that in some Member States longer-term savings interest rates are below inflation rates; believes that, owing to demographic trends and cultural preferences for saving, these negative effects on income may lead to an increase in the household saving rate, which could be detrimental to domestic demand in the euro area; warns that, given the downward rigidity of deposit rates, the benefits of pushing the rates on deposits at the ECB further into negative territory could be limited;

16. Remains 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; reiterates its request to the ECB to provide information on which central banks have accepted such securities and to disclose valuation methods regarding such assets; underlines that such disclosure would be beneficial for the purpose of parliamentary scrutiny of the supervisory tasks conferred on the ECB;

17. Asks the ECB to study how the transmission of monetary policy differs in those Member States with centralised and concentrated banking sectors and those with a more diverse network of local and regional banks, as well as between countries which rely more on banks or capital markets for the financing of the economy;

18. Calls 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, especially in the light of much-increased lending volumes and disproportionately high prices in the property sector, particularly in some big cities, and believes that it, together with the European Systemic Risk Board (ESRB), should put forward proposals for designing specific macroprudential recommendations in this regard;

19. Asks the Commission to come forward with proposals to improve macroprudential oversight and the policy tools available for mitigating the risks in shadow banking, in the light of the warning by the ECB that, given the steady expansion over the last decade to EUR 22 trillion in assets of non-bank credit intermediation, further initiatives are needed to monitor and assess vulnerabilities in the growing shadow banking sector;

20. Supports the ECB's assessment that the current CRR/CRD IV package lacks certain measures which could also effectively address specific types of systemic risk, such as (i) various asset-side measures, including the application of limits to loan-to-value, loan-to-income or debt-service-to-income ratios, and (ii) the introduction of various exposure limits falling outside the current definition of large exposures; urges the Commission to examine the need for legislative proposals in this regard; notes that some of these measures could already be integrated in the context of the ongoing legislative work around the EDIS proposal;

21. Points out that, as indicated by the ECB’s role in relation to liquidity provision to Greece in June 2015 and the leaked discussions of the ECB Council of Governors on the solvency of Cypriot banks, the concept of ‘insolvency’ underpinning the provision of central bank liquidity to institutions in the euro area lacks a sufficient level of clarity and legal certainty, as the ECB has in past years referred alternately to a static concept of solvency (based on whether a bank complies with minimum capital requirements at a certain point in time) or to a dynamic concept (based on forward-looking scenarios of stress tests) for justifying the continuation or limitation of emergency liquidity assistance (ELA) provision; underlines that this lack of clarity needs to be addressed so as to guarantee legal certainty and foster financial stability;

22. Notes the ECB Presidency’s recognition of the existence of distributional consequences of the ECB policies with an impact on inequalities, and takes note of the ECB’s assessment that the lowering of costs of credit for citizens and SMEs, while enhancing employment in the euro area, might partially compensate for these distributional impacts;

23. Notes that the ECB’s APP has lowered bond yields in most Member States to

unprecedented levels; warns 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; points out that a sudden reversal of interest rates from currently low levels along the yield curve carry important market risks for financial institutions with a significant proportion of mark-to-market financial instruments;

24. Stresses the prerequisites defined by the Court of Justice that must be met by any purchase of government bonds of euro area Member States on the secondary market by the European System of Central Banks (ESCB):

– purchases are not announced,

– the volume of the purchases is limited from the outset,

– there is a minimum period between the issue of the government bonds and their purchase by the ESCB which is defined from the outset and prevents the issuing conditions from being distorted,

– the ESCB purchases only government bonds of Member States that have bond market access enabling the funding of such bonds,

– purchased bonds are only in exceptional cases held until maturity, and purchases are restricted or ceased and purchased bonds are remarketed should it become unnecessary to continue the intervention;

25. Takes account of the fact that some Member States may be using ultra-low (negative) interest rate policy to defer necessary structural reforms and the consolidation of their primary public deficits, particularly at central government level, and points in this connection to the Stability and Growth Pact commitments; recognises that one of the reasons contributing to budgetary surpluses in some Member States has been the negative interest rates of their public debt; emphasises that national economic policies should be coordinated, particularly within the euro area; underlines 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;

26. Welcomes the publication of the minutes of the Council meeting and the decision to disclose the agreements on net financial assets (ANFA) between the ECB and the national central banks; encourages the ECB to pursue its transparency effort; reminds the ECB that labour recruitment policy must comply with best practice;

27. Recalls that the independence of the ECB for the conduct of monetary policy, as enshrined in Article 130 of the TFEU, is crucial to the objective of safeguarding price stability; asks all governments to avoid statements questioning the role played by the institution within its mandate;

28. Calls on the ECB to pay particular attention to the proportionality principle in connection with the banking supervisory tasks conferred on it;

29. Points to the apportionment of responsibilities between the ECB and the European Banking Authority (EBA); stresses that the ECB should not become the de facto standard-setter for non-SSM banks;

30. Notes that on 18 May 2016 the ECB Governing Council adopted the Regulation on the collection of granular credit and credit risk data (AnaCredit); calls on the ECB and the national central banks to leave as much leeway as possible when implementing AnaCredit;

31. Calls on the ECB not to begin work on any further stages in connection with AnaCredit until after a public consultation exercise, with full involvement of the European Parliament and particular account being taken of the proportionality principle;

32. Notes with concern that TARGET 2 imbalances are rising again in the euro area despite a narrowing in trade imbalances pointing to continued capital outflows from the euro area periphery;

33. Recalls that the monetary dialogue is important in order to ensure the transparency of monetary policy vis-à-vis Parliament and the wider public;

34. Instructs its President to forward this resolution to the Council, the Commission and the European Central Bank.

RESULT OF FINAL VOTE IN COMMITTEE RESPONSIBLE

Date adopted	11.10.2016
Result of final vote	+: 36 –: 7 0: 12
Members present for the final vote	Gerolf Annemans, Pervenche Berès, Udo Bullmann, Esther de Lange, Fabio De Masi, Anneliese Dodds, Jonás Fernández, Ashley Fox, Sven Giegold, Neena Gill, Roberto Gualtieri, Brian Hayes, Gunnar Hökmark, Danuta Maria Hübner, Cătălin Sorin Ivan, Petr Ježek, Barbara Kappel, Othmar Karas, Georgios Kyrtsos, Werner Langen, Bernd Lucke, Olle Ludvigsson, Ivana Maletić, Fulvio Martusciello, Marisa Matias, Bernard Monot, Luděk Niedermayer, Stanisław Ożóg, Dimitrios Papadimoulis, Sirpa Pietikäinen, Pirkko Ruohonen-Lerner, Alfred Sant, Molly Scott Cato, Pedro Silva Pereira, Joachim Starbatty, Theodor Dumitru Stolojan, Kay Swinburne, Michael Theurer, Ramon Tremosa i Balcells, Ernest Urtasun, Marco Valli, Tom Vandenkendelaere, Cora van Nieuwenhuizen, Miguel Viegas, Beatrix von Storch, Jakob von Weizsäcker, Pablo Zalba Bidegain, Sotirios Zarianopoulos
Substitutes present for the final vote	Alain Cadec, Sophia in 't Veld, Thomas Mann, Emmanuel Maurel, Siôn Simon, Tibor Szanyi, Romana Tomc