

Governing Council meeting, ECB. 22nd April 2021.



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ECB to increase the pace of asset purchases

On 22nd April, the Monetary Policy Committee of European Central Bank unsurprisingly announced no new measures, but reaffirmed that the monetary loosening initiatives of 2020 launched in response to the coronavirus pandemic will continue. The asset purchase programme will continue until at least March 2022 and will be conducted at a higher pace than has been the case in the first quarter of the year. No run off of the assets is planned until the end of 2023 at the earliest.

The ECB expects the Eurozone economy to record a contraction in the first quarter of 2021 before recovering in the second, A number of member states are still subject to various restrictions due to the number of new cases and deaths from the virus.

The statements in the press release following the Governing Council meeting show far more concern about low inflation than the figures justify. In the year to March, consumer prices rose by 1.3%, up from 0.9% a month earlier. The March figure for prices at the factory gate have not been released, but the increase in the year to February was 1.5%, a significant increase given that two months ago, the figure was -1.1%.

After dismissing the prospect of inflation altogether for much of last year, the ECB seems to have changed its tune – but only slightly. It now concedes that the recovery from the pandemic may produce a rise in prices as economies reopen and consumers start spending their accumulated cash, creating supply side bottlenecks for a while. However, the ECB believes that inflation will be transitory and that once the pandemic is over, it will again drop below the target of 2% or just below.

The ECB's inflation assessment makes no mention of the growth in the quantity of money, broadly defined, since last March. In the first three months of the year, M3 grew at an annualised rate of 9.6% and the annual growth rate was 12.3%. The deposits created by the ongoing fiscal and monetary stimuli are likely to keep M3 growth at these abnormally high levels, indeed the highest since 2007. What is more, there is most often a gap of several terms between an increase in the money supply and a rise in prices. M3 growth reached 21% in the three months to May 2020 and the effect of this has yet to be felt. Even with demand partially suppressed by lockdowns and other restrictions, the sudden increase in both consumer and producer prices since the start of the year suggests that the Institute's assessment of the likely trajectory of prices based on growth in the quantity of money is more likely to be accurate than that of the ECB.

You can access further details on the latest monetary developments in the Eurozone in our latest monthly report and video at <https://mv-pt.org/monthly-monetary-update/> .

