

European Central Bank**ECB to slow bond-buying as Europe's economy improves**

But Lagarde insists 'the lady isn't tapering' and warns eurozone is 'not out of the woods'



ECB president Christine Lagarde: 'There remains some way to go before the damage done to the economy by the pandemic is undone' © Alex Kraus/Bloomberg

Martin Arnold in Frankfurt YESTERDAY

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European Central Bank president Christine Lagarde said “the lady isn’t tapering”, reassuring bond investors even as the ECB said it would buy fewer bonds in a sign of confidence in the eurozone’s economic recovery.

After a two-day meeting of its governing council, [the ECB said](#) on Thursday it had decided to move to “a moderately lower pace” in its €1.85tn pandemic emergency purchase programme (PEPP) from the €80bn-a-month level it has run at since March.

European government bonds rallied in price after the ECB said it would only slowly remove its crisis-era support from the bloc’s economy. The 10-year German bond yield, a regional benchmark, fell 0.04 percentage points in afternoon trading to minus 0.37 per cent, with the Italian equivalent down almost 0.1 percentage points to 0.67 per cent. Bond prices rise as their yields fall.

[The decision](#) to slow the PEPP, the ECB's flagship policy response to the pandemic, follows a strong [rebound](#) in eurozone growth and inflation, as rising coronavirus vaccinations have helped to end lockdowns and boosted business and household activity.

Borrowing a famous line from the late UK prime minister Margaret Thatcher that “the lady's not for turning”, Lagarde said the unanimously agreed shift to a slower pace of purchases was not tapering.

Most analysts agreed the ECB's decision is different to other central banks' unwinding of monetary support because the ECB is not planning to end its bond-buying yet and is only “recalibrating” its pace.

“This is not a tapering decision,” said Elga Bartsch, head of macro research at the BlackRock Investment Institute. “Asset purchases look here to stay as the new policy framework paves the way for looser-for-longer monetary policy in the euro area.”

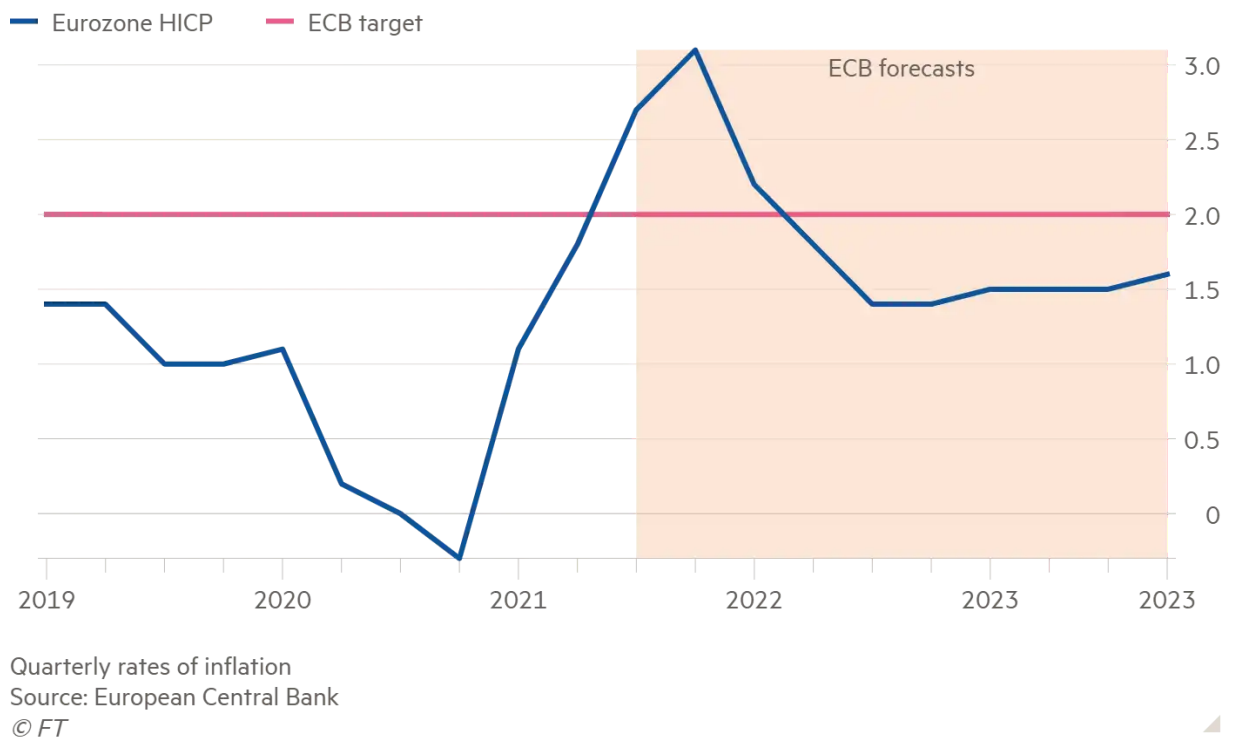
In contrast, the [US Federal Reserve](#) and the [Bank of England](#) have said they plan to start tapering asset purchases this year. Central banks in Canada, New Zealand and Australia have started tapering.

Lagarde said the decision to slow bond purchases reflected an improvement in financing conditions in recent months and signs that the “rebound phase in the recovery of the euro area economy is increasingly advanced” with 70 per cent of adults having been vaccinated.

However, she said: “There remains some way to go before the damage done to the economy by the pandemic is undone,” adding that 2m more people were out of work than before the pandemic and many more were still on furlough schemes. “We are not out of the woods.”

ECB expects inflation to fade

Harmonised index of consumer prices (annual % change)



Lagarde said the risks for the economic outlook were “broadly balanced” and “price pressures are building only slowly”.

A “fourth wave” of coronavirus infections could still derail the recovery, she said, adding that supply chain bottlenecks, which have left carmakers and other manufacturers short of chips and other materials, “could last longer and feed through into stronger than expected wage rises”. But she added that there was still little sign of significant wage increases.

The ECB has €500bn left to spend under the PEPP and said the programme would continue until at least March 2022, or until the council decided “the coronavirus crisis phase” was over. Even at a reduced pace of €60bn to €70bn a month, analysts say the PEPP still has enough firepower to soak up all the new debt issued by governments for the rest of the year.

The ECB is set to [continue buying bonds](#) even after the PEPP ends and most other central banks stop their purchase programmes altogether. Its traditional asset purchase programme is still running at €20bn a month and is likely to be expanded and made more flexible when the PEPP ends.

“We all broadly know the trajectory PEPP is on now,” said Paul O’Connor, portfolio manager at Janus Henderson. “Defining what happens after with the asset purchase programme is going to be a really big battleground between the hawks and the doves in the coming months.”

Lagarde said a decision on ending PEPP and what replaced it was expected in December. The ECB raised its growth forecast for this year to 5 per cent, saying that would dip to 4.6 per cent next year and 2.1 per cent in 2023.

It also lifted its forecast for prices, saying inflation would rise above its target to 2.2 per cent this year, before dropping back to 1.7 per cent next year and 1.5 per cent in 2023.

Konstantin Veit, portfolio manager at Pimco, said inflation was unlikely to rise enough for the ECB to lift its deposit rate from minus 0.5 per cent until late 2023 at the earliest, predicting it would “continue to buy assets for years to come”.

Additional reporting by Adam Samson in London

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