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REPORT

on the European Central Bank Annual Report for 2018
(2019/2129(INI))

Committee on Economic and Monetary Affairs

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MOTION FOR A EUROPEAN PARLIAMENT RESOLUTION

on the European Central Bank Annual Report for 2018 (2019/2129(INI))

The European Parliament,

- having regard to the 2018 Annual Report of the European Central Bank (ECB),
- having regard to the Statute of the European System of Central Banks (ESCB) and of the ECB, in particular Article 15 thereof,
- having regard to Articles 127(1) and (2), 130 and 284(3) of the Treaty on the Functioning of the European Union (TFEU),
- having regard to the hearing with the candidate for President of the European Central Bank, Christine Lagarde, of 4 September 2019,
- having regard to Mario Draghi’s Monetary Dialogue with the European Parliament as President of the European Central Bank, of 23 September 2019,
- having regard to the report of 18 October 2019 from the G7 Working Group on Stablecoins entitled ‘Investigating the impact of global stablecoins’,
- having regard to the ECB Feedback on the input provided by the European Parliament as part of its resolution on the ECB Annual Report for 2017,
- having regard to the final report of 31 January 2018 of the High-Level Expert Group on Sustainable Finance, entitled ‘Financing a sustainable European Economy’,
- having regard to its resolution of 29 May 2018 on sustainable finance¹ and its legislative resolution of 28 March 2019 on the proposal for a regulation of the European Parliament and of the Council on the establishment of a framework to facilitate sustainable investment²,
- having regard to the UN 2030 Agenda for Sustainable Development and the Sustainable Development Goals (SDGs),
- having regard to the Paris Agreement of the United Nations Framework Convention on Climate Change (UNFCCC),
- having regard to Rule 142(1) of its Rules of Procedure,
- having regard to the report of the Committee on Economic and Monetary Affairs (A9-0016/2020),

¹ Texts adopted, P8_TA(2018)0215.

² Texts adopted, P8_TA(2019)0325.

- A. whereas according to the Commission's Autumn 2019 Economic Forecast, the latest figures of 2019 reflect a slowdown of GDP growth in the euro area in 2018, from 1.9 % to 1.1 % in 2019, and in the EU-27, from 2.1 % in 2018 to 1.4 % in 2019, owing to the recent escalation in trade tensions, the corresponding uncertainty and to Brexit;
- B. whereas according to Eurostat figures, the unemployment rate in August 2019 stood at 6.2 % in the EU and 7.4 % in the euro area, the lowest rates since July 2008; whereas the unemployment rate has remained uneven across the European Union; whereas a high youth unemployment rate, at more than double the average rate, remains a serious issue to be tackled in the EU; whereas extraordinary regional inequalities persist in unemployment both within and among the Member States;
- C. whereas according to the Eurosystem staff macroeconomic projections of September 2019, annual inflation for the euro area in the Harmonised Index of Consumer Prices (HICP) looks set to reach 1.2 %, 1.0 % and 1.5 % respectively in 2019, 2020 and 2021, thus falling short of reaching 2 %; whereas inflation projections show substantial variance across the euro area;
- D. whereas at the end of 2018 the size of the Eurosystem balance sheet had reached an all-time high of EUR 4.7 trillion, thereby exceeding 40 % of the euro area's GDP, an increase of 4.25 % (0.2 trillion) compared with the end of 2017;
- E. whereas in 2018 the ECB's net profit amounted to EUR 1.575 billion, compared with EUR 1.275 billion in 2017; whereas this increase can mainly be attributed to the increase in net interest income on the US dollar portfolio and on the asset purchase programme (APP) portfolio;
- F. whereas a stronger role of the euro, and its increased use as a reserve currency, would increase the EU's ability to frame its policy stance independently vis-à-vis other global powers and is a key element in safeguarding European economic sovereignty;
- G. whereas, in order for the Euro to achieve a stronger global role, the euro area must first prove itself able to withstand a recession without any of its Member States resorting to write-downs (whether voluntary or otherwise) of government debt;
- H. whereas Article 127(5) of the TFEU requires the ESCB to help maintain financial stability;
- I. whereas SMEs, which remain the backbone of the EU's economy and societies, and which enhance economic and social cohesion, need further support;
- J. whereas the global issuance of green bonds has risen from less than EUR 1 billion in 2008 to more than EUR 120 billion in 2017 and euro-denominated net green bond issuance has increased ten-fold since 2013; whereas the gap between spreads of green bonds and those of the overall industrial sector have gradually closed;
- K. whereas despite this positive trend, green bonds still account for only 1 % of the overall supply of euro-denominated bonds;
- L. whereas the volume of transactions carried out with virtual currencies has increased

drastically and represents a challenge to the predominance of the traditional legal tender systems; whereas virtual currencies are alternative options for payments and not legal tender;

- M. whereas according to the December 2018 Eurobarometer poll, popular support for the euro rose to 75 % in 2018;

General overview

1. Welcomes the role of the ECB in safeguarding euro stability; highlights that the statutory independence of the ECB, as laid down in the treaties, is a prerequisite for it to fulfil its mandate of maintaining price stability;
2. Emphasises that the euro is a political project in addition to a purely economic one; stresses the irreversible nature of the single currency; draws attention to the requirement, laid down in the Treaties, for every Member State, with the exception of the United Kingdom and Denmark, to adopt the single currency once they have met the Maastricht convergence criteria; takes the view that participation in the banking union must be regarded as a benefit for those countries wishing to join the euro area;
3. Is concerned that after a short economic recovery, euro area growth has slowed down to 1.1 % of GDP in the euro area; is, furthermore, concerned by the decrease in growth in industrial production and world trade; notes, therefore, as underlined by Mario Draghi, the need for maintaining both appropriate liquidity conditions and a degree of monetary accommodation;
4. Stresses that sustainable growth and price stability cannot be achieved by monetary policy alone and that supportive fiscal policy and socially balanced and productivity-enhancing structural reforms are also necessary;
5. Points out that accommodative monetary policy must not be seen as a substitute for structural reforms;
6. Underlines the findings of the ESCB expert group on low wage growth³, which analysed the disconnect between wage growth and labour market recovery; these findings show that low wage growth over recent years can be explained mainly by technology and wage bargaining shocks (the latter being impacted by changes in wage bargaining structure – reducing the bargaining power of employees) and labour market regulations – mainly in countries most affected by the crisis and the combination of labour underutilisation, low inflation readings and subdued productivity growth;
7. Underlines that strengthening the role of the euro requires the right structural conditions, among which:
 - The deepening of the European Monetary Union;
 - The completion of the banking union;

³ ECB Occasional Paper Series No 232 / September 2019: Understanding low wage growth in the euro area and European countries. <https://www.ecb.europa.eu/pub/pdf/scpops/ecb.op232~4b89088255.en.pdf>

- The completion of the capital markets union;
8. Underlines the requirement for every EU Member State except Denmark and the UK to adopt the single currency once it has met the Maastricht convergence criteria; calls on the ECB to continue its fruitful cooperation also with the non-euro area EU Member States;

Monetary policy

9. Underlines that the open market operations and the non-standard monetary policy measures put in place by the ECB contributed to economic recovery, to an improvement in financing conditions via several transmission channels and to compressing yields across a wide range of asset classes; asks the ECB to keep monitoring potential risks to its balance sheets, asset price inflation, potential misallocation of resources and disadvantages to savers;
10. Notes that on 12 September 2019 the ECB announced a broad stimulus package including net purchases under the asset purchase programme (APP) that will run at EUR 20 billion per month, a cut of 10 basis points in the deposit rate, a two-tier system for reserve remuneration, and easier terms for targeted long-term refinancing operations (TLTRO-III); notes the lack of unanimity and believes that the ECB's leadership and President Lagarde should work towards bridging divides within the ECB's Governing Council;
11. Notes that the 33 % issuer limit applied to the ECB's Quantitative Easing Programme may restrict the ECB's ability to purchase the bonds of several Member States; considers that this issuer limit may require changes given that the renewed quantitative easing programme is open-ended and may require bond purchases that go beyond the 33 % limit for some Member States; notes that the quantitative easing programme was designed to purchase Member State bonds proportionally on the basis of the size of an economy and population;
12. Notes the intention of the ECB's Governing Council to continue reinvesting the principal payments from maturing securities for as long as necessary;
13. Notes that the negative effects on banks' net interest income have been counterbalanced so far by the benefits from more bank lending and lower costs for provisions and losses; is concerned about the difficulties faced by small banks in particular; calls on the ECB to monitor the potential for an asset price bubble;
14. Underlines that very low or negative interest rates offer opportunities to consumers, companies, including SMEs, workers and borrowers, who can benefit from stronger economic momentum, lower unemployment and lower borrowing costs; however, there is concern in relation to the potential impact on pension and insurance systems as a result of low returns, economic inequalities and challenges for individual savers; notes, furthermore, that some Member States have not made use of the low interest rate environment to consolidate their budgets and make structural reforms;
15. Takes note of the intention of the Governing Council of the ECB to continue reinvesting the principal payments from maturing securities for as long as necessary to maintain

favourable liquidity conditions and an ample degree of monetary accommodation;

16. Is concerned about the prolonged subdued inflationary pressure and the overreliance on the ECB's monetary policy to sustain growth, as well as its increasingly limited options under its current toolbox;
17. Notes President Draghi's call for a better alignment between the ECB's monetary and Member States' fiscal policies, highlighting that a more balanced macroeconomic policy mix would allow low interest rates to deliver the same degree of stimulus as in the past, but with fewer side effects;
18. Underlines the importance of cooperation between central banks, both in the European Union and at a global level, for the achievement of the inflation targets in the medium term;

Actions against climate change

19. Recalls that, as an EU institution, the ECB is bound by the Paris Agreement on climate change and that this should be reflected in its policies, while fully respecting its mandate and its independence; welcomes the emergence of a discussion about the role of central banks and supervisors in supporting the fight against climate change; calls on the ECB to implement the environmental, social and governance principles (ESG principles) into its policies, while fully respecting its mandate and its independence;
20. Echoes the positions expressed by Members of the ECB's Executive Board on the importance of developing truly European payment systems that are immune from external disruptions (including political ones); calls on the ECB to continue its work on the Pan-European Payment System Initiative (PEPSI) project with the aim of preserving the EU's sovereignty and economic efficiency for all users and providers, as well as ensuring fair competition;
21. Takes good note of ECB President Christine Lagarde's declaration of 4 September 2019, in which she endorsed 'a gradual transition to eliminate carbon assets' from the ECB's portfolio and welcomed the ECB's participation in the Network for Greening the Financial System (NGFS) and commitment to help identify and measure the financial system's exposure to climate-related risks and foster a greener financial system acting in full respect for the ECB's price stability mandate and other objectives;
22. Suggests that the ECB make the question how central banking and bank supervision can contribute to a sustainable economy and the fight against climate change one of its research priorities; suggests that, to that end, the ECB also cooperate with international networks other than the NGFS, especially the Sustainable Banking Network and the UN Principles for Responsible Banking initiative;
23. Is concerned about the fact that 62.1 % of ECB corporate bond purchases take place in the sectors that are responsible for 58.5 % of euro area greenhouse gas emissions; calls on the ECB to conduct a study investigating the impact of the APP on climate change and, in particular, the corporate sector purchase programme (CSPP) as a preliminary step towards redesigning the CSPP in a socially and environmentally sustainable manner; suggests, in this context, a framework for coordination between the ECB and

the European Investment Bank, including InvestEU;

Other aspects

24. Recognises the importance of micro, small and medium-sized businesses in the EU; invites the ECB to remain attentive to access to credit for these businesses, in particular in light of the slow improvement in their financial situation; points out, in this respect, the need to encourage public and private investments in the EU, and calls, therefore, for further efforts to ensure the financing of the real economy;
25. Calls on the ECB to continue its preparatory efforts to ensure the stability of EU financial markets for all possible contingencies and negative consequences, especially for those relating to the withdrawal of the United Kingdom from the European Union, taking into account the fact that some regions and countries are more directly affected than others;
26. Is concerned about the risks due to the delay in setting up the banking union and calls for its swift completion; takes note of the repeated calls of the ECB for the establishment of a European deposit insurance scheme (EDIS) as the third pillar of the banking union;
27. Stresses that the particular operating principles and specific mission of the cooperative and mutual banks should be respected and reflected in ECB policies and approaches;
28. Calls for the capital markets union (CMU) project to be accelerated in order to deepen financial integration, improve the access of SMEs to finance, allow for the effective mobilisation of capital in Europe to help promote sustainable growth in the real economy to the benefit of all citizens and to improve financial stability and the Union's resilience to shocks; recognises the strong support of the ECB in establishing a real CMU; welcomes the contribution of the Next CMU Working Group in this context;
29. Calls on the ECB and all supervisory authorities to increase their monitoring of crypto-assets and the increased risks in terms of cyber-security and money laundering to prevent negative effects on the stability, integrity and safety of the financial sector; agrees with EBA Opinion 2014/08 which suggests refraining from using the term 'virtual currencies' because using the term 'currency' can be misleading for a variety of reasons;
30. Takes note of the remarks made by Christine Lagarde in the meeting of the Committee on Economic Affairs of 4 September 2019 on the subject of the new regulation of cryptocurrencies to the effect that 'the ECB and central banks in general should clearly monitor these developments and contribute to ongoing international work on policy responses'; asks the ECB, in collaboration with the Commission, to assess the EU legal and regulatory framework on e-money, financial instruments and virtual currencies/assets in order to have a comprehensive framework for the supervision of financial instruments, entities or infrastructures, for anti-money laundering and stability purposes, as well as for cross-border cooperation and coordination; asks the ECB to work with the Commission on creating a framework for these new currencies that reconciles innovation, citizens' needs, the preservation of financial stability and the rule of law;

31. Welcomes the continuous efforts of the ECB to further strengthen its response and recovery capabilities in the event of a cyberattack on its own organisation;
32. Calls on the ECB to ensure an appropriate balance between financial innovation, including Fintech, and financial stability;
33. Encourages the ECB to work with the Commission and all relevant stakeholders to foster the role of the euro as a reserve currency; considers that this can be achieved through a variety of channels such as institutional representation or g European financial products that perform well;
34. Agrees with ECB President Christine Lagarde's statement that a review of the ECB's monetary policy framework is timely and warranted in order to ensure that the ECB has the right tools to better support the general policies in the EU without prejudice to its primary objective of maintaining price stability; calls on the ECB to organise a public consultation as part of this process in order to ensure that the review is open to input and feedback from a broad range of stakeholders; calls on the ECB also to involve Parliament in this review process; agrees further with the ECB President that the ECB has to enhance its communication to citizens on the impact of its policies;
35. Points out the importance of cash as a means of payment for EU citizens; invites the ECB, without prejudice to the Member States' prerogatives, to create a system for better monitoring large transactions with a view to combating money laundering, tax evasion and the financing of terrorism and organised crime;
36. Welcomes the fact that since 2017, the ECB has been publishing the full list of all CSPP holdings, including the names of issuers, together with aggregated data on those holdings by country, risk, rating and sector; deplores the fact that a similar policy has not been implemented with regard to the asset-backed securities purchase programme (ABSPP) and the third covered bond purchase programme (CBPP3); reiterates that more transparency is required, in particular for CBPP3, given the significant size of the programme;
37. Welcomes the introduction of the euro short-term rate, the new overnight reference rate for euro area money markets; asks the ECB to include in its next annual report a first assessment of its evolution and functioning in the market;
38. Regrets that the ECB has not yet included Greek bonds in the public sector purchase programme (PSPP) despite the improvements made by Greece in terms of debt sustainability and re-accession to bonds markets; calls on the ECB to justify why a debt sustainability analysis of the Greek bonds – a precondition for the inclusion of bonds in quantitative easing – has not yet been carried out by the ECB;
39. Underlines the technical nature of ECB rate-setting decisions and the importance of public support for expert-led decision making in this field; criticises, therefore, the politicising of ECB policy decisions; calls on all politicians and national central bankers to be careful in making public statements that can undermine trust in and support for ECB policies;
40. Welcomes the increase in the ECB's accountability to the European Parliament under

the Presidency of Mario Draghi, and looks forward to even greater accountability, dialogue and openness with President Christine Lagarde, building on the commitments she made during her hearing before its Committee on Economic and Monetary Affairs on 4 September 2019;

41. Considers that the ECB should allow sufficient access to documents and information for European Court of Auditors (ECA) audits related to banking supervision; welcomes, in this context, the Memorandum of Understanding between the ECA and the ECB of October 2019 setting out the practical arrangements for sharing information during the ECA's audits of the ECB's supervisory activities;
42. Recalls that the nominations of Executive Board members should be prepared carefully, with full transparency and together with Parliament in line with the Treaties; calls on the Council to draw up a gender-balanced shortlist for all current and upcoming vacancies and to share it with Parliament, thus allowing it to play a more meaningful advisory role in the appointment process; regrets that to date no satisfactory progress has been made;
43. Requests, while acknowledging that the bank has over the last decade been experiencing a widening of its functions as well as the need for more personnel employed under different conditions, to carry out the tasks set for it, that the human resource problems that have arisen be solved fairly, transparently and rapidly for all members of staff;
44. Stresses the need for enhanced and more effective accountability of the ECB in a context in which its missions have expanded since the beginning of the global financial crisis; reiterates its call for greater ECB transparency and accountability to Parliament; stands ready, to this effect, to improve the format of the monetary dialogue with the ECB president; is of the opinion that enhanced transparency arrangements should contain at least the following elements:
 - Mandatory publication of the declarations of interests of Governing Council members;
 - Ensuring that there are independent members in the Audit Committee, as well as in the Ethics Committee;
 - Adoption of a new whistleblowing policy;
 - Setting clear guidelines and transparency requirements, and appropriate restrictions on meetings with stakeholders;
 - Providing for specific requirements as regards the positions taken by the institution in the framework of financial assistance programmes, as well as in multilateral forums such as the Basel committee;
45. Welcomes the substantial, detailed, section-by-section feedback provided by the ECB on Parliament's resolution on the 2017 ECB Annual Report; calls on the ECB to continue and further enhance this commitment to accountability and to continue publishing its written feedback on Parliament's resolution on the ECB annual report each year;

46. Stresses that the ECB has improved its communication; believes, however, that it should continue its efforts to make its decisions available and understandable to all citizens, as well as its actions undertaken to maintain price stability in the euro area and therefore to preserve the purchasing power of the common currency;

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

INFORMATION ON ADOPTION IN COMMITTEE RESPONSIBLE

Date adopted	23.1.2020
Result of final vote	+: 40 -: 5 0: 8
Members present for the final vote	Marek Belka, Stefan Berger, Gilles Boyer, Engin Eroglu, Jonás Fernández, Frances Fitzgerald, José Manuel García-Margallo y Marfil, Luis Garicano, Sven Giegold, Neena Gill, Valentino Grant, José Gusmão, Enikő Győri, Eero Heinäluoma, Danuta Maria Hübner, Stasys Jakeliūnas, Herve Juvin, Othmar Karas, Billy Kelleher, Georgios Kyrtzos, Philippe Lamberts, Aušra Maldeikienė, Costas Mavrides, Siegfried Mureşan, Luděk Niedermayer, Dimitrios Papadimoulis, Piernicola Pedicini, Lídia Pereira, Sirpa Pietikäinen, Dragoş Pîslaru, Luisa Porritt, Antonio Maria Rinaldi, Robert Rowland, Alfred Sant, Martin Schirdewan, Joachim Schuster, Molly Scott Cato, Pedro Silva Pereira, Irene Tinagli, Ernest Urtaşun, Inese Vaidere, Johan Van Overtveldt, Stéphanie Yon-Courtin
Substitutes present for the final vote	Francesca Donato, Agnès Evren, Martin Hlaváček, Eugen Jurzyca, Bogdan Rzońca, Julie Ward
Substitutes under Rule 209(7) present for the final vote	César Luena, Cristina Maestre Martín De Almagro, Rob Rooker, Anna Zalewska

FINAL VOTE BY ROLL CALL IN COMMITTEE RESPONSIBLE

40	+
ID	Herve Juvin
NI	Piernicola Pedicini
PPE	Stefan Berger, Agnès Evren, Frances Fitzgerald, José Manuel García-Margallo y Marfil, Enikő Győri, Danuta Maria Hübner, Othmar Karas, Georgios Kyrtsos, Aušra Maldeikienė, Siegfried Mureşan, Luděk Niedermayer, Lídia Pereira, Sirpa Pietikäinen, Inese Vaidere
RENEW	Gilles Boyer, Engin Eroglu, Luis Garicano, Billy Kelleher, Dragoş Pîslaru, Luisa Porritt, Stéphanie Yon-Courtin
S&D	Marek Belka, Jonás Fernández, Neena Gill, Eero Heinäluoma, César Luena, Cristina Maestre Martín De Almagro, Costas Mavrides, Alfred Sant, Joachim Schuster, Pedro Silva Pereira, Irene Tinagli, Julie Ward
VERTS/ALE	Sven Giegold, Stasys Jakeliūnas, Philippe Lamberts, Molly Scott Cato, Ernest Urtsun

5	-
ECR	Rob Rooker
ID	Francesca Donato, Valentino Grant, Antonio Maria Rinaldi
NI	Robert Rowland

8	0
ECR	Eugen Jurzyca, Bogdan Rzońca, Johan Van Overtveldt, Anna Zalewska
GUE/NGL	José Gusmão, Dimitrios Papadimoulis, Martin Schirdewan
RENEW	Martin Hlaváček

Key to symbols:

+ : in favour

- : against

0 : abstention