

**Eurozone economy****ECB keeps QE commitment in place despite growth**

Markets had seen removal of pledge as step towards tapering 2018 asset purchases

16 MINUTES AGO by: Claire Jones — Frankfurt

The European Central Bank has kept in place a pledge to step up its €60bn-a-month [quantitative easing programme](#) if necessary, expressing concern that tighter policy could put at risk the eurozone's recovery.

Speaking at a time when the [ECB](#) is trying to balance the competing pressures caused by improved growth and persistently weak inflation, Mario Draghi, the bank's president, argued that QE was still essential to support wage and price increases.

"Inflation is not where we want it to be and where it should be," he said after the ECB's governing council met in Frankfurt on Thursday. "After a long time we are finally experiencing a robust recovery where we only have to wait for wages and prices to follow course to our objective," he added.

"The last thing the governing council may want is an unwanted tightening of the financing conditions that . . . may even jeopardise [this process]."

If the ECB had decided to rule out increasing monthly asset purchases, it would have been widely seen as preparing markets for a reduction in the size of purchases next year.

Some investors had expected the bank to take such a decision on tapering QE at its next meeting, on September 7.

Markets are [impatient for guidance](#), since QE has made the ECB the biggest player in eurozone bond markets.

But Mr Draghi said the council had been unanimous in sticking with the commitment "to increase the [QE] programme in terms of size and/or duration" if "the outlook becomes less favourable". He added that the council was also unanimous in setting no precise date to discuss the 2018 QE programme — but would address the issue this autumn.

Mr Draghi argued that “a very substantial degree of accommodation” was needed since inflation was damped by soft energy prices, while core inflation remained at “subdued levels”.

The euro rose to \$1.1570 against the dollar as he spoke, marginally helped by the ECB chief’s comments about the eurozone recovery, enabling the currency to reverse losses since the start of the week.



Source: Thomson Reuters Datastream

FT

The council also left the ECB’s main refinancing rate unchanged at 0 per cent and the deposit rate on reserves at minus 0.4 per cent.

“The ECB is staying on the dovish side and does not seem to be in a hurry to move towards tapering,” said Carsten Brzeski of ING.

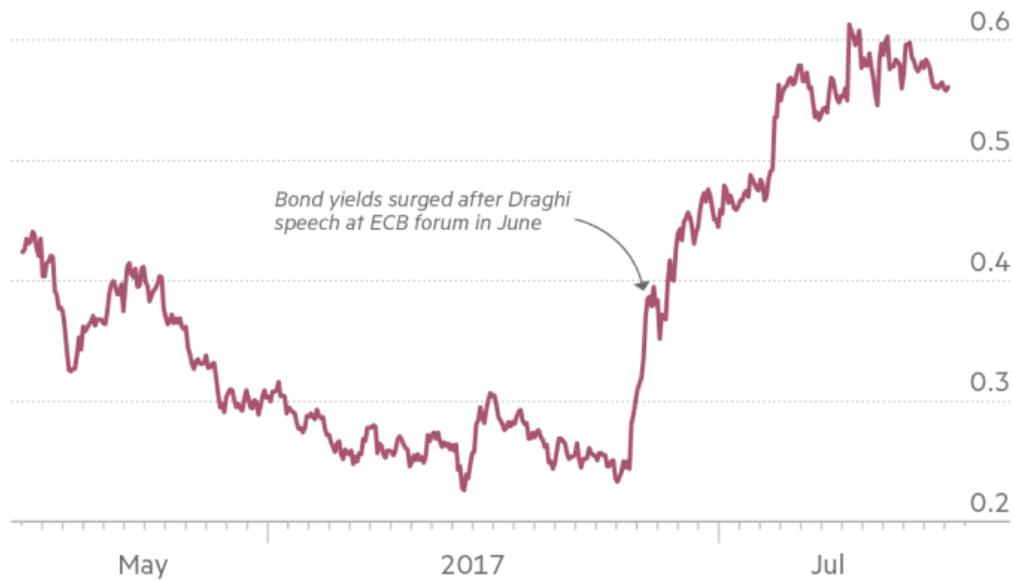
Mr Brzeski added, in reference to a recent jump in the euro and government yields in response to recent comments by Mr Draghi: “In our view, this is a clear sign that the ECB does not want to pour more oil on the small taper tantrum fire seen in financial markets over the past few weeks.”

The markets interpreted a June speech by Mr Draghi that referred to re-emerging reflationary forces as [a sign](#) that the ECB was about to scale down QE. But the ECB later claimed that interpretation was mistaken. It said Mr Draghi’s speech in the Portuguese resort of Sintra had been intended to provide reassurance that the bank would keep much of the stimulus in place until the region’s recovery was clearly self sustaining.

Mr Draghi himself said on Thursday that his position had not changed. “The Sintra speech said reflation has replaced the risk of deflation. So no big differences,” he said.

## German 10-year yield

Per cent



Source: Bloomberg

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The outlook for the eurozone has improved, with some analysts expecting growth of about 2 per cent this year, the fastest rate since 2015. But a majority of the governing council still thinks the economy needs the ECB's support in order to return to full health.

Complicating the ECB's task, eurozone inflation fell to just 1.3 per cent for the year to June, down from 1.4 per cent in May and well below the bank's target of just under 2 per cent.

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