European Central Bank increases stimulus but markets want more

Nick Beams
11 December 2020

The European Central Bank has expanded its bond-buying program by €500 billion, taking it to a total of €1.85 trillion, extended emergency measures from June next year until at least March 2022, and provided further cheap funding for major banks.

But because the increase in the stimulus package was largely expected, financial markets are looking for more.

In her introductory press conference statement on Thursday, ECB President Christine Lagarde said the extension of its pandemic emergency purchase program (PEPP) reflected "the prolonged fallout from the pandemic for the economy and inflation."

Incoming data and projections by ECB staff, she said, "suggest a more pronounced near-term impact of the pandemic on the economy and a more protracted weakness in inflation than previously envisaged."

The ECB has forecast that the euro zone economy will contract by 2.2 percent in the fourth quarter of this year, with the downturn to continue next year. It has cut its forecast for growth in 2021 to 3.9 percent compared to its previous projection of 5 percent.

Lagarde said the outlook for inflation—a sign of rising economic activity—remained "disappointingly" low. The ECB forecast that prices would rise by just 0.2 percent this year with inflation increasing to 1.4 percent per annum in 2023—well below its target rate of around 2 percent.

Lagarde said weaker balance sheets and uncertainty about the economic outlook were "weighing on business investment." Overall the risks to euro area growth remained "tilted to the downside," but had become less pronounced.

The general reaction in financial circles to the policy announcements was that they were the product of a compromise between the different factions on the governing council, with German representatives favouring less stimulus.

A comment on *Bloomberg* described the ECB package as "an uneasy compromise between different factions. The problem is, it falls short of matching the central bank's dire economic outlook."

Describing Lagarde's outlook as "gloomy," it said the pessimistic view would "call for extremely bold measures," but in "trying to make too many different parties happy, the ECB shied away from doing all it could."

These sentiments were reflected in other comments. Randall Kroszner, a former US Federal Reserve governor, told the *Financial Times*: "I understand what they are trying to do—giving the markets more confidence—but I don't think it will be enough and it is quite likely they will have to come back and do more."

Frederik Ducrozet, a wealth management strategist, said the decisions were "underwhelming" and a sign of "compromise between dovish and hawkish members of the governing council."

"We can't help but feel like the ECB should have delivered a bolder package… to make sure that they don't need to do more next year in case something goes wrong again," he said.

The extent to which the endless pumping of money into the financial system has been accepted as the "new normal," had tended to obscure the vast transformation in the global financial system and the ever-increasing role of the central banks in propping it up.

While yesterday's ECB decision was generally regarded by financial markets as not enough, it did represent a one-third increase in the size of the PEPP with Lagarde indicating it could be expanded further if required.

The latest measures mean that the ECB will continue

© World Socialist Web Site

to absorb around three-quarters of all the new debt issued by euro zone governments next year. In remarks to the *Wall Street Journal* Jörg Krämer, the chief economist at the Frankfurt-based Commerzbank, said it was "carte blanche" for finance ministers.

"The ECB is likely to finance de facto the entire 2021 budget deficits of the euro countries," he said.

In other words, the situation is developing where one arm of the capitalist state, the government, issues debt and another arm, the central bank, buys it. This situation has only previously existed in time of war.

It is expected that with the increased debt resulting from the effects of the pandemic, euro zone government debt will rise by €1.5 trillion, taking total debt to more than 100 percent of the size of the euro zone economy.

The central purpose of these extraordinary measures is not to provide a boost to the real economy, but to ensure the continued supply of ultra-cheap money into the financial markets.

They have become completely dependent on this inflow to finance the speculative boom which has seen some $30 trillion added to the market capitalisation of global stock markets since they plunged in mid-March before being rescued by massive government and central bank intervention.

The next indication of the direction of central bank policy will come when the US Federal Reserve holds its final meeting for the year. Markets will be looking for signs of how the Fed intends to continue its asset-purchasing program that has played such a central role in sending Wall Street to record heights.

To contact the WSWS and the Socialist Equality Party visit:

wsws.org/contact

© World Socialist Web Site