Governing Council meeting, ECB. 09/09/2021

ECB to slow the rate of asset purchases

With the Eurozone economy growing by 2.2% in the second quarter of 2021, the Governing Council of European Central Bank decided at its meeting on 9th September to slow the rate of its asset purchases under the PEPP (Pandemic Emergency Purchase Programme). ECB President Christine Lagarde, when questioned at the press conference following the meeting, did not specify the actual amount by which the purchases would be reduced. Instead, she stressed that the purchases would be at a "moderately lower" rate. Analysts have tried to second guess what her comments mean and consensus is that the reduction is likely to be from around €80b. to €70b. or €60b. Perhaps surprisingly paraphrasing Margaret Thatcher, Mme Lagarde stressed that "The lady isn't tapering" – in other words, this recalibration of asset purchases (a word she used instead of "reduction") was not the start of a month-by-month running down of the whole programme. Although admitting that consumer price inflation was likely to rise above August's reading of 3% during the autumn, she reiterated the ECB's well-publicised belief that it would drop back below 2% in 2022 and 2023, although the inflation forecast for both years has recently been upgraded.

Mme Lagarde was also questioned about recent rumblings from Germany. Last month, Bundesbank President Jens Weidmann stated that "PEPP must be ended when the emergency is over, that was important to me when the scheme was introduced." Behind this fairly uncontroversial statement is a more critical paper published by the German Centre for European Economic Research (ZEW) which claimed that ECB governors from the highly indebted "Club Med" states are exploiting PEPP in order to bail out their own insolvent governments, and doing so in violation of EU treaty law. Although Mme Lagarde dismissed these concerns, with the country's inflation rate at 3.9% (the highest reading since December 1993), it is possible that the frequent German grumbling about excessively loose monetary policy by the ECB might develop into something more serious.

In July, the annualised quarterly M3 growth rate stood at 6.9%, the highest reading since February and well above the rate compatible with price stability and trend growth in a developed economy. At the moment, growth in loans to businesses is a mere 1.2%. Consumer credit growth is also very sluggish. If these figures start to pick up as restrictions are eased, money growth could well rise higher, the reduction in PEPP asset purchases notwithstanding. In such a scenario, the 2022 fall in inflation to below 2% predicted by the ECB looks increasingly unlikely.

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/ .