Article – In Parliament this week: EU citizens in UK, tax regimes, plenary preparations

The rights of EU citizens living in the UK and how they will be affected by Brexit is the focus of a hearing organised by three parliamentary committees this week. In addition the inquiry committee investigating the Panama papers holds a meeting with representatives from the Channel Islands, Gibraltar and Madeira to discuss their tax regimes.Political groups also prepare for next week's plenary session.

The situation and rights of EU citizens living in the UK and UK citizens residing in other parts of the EU are discussed on Thursday at a public hearing organised by the civil liberties, petitions and employment committees. Speakers include Parliament's Brexit coordinator Guy Verhofstadt and Anne-Laure Donskoy, from the Three Million group representing EU citizens in the UK. In its position on the upcoming Brexit negotiations, Parliament made clear that people's interests should come first.

Parliament's inquiry committee investigating the Panama papers hears from representatives of the Channel Islands, Gibraltar and Madeira about their tax regimes on Tuesday. The debate will focus on the extent of cooperation with the EU and on steps local authorities are taking to prevent tax scheming.

This week political groups also hold meetings to prepare their positions for next week's plenary session in Strasbourg when MEPs will vote on new rules allowing EU citizens who are temporarily abroad to access their online film and music accounts subscribed back home. They will also evaluate progress reports on reforms in Kosovo and Serbia.

On Sunday Parliament opens its doors to visitors in Strasbourg so people can find out how the institution works and looks.

Yves Mersch: Monetary policy challenges for Europe: banking on the recovery

Speech by Yves Mersch, Member of the Executive

Board of the ECB, 2017 IIF SPRING MEMBERSHIP MEETING, Tokyo, 8 May 2017

Introduction

The recovery underway in the euro area is spreading by sector and geography and is gathering momentum. Confirmation of a broadly balanced risk outlook is within realistic reach. The extraordinary monetary policy measures introduced since 2014 are bearing fruit. The financial sector has an important role to play in supporting this recovery and ensuring continued resilient growth in the future. My intention today is to give a brief overview of the recovery, before making a few remarks about financial institutions that are relevant to the current situation.

Economic recovery

The first quarter of this year marked the 16th consecutive quarter of real growth in the euro area. In fact, GDP grew by 0.5% in the first quarter. This translates to annualised growth of 1.8%, according to Eurostat – much higher than the 0.7% annualised growth recorded in the United States in the same quarter. Moreover, the latest survey data support expectations of robust growth throughout the first half of 2017. The PMI composite output index – which is strongly correlated with growth in the euro area – registered its highest quarterly average in nearly six years during the first three months of 2017, while the forward-looking components of the survey data point to continued growth in future quarters. Meanwhile, economic sentiment in the euro area is at a six-year high and unemployment is at an eight-year low.

Five million jobs have been created since 2013. This proves that the combination of consolidation and reform measures has worked where it was pursued credibly.

The economic recovery is also broad-based. The dispersion of growth rates across both countries and sectors is at its lowest level in two decades, reflecting a convergence of growth rates at higher levels. This is good news for economic growth going forward because recoveries tend to be stronger and more resilient when they are broad-based. These developments have, of course, been supported by our monetary policy measures, which have led to a sharp easing of financing conditions and a convergence of funding costs across countries. The remaining spreads are clearly related to credit risks – which fall outside our mandate.

The monetary policy measures taken since mid-2014 have supported price stability in particular by buoying domestic demand, which is now the mainstay of the ongoing recovery. This marks a departure from the past when euro area growth was far more reliant on external demand. While world trade has weakened considerably and last year grew at the slowest pace since the financial crisis, growth in the euro area has accelerated.

Looking at the domestic recovery in more detail, consumption expenditure is a key source of support for growth. Rising employment and growth in real disposable income are translating into increased spending rather than increased saving, reflecting households' confidence in future economic prospects. This contributes to a positive feedback loop between consumption, employment and income, further bolstering the recovery. But wage dynamics still lag behind due to the remaining slack. Higher incomes are mostly the result of job creation rather than salary or wage increases.

Investment is also gradually picking up given the favourable financing conditions, the need to modernise capital stock after years of subdued investment and the strengthening of corporate profitability. Improvements in business confidence and in the production outlook, as reflected in recent business sentiment surveys, should result in higher investment spending. However, public investment is below trend in some surplus countries.

Also on a positive note, the risk assessment of the growth outlook is more and more balancing.

Although we still face some risks, in particular regarding the external outlook, political uncertainties and fragilities have consistently evolved in a positive fashion in Europe since the beginning of the year.

Available data also point to an improving external environment. Global economic activity indicators suggest robust growth at the start of 2017, which should further support business investment in the euro area as export demand picks up. One could say we have left behind an environment of elevated uncertainty in a Knightian sense and progressed to one of calculable risks.

But in the euro area the balance of risk for inflation is not where the balance of risk to growth lies.

In terms of the labour market, the unemployment rate continues to decline despite growth in the euro area labour force. Meanwhile, survey data suggest further improvements in labour demand during the first quarter of this year. While the level of economic slack remains elevated, which subdues underlying inflation, growth rates are above potential so the output gap will continue to close over the policy horizon. This should support wage growth and return inflation towards a level that is close to, but below, 2% over the medium term. Indeed, there are also timid signs of early pipeline pressure stemming from industrial producer prices.

Against this background, market expectations regarding deflationary risks and further policy rate cuts by the ECB have faded and focus is beginning to shift towards a normalisation of policy in the future.

Indeed, as the Governing Council has recalled recently, if the euro area economy recovers and inflation proceeds further on its path towards the ECB's inflation aim in a sustained manner, a discussion on policy normalisation becomes warranted in the future. Any such discussion should, of course, take place in a structured, orderly and appropriately prudent manner and the Governing Council is convinced of the need to continue an accommodative monetary policy stance without deviation from the announced measures under implementation to be expected. But we could examine the interaction of our different policy measures and their functioning in a new environment of balanced prospects as opposed to the environment of deflationary risks that prevailed when they were first introduced.

As has been stated, our forward guidance needs to be aligned with an evolving assessment to underpin both the consistency and credibility of our communication.

Prospects for the banking system

In this context, it is imperative that the banking sector is well-positioned to foster sustainable growth in the coming years as the exceptional levels of monetary policy support will be adjusted in line with the progress towards our policy objective. A well-functioning, profitable and resilient financial sector is vital for the long-term economic prospects of the euro area. Allow me, then, to make three remarks on this topic.

My first remark relates to bank profitability. As I have just discussed, the ECB's unconventional monetary policy measures have been successful in fulfilling their intended purpose.

But that is not to say that they did not have any side effects. They have drawn criticism for their negative effects on financial sector profitability. I believe such criticism is somewhat unbalanced. In the absence of the recovery generated by these unconventional measures, unemployment would have been higher, credit growth lower and a greater proportion of loans would have been non-performing. All of these things would have weighed on banking sector profitability.

Moreover, while acknowledging that banks face a charge because of the negative rates policy, internal data show that this burden is alleviated by the benefits gained in wholesale funding markets. Between January and March 2017, on average, two thirds of overnight unsecured funding was raised at an average rate of around -46 basis points, essentially through counterparties having no access to the ECB facilities. Similar developments were observed in the secured markets for all collateral types.

Overall, banks recoup on average around 25% of the excess liquidity charge in both secured and unsecured funding.

It is worthwhile remembering that we set monetary policy to honour our mandate, not to support financial sector profitability. That being said, I do recognise that the longer unconventional measures remain in place, the greater the impact they will have on financial sector profitability. It is important that they are used only for as long as is necessary to achieve an inflation rate in line with our definition of medium-term price stability.

Moreover, as the Bank for International Settlement has recently found, there seems to be an independent role for nominal interest rates in the transmission process, regardless of the level of real rates. First, monetary policy transmission could be weakened by the headwinds that arise in the aftermath of balance sheet recessions. Second, inherent non-linearities could kick in when interest rates are persistently low and might dampen the interest rates' impact on spending.

But let us also not forget that profitability is weak in many European banking systems for deeper structural reasons that predate the crisis and current monetary policy settings. Europe remains overbanked, insufficient progress has been made on the overhang of non-performing loans since the crisis and there is increasing competition from FinTech companies and non-banks.

In such an environment, what then can be done to bolster bank profitability? First, there remains significant scope for domestic consolidation in some large countries and cross-border consolidation in Europe. The ratio of banking sector assets to GDP in Europe far exceeds that in the United States or here in Japan, and individual European banks are on average much more leveraged. Overbanking results in lower margins, a higher risk of the loans granted eventually turning sour, and banks operating away from the efficiency frontier with a consequently higher cost to income margins. During the crisis we witnessed the fracturing of interbank markets along national lines, and the negative spill-overs between sovereign indebtedness and banking sectors in a number of countries.

There are a number of benefits from a truly European banking system. A more consolidated sector is likely to help overall profitability and boost resilience. Individual banks would be exposed to a more diversified set of risks, and less vulnerable to downturns in individual countries, helping to break the link between banks and sovereigns. At the same time, a Europe-wide banking system is an important step towards completing Economic and Monetary Union. For a single currency area to work effectively, citizens should have faith in money in all its forms, not only in cash but also in bank deposits held across the whole region. We also need a prudential approach that ensures both a level playing field and that no exemptions from the rules are granted to protect zombie banks.

Which leads me to my second remark. In times of low profitability and increased competition, be it from other banks or from newer start-ups, keeping your customers happy is key to keeping them as your customers. Therefore, it is important to ensure that customers' interactions with banks can be carried out in the manner that most satisfies the customers. As an example, let me discuss briefly the use of cash and the growing shift to newer payment systems.

There is now a large range of non-cash payment options available, such as credit cards, electronic payments, portable wallets and mobile phone payments to name but a few. As more people adapt to new payment options, there is a risk of disrupting banks' business models. This makes it important for banks to remain agile in the face of these changes and to endeavour to meet their customers' wishes.

We currently witness frequent lobbying, overt and covert, to abolish cash. I won’t dwell today on the plausibility of the justifications proposed, except to note that such lobbying fails to respect the will of the general population: cash remains popular. Recent research for the ECB finds that 80% of transactions at point of sale are in cash. Even adjusting for the value of transactions, cash still accounts for the majority. Indeed, the demand for cash currently outstrips the growth in nominal GDP.

There are valid privacy reasons for maintaining cash, and it provides the general public with direct access to central bank money. For an independent institution like the ECB, maintaining that link is important, which is why we place great emphasis on ensuring people’s continued trust in cash. For this purpose, we have overhauled the security features in the euro’s new Europa series. To date we have released new versions of the lower denominations – up to and including the 50 euro note. Next year we will introduce stronger and more secure versions of the higher denomination banknotes. Given this widespread desire to use cash, banks should facilitate rather than obstruct customers in using their preferred method of payment. Time will tell how the use of cash will evolve once instant payments are introduced in the near future.

At the same time, while cash remains popular, in some countries there is a move towards newer payment methods. There is an important role here for financial institutions to facilitate and foster these newer methods.

Permitting and enabling customers to manage their finances in the manner that most appeals to them encourages loyalty.

It is still vitally important that any form of payment offers protection to its users and engenders trust. Such services should have the necessary security and data protection measures in place. Nonetheless, banks should see such developments as a positive opportunity to engage with customers, rather than react with protectionist urges. As in other economic areas, protectionism is rarely welfare enhancing in the long run.

Let me dwell briefly on regulation for my final remark today. Adequate regulatory standards are vital to maintain trust between financial institutions and to ensure continued market functioning in the presence of shocks. It also follows that setting global standards is necessary to underpin the global nature of finance. In the long run, no-one – including financial institutions themselves – benefits from a regulatory race to the bottom. Lobbying for particular special interests in regulation can, in the end, be counterproductive if it succeeds in derailing moves to agree international standards.

Conclusion

The recovery in the euro area is gaining more and more traction. The confirmation of a broadly balanced risk outlook for growth is within reach.

The extraordinary monetary policy measures introduced since 2014 are bearing fruit. They have supported price stability in particular by buoying domestic demand, which is now the supporting pillar of the ongoing recovery.

The financial sector has an important role to play in supporting that recovery and ensuring continued resilient growth in the future.

A well-functioning, profitable and resilient financial sector is therefore vital for the long-term economic prospects of the euro area. There are challenges ahead, be they technological, regulatory or political, but the banking industry in the euro area is well-positioned to foster sustainable growth in the coming years.

Big beasts return to Lib Dem front line as Tim Farron announces election campaign team

The Liberal Democrats have announced a new General Election Campaign Team, with former ministers including Jo Swinson, Vince Cable and Ed Davey all returning to the Lib Dem frontbench.

I'm delighted to announce my new campaign team, which sees some big beasts of the party returning to lead our General Election fight.

The team brings together a wealth of experience from former ministers, such as Jo Swinson, Vince Cable and Ed Davey, and I'm thrilled to personally welcome them back.

From challenging the government over their disastrous Hard Brexit plans, to fighting for the NHS and social care, to protecting schools from further Tory cuts; together we will provide the strong opposition – the only opposition – with the power steer the country in a more progressive direction.

Vote for the Liberal Democrats to change Britain's future.

Leader
Tim Farron

President
Baroness Sal Brinton

Chancellor
Vince Cable

Foreign Affairs
Tom Brake

Defence
Baroness Judith Jolly

Europe; International Trade
Nick Clegg

Europe
Baroness Sarah Ludford

Home Affairs
Lord Brian Paddick

Health
Norman Lamb

Education
Sarah Olney

Work and Pensions
Baroness Cathy Bakewell

Business
Baroness Susan Kramer

Energy and Climate Change
Lynne Featherstone

Local Government
Baroness Kath Pinnock

Transport
Baroness Jenny Randerson

Environment and Rural Affairs
Baroness Kate Parminter

International Development
Baroness Shas Sheehan

Culture Media and Sport
Baroness Jane Bonham-Carter

Equalities
Baroness Lorely Burt

Northern Ireland
Baroness Alison Suttie

Young People
Daisy Cooper

Europe/ALDE Liaison
Catherine Bearder MEP

London
Caroline Pidgeon MLA

Justice
Lord Jonathan Marks

Refugees
Amna Ahmad

First Secretary of State
Alistair Carmichael

Election Campaign Spokesperson
Ed Davey
Eluned Parrott
Jo Swinson

Leader of the Welsh Liberal Democrats
Mark Williams

Cabinet Secretary for Education in Wales
Kirsty Williams AM

Green Party slams Conservative migration target

8 May 2017

The Green Party has condemned the alleged Conservative Party manifesto pledge to cut net migration to tens of thousands [1].

Jonathan Bartley, Green Party co-leader, said:

“The Tories have repeatedly failed to reach this target since it was first in their manifesto in 2010 but in the process have split up families and encouraged hostility towards migrants.

“It’s time the Conservative Party stopped trying to pin the blame for unemployment, the housing shortage and NHS overcrowding on migrants and acknowledged the abject failure of its own policies, cuts and severe underinvestment.”

Notes:

1. http://www.bbc.co.uk/news/uk-politics-39840503

Tweet

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Sturgeon under pressure as ‘systematic’ spending in election periods revealed

8 May 2017

Ross Thomson is calling on Nicola Sturgeon to come clean about the sustained spending announcements made during previous general election campaigns.

The Conservative MSP has written again to Leslie Evans, the Permanent Secretary to the Scottish Government, calling on her to publish her investigation into the £8million investment into Glasgow and demanding a full investigation into what appears to be a systematic approach to spending announcements in previous election periods.

On Friday, the Permanent Secretary dismissed a complaint about the announcement of £8.35million development funding for Glasgow, which had been made just 48 hours before voters went to the polls in the council election.

She insisted the Scottish Government’s reputation was ‘unblemished’.

Announcements in previous election campaigns include:

• Over £300m of government funding announced in two separate tranches to keep energy bills low. These were made during the general election campaign period, when the Labour Party was explicitly campaigning on a pledge to freeze energy bills and made the cost of living a central plank of their general election campaign.

• Nearly £2m for community groups across Scotland – with several projects singled out in the Government press release in target seats: Gordon, Glasgow North East Kircaldy and Cowdenbeath, and Stirling.

In his letter to the Permanent Secretary, Ross Thomson argues:

• Leslie Evans’ investigation into the Glasgow announcement needs to be published. • The circumstances surrounding the 16 other announcements in previous election campaigns need to be investigated in full, and the content of that investigation also need to be published.

• The concern is not that the Civil Service 'designed' policy to influence election campaigns. The concern is that the Scottish Government, both its elected politicians and impartial Civil Servants, undertook activity which did 'call into question' their impartiality.

Scottish Conservative MSP for the North East, Ross Thomson said:

"When voters elect a government, they put their trust in the Government of the day.

"They trust that public money will be spent properly and they trust that the Civil Service supporting the government will be, and will be seen to be, completely impartial.

"I am now afraid that trust is being undermined.

"The First Minister needs to stop hiding from the issue.

"She needs to explain to the electorate why the SNP government has made spending announcement after spending announcement in communities across Scotland when the same communities are being asked to vote for her party.

"And the Civil Service need to protect their reputation for impartiality. They need to publish their investigation into the Glasgow spending announcement, they need to investigate what appear to be systematic and targeted spending announcements in recent elections, and they need to publish these findings in full too.

"Unless and until this happens, this scandal will grow – and voters across Scotland will rightly ask why they should put their trust in the SNP again".

You can read a copy of Ross' letter here.

Local elections 2017 – three week campaign

- **£1m to individual crofters.** 'Over £948,000 has been awarded to help crofters in some of Scotland's most rural and remote communities benefit from better housing. 29 crofters will share the funding which enables them to build or improve homes, helping to retain and attract people to rural communities' (*Scottish Government press release*, 25 April 2017, link).
- **£1m for Seafood Scotland.** 'Raising the awareness and enhancing the global profile of the Scottish seafood industry will assist the sector as a whole…This is just one example of why EU funding is so important…Our fishing industry is a vital part of the rural economy' (*Scottish Government press release*, 26 April 2017, link).

This announcement came just a day after the SNP was plunged into a row when two SNP MPs contradicted SNP policy to take fishermen back into the CFP by signing a pledge committing to keep them out (*Courier*, 25 April 2017, link).
In relation to the role that Marine Scotland plays in this allocation, I would again note this section of the guidance: 'National devolved public bodies spend public money and make public announcements, use Scottish Government property and can employ civil servants. This guidance therefore also applies to their activities'.

- **Progress report into infrastructure spend across Scotland.** 'Significant progress continues to be made in delivering our infrastructure investment plan, which is good for jobs, good for the economy, and good for Scotland"' (*Scottish Government press release*, 26 April 2017, link).

The report provides updates on projects across Scotland: 9 specific major road infrastructure projects, 5 specific ferry projects, 4 specific rail projects, 5 specific completed NHS projects, 4 specific ongoing NHS projects, and 18 specific completed schools (*Progress Report*, Scottish Government, 26 April 2017, link). The First Minister's Chief of Staff herself promoted the report on social media, tweeting the figures for the North East to the SNP's political account and the Press and Journal. I would note that the guidance states: 'national announcements by the Scottish Government may have a particular impact on local areas, for example, the publication of policy statements which have a specific local dimension'.

- These are in addition to the announcement of 2 May 2017 in Glasgow.

General Election 2015 – six week campaign

- **£1.9m for community groups across Scotland.** The Scottish Government minister is quoted in the release saying: 'I know that the projects announced today will make a real and lasting difference at a local level' (*Scottish Government press release*, 2 April 2015, link).

Investment singled out by the Scottish Government in the release include target seats: Ellon in the Gordon constituency, Lambhill Stables in the Glasgow North East constituency, support for Greener Kirkcaldy in the seat of the former Labour Prime Minister Gordon Brown's seat, and nearly £150,000 for a community enterprise in the Stirling constituency.

- **Over £100m to 'fight fuel poverty'.** The release states: 'Scotland's most vulnerable households will receive help to make their homes warmer and cheaper to heat thanks to a £103 million investment to tackle fuel poverty'. It goes on to break the full amount down by local area (*Scottish Government press release*, 3 April 2015, link).

This announcement was made during a campaign when the Labour party were explicitly campaigning across the UK on a pledge to freeze energy bills.

- **£224m for 'tackling fuel poverty'.** Margaret Burgess, the Housing Minister, states: 'By making sure people in the islands and in more rural parts of the country, have the same chances to make their homes, warmer, cheaper and easier to heat, we are tackling the inequalities that exist in our country' (*Scottish Government press release*, 22 April 2015, link).

This announcement was, again, made during a campaign when the Labour party were explicitly campaigning across the UK on a pledge to freeze energy bills – and less than three weeks after the £100m announcement also on fuel poverty

- **£840,000 for trade union members.** The First Minister herself made this announcement, stating: 'I want to see every person in Scotland given the opportunity to get on in life and improve on the skills they already possess, and investing in our workforce is an important part of this' (*Scottish Government Press Release*, 21 April 2015, link).
- **£120,000 in local announcements to support veterans.** Keith Brown commented: 'The Scottish Government is committed to ensuring that no member of the armed forces, service family member or veteran in Scotland faces disadvantage when accessing services and support' (*Scottish Government Press Release*, 30 April 2015, link).

The location of announcements include Edinburgh, Dundee, Ayrshire, Glasgow, Renfrewshire and the Scottish Borders. **European Elections 2014 – three week campaign**

- **£6.5m for new quayside at Nigg Energy Park.** First Minister Alex Salmond announced the funding on a visit to Nigg Energy Park (*Scottish Government Press Release*, 2 May 2014, link).
- **£2.1m in CashBack funding.** 'The Scottish Government has today announced that more than £2 million is to be invested to create life-changing opportunities for vulnerable young people' (*Scottish Government Press Release*, 6 May 2014, link).
- **£2.25m for 29 schools of rugby across Scotland.** The Scottish Government release specifically identifies Ayrshire as benefitting: 'One region in particular that has benefited from CashBack funding is Ayrshire, which now has over 3,600 registered players in clubs and schools across Ayr, Cumnock, Carrick, Marr, Kilmarnock, Irvine, Ardrossan and Garnock' (*Scottish Government Press Release*, 7 May 2014, link).
- **170 new homes in 4 areas.** Housing Minister, Margaret Burgess, welcomed the announcement by advocating: 'will deliver over 170 brand new and affordable homes to rent in Rosyth, Aberdeen, Inverness and Ardersier'.

She also used the Government press release to criticise the Westminster Government: 'Despite Westminster's cuts to our capital budget the Scottish Government is doing everything possible to stimulate growth, maximise our investment in housing and deliver on our target of 30,000 new, affordable homes over the lifetime of this Parliament' (*Scottish Government Press Release*, 8 May 2014, link).

- **£15m for Green Homes Cashback Scheme.** This announcement was used to make the case for Scottish Independence – during the period leading up to the European elections and in the same year as the Independence referenudm. The Minister for Energy, Fergus Ewing, is quoted in the release: 'This new phase of Green Homes Cashback underlines our ongoing commitment to energy efficiency – we are doing all we can under existing arrangements to provide practical support to households. What's clear however is that we need the full powers of independence' (*Scottish Government Press Release*, 9 May 2014, link).

- **£2.1m to 28 specific organisations to help communities across Scotland.** The announcement states: 'Enterprising third sector organisations will benefit from a further £2.1 million in grants to help them deliver services to vulnerable people in communities across Scotland. The cash, spread between 28 organisations, will be awarded through the Enterprise Ready Fund' (*Scottish Government Press Release*, 13 May 2014, link).
- **£40m for affordable housing.** Nicola Sturgeon, then Deputy First Minister, announced £40m more for the Help to Buy scheme, stating: 'This additional £40 million funding will allow more people in Scotland to buy their first home and continue to make it easier for 'second-steppers' and others to move to a new property' (*Scottish Government Press Release*, 16 May 2014, link).
- **£3.5m for 4 projects in Islay, Edinburgh, Fintry and Inverness.** The Energy Minister welcomed the announcement by stating: 'This latest round of Scottish Enterprise funding underlines the Scottish Government's commitment to Scotland's growing renewables sector' (*Scottish Government Press Release*, 21 May 2014, link).