Mario Draghi led the European Central Bank into a new era with an historic pledge to buy government bonds as part of an asset-purchase program worth about 1.1 trillion euros ($1.3 trillion).

The ECB president side-stepped German-led opposition to quantitative easing in a once-and-for-all push to revive inflation and the euro-area economy. The central bank will buy 60 billion euros per month of securities until September 2016. The ECB also reduced the cost of its long-term loans to banks.

A near-stagnant economy and the risk of deflation forced Draghi’s hand six years after the Federal Reserve took a similar step to inject cash into the U.S. The 67-year-old Italian’s gamble is that the benefits of quantitative easing outweigh the threat of a backlash in Germany.

Why It's Harder for the ECB to Use QE

The ECB “decided to launch an expanded asset-program encompassing the existing purchase programs of ABS and covered bonds,” Draghi told reporters in Frankfurt. “We see sustained adjustment in the path of inflation which is consistent with our aim of achieving our aim of inflation rates close to but below 2 percent.”

Investors reacted by selling the euro and buying European stocks. The currency extended declines as Draghi spoke, weakening 1.2 percent to $1.1473 at 3:30 p.m. in Frankfurt. Athanasios Vamvakidis, head of G-10 foreign-exchange strategy at Bank of America Merrill Lynch, said the plan was at the high end of market expectations. The Euro Stoxx 50 added 0.8 percent.

‘Necessary Step’

“We've been waiting for something like this, we've now got it,” Morgan Stanley Chief Executive Officer James Gorman said in an interview with Bloomberg Television in Davos, Switzerland. “This is a very important first step and a necessary step.”

The ECB’s shift exacerbates an emerging global divergence in monetary policy. While the Fed is now considering when to tighten credit, central banks in Denmark, Turkey, India, Canada and Peru all announced surprise rate cuts in the past week. The Swiss National Bank shocked investors
by dropping a cap on the franc.

Reflecting the drive for consensus that has been a hallmark of Europe’s response to years of rolling crises, Draghi made concessions to secure as much support as possible for QE.

The ECB will hold a share of the securities while requiring individual central banks to conduct the bond purchases in the hope that will make nations more responsible for the management of their economies.

**Risk Sharing**

“With regard to sharing of hypothetical losses, purchases of securities of European institutions, which will be 12 percent of additional purchases, will be subject to loss sharing,” the central banker said. “The ECB will hold 8 percent of additional asset purchases. That implies that 20 percent of additional purchases will be subject to a regime of risk sharing.”

The curbs are aimed at calming concerns aired most loudly in Germany that the ECB is unfairly aiding uncompetitive nations that do little to help themselves and stepping into politics by effectively mutualizing debt risks and financing governments through the back door. Bundesbank President Jens Weidmann has described quantitative easing as “sweet poison” for governments.

“We took these concerns into account and that’s why this decision will mitigate those concerns,” Draghi said.

That’s particularly relevant now as Greek elections in three days could bring to power a party seeking to renegotiate the country’s debts, most of which are held by European taxpayers.

The downside of the horse-trading is that the program potentially packs less punch and the unwillingness to share risk exposes fault lines in the monetary union. If investors reject it as insufficient, the ECB may have to do even more later.

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