

Governing Council meeting, ECB. 28/10/2021

ECB to continue with asset purchases as inflation hits 13-year high

The Governing Council of European Central Bank decided to continue with its very accommodative monetary policy at its meeting on 28th October, even though the following day, September's inflation figures were released, showing that consumer prices were rising at an annual rate of 4.1%, the highest reading in over 13 years. At the ensuing press conference, ECB President Christine Lagarde and her deputy Luis de Guindos acknowledged the increase in inflation, which they expect to rise further before the end of the year. Although admitting that the inflationary surge had lasted longer than originally expected, they nonetheless reiterated their belief that it would subside during 2022. For this reason, the intention remains to continue with the Pandemic Emergency Purchase Programme (PEPP) until at least March 2022 and also to continue with the separate monthly asset purchase of €20b. in assets via the 2019 Asset Purchase Programme. Interest rates were left unchanged. The only concession to the increase in inflation was an unspecified moderate reduction in the monthly PEPP asset purchases and the possibility of not buying the full quota (€1,850b.) of assets.

The Eurozone economy is estimated to have grown by 2.2% in the third quarter of 2022, better than expected. A softening of growth has been noted in recent weeks, which Mme Lagarde mentioned in the press conference. She was also very non-committal in her response to a question about the resignation of Bundesbank President, Jens Weidmann, one of the fiercest critics of the ECB's very loose monetary policy.

No mention was made either about the continued rapid growth of broad money. In September, the annualised quarterly M3 growth rate stood at 7.1%, the highest reading since February. September recorded the highest monthly reading so far this year, €107b. The Institute of International Monetary Research has consistently argued that the rapid growth in broad money since March 2020 would prove inflationary and our analysis has been vindicated by Mme Lagarde's admission that high inflation has persisted for longer than she and her colleagues had anticipated. The money numbers point to inflation remaining well above the ECB's 2% target for the end of the year and into 2022. Indeed, if the ECB lets the PEPP scheme run on until March 2022 and continues with ultra-low interest rates, its prediction of inflation falling back to 2% by the end of next year may prove to be very wide of the mark.

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/> .