

CENTRAL BANKS

European Central Bank surprises markets with move to wind down stimulus sooner than planned

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KEY POINTS

The ECB said in a statement that it will end its bond-buying program in the third quarter, if economic data allows it.

The Russia-Ukraine conflict has rattled the global economy and sent shockwaves through financial markets, with Western allies imposing a barrage of sanctions against Russia.

“The Russia-Ukraine war will have a material impact on economic activity and inflation,” ECB President Christine Lagarde said at a news conference.



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LONDON — The European Central Bank on Thursday announced it will wind down asset purchases faster than planned as it assesses the economic fallout from [Russia's invasion of Ukraine](#).

The ECB said in a statement that it will end its bond-buying program in the third quarter, if economic data allows it. The central bank added that it stands ready to revisit this decision if the outlook changes.

The surprise move comes amid growing concern that the euro zone economy could soon experience stagflation — the toxic mix of sluggish economic growth and high inflation. Consumer prices in the 19 countries that use the euro currency have climbed to record highs for four consecutive months, most recently [hitting 5.8% in February](#).

“If the incoming data support the expectation that the medium-term inflation outlook will not weaken even after the end of our net asset purchases, the Governing Council will conclude net purchases under the APP in the third quarter,” the bank said, referring to its asset purchase program.

It said monthly net purchases under the program would amount to 40 billion euros



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The central bank kept interest rates unchanged Thursday, leaving the benchmark refinancing rate at 0%, the rate on its marginal lending facility at 0.25% and the rate on its deposit facility at -0.5%.

Any adjustments in interest rates will take “some time” after asset purchases end, the bank said, adding this would be “gradual.”

The [euro](#) was trading around \$1.1079 after the decision, little changed for the session. The common currency rose 1.6% on Wednesday to register its [steepest daily jump in almost six years](#).

Ukraine war to have ‘a material impact’

The ECB’s meeting in Frankfurt, Germany, comes exactly two weeks after Russian President [Vladimir Putin](#) launched a [full-scale invasion of Ukraine](#). The conflict has rattled the global economy and sent shockwaves through financial markets.

[Energy and commodity prices have soared](#) as the Kremlin steps up its onslaught on Ukraine, and as Western allies impose a barrage of punitive sanctions against Russia.

“The Russia-Ukraine war will have a material impact on economic activity and inflation through higher energy and commodity prices, the disruption of international commerce and weaker confidence,” ECB President Christine Lagarde said in a news conference.



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“The extent of these effects will depend on how the conflict evolves, and on possible further measures.”

The ECB described Russia's war with Ukraine as “a watershed for Europe,” while the Governing Council reaffirmed its pledge to “take whatever action is needed” to pursue price stability and to safeguard financial stability.

Amid surging energy costs, the ECB raised its inflation outlook for this year to 5.1%, up from 3.2%. This forecast was expected to cool to 2.1% in 2023, before dipping to 1.9% in 2024 — marginally below the central bank's target of 2%.

‘Completely backwards’

The ECB's decision to wind down asset purchases sooner than planned shocked analysts who had broadly expected the central bank to hold off until it could better understand the economic impact of the Ukraine crisis.

“I think what Christine Lagarde and the ECB governing council have managed to do is to buy themselves some flexibility here,” Megan Greene, global chief economist at the advisory firm Kroll Institute, told CNBC on Thursday.

“They've accelerated the wind down of the asset purchase program, but they've also put some water between when they finish tapering and when they start hiking rates, which gives them a lot of flexibility in terms of pivoting as data comes out.”

Greene said, however, that in her view “the ECB is doing this all completely backwards” and should have been looking at interest rate moves before tapering asset purchases.

She added that it will be “really hard” for the ECB to fire up its asset purchase program again if it needs to.



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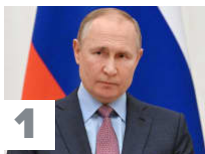


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A Reuters poll in early March [found](#) the majority of economists expect the ECB to wait until the final few months of the year to raise interest rates. However, there is currently no consensus on the month that the central bank could bring an end to its asset purchase program.

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