



# Feedback on the input provided by the European Parliament as part of its resolution on the ECB's Annual Report 2021

This feedback statement, published on the occasion of the ECB's Annual Report 2022 being presented to the European Parliament, provides responses to the issues raised and requests made by the European Parliament in its resolution on the previous year's Annual Report.<sup>1</sup> The statement is structured by topic, with each paragraph addressing at least one paragraph of the resolution, and serves to better explain the ECB's policies and foster dialogue with the European Parliament and the public on the key issues raised by the Members of the European Parliament. The ECB has been publishing such feedback statements since 2016, following a suggestion by the European Parliament.<sup>2</sup>

## 1 Monetary policy

**With respect to the suggestion to consider a more balanced and gradual adjustment of monetary policy, the ECB notes that the pace of its interest rate increases is aligned with its primary objective of ensuring price stability over the medium term. On the basis of the March 2023 ECB staff macroeconomic projections for the euro area, inflation is projected to remain too high for too long.** The ECB has taken decisive action since embarking on monetary policy normalisation in December 2021, in line with its determination to ensure the timely return of inflation to its 2% medium-term target. In view of the elevated level of uncertainty, the Governing Council is taking a data-dependent approach to decisions on the monetary policy stance. Its policy rate decisions will be determined by an assessment of the inflation outlook in light of the incoming economic and financial data, the dynamics of underlying inflation, and the strength of monetary policy transmission. Maintaining price stability is the best contribution monetary policy can make to sustainable economic growth and job creation.

**As regards the call in the resolution to faithfully target inflation over the medium-term horizon, the ECB notes that its monetary policy actions continue to be driven by the outlook for price stability over the medium term.** The Governing Council is determined to ensure the timely return of inflation to its 2% medium-term target, standing ready to adjust all of its instruments within its mandate. The exceptional circumstances of the current economic environment, including supply chain bottlenecks, Russia's war in Ukraine and a high level of uncertainty

<sup>1</sup> The text of the [resolution](#) as adopted is available on the European Parliament's website.

<sup>2</sup> This feedback does not cover the issues raised in the European Parliament's resolution on banking union. For a discussion on these matters, see the [ECB Annual Report on supervisory activities](#). The feedback on the resolution on banking union will be published later this year.

overall, make it important to closely examine incoming data when assessing the outlook for inflation. Model-based staff projections also continue to play an integral role in monetary policy decision-making.

**On the request to initiate international dialogue with other central banks, the ECB notes that it already exchanges views with other central banks on the outlook for price stability and policy reaction functions in various international fora.** In an environment of globally synchronised inflation pressures, it is important for monetary policy decision-makers to take account of potential effects from decisions taken by other central banks. For this reason, major central banks are in regular contact, in various fora, to discuss relevant economic and financial developments as well as policy reaction functions. The ECB also carries out extensive analysis on international spillovers, including in its regular projections exercises, which feeds into monetary policy discussions.<sup>3</sup>

**Regarding the request to provide more justification of any future policy rate decisions, the ECB notes that it communicates extensively on its reasoning through a number of channels.** The underlying motivation for monetary policy decisions is primarily reflected in the monetary policy statement published after each monetary policy meeting of the Governing Council. Supplementing this, ECB Executive Board members explain their views and positions in speeches – including those given by the ECB’s President in the European Parliament – and interviews. Moreover, ECB publications, such as the Annual Report and the Economic Bulletin, and other forms of communication also highlight the reasons for the Governing Council’s monetary policy decisions. The accounts of the monetary policy meetings of the Governing Council provide detailed information on the discussions informing the decisions. In addition, following the review of its monetary policy strategy in 2020-21, the ECB has continuously worked to improve its communication with the general public to better explain its decisions in a clear and accessible way. For example, it has introduced visual monetary policy statements (“Our monetary policy statement at a glance”), which are published after each monetary policy press conference. More recently, the ECB has also launched the “ECB & You” initiative to create a space for open dialogue with euro area citizens, address their questions and listen to their concerns. This is especially important in the context of high inflation and decisive monetary policy actions.

**As regards the reliance on external credit ratings for sovereign bonds in the ECB’s collateral framework, the ECB notes that the Eurosystem relies neither exclusively, nor mechanistically, on credit rating agencies.** The Eurosystem has a well-established credit assessment framework (ECAAF) that defines procedures, rules and techniques to ensure that high credit quality standards are met for assets used as collateral and for purchases in monetary policy operations.<sup>4</sup> These rules are publicly defined in the legal acts of the Eurosystem and include requirements which must be met for credit rating agencies to be accepted by the Eurosystem as an external credit assessment institution. However, the Eurosystem relies neither

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<sup>3</sup> See, for example, Box 2, entitled “[The international environment](#)”, of the ECB staff macroeconomic projections for the euro area, March 2023.

<sup>4</sup> See the ECB’s website for more information on [ECAAF](#).

exclusively nor mechanistically on credit rating agencies. It engages extensively with the credit rating agencies and closely scrutinises ratings to better understand them and to disentangle the role of judgment in the rating decisions. This in-depth due diligence enables the Eurosystem to use its right to apply discretion and deviate from external credit ratings when warranted. For example, the Eurosystem has in the past granted waivers of the minimum credit quality requirement in order to accept individual countries' sovereign debt instruments. During the coronavirus (COVID-19) pandemic, it also maintained the eligibility of some marketable assets – including sovereign bonds – even if credit rating agencies had downgraded them. This highlights the Eurosystem's use of all relevant information to determine the credit quality of an asset. The use of external ratings for determining the creditworthiness of sovereigns in the monetary policy implementation framework was indeed considered in the context of the monetary policy strategy review, and more information can be found in a dedicated section of an ECB Occasional Paper on monetary-fiscal policy interactions in the euro area.<sup>5</sup>

## 2

### Inflation

**With regard to the concern expressed in the resolution about the historically high levels of inflation, the ECB stands ready to continue to adjust all of its instruments within its mandate to ensure that inflation returns to its medium-term target.** In 2022 the euro area was affected by a combination of extraordinary shocks, which pushed inflation rates to unprecedented heights. The role of supply factors such as the surge in energy and food commodity prices and lingering supply chain bottlenecks played a very large role in driving inflation up. On the domestic side, demand factors also played a role, especially in those sectors strongly affected by the reopening of the economy. Strengthening wage growth and expanding profit margins both contributed to domestic cost pressures. The impact of these factors is expected to fade, so headline inflation should continue to decline. At the same time, the ECB remains vigilant as regards the risks surrounding this outlook and attentive to any indications of a wage-price spiral. The current increase in wages is a reflection of purchasing power catching up with prices in a context of tight labour markets. Most measures of longer-term inflation expectations currently stand at around 2%, although they warrant continued monitoring.

**With regard to the definition of the medium term in the inflation target, the ECB notes that no numerically precise ex ante definition of the medium term exists.**

As explained by the President of the ECB in a recent letter, the medium-term orientation allows for inevitable short-term deviations of inflation from the 2% target, as well as lags and variability in the transmission of monetary policy to the economy and to inflation.<sup>6</sup> The flexibility of the medium-term orientation reflects the fact that the appropriate monetary policy response to a deviation of inflation from target is context-specific and depends on the origin, magnitude and persistence of the

<sup>5</sup> See Box 9 of Work stream on monetary-fiscal policy interactions, "[Monetary-fiscal policy interactions in the euro area](#)", *Occasional Paper Series*, No 273, ECB, September 2021.

<sup>6</sup> See "[Letter from the ECB President to Mr Jonás Fernández Álvarez, MEP, on monetary policy](#)", 18 April 2023.

deviation itself. For example, a shock to the demand for goods and services may move inflation and real economic activity in the same direction, while shocks to the supply of goods and services could create a temporary trade-off between inflation and real economic activity. Usually, the need to align domestic demand conditions and keep inflation expectations anchored is more pressing in the former case, which can make it advisable to adopt a shorter definition of the medium term than in the latter scenario. The ECB explains adjustments of the time term in its monetary policy statements and Economic Bulletin articles.

**As regards the concern about the contribution of profits to inflation as well as the call to regularly publish data on such contributions, the ECB has also voiced its concern about the role of corporate profits in the current inflation developments.** As explained by the President of the ECB in a recent letter, the ECB regularly analyses price developments based on a wide range of indicators and this analysis focuses to the same extent on wage and profit developments.<sup>7</sup> As regards the contribution of profits to inflation, the ECB's analysis indicates that higher profit margins have played a significant part in the increase in domestic cost pressures in the euro area. Many firms in sectors faced with constrained supply and resurgent demand have been able to increase their profit margins. In the fourth quarter of 2022 unit profits contributed slightly more than half to domestic price pressures, as measured by the annual growth rate of the gross domestic product deflator, while unit labour costs contributed slightly less than half.<sup>8</sup> Increases in unit profits were particularly strong in the energy, agriculture, construction, manufacturing, and trade and transportation services sectors. Overall, ECB analysis suggests that, on aggregate, firms have not absorbed input price pressures through lower margins – a pattern that had been observed in the past – but have instead passed them through to their selling prices. The unusually strong pass-through may reflect reduced pressures from competition in a high-inflation environment characterised by global supply scarcities and rebounding demand after the pandemic. In such an environment, maintaining or expanding profit margins can come without loss of market share. Regarding data on profit developments, the ECB notes that its macroeconomic analysis relies to a large extent on the information available in national and sectoral accounts. As to the call to publish the calculated contributions regularly, the ECB highlights that the information from national and sectoral accounts is publicly available and that the ECB regularly communicates about the underpinnings of its analysis and publishes updated assessments, for example in the ECB's Economic Bulletin.<sup>9</sup>

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<sup>7</sup> See [“Letter from the ECB President to Ms Henrike Hahn, Mr Ernest Urtasun and Mr Rasmus Andresen, MEPs, on economic developments in the euro area”](#), 18 April 2023.

<sup>8</sup> The GDP deflator measures the “price” of total value added per unit of output. It can be decomposed into unit labour costs, gross operating surplus (or profit) per unit of output and net indirect taxes per unit of output. See also Arce, O., Hahn, E. and Koester, G., [“How tit-for-tat inflation can make everyone poorer”](#), *The ECB Blog*, ECB, 30 March 2023, and [“Profitability and leverage developments of listed non-financial corporations in the euro area”](#), *Monthly Bulletin*, ECB, June 2006.

<sup>9</sup> See, e.g., [“Profit developments in the euro area”](#), *Monthly Bulletin*, ECB, August 2008; [“The role of profits in shaping domestic price pressures in the euro area”](#), *Monthly Bulletin*, ECB, March 2013; [“How do profits shape domestic price pressures in the euro area”](#), *Economic Bulletin*, Issue 6, ECB, 2019; and [“The role of profit margins in the adjustment to the COVID-19 shock”](#), *Economic Bulletin*, Issue 2, ECB, 2021.

**With respect to the concern that inflation expectations are becoming de-anchored, the ECB notes that most measures of longer-term inflation expectations stand at around the 2% inflation target and do not indicate signs of de-anchoring.** However, the ECB regularly highlights the importance of continuously monitoring the developments in inflation expectations and of acting swiftly should clear signs of a de-anchoring of expectations emerge.

**As regards the request to look further into the role of inflation expectations and how they are influenced by the ECB's announcements and actions, the ECB collects data from professional forecasters, financial markets, financial analysts and consumers.** It studies the determinants of inflation expectations and the information they contain for future inflation. Inflation expectations are relevant for inflation because they influence people's spending, saving and investment decisions, as well as their wage and price-setting behaviour. They have been a key element in models of inflationary dynamics since the 1960s and play an important role in the models used by central banks around the world to inform and evaluate monetary policy. In their work as part of the 2020-21 monetary policy strategy review process, Eurosystem staff reviewed the nature and role of inflation expectations.<sup>10</sup> Expectations related to the path and the level of inflation in the longer term can be useful indicators of the credibility of monetary policy and can also inform scenario and risk analysis in forecasting performed using structural models. Eurosystem staff found that ECB actions and announcements can influence inflation expectations significantly. For instance, it was found that the implementation of the asset purchase programmes in 2014 was followed by statistically significant increases in spot inflation-linked swap rates across maturities. It was also shown that there have been statistically significant adjustments of private sector expectations in response to the publication of Eurosystem projections. The impact of the ECB's communication on inflation expectations is the subject of continuous internal analysis.<sup>11</sup>

**On the concern about inflation divergence in the euro area and whether this imperils the singleness of the ECB's monetary policy and its transmission, the ECB notes that its monetary policy focuses on inflation in the euro area as a whole.** Inflation differentials are not in themselves a concern in a monetary union, to the extent that they reflect temporary adjustments to shocks or are associated with catching-up processes. Much of the current divergence in inflation rates can be explained by countries' differing exposures to the past surge in energy and food commodity prices as well as to pandemic-related supply chain bottlenecks. Furthermore, countries' varying exposures to the tourism and hospitality sector (which experienced a strong rebound in consumer demand as economies re-opened) have contributed to inflation divergence. The ECB expects the differing impact of those factors to be largely temporary and, as a consequence, inflation differentials to normalise over time. The divergence due to energy inflation should shrink as energy price developments return to normal, which would then also diminish inflation differentials that are due to national differences in compensatory

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<sup>10</sup> See Work stream on inflation expectations, "[Inflation expectations and their role in Eurosystem forecasting](#)", *Occasional Paper Series*, No 264, ECB, 2021.

<sup>11</sup> See Work stream on monetary policy communications, "[Clear, consistent and engaging: ECB monetary policy communication in a changing world](#)", *Occasional Paper Series*, No 274, ECB, September 2021.

measures. Differences due to variation in the reopening across countries, as well as the exposure to global supply bottlenecks, should also normalise once these effects dissipate. To the extent that inflation differentials reflect structural differences across euro area countries, this should be addressed by appropriate structural reforms at the national level.

### 3 Secondary objective and proportionality analysis

**As regards the suggestion that the European Parliament provide input to the ECB concerning the ECB's secondary objective in its resolution, the ECB welcomes such input.** In accordance with its secondary objective under Article 127(1) of the Treaty on the Functioning of the European Union, the ECB shall, without prejudice to the objective of price stability, support the general economic policies in the European Union with a view to contributing to the achievement of the objectives of the EU as laid down in Article 3 of the Treaty on European Union.<sup>12</sup> In the context of the framework for the formulation of economic policies, the European Parliament, is one of the EU institutions relevant to the ECB's pursuit of its secondary objective, together with the European Council, the Council of the European Union and the European Commission. In that respect, the ECB recalls that the expression and prioritisation of the general economic policies in the EU result in particular from the adoption of legal acts and the assumption of international obligations, such as the EU entering into the Paris Agreement in 2016. A clear prioritisation of certain economic policies by the competent EU institutions, including the European Parliament, will help to guide the ECB in its pursuit of its secondary objective. In addition, it is also relevant to the ECB's pursuit of its secondary objective to consider factors such as the proximity of the policy to the primary objective and the ECB's main field of expertise, as well as the degree of precision and unconditionality of those economic policies.

**With respect to the call on the ECB to devote a specific chapter in its Annual Report to explaining how it has interpreted and acted upon its secondary objective and to presenting the effects of its monetary policy on the EU's general economic policies, the ECB recalls that the Governing Council already caters for other considerations relevant to the conduct of monetary policy in its monetary policy decisions, as explicitly recognised in its monetary policy strategy.** This is evidenced by the introductory remarks given by the President of the ECB at the monetary dialogues with the European Parliament's Committee on Economic and Monetary Affairs and at the ECB's press conferences, where the President lays out considerations relevant to the pursuit of the primary objective regarding, for example, employment and financial stability. Taking such considerations into account has effects on the real economy and the financial system and contributes to price stability. As emphasised in the context of the 2020-21

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<sup>12</sup> For example, the Governing Council decided to amend the corporate sector purchase programme framework to tilt the benchmark towards issuers with a better climate performance, referring not only to the ECB's primary objective, but also to its secondary objective. See recital 3 of [Decision \(EU\) 2022/1613](#) of the European Central Bank of 9 September 2022 amending Decision (EU) 2016/948 on the implementation of the corporate sector purchase programme (ECB/2016/16) (ECB/2022/29), OJ L 241, 19.9.2022, p. 13.

monetary policy strategy review:<sup>13</sup> when adjusting its monetary policy instruments, the Governing Council will – provided that two configurations of the instrument set are equally conducive and not prejudicial to price stability – choose the configuration that best supports the general economic policies of the European Union related to growth, employment and social inclusion, and that protects financial stability and helps to mitigate the impact of climate change, with a view to contributing to the objectives of the EU. Though the explanation of how the Governing Council caters for such other considerations is already integrated into the various chapters in the Annual Report, the ECB will seek to elaborate further on the link between these other considerations, its primary objective and its secondary objective, where relevant.

**As regards the suggestion to consider the effects of monetary policy decisions on lower income and vulnerable groups as well as on wealth and income inequality, the ECB notes that high inflation has a major impact on households, and on lower income groups in particular.** Combating inflation will therefore alleviate this burden substantially and is the best contribution that monetary policy can make to protecting incomes. With respect to the proportionality assessment specifically, it includes an analysis of the benefits and the possible side effects of monetary policy measures, their interaction and their balance over time. The assessment of the benefits applies to the transmission to financing conditions as well as to the intended effect on inflation, while the assessment of possible side effects relates to the unintended effects on the real economy and the financial system. Monetary policy operations always have effects on households' income and wealth, although such effects are known to be diverse and hard to establish a priori. They depend on, among other things, the specific characteristics of the households and of the period considered and therefore do not easily enter a proportionality assessment. Any correction of income and wealth positions lies in the hands of governments, which have the mandate and the tools to correct unwelcome developments.

**Regarding the demand to continue to regularly publish information on the international role of the euro, the ECB notes that it publishes an overview of developments in the use of the euro by non-euro area residents in a dedicated report on a regular basis.**<sup>14</sup> The international role of the euro would primarily be supported by a deeper and more complete Economic and Monetary Union. Completing the banking union would make the euro area more resilient, while completing the capital markets union would increase funding sources and reduce transactions costs, thereby strengthening the euro as an international investment, financing and settlement currency. The ECB supports efforts to complete the banking union and capital markets union and stresses the importance of doing so, particularly in light of the green and digital transitions.

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<sup>13</sup> See [“An overview of the ECB’s monetary policy strategy”](#), ECB, 8 July, 2021.

<sup>14</sup> See, for example, [“The international role of the euro”](#), ECB, June 2022.

**As regards the resolution’s invitation to the ECB to assess to what extent climate change affects its ability to maintain price stability, the ECB notes that it devotes significant resources to analysing how climate change affects the outlook for price stability.** Unmitigated climate change can pose a significant risk to price stability in the euro area, whereas climate mitigation policies are expected to have only modest and temporary effects on inflation.<sup>15</sup> Recent work by ECB staff has shown that the impact of physical risks such as heat waves and other weather shocks on inflation – notably on food price inflation – may be substantial if climate change is not further mitigated.<sup>16</sup> By contrast, increasing carbon prices in line with the EU’s net-zero targets, particularly if carried out in a well-communicated and predictable fashion and complemented with non-price mitigation policies, may have only a modest impact on inflation which will gradually diminish over the medium term.<sup>17</sup> The ECB is integrating climate mitigation measures into its macroeconomic projections and in its macroeconomic models to improve its analytical understanding of the underlying forces.<sup>18</sup> Overall, the available evidence so far suggests that climate change mitigation policies and the green transition are a supporting factor for price stability over the long run.

**Regarding the resolution’s references to market neutrality and the corporate sector purchase programme, the ECB emphasises that market neutrality is an operational tool, not a legal requirement.** Market neutrality can help to ensure that the Eurosystem’s interventions in the market comply with the Treaty on the Functioning of the European Union’s principle of “an open market economy with free competition, favouring an efficient allocation of resources”. However, as explained on several occasions in the past, the Eurosystem can justifiably depart from an operational and voluntary tool such as market neutrality in order to comply with the ECB’s objectives and with the relevant Treaty principles.<sup>19</sup> For example, in line with the ECB’s climate roadmap, the Governing Council decided to tilt corporate bond holdings towards issuers with a better climate performance, as of 1 October 2022, through the reinvestment of redemptions.<sup>20</sup> The Eurosystem tilts corporate bond purchases towards issuers with higher climate scores that take into account their past emissions and decarbonisation targets, and the quality of their climate-related disclosures. Whereas the purchases and reinvestments were previously based

<sup>15</sup> See, for example, Ferrari, A. and Nispi Landi, V., “[Will the green transition be inflationary? Expectations matter](#)”, *Working Paper Series*, No 2726, ECB, September 2022.

<sup>16</sup> See Parker, M., “[The impact of disasters on inflation](#)”, *Economics of Disasters and Climate Change*, Vol. 2, Issue 1, Springer, April 2018, pp. 21-48; Faccia, D., Parker, M. and Stracca, L., “[Feeling the heat: extreme temperatures and price stability](#)”, *Working Paper Series*, No 2626, ECB; Ciccarelli, M., Kuik, F., Martínez Hernández, C., “[The asymmetric effects of weather shocks on euro area inflation](#)”, *Working Paper Series*, No 2798, ECB, March 2023.

<sup>17</sup> See the box entitled “[Model-based analysis of the short-term impact of increasing the effective carbon tax on euro area output and inflation](#)”, in the article entitled “Fiscal policies to mitigate climate change in the euro area”, *Economic Bulletin*, Issue 6, ECB, 2022.

<sup>18</sup> For more information, see “[Climate-related policies in the Eurosystem/ECB staff macroeconomic projections for the euro area and the macroeconomic impact of green fiscal measures](#)”, *Economic Bulletin*, Issue 1, ECB, 2023.

<sup>19</sup> For more information, see also “[Letter from the ECB President to Mr Markus Ferber, MEP, on climate change](#)”, 11 November, 2022.

<sup>20</sup> See “[ECB provides details on how it aims to decarbonise its corporate bond holdings](#)”, *press release*, ECB, 19 September 2022.



mainly on issuers' market capitalisation, the corporate sector purchase programme now also takes into account information that is relevant for assessing the climate-related risks of companies. By incorporating climate change considerations into the asset allocation, the Eurosystem takes into account climate-related financial risks, regulatory and legal developments, and the current availability and quality of data, while maintaining the broad scope of the purchase programmes in line with the obligation to act in accordance with the principle of an open market economy with free competition, favouring an efficient allocation of resources. As of March 2023, with the start of the period of partial reinvestment, only securities of issuers with a better climate performance and green bonds that comply with a stringent identification process will continue to be purchased in the primary market. Moreover, secondary market purchases necessary to achieve the partial reinvestment volumes will continue to be conducted in accordance with the tilting framework. The ECB's first climate-related financial disclosures show that the corporate assets held for monetary policy purposes are already on a decarbonisation path, as issuers' carbon intensity has gradually declined.<sup>21</sup> The ECB's decision to tilt its holdings towards issuers with a better climate performance from October 2022 is helping to further decarbonise the Eurosystem's corporate sector portfolios on a path in line with the goals of the Paris Agreement.

**On the engagement with rating agencies to increase transparency on climate risks, the ECB appreciates the European Parliament's acknowledgement of the importance of engaging with credit rating agencies with regard to climate risks.** A recent study<sup>22</sup> by ECB staff shows large differences in methodologies and disclosure practices in relation to climate change risks in credit ratings across rating agencies and asset classes. The ECB will continue its engagement with credit rating agencies to achieve more transparency on the incorporation of climate change risk in credit ratings. It will also continuously monitor and demand further progress in the identified areas where credit rating agencies can improve. This concerns in particular transparency regarding the models and methods used to estimate exposure to climate change risk, as well as regarding the publication of credit rating decisions and reports. Full respect of the agencies' methodological independence and of the role of regulators should be ensured in this process. The Eurosystem is also enhancing its own risk assessment tools and capabilities to better include climate and environment-related risks in its in-house credit assessment systems, for which common minimum standards will apply from end-2024 onwards.

## 5 Digital euro, crypto-assets, cybersecurity and banknotes

**With respect to the remark in the resolution that a digital euro could complement but must not replace cash as a means of payment, the ECB**

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<sup>21</sup> See "[ECB starts disclosing climate impact of portfolios on road to Paris-alignment](#)", *press release*, ECB, 23 March 2023, and the references therein.

<sup>22</sup> See Breitenstein, M., Ciummo, S. and Walch, F., "[Disclosure of climate change risk in credit ratings](#)", *Occasional Paper Series*, No 303, ECB, September 2022.

**reaffirms its commitment to continue to provide cash.**<sup>23</sup> A digital euro would complement but not replace cash. It would operate alongside cash to respond to consumers' growing demand for fast and secure digital payments. Like cash, it would be public money issued and backed by the ECB, and it would ensure high standards of privacy and cyber security.<sup>24</sup>

**As regards the request to duly consider the risks for the banking sector and the overall lending to the real economy when designing the digital euro, the ECB reaffirms its commitment to prevent the excessive use of the digital euro as a form of investment and the associated risk of sudden large shifts from bank deposits to the digital euro.** The ECB is carefully evaluating the potential impact of the digital euro on monetary policy, financial stability and the provision of services by financial intermediaries.<sup>25</sup> In the ECB's view, any undesirable consequences that may result from the issuance of a digital euro for financial stability, monetary policy or the provision of services by financial intermediaries are best mitigated through its design. In this regard, the ECB would implement tools to control the amount in circulation in the design of a digital euro. The calibration of these tools would be decided closer to the possible introduction of a digital euro, taking into account the economic and financial environment at that point in time.

**With regard to the reference to the ECB's decision to involve Amazon in testing prototype interfaces for a digital euro, the ECB reiterates that the prototyping work was a learning activity to test technical options for a digital euro.**<sup>26</sup> The technical onboarding package that was shared with the companies participating in the prototyping exercise has been published on the ECB's website.<sup>27</sup> For the selection of the front-end prototype providers, a transparent and open approach was followed, going beyond what EU rules foresee for non-remunerated contracts. The prototyping work was a "lab experiment" carried out without any use of real payment data. The companies participating in the prototyping have had no say in the design of a potential digital euro and will have no advantage in future stages of the project compared with other companies. The prototyping exercise was not intended to produce fully fledged solutions, and it will not condition any decision relating to a specific technology or functionality for a final digital euro design. The ECB has not yet taken a decision as to which technology would be best suited for a digital euro.

**Concerning the resolution's call to the ECB to step up its monitoring of the development of crypto-assets, the ECB is closely monitoring the risks posed**

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<sup>23</sup> The [Eurosystem's cash strategy](#) aims to ensure that cash remains widely available and accepted as both a means of payment and a store of value.

<sup>24</sup> More information on the progress of the digital euro project can be found in the ECB's [first progress report](#) (published in September 2022), [second progress report](#) (published in December 2022) and [third progress report](#) (published in April 2023).

<sup>25</sup> For further insights into the consequences of retail central bank digital currency for bank intermediation, see Adalid, R. et al., "[Central bank digital currency and bank intermediation](#)", *Occasional Paper Series*, No 293, ECB, May 2022.

<sup>26</sup> See "[ECB selects external companies for joint prototyping of user interfaces for a digital euro](#)", *MIP News*, ECB, 16 September 2022, and "[Letter from Fabio Panetta Irene Tinagli, ECON Chair, on the prototyping of user interfaces for a digital euro](#)", 17 October 2022.

<sup>27</sup> See the [Eurosystem's onboarding package for digital euro prototyping](#), ECB, 7 December 2022 and its annexes.

**by crypto-assets to financial stability, their impact on monetary policy transmission and on the safe and smooth functioning of market infrastructure and payments.** During 2022 the ECB published several articles and public interventions on the risks of crypto-assets, stablecoins and decentralised finance.<sup>28</sup> It is cooperating with the European Supervisory Authorities in the preparation of regulatory technical standards to operationalise the new bespoke regime for markets in crypto-assets under the proposed Markets in Crypto-Assets (MiCA) Regulation and the framework for cybersecurity and operational resilience of the financial sector (the Digital Operational Resilience Act – DORA). Furthermore, the Eurosystem published the oversight framework for electronic payment instruments, schemes and arrangements (PISA) in November 2021 and initiated in 2022 the first identification exercise for digital payment tokens. Moreover, the ECB, through its participation in the international standard-setting bodies, continues to contribute to the development of international standards to address risks of crypto-assets and their service providers, including the risks arising from their links to the financial sector.

**As regards the resolution’s encouragement to maintain attention to the risks of cyber-attacks, the ECB points out that, since the start of the war in Ukraine, it has raised its level of alertness with regard to potential cyber-attacks.**

Although no attempts of targeted attack on the ECB that can be connected to the present geopolitical tensions have been identified, the ECB continues to closely monitor the evolution of the threat landscape, and continuously adjusts its protection measures accordingly. As regards the TARGET Services (T2, T2S and TIPS), the providing national central banks have also increased the alertness of security operations and the threat landscape is being closely monitored. Furthermore, strong cyber detection and response and recovery capabilities have been implemented for TARGET Services to ensure an appropriate level of cyber resilience.

**Concerning the reference to the historically low level of euro banknote counterfeiting in 2021, and the call to step up the fight against counterfeiting, the ECB will continue to cooperate with and actively support law enforcement agencies and the European Commission in their respective activities.**

**In response to the suggestion to create a system to better monitor large transactions with a view to combating money laundering, tax evasion and the financing of terrorism and organised crime, the ECB fully acknowledges the importance of tackling illicit activities.** It is closely following the discussion on these issues by co-legislators, in the context of the anti-money laundering and countering the financing of terrorism legislative proposals issued by the Commission in July 2021. Of course, any proposals in this regard will need to take into account the legal tender status of euro banknotes under Article 128(1) of the Treaty on the Functioning of the European Union.

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<sup>28</sup> See “[Decrypting financial stability risks in crypto-asset markets](#)”, *Financial Stability Review*, ECB, May 2022, as well as “[A deep dive into crypto financial risks: stablecoins, DeFi and climate transition risk](#)”, “[Stablecoins’ role in crypto and beyond: functions, risks and policy](#)”, “[Decentralised finance – a new unregulated non-bank system?](#)” and “[Mining the environment – is climate risk priced into crypto-assets?](#)”, *Macroprudential Bulletin*, Issue 18, ECB, July 2022.

**With regard to the resolution’s call to strengthen the ECB’s accountability vis-à-vis the European Parliament, the ECB attaches great importance to its accountability relationship with the European Parliament and is committed to working with the Parliament to further improve it.** The accountability relationship has been characterised by flexibility and evolved in line with greater demands for scrutiny. The frequency of interactions has increased, new dialogue formats have been created, and existing formats improved.<sup>29</sup> For example, beyond the regular interactions such as the monetary dialogues and the written questions, additional hearings and visits to the ECB on topical issues, such as the strategy review and the digital euro, have been organised. On the digital euro, the ECB has regularly exchanged views with members of the Committee on Economic and Monetary Affairs, for example through dedicated public hearings, and provided written update reports on the progress made during the project’s investigation phase. The ECB highly appreciates the scrutiny and the insights received from interactions with the European Parliament as well as the opportunities to better explain the ECB’s policies to the elected representatives and citizens. As the ECB President noted in the European Parliament Plenary in February 2023, the ECB stands ready to agree on a formalisation in writing of the accountability practices between the ECB and the European Parliament.<sup>30</sup> This is a testament of the good relationship between the institutions and makes explicit the ECB’s commitment to ensuring an effective discharge of its accountability obligations. The ECB will continue to respond to scrutiny requests by the European Parliament and will actively seek ways to improve the interactions with its members, in line with the provisions of EU primary law.

**Concerning the resolution’s call to better report on positions taken by the ECB in the Basel Committee on Banking Supervision, including in writing, the ECB stands ready to provide such reporting within the boundaries of confidentiality pertaining to international bodies and the applicable legal framework.** It should be noted that ECB senior officials who participate in the Basel Committee on Banking Supervision are required to follow the Committee’s organisational regulations. These regulations include provisions that i) qualify all discussions, papers and analyses as confidential; ii) inhibit the sharing of information and documents unilaterally; and iii) explicitly oblige members to ensure confidentiality when speaking in public. For general information on the ECB’s work in international fora, where the ECB is represented by the its Executive Board and ECB members of the Supervisory Board, the regular hearings of the ECB’s President, Vice-President and Supervisory Board Chair (particularly when presenting the ECB’s annual reports) as well as the annual visit of the Committee on Economic and Monetary Affairs to the ECB are appropriate occasions to ask questions and further discuss the international dimension of banking regulation.

**As regards the resolution’s call that the ECB extends the cooling-off period for senior salary tiers also to employees of lower salary bands, the ECB notes that**

<sup>29</sup> See “[The evolution of the ECB’s accountability practices during the crisis](#)”, *Economic Bulletin*, Issue 5, ECB, 2018.

<sup>30</sup> See “[European Central Bank - annual report 2022 \(debate\)](#)”, European Parliament, 15 February 2023.

**a review of its ethics framework for staff is currently ongoing.** In this context, the ECB is carefully assessing the suggestions for improvement formulated by the European Ombudsman as a result of her own-initiative inquiry into the ECB's policies and practices for the prevention of "revolving door" cases.<sup>31</sup> Once the review of the ethics framework is completed, the ECB will inform the European Parliament of its outcome.

**Concerning the resolution's call to develop a strategy on how to deal with lobbyists and increase transparency of staff-level contacts beyond the Governing Council, the ECB notes that it is fully transparent about its regular interactions with market contact groups.** To deliver on its mandate, the ECB, like other central banks, must have frequent interactions with financial market participants and other economic agents to obtain relevant input and information from key stakeholders that help to deepen understanding of the dynamics of the economy, the financial markets and the banking sector. These interactions, similar to those at the level of the Governing Council, are based on good governance principles and adequate safeguards, ensuring equal access and a level playing field. The ECB is fully transparent about such interactions and publishes the agendas and summaries of the meetings on its website, as well as the membership composition and the mandates of its contact groups.<sup>32</sup>

**With respect to the ECB's whistleblowing tool, the ECB reiterates that the tool is fully aligned with the principles of the EU Whistleblowing Directive.**<sup>33</sup> The ECB's framework provides a user-friendly tool allowing anonymous reporting, as well as strong rules to protect whistleblowers against retaliation. 2022 was the second full year of operation of the tool, and in the course of the year more than half of the whistleblowing cases in the ECB were received through this tool, most of which on an anonymous basis.

**On the gender balance across its staff, the ECB is committed to improving the diversity of its workforce and building an inclusive culture based on dignity, respect and belonging.** The ECB's Diversity and Inclusion strategy embraces all facets of diversity and their intersections. At the same time, reaching a greater gender balance in management positions has proved challenging and remains one of the key objectives. Since 2020, when a new ECB gender strategy was launched, the ECB has implemented several measures to achieve greater gender balance. For example, it has enhanced its outreach efforts to attract women, working closely with female employees' networks. It has redesigned the ECB Scholarship for Women, relaunched the mentoring programme, launched a development programme for staff in administrative roles and introduced guidelines for business areas on inclusive allocation of career-critical tasks. The ECB has also continued its Women's Leadership Programme. Taken together, these measures have supported progress

<sup>31</sup> [Decision on how the European Central Bank \(ECB\) deals with 'revolving door' cases \(OI/1/2022/KR\)](#)

<sup>32</sup> See, for example, the [Bond Market Contact Group](#), the [Money Market Contact Group](#), the [Foreign Exchange Contact Group](#) and the [Operations Managers Group](#).

<sup>33</sup> See Decision of the European Central Bank of 20 October 2020 amending the European Central Bank Staff Rules as regards the introduction of a whistleblowing tool and enhancements to the whistleblower protection ([ECB/2020/NP37](#)), and [Decision \(EU\) 2020/1575](#) of the European Central Bank of 27 October 2020 as regards the assessment of and follow-up on information on breaches reported through the whistleblowing tool where a person concerned is a high-level ECB official (ECB/2020/54)

with the gender targets: at the end of 2022 the ECB had achieved its targets at some levels and narrowed the gap at others (see Table 1). Regarding the 2022 targets for intake of female staff,<sup>34</sup> the ECB met its target of at least 50% for hiring and promotion at management level (all management and senior management levels). The intake targets at (team) lead, expert and analyst levels were missed by between 10 and 6 percentage points, but a range of 40%-60% overall has been reached. As regards the 2022 targets for the share of female staff,<sup>35</sup> the ECB achieved its targets for management positions (all management and senior management levels). While targets for experts and (team) leads were narrowly missed, by 2 and 1 percentage points respectively, the gap at these levels narrowed. The share of women continued to grow at analyst level, helping to extend the pool of women eligible for further career progression. The progress made shows that gender parity is achievable thanks to concrete and determined actions across a wide range of areas. The ECB will therefore continue to strengthen its efforts to achieve a better gender balance.

**Table 1**  
Targets for intake and share of female staff in 2022

Salary bands	2022 targets for intake of female staff (= women hired and promoted)	2022 actual intake of female staff	2022 targets for share of female staff (= overall share of female staff)	2022 actual share of female staff
Senior management (K-L)	Minimum 50%	60%	37%	38%
All management (I-L)	Minimum 50%	52%	33%	33%
(Team) leads (H)	Minimum 50%	40%	37%	35%
Experts (F/G-G)	Minimum 50%	42%	44%	43%
Analysts (E/F)	Minimum 50%	44%	51%	53%

Source: ECB.

In 2022 the ECB launched a charter on equality, diversity and inclusion together with 28 institutions from the European System of Central Banks and Single Supervisory Mechanism. The ECB will continue to keep the topic high on its agenda.

**Lastly, as regards the suggestion to establish an independent evaluation office, the ECB notes that it is committed to the highest standards of policymaking and recognises evaluation as a crucial component of it.** The ECB engages in a wide range of evaluation activities relating to its analysis and decisions. For example, extensive reviews of the ECB's monetary policy strategy took place in 2003 and in 2020-21.<sup>36</sup> Furthermore, ECB staff carry out research to examine monetary policy decisions, for example by analysing the impact that asset purchases have had on inflation. The efficacy of the entire research output is also regularly evaluated by external academics, the last occasions having been in 2004 and

<sup>34</sup> The targets are for women as a percentage of people the ECB hires and promotes in the relevant salary bands. They apply to internal and external recruitment campaigns, as well as to recruitment from reserve lists or through promotions to the next salary band.

<sup>35</sup> The percentages of women in the relevant salary bands.

<sup>36</sup> See "The ECB's monetary policy strategy", *press release*, ECB, 8 May 2003, explaining changes to the monetary policy strategy and "The ECB's monetary policy strategy after the evaluation and clarification of May 2003", speech by former ECB President Trichet, 20 November 2003, with background on the strategy review. See the ECB's website for an overview of results and background of the [2020-21 strategy review](#).

2011.<sup>37</sup> In addition to this, the ECB has conducted targeted reviews of its projection errors and made these available to the public in its regular publications. Most recently, the ECB published an article in its *Economic Bulletin* explaining why its models had underestimated inflation following the energy price shock in 2022.<sup>38</sup> The ECB continues to reflect on best practices for evaluating its policies taking into account the state of the art in the central bank community.

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<sup>37</sup> See the [2004](#) and [2011](#) evaluations of the ECB's research.

<sup>38</sup> [“What explains recent errors in the inflation projections of Eurosystem and ECB staff?”](#), *Economic Bulletin*, Issue 3, ECB, 2022. See also [“The performance of Eurosystem/ECB staff macroeconomic projections since the financial crisis”](#), *Economic Bulletin*, Issue 8, ECB, 2019.