ECB to accelerate supply of ultra-cheap money

Nick Beams
12 March 2021

It seems that whatever the state of the economy, the response of central banks is the same: pour more money into the financial system, so that investors and speculators can continue to make vast profits on the basis of ultra-low interest rates.

When the economy is down, more money is needed to stimulate it. If it starts to grow, more money must be supplied to stop interest rates going up and damaging the recovery.

An example of this modus operandi was seen on Thursday, with the decision of the European Central Bank to significantly increase its rate of purchasing bonds, under its €1.85 trillion pandemic emergency program (PEPP).

In its latest policy statement, delivered by President Christine Lagarde at a press conference, the ECB said "the governing council expects purchases under the PEPP over the next quarter to be conducted at a significantly higher pace than during the first months of the year."

Lagarde repeated the phrase a number of times when questioned by journalists, and said the decision had been reached "by total consensus," seeking to dampen any speculation that the easier monetary policy may have been opposed by Germany or other critics.

Lagarde would not be drawn on the actual amount involved in the accelerated purchasing program, but made clear it would be undertaken. "When I tell you that we are moving into action as early as tomorrow, I think that fits the bill," she said, in response to a question about whether the ECB should be doing more.

Lagarde also made it clear that what she called the ECB's €1.85 trillion envelope, of which there is around €1 trillion remaining, would be expanded if this were considered necessary. She said it was "very clear" from the ECB statement that if less than the whole envelope was not needed it would be used, but "if, equally, to preserve favourable financing conditions we need to recalibrate the whole envelope, we will do so."

As in the US, where there is concern about the impact of inflation and rising interest rates in the bond market, the ECB decision was motivated by rising yields in European bond markets.

The ECB statement said "preserving favourable financing conditions" was essential, and noted that "market interest rates have increased since the start of the year, which poses a risk to wider financing conditions."

Banks used the risk-free rate on bonds as the baseline for setting rates, and "sizable and persistent increases in these market rates," if left unchecked, "could translate into premature tightening of financial conditions for all sectors of the economy," it said.

The same issue has arisen in the US, where last month the failure of Fed chair Jerome Powell to specifically address the Fed's response to a spike in yields, led to a market sell-off. Wall Street has since resumed its upward trajectory after the turbulence in the bond market— resulting from a $68 billion seven-year Treasury bond auction being 40 percent undersubscribed—subsided over the past week.

The impact of the bond market yields on the stock market and, flowing from that, the monetary policy of the major central banks, underscores the way in which economic policy has been completely transformed.

In the past a rise in the bond yield was taken as an indication of economic growth and inflation. Given that the stated policy of both the ECB and the Fed is to encourage growth and lift inflation, to above 2 percent, one might think that such a movement would be welcomed.

But the previous conditions in which that scenario

might apply no longer exist. The inflow of money into financial markets from central banks, starting in the wake of the global financial crisis of 2008, and then accelerated in response to the pandemic, has created a mountain of fictitious capital, such that a rapid increase in market rates has the potential to set off a financial crisis.

Hence, there have been calls that even as economic conditions improve, the central banks must intervene and buy up still more bonds to keep yields and interest rates down.

In a speech delivered in the lead up to the ECB meeting, reported by the *Financial Times*, a member of its executive board, Fabio Panetta, warned that "we are already seeing undesirable contagion from rising US yields … that is inconsistent with our domestic outlook and inimical to our recovery." Market rates had effectively tightened since December, and this was "unwelcome and must be resisted," he said.

Panetta's remarks were widely interpreted as a call for the ECB to engage in so-called yield-curve targeting, in which the central bank intervenes with purchases in the bond market to keep rates on specified bonds at a designated level. This practice, already being carried out in Japan and, to a limited extent, by the Reserve Bank of Australia, is being discussed by the Fed, which has said it is studying the Australian experience.

However, Lagarde, realising it would provoke opposition from Germany and probably other northern European members of the ECB, ruled it out in her press conference.

Asked if the goal of the ECB was to go back to the market rates that had prevailed in December, she responded: "There is no reference to any kind of yield curve control if it is the question you are angling at. We are not doing yield curve control."

Lagarde insisted that the ECB was preserving favourable conditions with regard to "the inflation outlook that we have."

The reference to inflation is one of the fictions that surround the ECB's justification of its policies. They are always presented as if they were directed to achieving the official objective of inflation consistently at or around 2 percent.

In fact, as is widely known both in financial and media circles, its policies have little or nothing to do with targeting inflation, but are directed to maintaining the supply of ultra-cheap money to financial markets.

A question by a *Le Monde* journalist sought to puncture this fiction. "The problem of course," he said, "is that you justify your intervention by saying that you needed to increase inflation in the past. If the headline inflation gets to 2 percent what arguments are you going to use to justify your intervention?"

Lagarde's reply was revealing. "It is quite possible this year, in particular at the end of 2021, inflation actually hits 2 percent. But I will tell you something: we will see through that for a very clear reason, and that is that inflation will most likely go up possibly to 2 percent because of some technical and temporary reasons."

In other words, if inflation were to reach the ECB's stated target, it would completely ignore that, in line with its real objective of continuing to shovel money into the hands of the financial oligarchs, which, together with other central banks, it serves.