ECB set to open the financial spigots wider

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The European Central Bank has made it clear that it will continue to pump money into the financial system through its deeply negative interest rate setting and its purchases of financial assets.

The meeting of the governing council in Frankfurt on Thursday demonstrated the continued support for the ultra-easy monetary policy favoured by its president Christine Lagarde against a pushback from some northern European members who want to see the rate of bond purchasing eased.

It was the first meeting of the governing council since the ECB adopted a new strategy earlier this month—the first change in two decades—that lifted its inflation target to 2 percent, dropping a previous commitment to keep price rises below that level.

As with the Federal Reserve, its counterpart in the US, ECB policy announcements are always somewhat clouded because, while they are couched in terms of inflation, their real goal is to ensure the continued flow of ultra-cheap money into the financial system.

In its press release the ECB said it expected its key interest rates to remain "at their present or lower levels" until it judged that underlying inflation was sufficiently advanced to ensure that it stabilised at 2 percent over the medium term. And in line with its strategy change it added: "This may also imply a transitory period in which inflation is moderately above target."

The ECB statement said its new policy guidance would "underline its commitment to maintain a persistently accommodative monetary policy to meet its inflation target."

Net asset purchases under an earlier program will continue at the rate of €20 billion per month while purchases under its €1,850 billion pandemic emergency program (PEPP) will continue "at least until the end of March 2022" or until the governing council judges that "the coronavirus crisis phase is over."

The ECB will decide at a meeting in September whether to change the pace of its purchases under the PEPP. In March it lifted the rate of buying to €80 billion a month because of rises in some euro zone bond yields—a sign of tightening in financial markets.

The September meeting could see a widening of divisions on the governing council as northern European representatives, led by the German central bank, push for the purchases to be wound back, if not altogether eliminated, in line with their assertion that the crisis they were aimed at countering has now passed.

There was an indication of those divisions at the latest meeting. The *Financial Times* (FT) reported that "according to people familiar with the discussions" the wording of the new policy stance "drew criticism from the leaders of the German and Belgian central banks."

During the debate, the FT said, "Jens Weidmann, president of Germany's Bundesbank complained that the new conditions set by the ECB were too aggressive and increased the risk of inflation surging above its target."

Weidmann has been a long-time critic of ECB policies in line with the views of sections of German finance capital who consider that they are too heavily weighted in favour of Italy and other highly indebted southern European countries.

The head of the Dutch central bank Klaas Knot was reported to have called for the ECB to separate the timing of when it will stop buying bonds from the issue of interest policy but this issue was dropped until there is a discussion of asset purchase plans in September.

The opposition may grow in the coming period but at present Lagarde has majority support on the governing council. Speaking at a press conference following the meeting, she said there had been a "minor divergence" on the policy statement and it had won the support of "an overwhelming majority."

Countering claims the crisis was over, Lagarde said there was “still some way to go before the fallout from the pandemic on inflation is eliminated” in a sign that the ECB is not likely to taper its bond-buying program any time soon.

The response of financial market operators was favourable. Martin Wolburg, the senior economist at Generali Investments, told the FT that the shift by the ECB meant “there is now leeway for it to push the first rate rise beyond 2024.” If that is the case it would mean that a decade had passed since the ECB cut its rate to below zero in 2014.

The head of macro research at BlackRock Investment Institute, Elgar Bartsch, told the newspaper the ECB had delivered a “dovish surprise” and there could be an “upward adjustment” of its asset purchases later this year.

Bloomberg commented that the new forward guidance reflects a commitment to “more vigorous action” and “the next step will be an increase in asset purchases at the September meeting.”

There is a growing belief that the ECB’s policies mean it is becoming locked into providing support for government debt in the euro zone. A survey of 250 German financiers and economists earlier this month found that eight out of 10 believed it was “increasingly difficult to depart from the ECB’s low interest rate policy as governments become increasingly dependent on purchases of their bonds.”

Since the start of 2020 and the onset of the pandemic, the ECB has bought almost all the new issues of euro zone government bonds and its total holdings of sovereign debt in the bloc now stands at 42 percent.

This means the situation in the euro zone is rapidly approaching that which already exists in Japan where one arm of the state, the government, issues new debt while another arm, the central bank, buys it up.

Such a situation has never existed in any capitalist economy apart from times of war. It is an expression of the total breakdown of the so-called “free market” system, regularly touted by the ideologists of the ruling classes as the only viable and only possible form of economic organisation, and its replacement by the direct intervention of the capitalist state, on a daily basis, in order to try to stave off the development of a crisis.