

## Governing Council meeting, ECB. 10/6/2021.

### ECB to increase its asset purchases

On 10<sup>th</sup> June, the European Central Bank reaffirmed its commitment to continue with the €1,850b. Pandemic Emergency Purchase Programme (PEPP) until at least the end of March 2022, or until it judges that the coronavirus crisis phase is over. The Governing Council announced that it would step up the purchase of assets in the forthcoming months. This announcement may seem rather *déjà vu* as the Council made a similar commitment back in March but did not follow it through. Today's press conference did go into greater detail:- "We will purchase flexibly according to market conditions and with a view to preventing a tightening of financing conditions that is inconsistent with countering the downward impact of the pandemic on the projected path of inflation." The separate asset purchase scheme of 2019 will continue at a monthly rate of €20b.

The ECB has now acknowledged that inflation may well exceed its target of 2% or just under. Indeed, in the year to April, prices rose by 2% and with factory gate prices rising by 7.6% in the same period, the increase in consumer prices is likely to go higher still. However, just like the US Federal Reserve, the ECB insists that inflation will only be transitory. "It is expected to rise further in the second half of the year, before declining as temporary factors fade out" says the ECB's press release, adding "Headline inflation is expected to remain below our aim over the projection horizon." The estimates for 2022 and 2023 are 1.5% and 1.4% respectively. The ECB expects that current supply constraints will only be temporary and that the flurry of activity which will accompany the full reopening of the Eurozone economy will fizzle out in a matter of months.

Unlike previous press releases, today's statement acknowledged the high rate of money growth, which stood at 9.2% in the year to April. (The annualised quarterly growth fell to a mere 4.8% in April, the lowest reading in over a year). The very low inflation forecasting suggests that Christine Lagarde and the members of the ECB's governing council do not appear to believe that there is much of a link between broad money and consumer prices. Given that households and companies are still sitting on billions of unspent Euros and that the asset purchase schemes are likely to ensure that broad money growth stays at unusually high levels well into 2022, it is likely that inflation will be much higher for much longer than the ECB expects.

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