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# The ECB recalibrates its pandemic emergency purchase program



*In light of financing conditions and the inflation outlook, the ECB decides to moderately lower the pace of net asset purchases under the pandemic emergency purchase program (PEPP) from the monthly pace of EUR 80 billion registered in the past two quarters.*

On Thursday, the ECB Governing Council kept the interest rate on the main refinancing operations and on the marginal lending facility unchanged at respectively, 0.00% and 0.25%. The deposit rate was kept also unchanged at -0.50%.

Based on a joint assessment of financing conditions and the inflation outlook, the ECB judged

that favourable financing conditions can be maintained with a *moderately lower pace* of net asset purchases under the PEPP than in the previous two quarters.

The PEPP is a non-standard monetary policy measure initiated in March 2020 to counter the serious risks posed by the coronavirus outbreak. It is essentially an envelope that sets aside EUR 1.85 trillion for purchasing private and public sector securities. It is subject to different limitations than the ECB's standard Asset Purchase Program (APP).

Back in March 2021, the central bank decided to "significantly" increase the pace of PEPP purchases because of the threat of premature tightening of financing conditions due to higher market rates. So far, it seems that the PEPP has proven effective. The European Parliament recently stated: *"From the point of view of removing financial fragmentation and taming sovereign stress in the euro area from the pandemic, the PEPP has been successful. Moreover, this outcome was obtained without fully using its potential resources"*.

On the APP, net purchases will continue at a monthly pace of EUR 20 billion. It will end shortly before the ECB starts raising rates.

The Chair, Christine Lagarde stressed during the press conference that the decision did not constitute tapering, it was rather a recalibration of the PEPP and she maintained the mandatory disclaimer about the Delta strain, albeit adding that high vaccination rates (70% of EU adults) so far prevented fresh economic restrictions.

The new staff forecasts showed a stronger near-term outlook for prices and growth. The ECB predicts inflation will rise above its 2% target to 2.2% this year, before falling back to 1.7% in 2022 and 1.5% in 2023. This year's GDP growth forecast was upgraded from 4.6% to 5% while those for 2022 and 2023 were largely unchanged at 4.6% (from 4.7%) and 2.1%, respectively.

After the announcement, European yield curves flattened with German 10-year yields going lower. Spreads over 10-year peripheral bonds tightened.

In contrast to the ECB's 'recalibration', the US Federal Reserve and the Bank of England have said they plan to taper their asset purchases this year. Central banks in Canada, New Zealand and Australia have commenced.

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