



What is the expanded asset purchase programme?



22 January 2015 (updated on 31 March 2016)

How can the asset purchase programme help the ECB to fulfil its mandate of maintaining price stability?

The ECB pursues a symmetric definition of price stability – high inflation is as dangerous to our economy as deflation. In the current period of weak growth and low inflation, the interest rate instrument alone has not been sufficient to steer inflation closer to 2%. To fulfil its mandate, the ECB needs to make use of all instruments at its disposal.

Can the asset purchase programme help the ECB to foster growth and job creation in Europe?

The ECB has a clear mandate: maintaining price stability. This programme will help to bring inflation back to levels in line with the ECB's objective. But it will also help businesses across Europe to enjoy better access to credit, boost investment, create jobs and thus support overall economic growth, which is a precondition for inflation to return to and stabilise at levels close to 2%. Subject to price stability, these are also important objectives to which the ECB contributes in line with the Treaty.

Is the asset purchase programme legal?

Yes it is. The ECB implements the monetary policy of the euro area. It pursues its mandate of price stability with the instruments defined in the Treaties. Outright purchases of marketable instruments are explicitly mentioned as a monetary policy instrument (in Article 18.1 of the Statute of the ESCB). This includes the possibility to purchase instruments such as government bonds, as long as they are bought on the secondary market from investors and not on the primary market, i.e. directly from Member States.

Is the asset purchase programme monetary financing?

The ECB strictly adheres to the prohibition on monetary financing by not buying in the primary market. The

ECB will only buy bonds after a market price has formed. This ensures that the ECB does not distort the market pricing of risk.

Is the ECB the only central bank conducting asset purchases?

Many central banks have used outright purchases as part of their monetary policy, often referred to as quantitative easing, or QE. It has been employed by the Federal Reserve Board, the Bank of England and the Bank of Japan. Open market operations are a core instrument of central banks even in normal times. Outright purchases become useful when policy interest rates cannot be reduced any further. They can help central banks to fulfil their mandate, which in the case of the ECB is maintaining price stability, and thereby support growth and the creation of jobs.

Does the asset purchase programme create a risk of high inflation?

The ECB has consistently fulfilled its mandate to keep inflation below, but close to, 2% over the medium term. As a result, the ECB has safeguarded the purchasing power of all euro area citizens. Right now, the euro area is experiencing a prolonged period of low growth and very weak inflation. An increase in central bank liquidity is therefore not likely to result in high rates of inflation. Once inflation picks up, the ECB will tighten monetary policy to contain inflationary pressures and preserve price stability. In a nutshell, the ECB has the mandate and the instruments to cope with inflationary risks as soon as they might emerge in the future – and a very strong track record of doing so in the past.

Will the ECB turn into a "bad bank"?

Since the financial crisis of 2008, the ECB has adopted a number of unconventional policies that prompted critics to warn that it was about to incur huge losses. The fact is that, ever since its inception, the ECB has continued to make profits. It has transferred these profits via national central banks back to all citizens of the euro area. As in the past, the ECB will act in a prudent manner.

But doesn't the new programme force losses onto national central banks? How is that compatible with a single monetary policy?

It is true that in the new programme some risks are not shared across the Eurosystem but remain with the national central bank. The ECB is committed to the principle of risk-sharing, and that's why 20% of the purchases fall under the regime of full risk-sharing. But the decision also mitigates concerns about potential unintended fiscal consequences.

It is the Governing Council which, in accordance with the Statute of the ESCB, decides the way in which and the extent to which losses incurred by national central banks are shared within the Eurosystem. Internal loss-sharing mechanisms in no way undermine the singleness of our monetary policy. All national central banks and the ECB participate in the asset purchases. There is one global amount and the purchases are coordinated centrally by the ECB. They are calibrated to maintain price stability in the euro area as a whole, and they take into account the unique institutional structure of the euro area, where a common currency and single monetary policy co-exist with 19 national fiscal and economic policies. Precisely because our arrangement takes into account our institutional structure – because it is tailored to the specific measure – it ensures the highest degree of effectiveness.

Is the asset purchase programme aimed at helping specific

countries?

The programme is designed to push inflation and inflation expectations back to levels closer to the ECB's objective in the euro area as a whole. It does not reduce the debt of any particular country.

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