EUROPEAN CENTRAL BANK
EUROSYSTEM

Feedback on the input provided by the European Parliament as part of its resolution on the ECB's Annual Report 2023

This feedback statement responds to the issues raised and requests made by the European Parliament in its resolution of 11 February 2025 on the ECB's Annual Report 2023.[1] It is being published on the occasion of the ECB's Annual Report 2024 being presented to the European Parliament. The statement explains the ECB's policies related to issues covered in the resolution and is structured by topic.[2] The ECB has published such feedback statements since 2016, following a suggestion by the European Parliament.

1 Monetary policy and economic developments

1.1 Monetary policy and inflation

The European Parliament resolution calls on the ECB to avoid lowering interest rates too quickly. It expresses regret that core inflation in the euro area was 2.7% in December 2024, with only three countries reporting rates below 2% at that time. It expresses concern over the potential for higher core inflation to feed into higher headline inflation figures. [paragraphs 9, 10 and 16]

The ECB is determined to ensure that headline inflation stabilises sustainably at its 2% medium-term target. Its restrictive monetary policy measures have contributed to headline inflation converging sustainably to the 2% medium-term target, as reflected in recent staff macroeconomic projections for the euro area. Core inflation – headline inflation excluding energy and food – edged down to 2.4% in March 2025, from 2.6% in February. The overall disinflation process entails mutually reinforcing headline and core inflation developments. Lower headline inflation reduces people's need to compensate for inflation and thereby helps to moderate wage growth. It also reduces the need for items to be repriced. As headline inflation decreases, core inflation will moderate and in turn help to further bring down headline inflation. In addition, convergence toward the target will be aided by the continuing impact of the past monetary policy tightening on consumer prices and by

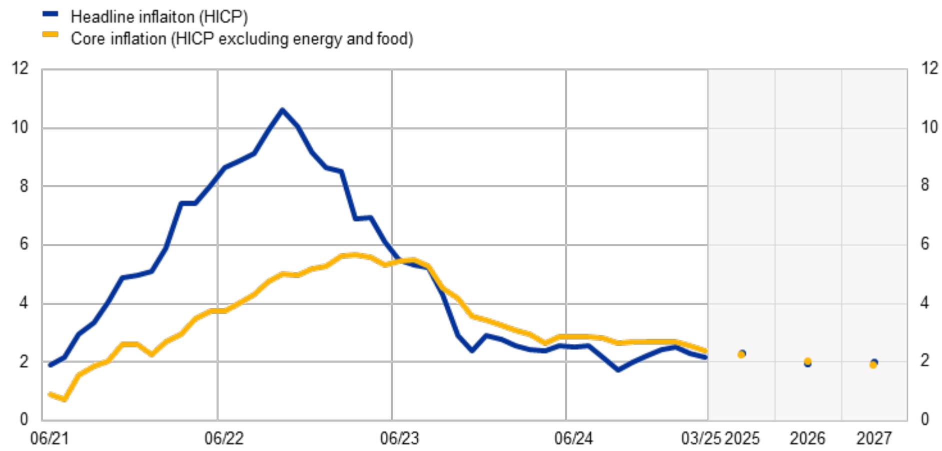
1 The text of the European Parliament resolution on the ECB's Annual Report 2023 is available on the Parliament's website.

2 The cut-off date for the preparation of this feedback statement was 2 April 2025.

longer-term inflation expectations remaining firmly anchored around the target. Especially in current conditions of rising uncertainty, the Governing Council will follow a data-dependent and meeting-by-meeting approach to determining the appropriate monetary policy stance. In particular, interest rate decisions will be based on its assessment of the inflation outlook, the dynamics of underlying inflation and the strength of monetary policy transmission. The Governing Council is therefore not pre-committing to a particular rate path. In setting the key interest rates, it will have to balance the risk of reducing rates too quickly – which could increase inflation – and the risk of loosening too slowly, which would unnecessarily hurt economic activity and employment, and could lead to too low inflation.

Chart 1
Headline and core inflation developments

(annual percentage changes)



Sources: ECB staff macroeconomic projections for the euro area, March 2025 and Eurostat.
Note: The latest observations are for March 2025 (flash release).

1.2 Impact of inflation and monetary policy on different sectors

The European Parliament resolution invites the ECB to assess the impact of interest rate changes on different economic sectors, including capital-intensive sectors. [paragraph 10]

The ECB closely monitors and analyses developments in different sectors, including in the labour market, to better understand how its monetary policy is affecting household spending and firms' investment decisions, and thus inflation. For instance, ECB analysis shows that monetary policy measures have a greater impact on manufacturing than on the services sector.[3] Monitoring sectoral developments is especially important when assessing the stance of monetary policy, as services activity also typically lags manufacturing in the business cycle. High

3 See for instance "Monetary policy and the recent slowdown in manufacturing and services", *Economic Bulletin*, Issue 8, ECB, 2023.

interest rates have had a dampening effect on the economy, especially private investment. However, maintaining price stability over the medium term remains the most effective way for monetary policy to support a stable macroeconomic environment conducive to investment. Price stability is crucial to any type of fixed investment, as it gives firms more certainty that their costs will not rise excessively over time.

1.3 The ECB's forecasting toolkit

The European Parliament resolution invites the ECB to continue reviewing and improving its models to better distinguish between demand-driven and supply-side sources of inflation. [paragraph 19]

The ECB constantly revises and updates its models, in part to better account for supply and demand factors. No model can take account of all possible economic factors and transmission channels. Therefore, the ECB has adopted a "suite-of-models" approach.[4] As economic structures continuously evolve and sources of economic fluctuations change, it regularly reviews and enhances its models, and develops new ones. For example, the ECB is continuously improving its modelling toolkit to better assess the implications, on both the demand and the supply side, of climate-related risks, geopolitical tensions or technological developments such as the use of artificial intelligence.[5] Notwithstanding these efforts, given the unprecedented nature of the shocks to the economy in recent years, large forecast errors have been unavoidable and common across institutions. However, forecast errors have recently been significantly reduced. Nevertheless, recent experience has given rise to reflection on the appropriateness of tools used and in particular on how to better assess the way supply and demand factors influence inflation, which has become a key question in monetary policy debate. In the ECB's ongoing strategy assessment, the analysis of supply and demand sources of inflation is thus playing a central role. The assessment will also elaborate on broader enhancements that have been made to the ECB's modelling and forecasting framework and how it could be further improved.

4 See for example Ciccarelli, M. et al., "ECB macroeconomic models for forecasting and policy analysis", *Occasional Paper Series*, No 344, ECB, 2024, for a recent review of various models employed at the ECB.

5 See for example Ciccarelli, M. et al., op. cit., or Attinasi, M.G. et al., "Navigating a fragmenting global trading system: insights for central banks", *Occasional Paper Series*, No 365, ECB, 2024.

1.4 The ECB's balance sheet and asset purchases

The European Parliament resolution invites the ECB to continue monitoring the gradual reduction of its balance sheet, including its effects on the euro area economy. It invites the ECB to share insights into the impact of its asset purchase programmes on the functioning of financial markets, including their effects on pension funds and insurance companies. [paragraph 23]

The size of the Eurosystem balance sheet continues to decline. This reflects the fact that the portfolios of the asset purchase programme (APP) and pandemic emergency purchase programme (PEPP) are declining at a measured and predictable pace, as the Eurosystem no longer reinvests the principal payments from maturing securities. Moreover, by the end of 2024 banks had fully repaid the amounts borrowed under the targeted longer-term refinancing operations (TLTROs), thus concluding this part of the balance sheet normalisation process. The reduction in the APP and PEPP portfolios has been absorbed smoothly by the market, causing no disruption, and banks have replaced TLTROs with market funding sources. As the Eurosystem has gradually reduced its holdings of securities, other investors, including households, banks, pension funds and insurance corporations, have gradually increased their holdings. The ECB regularly shares information about its asset purchases and engages with stakeholders.[6] This includes discussions with market participants and publication of securities holdings statistics. Moreover, the ECB has significantly stepped up publication of analysis on the functioning of financial markets and in particular on the impact of the normalisation of its balance sheet.[7] It will continue to monitor the effects of balance sheet normalisation on the functioning of financial markets and on the economy. The ECB/Eurosystem staff projections take into account a wide range of financial market prices, including those that could be affected by the shrinking of the balance sheet.

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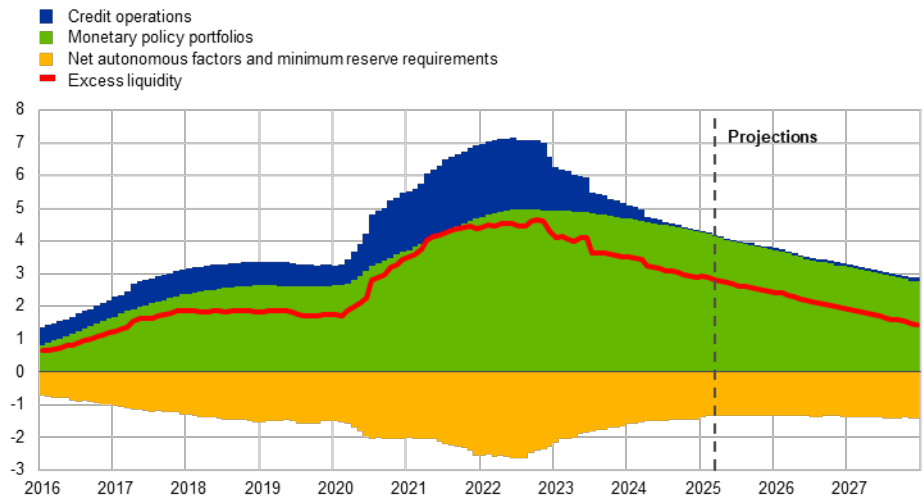
6 See the ECB's website for information on the APP and the PEPP.

7 See for example the following blog posts published in 2024: Rahmouni-Rousseau, I. and Schnabel, I., "The dynamics of PEPP reinvestments", *The ECB Blog*, ECB, 13 February 2024; Ferrara, F.M., Hudepohl, T., Karl, P., Linzert, T., Nguyen, B. and Vaz Cruz, L., "Who buys bonds now? How markets deal with a smaller Eurosystem balance sheet", *The ECB Blog*, ECB, 22 March 2024; Daskalova, S., Ferrara, F.M., Formoso da Silva, P., Karl, P. and Vlassopoulos, T., "Repo markets: Understanding the effects of a declining Eurosystem market footprint", *The ECB Blog*, ECB, 23 July 2024; or Akkaya, Y., Hutchinson, J., Jørgensen, K. and Skeppås, E., "Quantitative Tightening: How do shrinking Eurosystem bond holdings affect long-term interest rates?", *The ECB Blog*, ECB, 14 November 2024.

Chart 2

Eurosystem balance sheet: actual and projected

(EUR trillions)



Sources: ECB and ECB calculations.
Notes: Monetary policy portfolios and credit operations are assumed to develop in line with the median expectations of analysts as reported in the latest Survey of Monetary Analysts. The projection for banknotes is based on internal ECB models.

1.5 Monetary policy transmission

The European Parliament resolution asks the ECB to address interest payments on banks' holdings of reserves. [paragraph 22]

The transmission of monetary policy relies on the ECB being able to steer short-term money market rates effectively. This is the first step in the transmission chain that ultimately determines interest rates for firms and households, influencing their investment and spending decisions, and enabling the ECB to achieve its medium-term inflation target. The remuneration of the deposits that banks hold with the Eurosystem provides an anchor point for short-term money market rates, allowing them to be steered in line with the intended monetary policy stance. If these deposits were not remunerated, then short-term money market rates would be able to fall as far as zero, and would not enable the ECB to shape financing conditions. At the same time, the ECB is mindful of being as efficient as possible – including in cost terms – in its efforts to steer money market rates. For example, in September 2023 the Governing Council set remuneration of banks' minimum reserve holdings, i.e. the share of reserves they must hold at their national central bank, to 0%. This decision has improved the efficiency of monetary policy by reducing the overall amount of interest that needs to be paid on reserves, while still allowing the ECB to steer money market rates effectively. With increased confidence that inflation is returning sustainably to target, the ECB has gradually lowered the deposit facility rate by 150 basis points since its peak in September 2023, to 2.50%, thereby reducing its interest payments to banks. Additionally, excess reserves are on a declining trend given the repayment of the amounts borrowed by banks under long-term lending operations and the reduction of the bond portfolio due to the fact that the Eurosystem no longer reinvests principal payments from maturing bonds.

1.6 The inclusion of owner-occupied housing in the HICP

The European Parliament resolution calls for an acceleration of the roadmap for including owner-occupied housing in the Harmonised Index of Consumer Prices (HICP), stressing that this would be desirable for reasons of both representativeness and comparability across countries in the euro area. [paragraph 20]

The inclusion of owner-occupied housing in the HICP to strengthen the measurement of inflation remains an important topic for the ECB. Agreement on the treatment of owner-occupied housing in the HICP context has not yet been reached in the European Statistical System.[8] As Eurostat does not currently produce experimental indices combining HICP and owner-occupied housing data, the ECB has been closing this gap internally by calculating analytical indices which combine HICP figures with owner-occupied housing price indices following two distinct approaches, the net acquisition approach and the rental equivalence approach (by imputing rents).[9] The ECB strongly supports the European Statistical System's research agenda, which is aimed at investigating three alternative approaches for the inclusion of owner-occupied housing in the HICP, as well as the related conceptual and practical aspects, and hopes that this will lead to tangible results.

2 The ECB's mandate

2.1 The ECB's secondary objective

The European Parliament resolution calls on the ECB to adhere to its mandate when interpreting or acting upon its secondary objective. It calls on the ECB to include a specific chapter in its Annual Report explaining how it has interpreted and implemented its secondary objective. It also invites the ECB to review its policies to ensure they promote EU competitiveness without jeopardising its primary objective. [paragraphs 33, 34, 35 and 39]

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8 See Eurostat, "Owner-occupied housing and the harmonised index of consumer prices – Outcome of the work of the European Statistical System", *Statistical Working Papers*, 2023 edition, Luxembourg, June 2023.

9 Eiglsperger, M., Ganoulis, I., Goldhammer, B., Kouvavas, O., Roma, M. and Vlad, A., "Owner-occupied housing and inflation measurement", *Statistics Paper Series*, No 47, ECB, revised June 2024.

The ECB is committed, first and foremost, to pursuing its primary objective of maintaining price stability. Without prejudice to price stability, the Governing Council caters for considerations related to the secondary objective in its monetary policy decisions. This follows from the wording of the Treaty on the Functioning of the European Union (TFEU), which requires the ECB to "support the general economic policies in the Union with a view to contributing to the achievement of the objectives of the Union". For that reason, the secondary objective is explicitly addressed in the ECB's monetary policy strategy. 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 EU's general economic policies 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 EU's objectives.

The ECB reports on its monetary policy decisions and underlying analyses of relevance to the secondary objective in the various chapters of its Annual Report. The ECB's Annual Report 2023 included a dedicated box explaining how the secondary objective is considered in the conduct of the ECB's monetary policy and how the ECB communicates about its actions on the secondary objective. The box highlights where in the Annual Report to find the reporting on monetary policy decisions and the underlying analyses related to the secondary objective. In the Annual Report 2024, such reporting continues to be integrated across chapters.

As the competent EU institutions, the European Commission, the Council of the European Union and the European Parliament are taking measures to promote EU competitiveness, which the ECB supports. The ECB already caters for considerations related to growth and competitiveness in its monetary policy decisions and will continue to consider the impact of EU policies and actions in that field. In particular, the ECB welcomes the Commission's Communication of 29 January 2025 on a Competitiveness Compass for the EU and the flagship actions outlined.[10] The ECB stands ready to contribute to the development of the legislative initiatives in the Communication, as part of its advisory role on EU legislation under Article 127(4) TFEU. In addition, ongoing initiatives as part of the ECB's Treaty-based tasks, notably in the area of payments, such as promoting innovation, integration and resilience in Europe's post-trade infrastructure and preparing for the potential launch of a digital euro, are important elements in strengthening Europe's competitiveness.

[10] See "Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions – A Competitiveness Compass for the EU", COM(2025) 30 final, European Commission, Brussels, 29 January 2025.

2.2 Geopolitical considerations

The European Parliament resolution invites the ECB to draft a Geopolitics Plan 2025-2030 to better understand the implications of war and conflict on price stability. [paragraphs 19, 40 and 41]

The ECB actively monitors geopolitical developments given their relevance for economic activity, inflation and financial stability, and takes them into account in its monetary policy deliberations. Geopolitical tensions can be sources of economic shocks and uncertainty and can have considerable implications for price stability. The ECB thus regularly supplements its standard projections with scenario analyses to evaluate the potential impact of hypothetical events, such as wars and conflicts, that are not included in the baseline projections. For example, in the December 2023 Eurosystem staff macroeconomic projections, a scenario analysis explored tail risks to the baseline projections stemming from a potential major and prolonged escalation of the conflict in the Middle East, including a partial closure of the Strait of Hormuz. In addition, the Governing Council takes geopolitical developments and risks into consideration, among other factors, when taking monetary policy decisions, as reflected in the accounts of its monetary policy meetings. The ECB also closely monitors the implications of these developments for financial stability in the euro area. Regular updates on these risks are provided in the ECB's Financial Stability Review. The implications of geopolitical developments and risk for euro area financial stability were closely examined in both the May and November 2024 issues of the Financial Stability Review. Finally, as part of its ongoing monetary policy strategy assessment, the ECB is deriving the lessons learned from its response to the 2022–23 energy price shock triggered by Russia's invasion of Ukraine. This assessment will enhance the ECB's preparedness for future supply shocks, particularly those driven by geopolitical developments. The ECB will report its findings to the European Parliament and stands ready to further engage on that basis.

3 Climate change

3.1 Climate change and inflation

The European Parliament resolution invites the ECB to further assess the extent to which climate change affects its ability to maintain price stability. [paragraph 36]

The ECB conducts considerable analysis to understand the implications of both the physical impact of climate change and the green transition for inflation and the economy. The impact of extreme climate events on the economy is complex and multifaceted. More frequent and more extreme climate events may affect economic activity and inflation levels. They can result in a combination of supply and demand shocks, leading to inflation volatility and uncertainty. For example, ECB research shows that higher temperatures could lead to higher food prices and have varying effects on services inflation across seasons and countries.[11] Over a longer horizon, increased physical risks may also have structural effects on long-run growth and long-run interest rates. The ECB has also developed model-based approaches to analysing the transmission of decarbonisation strategies, such as carbon taxes, the EU Emissions Trading System (EU ETS) and policy mix scenarios, through the energy sector to output and inflation.[12] Staff analyses are used to inform macroeconomic projections and employed as scenarios around the projection baseline. For example, the expanded EU ETS programme was explicitly accounted for in the December 2024 projections and pointed to somewhat higher inflation at the end of the projection horizon. In addition, the ECB has analysed funding needs, the private sector's role and public sector support in mobilising green investment.[13] Significant investment in the green transition may also have wide-ranging economic and financial implications relevant for monetary policy, with effects for example on inflationary pressures and inflation volatility, the cost of capital and production costs, and also labour markets. The estimated overall macroeconomic and financial impact depends on the assumed monetary policy responses. While the ECB's monetary policy strategy has a medium-term orientation which allows it to look through short-term deviations of inflation from its target, large or persistent shocks could lead to deviations from the target becoming entrenched if not countered by an effective monetary policy response. The ECB's policy responses have been flexible and adaptive in order to maintain price stability and they will continue in this way in the future to meet ever-evolving challenges, including from climate change.

3.2 Climate change and market neutrality

The European Parliament resolution calls on the ECB to respect the market neutrality approach in its operations, while noting that market neutrality is an operational tool, rather than a legal requirement. [paragraph 37]

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[11] See Kotz, M., Kuik, F., Lis, E. and Nickel, C., "The impact of global warming on inflation: averages, seasonality and extremes", *Working Paper Series*, No 2821, ECB, May 2023; and Ciccarelli, M., Kuik, F. and Martínez Hernández, C., "The asymmetric effects of temperature shocks on inflation in the largest euro area countries", *European Economic Review*, Elsevier, Vol. 168(C), 2024.

[12] See Coenen. G., Lozej, M. and Priftis, R., "Macroeconomic effects of carbon transition policies: An assessment based on the ECB's New Area-Wide Model with a disaggregated energy sector", *European Economic Review*, Elsevier, Vol. 167, August 2024; and "Assessing the macroeconomic effects of climate change transition policies," *Economic Bulletin*, Issue 1, ECB, 2024.

[13] See Nerlich, C. et al., "Investing in Europe's green future – green investment needs, outlook and obstacles to funding the gap", *Occasional Paper Series*, No 367, ECB, January 2025.

The ECB adheres to the Treaty principle of “an open market economy with free competition, favouring an efficient allocation of resources”.[14] As noted in the resolution, market neutrality is an operational tool rather than a legal requirement. Market neutrality can help ensure that the ECB’s interventions in the market comply with the open market economy principle. However, the ECB can justifiably depart from market neutrality in order to achieve its objectives and comply with Treaty principles. This includes addressing risk management considerations. For example, in the asset purchase programmes, the application of eligibility criteria such as minimum credit quality requirements for asset purchases has implied that the ECB’s bond holdings have not necessarily been proportional to market capitalisation. Furthermore, under the public sector purchase programme and the pandemic emergency purchase programme, sovereign bond purchases were guided by the Eurosystem capital key rather than by market capitalisation. In the context of the corporate sector purchase programme, climate change considerations were incorporated into the benchmark allocation to reduce the climate-related financial risk to the Eurosystem’s balance sheet by reducing the carbon intensity of its corporate holdings. As part of the recent operational framework review, the Governing Council also agreed on a set of principles that will guide monetary policy implementation in the future.[15] These include the open market economy principle and a recognition of the importance of the secondary objective.

3.3 Climate change and financial stability

The European Parliament resolution 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. [paragraph 40]

The analytical toolkit used by the ECB for climate risk stress tests is being actively and continuously enhanced. In recent years the ECB has produced advanced climate stress tests to assess the risks of the Eurosystem’s balance sheet, and to help individual banks and the broader financial system assess risks they are exposed to under various climate outcomes. ECB work includes two economy-wide climate stress tests (2021 and 2023), a banking-specific stress test (2022) as well as climate risk stress test of the Eurosystem balance sheet as part of its action plan to include climate change considerations in its monetary policy strategy (2022). Most recently, at the request of the European Commission, the ECB executed a "Fit-for-55" climate stress test jointly with European Supervisory Authorities and the

14 See Article 119(1) of the TFEU and, in particular, Articles 120 and 127(1). Articles 119(1) and 120 refer to the EU as a whole, while Article 127(1) refers to the ECB.

15 See “Changes to the operational framework for implementing monetary policy”, statement by the Governing Council, 13 March 2024.

European Systemic Risk Board.[16] It showed that although transition risk losses are unlikely to threaten EU financial stability, financial institutions' losses increase and their financing capacity may be affected when transition risks are accompanied by macroeconomic shocks.

The ECB also actively contributes to improving the understanding of climate-related risks in other fora. The ECB leads the Network for Greening the Financial System (NGFS) Workstream Scenario Design and Analysis, which has been instrumental in the development of long-term climate macro-financial scenarios.[17] These scenarios provide projections to assess climate-related risks given varying policy and economic pathways. With every release they are enhanced: they include refined physical and transition risks and incorporate the latest advances in climate science. Under ECB leadership, the NGFS will in the first half of 2025 release its first short-term climate scenarios. These scenarios will be the first publicly accessible tool for assessing the immediate impact of climate-related risks. The ECB is also actively contributing to the work of the Supervision, Risks and Innovation Standing Committee of the European Banking Authority in the development of a high-level framework for regular climate stress testing, which will help banks identify and address their environmental, social and governance-related vulnerabilities.

4 Digital euro

4.1 Purpose and benefits of a digital euro

The European Parliament resolution calls on the ECB to demonstrate the benefits of a digital euro, including enhanced strategic autonomy in payments, increased competition in the retail payment market, potential to foster innovation in payments and finance, improved financial inclusion and a reliable offline backup payment system. [paragraph 26]

A digital euro would preserve people's freedom to use a sovereign means of payment throughout the euro area, and protect our monetary sovereignty, in a context of declining cash use and increased dependence on non-EU players. The digital euro investigation phase was launched in 2021 to further examine the

[16] In 2021 the European Commission invited the European Supervisory Authorities, the ECB and the European Systemic Risk Board to conduct a one-off climate risk scenario analysis to assess the resilience of the EU financial sector to climate-related shocks and its capacity to support the green transition even under conditions of stress.

[17] The NGFS is a voluntary global coalition of central banks and financial supervisors dedicated to exchanging experiences, sharing best practices, contributing to the development of environmental and climate risk management in the financial sector, and mobilising mainstream finance to support the transition toward a sustainable economy. In February 2025 the NGFS had 143 members.

need to issue a retail central bank digital currency in Europe.[18] Investigating the possibility of a digital euro was considered necessary given the rapid changes in the retail payment landscape (Chart 3). This was reaffirmed by the European Commission in its impact assessment in 2023, which noted that the absence of a retail central bank digital currency in the euro area may gradually undermine the monetary sovereignty of the Eurosystem.[19] In recent years our dependence on external players in retail payments has increased further.[20] The related risks have become more tangible, reaffirming the need for a digital euro to strengthen Europe's strategic autonomy and monetary sovereignty.[21] The case for a digital euro is especially strong in the context of a fragmented and externally dependent payments landscape like the euro area.[22]

The digital euro would be a digital means of payment universally accepted throughout the euro area, for payments in shops, online or from person to person. It would work both offline and online. Like cash, the digital euro would be risk-free, widely accessible, user-friendly and free for basic use.[23] It would boost the efficiency of the European payments ecosystem as a whole, fostering innovation and increasing its resilience to potential cyberattacks and technical disruptions. The ECB is also establishing an innovation platform to collaborate with stakeholders that are interested in experimenting with conditional payments and additional use cases.[24]

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18 See "Report on a digital euro", ECB, October 2020 and "Eurosystem launches digital euro project", *press release*, ECB, 14 July 2021.

19 See "Commission Staff Working Document Impact Assessment Report", European Commission, SWE(2023) 233 final, 28 June 2023, for the Proposal for a Regulation of the European Parliament and of the Council on the establishment of the digital euro, European Commission, COM(2023) 369 final, 28 June 2023

20 According to the most recent ECB payment statistics, international card schemes accounted for 65% of all electronically initiated transactions made with cards issued in the euro area in 2023 (up from 62% in 2022).

21 See Cipollone, P., Interview with Reuters, conducted by Balazs Koranyi and Francesco Canepa, 6 February 2025 and Panetta, F. and Dombrovskis, V., "Why Europe needs a digital euro", *The ECB Blog*, ECB, 28 June 2023.

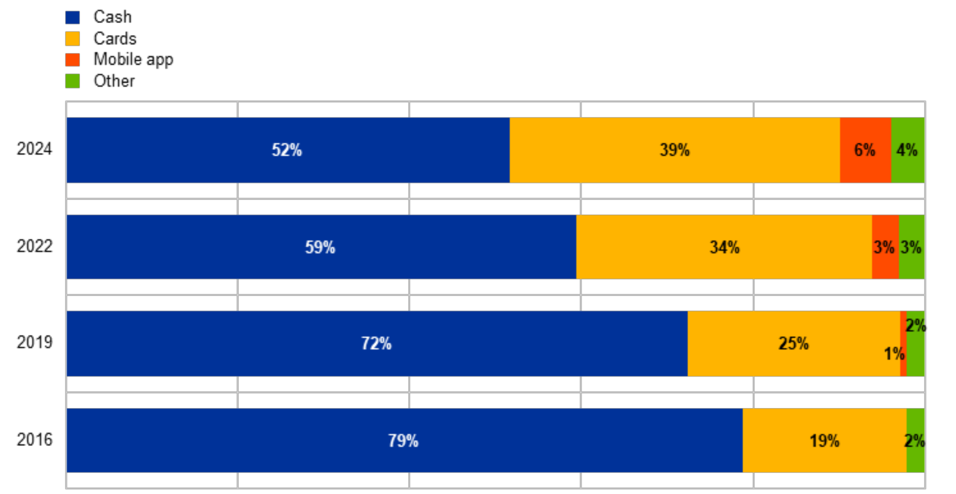
22 See Lane, P.R., "The digital euro: maintaining the autonomy of the monetary system", speech at the University College Cork Economics Society Conference 2025, 20 March 2025.

23 For more information on the progress of the digital euro project, see "Progress on the preparation phase of a digital euro – second progress report", ECB, 2 December 2024.

24 For more information, see "Call for expressions of interest in innovation partnerships for the digital euro", *MIP News*, ECB, 31 October 2024.

Chart 3

Payment instruments used at the point of sale, euro area, 2016-24



Source: ECB study on the payment attitudes of consumers in the euro area (SPACE) in 2024.

4.2 Privacy

The European Parliament resolution calls on the ECB to prioritise robust privacy safeguards for the digital euro, establishing them as a gold standard for privacy, to secure public confidence and address citizens' concerns. [paragraph 32]

Ensuring user privacy has been a central focus of the digital euro project from the start. The offline functionality would offer cash-like privacy, as the details of payments made in this way would only be known to the payer and the recipient. For online digital euro payments, the ECB would not be able to link a person directly to their payments. The data available to the ECB would be pseudonymised, meaning that the ECB would not see any personal data that could identify the payer. The ECB is committed to using the latest privacy-enhancing technologies, while continuing to assess new measures that might be feasible and effective. In addition, it plans to establish a data protection compliance and audit framework, under which it would be supervised by independent data protection authorities to ensure compliance with EU data protection law – the strongest privacy and security rules in the world.[25]

[25] For more information see Daman, M.G.A., "Making the digital euro truly private", *The ECB Blog*, ECB, 13 June 2024.

4.3 Implications for the financial sector

The European Parliament resolution calls on the ECB to take into account financial stability and the structure of the financial sector in the context of the introduction of a digital euro. [paragraph 31]

The digital euro design takes into account Europe's bank-based financial system and includes strong safeguards to protect the stability of the financial system. First, users would not need to hold digital euro to be able to pay with them. By seamlessly linking their digital euro account to a payment account with their bank, they could make and receive online digital euro payments even above the amount of their digital euro funds and the holding limit. This "waterfall" technology would allow companies and governments, which would not be allowed to hold digital euro, to receive digital euro payments.[26] Second, like banknotes, digital euro holdings would not be remunerated and would therefore not compete with savings deposits. Third, there would be limits on the amount of digital euro that could be held by individuals. The Eurosystem, together with market participants, is developing the analytical framework and models that would be used to determine the holding limit on the basis of three key areas defined in the draft Regulation: usability, monetary policy and financial stability.[27] This work pays special attention to differences in bank size and business models.[28] Finally, the digital euro is being developed with valuable input from market stakeholders to make sure that it can be integrated with existing structures and solutions. This is crucial because the digital euro would be distributed by banks and other private payment service providers, and would make use of existing payment standards and infrastructure as much as possible.

4.4 Decision on issuing a digital euro

The European Parliament resolution demands that any decision to issue the digital euro should not be taken exclusively by the Governing Council of the ECB. [paragraph 27]

A decision by the Governing Council on whether and when to issue a digital euro would be taken only after the legislative framework has been adopted, thus fully respecting the role of the EU co-legislators. The ECB has regularly informed the European Parliament of the progress on the project since its

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26 Businesses and public sector organisations could receive and process payments in digital euro, but they could not hold any themselves.

27 The Eurosystem has engaged actively with all market participants and incorporated their feedback into the methodology.

28 For more information, see "Update on work on methodology for holding limit calibration", slides for the 14th ERPB technical session on digital euro, 10 December 2024.

beginning.[29] The proposed legislation will constitute the framework within which the digital euro could be established as legal tender, covering areas related to privacy, distribution and financial stability.[30] The Governing Council will duly consider any design adjustments that may be necessary as a result of legislative deliberations and recognises that broad political support is crucial before it can decide whether to issue a digital euro. The ECB will remain fully accountable at all times and will keep the European Parliament continuously and closely informed about the Eurosystem's progress towards a digital euro, not just at this stage, but also after the legislative deliberations have concluded.

4.5 Commitment to cash

The European Parliament resolution reiterates that cash should remain widely available and accessible at all times in order to ensure a plurality of means of payment. [paragraph 29]

Cash will continue to be an essential and indispensable element of the single currency, even with the introduction of a digital euro. The unique characteristics of cash as minted money, which can be used independently of any technology, underline its ongoing significance and necessary availability for euro area citizens. The ECB strongly supports the European Commission's proposal for a Regulation on the legal tender of euro banknotes and coins[31], which is an integral part of the Single Currency Package. This Regulation would oblige euro area countries to guarantee sufficient and effective acceptance of cash and access to cash throughout their territory. The ECB emphasises the importance of finalising the legislative process with the EU co-legislators in the course of 2025. Additionally, it welcomes current legislative initiatives by several Member States that address specific weaknesses and threats to the national cash infrastructure, such as access to ATMs and territorial coverage. These initiatives highlight the importance of the Regulation.

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29 See the box entitled "The digital euro: a case study on intensifying parliamentary communication and engagement" in the article "The ECB's accountability to the European Parliament 2019-2024: commitment in times of change", *Economic Bulletin*, Issue 7, ECB, 2024.

30 See the European Commission's proposal for a Regulation on the establishment of the digital euro in footnote 19 of the current document and "ECB welcomes European Commission legislative proposals on digital euro and cash", *press release*, ECB, 28 June 2023.

31 Proposal for a Regulation of the European Parliament and of the Council on the legal tender of euro banknotes and coins, European Commission, COM(2023) 364 final, 28 June 2023.

5 Other ECB activities, transparency, and accountability

5.1 International role of the euro

The European Parliament resolution calls on the ECB to look into strengthening the international role of the euro with a view to enhancing its attractiveness as a reserve currency and support market-driven shifts in this direction. [paragraph 43]

The euro is the second most important reserve currency globally and its status is a side effect of sound economic policies in the euro area, which should be further pursued. The ECB monitors the international role of the euro and publishes its analysis in annual reports. According to the latest report, published in June 2024, the share of the euro across various indicators of international currency use has remained above 19% since its introduction in 1999.[32] For instance, the euro accounted for around 20% of foreign exchange reserve holdings worldwide in 2023, following the US dollar at around 58% and ahead of the Japanese yen at around 6%. Strong economic fundamentals, including sound economic policies, are important determinants of the international role of currencies. The ECB contributes to sound economic policies in the euro area by remaining committed to its mandate to maintain price stability over the medium term, which helps preserve the euro's attractiveness as a store of value. Sound economic policies will also be pivotal in increasing the resilience of the euro's international role in a potentially more fragmented world. A move to a deeper and more complete Economic and Monetary Union, including a genuine capital markets union, would make euro markets deeper and more liquid. Furthermore, by strengthening the resilience of the European payments system and offering an alternative to US dollar-backed stablecoins for fast and reliable digital payments, a digital euro could support the international role of the euro. Finally, upholding the rule of law in Europe is essential to maintaining global trust in the euro.

5.2 Cybersecurity and resilience

The European Parliament resolution calls on the ECB to ensure the safety and security of the monetary system for its users, especially in the light of ongoing geopolitical developments, and welcomes the attention that the ECB pays to the risks of cyberattacks. [paragraph 45]

The ECB remains resolute in prioritising the security and resilience of the monetary system in response to evolving cyber threats. A key element of this

32 See "The international role of the euro", ECB, June 2024.

approach is the ECB's close collaboration with other members of the European System of Central Banks and the Single Supervisory Mechanism, as well as EU bodies and agencies, recognising the inherently cooperative nature of effective cyber resilience. For instance, the national central banks providing TARGET services place strong emphasis on the continuous evolution and improvement of cyber defence capabilities to ensure the free, efficient and secure flow of cash, securities and collateral across Europe. In March 2024 the ECB updated its Eurosystem Cyber Resilience Strategy, with an expanded scope, now addressing emerging cyber threats.[33] The revised strategy and the updated TIBER-EU framework for threat intelligence-based ethical red-teaming seamlessly align with the Digital Operational Resilience Act (DORA), enhancing IT security and harmonising operational resilience in the financial sector.[34,35] The ECB is also currently refining the cyber resilience oversight expectations for financial market infrastructures, collaborating with key stakeholders to ensure the expectations remain cutting-edge and aligned with relevant global standards. These measures are crucial to safeguarding the stability of the euro area financial system amid geopolitical and technological challenges.

5.3 ECB whistleblowing framework

The European Parliament resolution calls for the further enhancement of the ECB's internal whistleblowing framework to bring it into line with the EU Whistleblower Directive. [paragraph 53]

The ECB's internal whistleblowing framework was overhauled and modernised in 2020.[36] As a result, it aligns with the principles of the Directive.[37] As previously highlighted, it provides, among other features, (i) a state-of-the-art tool for anonymous reporting; (ii) confidentiality safeguards; and (iii) a comprehensive framework for the protection of whistleblowers and witnesses from retaliation. Notwithstanding this and learning from the experience gained with the framework

33 See "Eurosystem Cyber Resilience Strategy – short version", ECB, revised October 2024.

34 TIBER-EU is a European framework for threat intelligence-based ethical red-teaming. It provides comprehensive guidance on how authorities, entities, and threat intelligence providers and red-team testers should work together to test and improve the cyber resilience of entities by carrying out controlled cyberattacks. See the ECB's web page entitled "What is TIBER-EU?"

35 In February 2025 the Eurosystem updated the TIBER-EU framework to align with the regulatory technical standards of the Digital Operational Resilience Act (DORA) on threat-led penetration testing. See "TIBER-EU Framework updated to align with DORA", *MIP News*, ECB, 11 February 2025.

36 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), (OJ L 359, 29.10.2020, p. 14).

37 See also "Feedback on the input provided by the European Parliament as part of its resolution on the ECB's Annual Report 2022", ECB, 18 April 2024.

over the past few years, the ECB is currently undertaking further enhancements to strengthen the overall safeguards for individuals who report potential breaches. This includes a particular focus on establishing a holistic, transparent and effective set of rules that reflect the role of the ECB as an inclusive employer; encourage early resolution of workplace issues; ensure the rights, and balance the interests, of the persons concerned; and are conducive to a safe and respectful work environment. The key elements of the envisaged revised framework include reinforced protection for those at risk of retaliation as well as streamlined processes to enable more timely and human-centric investigations, while upholding the appropriate procedural rights. These improvements are currently being discussed with the ECB staff representatives.

5.4 Communication, outreach and education

The European Parliament resolution encourages collaboration with the Member States and national central banks on financial literacy programmes. [paragraph 48]

The financial literacy of the population is increasingly recognised as an aspect of effective monetary policy transmission. While most work to strengthen financial literacy is carried out by national central banks and other national authorities, the ECB is also helping to increase the broader understanding of the economy, basic financial issues and ECB policies. Examples of such efforts using novel approaches are the new Espresso Economics YouTube channel featuring weekly videos explaining economic concepts; online Kahoot! quizzes; and sustained efforts to communicate in more accessible language. Together with national central banks, the ECB also drew attention to the notable financial literacy gap between women and men with a new initiative on International Women’s Day. The initiative set out five commitments to close the gender gap in financial literacy, including the creation of a central bank financial literacy network.

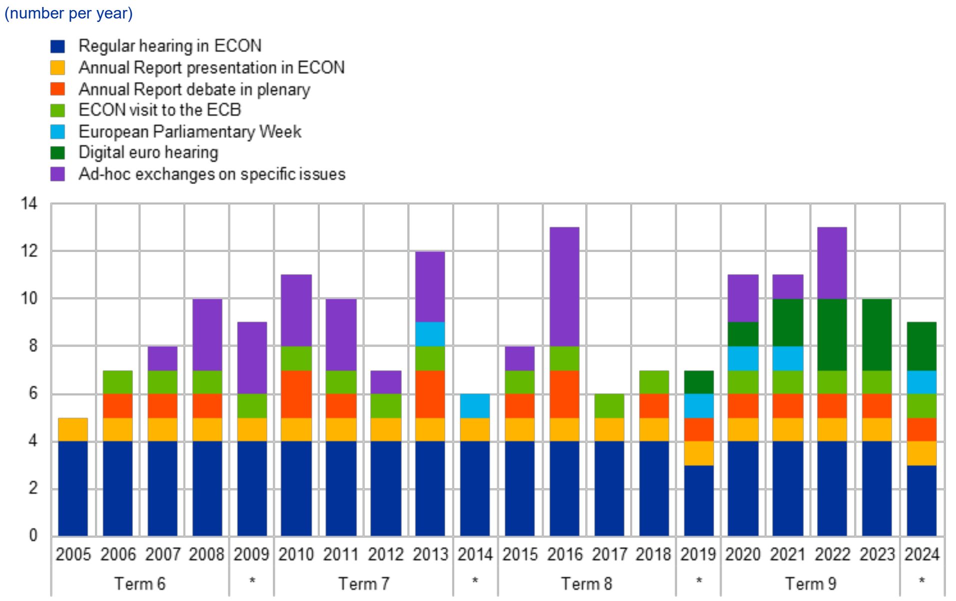
5.5 The ECB’s accountability

The European Parliament resolution invites the ECB and the European 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. It also invites the European System of Central Banks to continue and strengthen its dialogues with national parliaments. [paragraphs 4 and 54]

The ECB highly values its mutually beneficial accountability relationship with the European Parliament. The ECB’s accountability obligations are set out in primary EU law. Over the years, the ECB has worked with the European Parliament to strengthen its accountability well beyond the Treaty requirements. In this regard, in June 2023 the Presidents of the ECB and the European Parliament signed an Exchange of Letters which specifies accountability channels and constitutes a common understanding of the accountability practices in the area of central banking. In the last parliamentary term, the ECB engaged with the European Parliament even more frequently than in previous terms (Chart 4). Beyond the European Parliament's scrutiny function, the ECB also appreciates the chance to explain its policies to citizens and their elected representatives, as well as to hear their views. This increases the transparency, credibility and effectiveness of the ECB's policies. The ECB thus remains fully committed to its accountability and transparency efforts and aims to continue enhancing interactions with the European Parliament, in accordance with the provisions of EU primary law.

Chart 4

Number of exchanges with the European Parliament



Source: ECB.
Notes: Asterisks denote years in which European Parliament elections took place. ECON: European Parliament Committee on Economic and Monetary Affairs. European Parliamentary Week: an event held by the European Parliament each year since 2012, bringing together national and EU parliamentarians to strengthen cooperation between national parliaments and the European Parliament and to contribute to ensuring legitimacy in economic governance and budgetary policy in the EU, particularly in the Economic and Monetary Union. The chart shows exchanges up to the end of 2024.

While national central banks are the primary counterparts for national parliaments, the ECB on occasion meets with national parliament delegations on an ad hoc basis. As the ECB discharges its accountability obligations primarily towards the European Parliament, national central banks within the Eurosystem are the primary counterparts of their respective national parliaments. The extent and nature of this interaction depends on the country and its institutional framework. Nonetheless, the ECB on occasion receives national parliament delegations or visits national parliaments to discuss topics of euro area-wide importance. Such exchanges take place at the request of the national parliament, are subject to the

ECB’s availability and seek to balance engagement across parliaments of the euro area.[38] National central banks that are part of the European System of Central Banks but not part of the Eurosystem conduct their monetary policy autonomously, and the ECB generally does not exchange with these national parliaments on its monetary policy.

38 For example, in 2024 the ECB received delegations from the Finnish Parliamentary Supervisory Council and the French Senate, and Executive Board member Isabel Schnabel joined an exchange of views in the German Bundestag’s Finance Committee. Also in 2024, and on several occasions in previous years, the ECB participated in the European Parliamentary Week, an annual event bringing together national and EU parliamentarians.