

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

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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.

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