

Snap | 16 December 2021

ECB announces cautious taper

While the Fed having doubled its tapering pace and the Bank of England having just hiked interest rates, the ECB has just laid out its plans for also reducing its monthly asset purchases. It is a very cautious taper.



European Central Bank, Frankfurt, Germany

Source: Shutterstock

Here is what the ECB has just announced:

- The Pandemic Emergency Purchase Programme (PEPP) will be reduced in Q1 2022 and will definitely be ended by March 2022.
- The reinvestments from PEPP will continue until at least the end of 2024 and PEPP could be restarted at any time if deemed necessary by the ECB
- The 'old' Asset Purchase Programme (APP) will be increased from 20bn euro to 40bn euro in Q2 2022, reduced to 30bn euro in Q3 2022 and brought back to the current 20bn euro in Q4 2022
- All policy rates remain on hold

With today's decision, the ECB has entered into a very cautious tapering process. This is less clear-cut than we had expected - the ECB chose to ensure the same level of PEPP flexibility in the asset purchases, including allowing it to purchase Greek bonds, and with a transition programme and not the reinvestment of PEPP purchases. Rate hikes are still far off.

As long as the surge in inflation is mainly driven by one-off factors, often related to the pandemic, and as long as the ECB believes in this story, there is very little the ECB can do to immediately curb inflation. No single ECB action would bring containers from Asia to Europe any faster, speed up the production of microchips, or lower energy prices. However, even if the ECB cannot directly stop inflation, it has definitely run out of arguments for continuing with all emergency measures and ultra-loose monetary policy as if nothing had happened. Today's cautious taper is only a logical consequence.

Let's now wait until the press conference and Q&A session to hear more about the ECB's inflation projections and any hints on whether the ECB could also be willing to send 'transitory' into retirement.

Author

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.