

Governing Council meeting, ECB. 16/12/2021

ECB to taper asset purchases but leaves interest rates unchanged

The Governing Council of European Central Bank decided to scale back its asset purchases under the Pandemic Emergency Purchase Programme (PEPP) from January 2022 onwards. It is planned to terminate the programme on schedule in March 2022. The assets will be reinvested until at least the end of 2024 – in other words, there will be no “quantitative tightening” for at least three years. The separate monthly asset purchases, introduced in 2019, are set to continue throughout the year and will be increased to €40b. in the second quarter of 2022 (i.e., after the end of the PEPP programme) before tapering to €20b. in Q4. There is no planned end date for this scheme, apart from a commitment to cease the purchases before raising interest rates. Unlike the Bank of England, whose Monetary Policy Committee met on the same day, the ECB kept its interest rate unchanged. The ECB has upwardly revised its inflation projection for 2022 to 3.2%, but nonetheless predicts that the figure will fall back below its 2% target in 2023. Prices rose by 4.9% in the year to November across the 19-nation bloc, with German inflation even higher, at 5.1%. In spite of steadily rising inflation throughout the year, the ECB still seems to expect “price pressures stemming from global supply bottlenecks” to ease in 2022 and remains far more concerned about undershooting its inflation target from 2023 onwards.

The Eurozone economy is estimated to have grown by 2.2% in the third quarter of 2021, unchanged on Q2. Growth in the final quarter is likely to be lower as a number of member states have introduced lockdowns of varying degrees of severity as the number of coronavirus infections started to rise sharply. With the advent of the new Omicron variant, few restrictions are likely to be eased before the start of 2022.

In the three months to October 2021 the quantity of broad money in the Eurozone grew at an annualized rate of 8.5%, the most rapid rate of increase since February and the seventh consecutive month of increase. October saw M3 grow by €120b., the highest reading so far this year. The ECB, in common with most central banks in developed countries, pays little attention to these figures, even though they provide a far more convincing explanation of higher than expected inflation than the “supply chain bottleneck” theory. It is therefore highly likely that the ECB will find itself caught out by higher than expected levels of inflation in 2022, just as it was in 2021.

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