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European Central Bank – annual report 2023

European Parliament resolution of 27 February 2024 on the European Central Bank – annual report 2023 (2023/2064(INI))

(C/2024/6738)

The European Parliament,

— having regard to the European Central Bank (ECB) annual report 2022,

— having regard to the ECB's feedback of 25 May 2023 on the input provided by Parliament as part of its resolution on the ECB's annual report 2021,

— having regard to the Statute of the European System of Central Banks (ESCB) and of the ECB, in particular Articles 15 and 21 thereof,

— having regard to Articles 123, 127(1) and (2), 130 and 284(3) of the Treaty on the Functioning of the European Union (TFEU),

— having regard to Articles 3 and 119 of the Treaty on European Union (TEU),

— having regard to the Eurosystem staff macroeconomic projections of 15 June 2023 for the euro area and the decisions taken by the ECB Governing Council,

— having regard to the monetary dialogues between its Committee on Economic and Monetary Affairs and President of the ECB Christine Lagarde of 20 March 2023 and 5 June 2023,

— having regard to the Commission proposal of 28 June 2023 for a regulation of the European Parliament and of the Council on the establishment of the digital euro (COM(2023)0369),

— having regard to its decision of 1 June 2023 on the arrangements in the form of an exchange of letters between the European Parliament and the ECB on structuring the practices for interaction in the area of central banking ([1]),

— having regard to its resolution of 19 May 2022 on the social and economic consequences for the EU of the Russian war in Ukraine - reinforcing the EU's capacity to act ([2]),

— having regard to the Paris Agreement adopted under the UN Framework Convention on Climate Change,

— having regard to the European Pillar of Social Rights,

— having regard to Rule 142(1) of its Rules of Procedure,

— having regard to the report of the Committee on Economic and Monetary Affairs (A9-0412/2023),

A. whereas, according to the June 2023 Eurosystem staff macroeconomic projections, the growth of the euro area economy is expected to slow from 3,5 % in 2022 to 0,9 % in 2023, before rebounding to 1,5 % in 2024; whereas, according to a Eurostat flash estimate, the euro area grew by just 0,6 % in 2023; whereas this represents the worst performance since the recession of 2020;

B. whereas, according to the September 2023 Eurosystem staff macroeconomic projections for the euro area, headline inflation is expected to average 5,6 % in 2023, 3,2 % in 2024 and 2,1 % in 2025, despite falling energy prices and easing supply bottlenecks; whereas core inflation has been more persistent, rising to 5,5 % in June 2023 then decreasing to 4,2 % in September 2023; whereas core inflation is projected to overtake headline inflation in the near term and to remain above it until early 2024, mainly owing to strong wage growth;

([1]) Texts adopted, P9_TA(2023)0214.
([2]) OJ C 479, 16.12.2022, p. 75.

C. whereas the 10 consecutive increases in reference interest rates are having particularly damaging effects on the solvency of households and microenterprises and SMEs in countries which predominantly use variable interest rate models;

D. whereas, according to the Commission's 2023 economic forecast, government deficits are projected to decline to 3,1 % of gross domestic product (GDP) in 2023 and 2,4 % in 2024; whereas the government debt to GDP ratio decreased in the euro area from 95,0 % to 91,2 % and in the EU-27 from 87,4 % to 83,7 % in 2022 and 2023 respectively; whereas this is still above the Treaty reference values; whereas government debt and deficits vary widely among Member States;

E. whereas the ECB is politically independent, which means that neither EU institutions and agencies nor Member State governments should seek to influence it; this independence requires the ECB to refrain from taking political decisions;

F. whereas the European Commission stated that 'additional private and public investment needs in relation to the twin transitions and their policy objectives are estimated at nearly EUR 650 billion per year until 2030' ([3]);

G. whereas the ECB's primary objective is to maintain price stability, which it has defined as symmetric 2 % inflation over the medium term;

H. whereas, without prejudice to the primary objective of price stability, the ECB should also support the general economic policies in the EU with a view to contributing to the achievement of the EU's objectives as laid down in Article 3 TEU;

I. whereas Article 123 TFEU and Article 21 of the Statute of the ESCB and of the ECB prohibit the monetary financing of governments;

J. whereas the ECB is accountable to Parliament as the institution representing EU citizens;

General overview

1. Recalls that Article 127 TFEU states that 'The primary objective of the European System of Central Banks (ESCB) shall be to maintain price stability. Without prejudice to the objective of price stability, the ESCB shall support the general economic policies in the Union with a view to contributing to the achievement of the objectives of the Union as laid down in Article 3 of the Treaty on European Union. The ESCB shall act in accordance with the principle of an open market economy with free competition, favouring an efficient allocation of resources, and in compliance with the principles set out in Article 119.';

2. Echoes the statutory independence of the ECB as enshrined in Article 130 TFEU, highlights, moreover, that this independence should always be complemented by a corresponding level of accountability;

3. Is concerned that, if the ECB fails to bring inflation to the target level in a timely manner, while increasing the financing costs in the euro area, particularly for citizens and companies, the ECB risks losing its credibility;

4. Is deeply worried about persistently high inflation rates, especially core inflation rates, and their detrimental impact on competitiveness, investments, job creation and consumers' purchasing power, affecting those who have fixed or limited incomes in particular; calls on the ECB to take all necessary measures to reduce the inflation rate in accordance with its mandate; recalls that such a situation causes economic uncertainty and increases the cost of living for citizens; stresses that this can lead to increasing inflation expectations, which sustain a cycle of price hikes and undermine economic stability; notes that quantitative inflation targets are to be met over a medium-term horizon; invites the ECB to provide more information on the monitoring and setting of the neutral interest rate;

([3]) European Commission. (2021). The EU economy after COVID-19: implications for economic governance.

5. Takes note of the different levels of debt, government deficits and public investment levels within the Member States and the potential risks and problems that this entails for economic stability, investor confidence, economic growth and long-term prosperity; regrets that insufficient steps to reform competitiveness and public investment were taken while interest rates were low; stresses its particular concern over rising debt financing costs, especially in the case of sovereign debt, due to rising interest rates; recalls that responsibly addressing public deficit and debt levels is crucial to avoid the risks associated with the current inflation in order to maintain a stable economy and sustainable growth; urges a swift outcome of the Commission's legislative proposals on revising the EU's economic governance rules; welcomes the ECB's opinion in this regard; points out that expansive fiscal policies could counteract the ECB's policy of monetary tightening;

6. Denounces Russia's unprovoked invasion and ongoing aggression against Ukraine and the ongoing negative supply-side shocks this entails; is concerned about its enduring, unpredictable and severe repercussions for the European economy and society, particularly for the most exposed and vulnerable groups, such as lower-income households and SMEs; welcomes in this regard the inclusion of REPowerEU in recovery and resilience plans in order to reduce energy dependence on Russia, support strategic autonomy and address supply-side shocks;

7. Highlights that threats to European competitiveness and the international role of the euro do not only arise from high levels of inflation, the ongoing war in Ukraine and high and divergent levels of government debt in the Member States, but also the institutional architecture of the euro area, the increasingly burdensome costs of regulation, the increasing fragmentation in global trade, and an impending subsidy race of protectionist policies between states; calls on the ECB to look into strengthening the international role of the euro with a view of enhancing its attractiveness as a reserve currency;

8. Echoes President Lagarde's warning that fiscal support should be temporary, targeted and tailored and should not counteract the task of monetary policy; calls on the Member States to align their respective fiscal policies with the overall objective of the ECB's monetary policy; recalls that the Economic and Monetary Union requires solid fiscal policies in Member States in order to be able to respond to external shocks; calls for fiscal efforts to focus on productive investments and reforms; points out that governments, as well as the Commission, can support citizens and industries not only through fiscal measures, but also by focusing on growth-enhancing and socially balanced reforms as well as public and private investment in infrastructure; notes, however, that the euro area's architecture currently remains based on the premise of monetary dominance; notes that the high levels of inflation require a strong commitment by all EU institutions and national authorities in order to tackle the economic and social consequences of the inflationary crisis;

9. Notes that the ECB's monetary policies aimed at delivering its primary mandate are subject to a proportionality assessment; notes that the proportionality assessment takes into account the impact of monetary policy measures on the broader economy and economic policies; stresses that, where it faces a choice between different sets of policies that are equally conducive to price stability, the ECB must choose those that are best to support the general economic policies in the EU;

10. Welcomes the ECB's long-standing support for a well thought out completion of economic and monetary union, the banking union and the capital markets union; recalls that this would contribute to a larger spread of risks within, and the enhanced financial stability of, the monetary union and to the EU's economic and social recovery, the reduction of dependence on bank loans, and competition with Asian and American markets; recalls the need for clear political will to advance the completion of the banking union and the capital markets union; notes the ECB's support for the establishment of a fully fledged European deposit insurance scheme; acknowledges that risk-sharing and risk-reduction are interlinked and that institutional protection schemes play a key role in protecting and stabilising member institutions; invites the ECB to monitor the situation regarding non-performing loans;

11. Underlines the pivotal role of small and medium-sized enterprises (SMEs) in the EU's economy and economic and social convergence and employment; is especially concerned about the effect that the COVID-19 pandemic and the Russian war of aggression in Ukraine are having on SMEs; reiterates the need to remove bureaucratic barriers to cross-border investments in the EU, alleviate the tax burden on SMEs compared to large corporations, simplify legal frameworks to attract capital, encourage SMEs' entry into financial markets and foster financial literacy among citizens to raise awareness of the benefits of investments;

Monetary policy

12. Notes that headline inflation has come down from 8,4 % in 2022 to 5,2 % in 2023, mainly driven by lower energy prices and the easing of supply bottlenecks; observes, however, that inflation remains above the target level of 2 %; recognises the ECB forecast of 2,1 % in 2025; is concerned about second-round effects, about inflation expectations of businesses and households becoming de-anchored, and the possibility of a wage-price development when inflation expectations and therefore wages are increasing across the board, and the need to take into account its implications for growth and employment;

13. Notes that high inflation levels disproportionally affect lower-income households, which spend a higher proportion of their budget on necessities; stresses that bringing inflation back down to its target level is therefore also important for maintaining social cohesion;

14. Expresses its unease at the persistently high rate of core inflation, even though it has now been on a downward path for several months; observes that inflation initially started to rise due to supply bottlenecks; understands that wage growth is expected to rise, driven by inflation compensation and the tight labour market;

15. Points out that inflation already began to rise above target levels in July 2021, due to supply bottlenecks, thus even before Russia's full-scale unprovoked and illegal aggression in Ukraine, which worsened the inflationary pressure; notes, however, that the ECB only started to tackle inflation in June 2022, even though the COVID-19 crisis proved that it is able to act in a timely manner; notes that other central banks acted more promptly; observes that the ECB should act swiftly, fulfilling its mandate to base all its decisions on economic and financial indicators; maintains that a swifter response could have had an earlier impact on price dynamics, thereby averting peak of 10,6 % seen in October 2022;

16. Invites the ECB to pursue the analysis of the supply/demand prorogation of inflation;

17. Fully supports President Lagarde's statement on fighting inflation for as long as necessary, while emphasising that monetary policy normalisation can be achieved by a combination of fiscal, monetary and structural policies; applauds President Lagarde's plea for humility and for regular updates to the ECB's models; invites the ECB, however, to fundamentally review and improve its models and their role in its policymaking in light of the subpar performance of the models in recent years, in order to adjust them to new economic trends and trends in EU and global financial markets, while taking into account the lessons learned from the ongoing and previous crises and the challenges posed to monetary policymaking;

18. Recalls that price stability is far from being reached; notes the symmetric inflation target level of 2 % in the medium term; observes that inflation has, in the last 10 years, either been well below or far above this target level; also takes note that inflation is on a downward trend, nearing the ECB's medium-term objective;

19. Calls on the ECB to better define the meaning of 'medium term' and to look into a more qualitative approach to price stability, preserving enough scope to reap the benefits of price stability while at the same time providing enough scope to reduce the risk of deflation;

20. Supports the ECB's decision to scale back its asset-purchasing programmes, in view of the excess liquidity in the market; notes, however, that the ECB still intends to reinvest the principal payments from maturing securities purchased under the pandemic emergency purchase programme (PEPP) until at least the end of 2024; notes the ECB's announcement of the decarbonisation its corporate bond holdings, although tilting loses effectiveness when no reinvestments are made; stresses the importance of the quality of the collateral;

21. Notes that the concept of market neutrality is related to the principle of 'an open market economy with free competition'; invites the ECB, while respecting its independence, to address market failures and ensure the efficient allocation of resources over a long-term horizon, while remaining as apolitical as possible, respecting market neutrality in several instances; highlights that such decisions must not be made at the expense of achieving the ECB's primary objective;

22. Recognises the need for public and private investments after decades of underinvestment in order to reduce supply-side inflation dynamics and to improve sustainable growth potential;

23. Stresses that an even transmission of monetary policy is vital to the achievement of the ECB's price stability mandate; underlines that excessive divergence in sovereign yields makes credit conditions inconsistent with the uniform transmission of monetary policy and makes a reduction of public debt exceedingly difficult; notes, in this context, the launch of the Transmission Protection Instrument to support the effective transmission of monetary policy across the euro area;

Secondary mandate

24. Recalls that Article 127 TFEU requires the ECB to support the general economic policies of the Union, as laid down in Article 3 TEU, which falls within its mandate, to the extent that it does not prejudice the objective of price stability; points out that there is a clear hierarchy between the ECB's objectives; reminds that the green and digital transitions are among common EU priorities;

25. Expresses grave concern at recent media reports of political bias within the ECB regarding the so-called greening of policies; recalls that an undeterred focus on the ECB's mandate of price stability is of paramount importance for the integrity and public support of the institution; notes the importance of pluralism for the institutional culture of the ECB; calls on the ECB to investigate and swiftly address any suspicions of ideological bias;

26. Reminds the ECB to devote a specific chapter in its annual report to explaining how it has interpreted and acted upon its secondary objectives and its potential impact on the primary mandate;

27. Notes that the ECB, as an EU institution, acting within its mandate, is bound by the EU's commitments under the Paris Agreement; encourages the ECB to continue to assess the extent to which climate change potentially affects its ability to maintain price stability;

28. Welcomes the ECB's announcement of further enhancements to the Eurosystem's risk assessment tools and capabilities in order to better include climate- and environment-related risks, particularly because climate change and extreme weather phenomena could lead to greater price volatility, especially in the agri-food sector; invites the ECB to continue its work on climate risk stress tests developed to assess the resilience of banks and corporations in the face of climate transition risk;

29. Notes 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; notes that the climate roadmap does not include targeted longer-term green refinancing operations or similar instruments;

30. Underlines the importance of the European Pillar of Social Rights for socio-economic convergence; points out that these objectives are best achieved when the social market economy operates in a stable macroeconomic environment based on predictable price levels;

Other aspects

31. Draws attention to the steady divergence of TARGET2 balances within the ESCB; fears that this may give rise to conflict in the future; notes that the interpretation of these divergences is contested;

32. Welcomes the attention that the ECB pays to the risks of cyberattacks; encourages the ECB to maintain this awareness, especially in the light of the current geopolitical context; calls for the ECB not to relax its monitoring of the development of new types of digital assets, such as crypto-assets, namely cryptocurrencies and the related risks in terms of cybersecurity, money laundering, tax fraud, terrorist financing and other criminal activities related to the anonymity provided by crypto-assets, calls in this regard on the ECB to maintain its commitment to the resilience of its digital infrastructure;

33. Takes note of the ECB's progress on the digital euro project and welcomes its dialogue with Parliament in this regard; reiterates that, with a view to the EU's being at the forefront of digital transformations in the payments sector, a digital euro must respect competition in the banking and digital payments landscape; underlines that a digital euro must not replace cash as means of payment, must respect the privacy of citizens and businesses and must not endanger financial stability; considers that the digital euro will only become a success if it offers tangible added value that is clearly communicated to European citizens; recalls that the introduction of the digital euro depends on a decision of the European Parliament and the Council as co-legislators;

34. Shares the ECB's concern regarding the rise of the shadow banking sector and the risks it may pose to financial stability; stresses the need for adequate regulation of non-bank financial intermediaries, which allow the sector to compete on an equal footing with the banking sector;

35. Welcomes the Basel III framework, as it will strengthen the resilience of the banking sector; warns of the risk of non-compliance; echoes the ECB's concerns in this respect; stresses that bank supervision should be risk-based; underlines the importance of an international level playing field and the competitiveness of European banks;

36. Notes that the ECB adapts its systems to technological developments such as the integration of artificial intelligence into its data processing and analysis models to help improve monetary analysis and decision-making; stresses that all those developments should always be made within safety parameters to avoid operational risks;

Accountability

37. Welcomes the formalisation, in writing, of the current accountability practices between the ECB and Parliament; acknowledges the ECB's openness and availability to Parliament; invites the ECB and Parliament to make full use of the accountability and transparency arrangements and, where possible, further enhance these arrangements, without prejudice to the ECB's independence;

38. Suggests that the ECB create an internal evaluation office for *ex post* assessment of its policy decisions, without infringing on the ECB's independence;

39. Welcomes the ECB's substantial and detailed feedback on Parliament's resolution on the 2021 ECB annual report; calls on the ECB to maintain this commitment to accountability and transparency, and to continue publishing its written feedback on Parliament's resolutions on the ECB annual reports every year;

40. Observes that only two members of the ECB's Executive Board and Governing Council are women; calls on the euro area's Member States to do their part and incorporate the principle of gender equality in their appointment processes in order to ensure equal opportunities for all genders for the position of governor of national central banks;

41. Notes that the latest available statistics on gender imbalance across the organisational structure of the ECB indicate that the share of women in all ECB management positions has risen; invites the ECB to continue its work to strengthen the equal opportunities for all genders in its organisation;

42. Welcomes the ECB's new communication policy, which includes more accessible ways of explaining and presenting ECB policy decisions to citizens and stakeholders and invites the ECB to further enhance its communication about central bank policy objectives and crisis responses;

43. Notes the recent appointment of the new Chair of the Supervisory Board and reminds the ECB to take better account of and respect the European Parliament's prerogatives in future appointment procedures, in particular in relation to the Single Supervisory Mechanism;

44. Underlines the importance of the ECB ethics framework and the Code of Conduct, as they form a safeguard for the integrity of the ECB and act as the basis for public trust and ultimately for the ECB's credibility; notes that this framework guides ECB staff and high level officials on how to deal with lobbyists; invites the ECB to regularly re-examine the framework in this regard;

45. Invites the ECB to engage in a dialogue with national parliaments, while strictly respecting its political independence; believes that this would strengthen the legitimacy and policies of the ECB;

46. Calls on the ECB to bring its internal whistleblowing framework into line with the EU Whistleblower Directive;

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