European Central Bank set to expand bond-buying program

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The European Central Bank has given a clear indication, following the meeting of its governing council on Thursday, that it will pump more money into the financial system in response to an expected worsening in the state of the European economy in the current quarter.

The anticipated downturn is the outcome of rising COVID-19 infections and deaths, following the lifting of restrictions in the summer, as part of the drive by capitalist governments around the world to open up their economies.

In its analysis, presented by its president Christine Lagarde, the ECB said the resurgence of the virus presented renewed challenges to public health and the growth prospects for the euro, as well as the global economy.

"Incoming information signals that the euro area recovery is losing momentum more rapidly than expected, after a strong yet partial and uneven, rebound in economic activity over the summer months," she said.

Of course, there was nothing in her remarks that assigned any blame to governments, whose "return to work" policies, without regard to public health, have produced the worsening situation on both the health and economic fronts, despite the clear warnings that this would be precisely the effect.

Lagarde laid the groundwork for further ECB intervention to support corporations and the financial system. Consumers were "cautious in the light of the pandemic and its ramifications for employment and earnings" and "weaker balance sheets and increased uncertainty about the economic outlook are weighing on business investment," she said.

Significantly Lagarde noted that besides low energy prices, there were "muted price pressures in the context of weak demand and significant slack in labour and product markets." The ECB's injection of more money into the financial system has to be justified on the basis of lifting inflation to or near a target of 2 percent.

The ECB maintained its present settings on interest rates and monetary policy, but indicated there would be further easing when it next meets in December.

Lagarde said that despite the ECB having provided "crucial support" in the current environment, the economic risks in the current environment were "clearly tilted to the downside."

It would carry out a "thorough reassessment of the economic outlook and the balance of risks" and "recalibrate its instruments, as appropriate, to respond to the unfolding situation and to ensure that financing conditions remain favourable to support the economic recovery and counteract the negative impact of the pandemic on the projected inflation path."

During the question and answer session of her press conference, Lagarde emphasised it was "necessary to take action" and that staff had started work on "potential adjustments" to its policies.

When the pandemic struck, the ECB set up an emergency bond-buying fund of €1.35 trillion, almost half of which has already been spent. There is a widely-held expectation that the fund will be expanded by at least €500 billion, and its operation will be extended from June 2021 until the end of next year.

Commenting on the bank's statement to the *Financial Times*, Paul Diggle, senior economist at Aberdeen Standard Investments, said: "This is as close as the ECB can come to pre-committing to further easing in December."

In a further indication of more easing, Lagarde said the ECB was "very attentive" to bank lending, after a majority of lenders in its quarterly survey had indicated

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they intended to cut back on lending to households and businesses.

Lagarde noted that, according to the survey, credit conditions had tightened, and, while banks indicated they had adequate funds available, "higher risk perceptions could weigh on their attitude towards loan creation."

The markets received the ECB statement favourably with an increase in purchases of government bonds. This sent interest rates lower (the price of bonds and interest rates have an inverse relationship) and prompted a rise in stock market indexes, which had been falling over the previous week.

The ECB reported that the euro area had contracted 11.8 percent in the second quarter, with a sharp decline in April. The third quarter recovery only made up half the losses incurred in the first six months of the year.

Its forecast for the fourth quarter is presently around 3 percent. But with the resurgence of the pandemic and the re-imposition of restrictions, this figure is in considerable doubt, with economists warning the region faces the prospect of a double-dip recession.

Further signs of that prospect emerged yesterday, as data showed the eurozone experienced the third consecutive month of deflation, with the price of consumer goods falling by 0.3 percent. Even more significantly, a five-month improvement in the labour market reversed, as jobless numbers rose by 75,000.

Largarde repeated earlier calls for governments to provide fiscal support and for the European Union's €750 billion recovery fund—a mixture of loans and grants to EU members—to "become operational without delay." The fund was agreed in principle earlier this year but has not been put into effect, because of conflicts among member states over its operational details.

With the ECB set to further expand its bond-buying program, the extent of the intervention already being carried out was highlighted by calculations made by Citigroup, reported in the *Financial Times* this week.

Examining the draft plans of EU member states, it found that, even without an increase of €500 billion in December, the ECB "will buy up a greater quantity of debt than all the new bonds hitting the market."

In other words, the situation has now developed where one arm of the capitalist state—national governments—issues debt, while another arm—the central bank—buys it up. This process is not confined to Europe. It is already well developed in Japan, where the Bank of Japan is virtually the market for government bonds, and in the US, where interventions by the Fed mean it has become the backstop for all areas of the financial system.

Within the confines of the capitalist profit system, these developments are a contradictory expression of the "socialisation" of the commanding financial heights of the economy.

They point to the fact that the so-called "free market" system, touted by the ideologues of capitalism as the only viable form of economic organisation, has completely broken down. The fight for a socialist program—taking the major corporations and the financial system into public ownership, under democratic control—is thus rooted in the objective development of the capitalist economy itself.

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