

## Press Release 37/2016

Halle (Saale), 8<sup>th</sup> September 2016

### Comment:

IWH President Reint E. Gropp: ECB resists its critics and maintains its asset purchase programme. Leaving the option for a further extension is completely reasonable.

Some observers, including recently a number of major banks, are criticising the European Central Bank (ECB) for maintaining its asset purchase program, currently scheduled to run until March of 2017 and leaving the option open to extend it further. However, not explicitly allowing for the possibility of an extension of the program would set a strong signal to financial markets that the ECB is starting to exit unconventional monetary policy. It can be expected that financial markets would show a strong adverse reaction to such a signal, with important implications for interest rates and asset prices. Given that inflation continues to be far below the 2% target of the ECB, such a signal would have come at the wrong time and seriously jeopardise the probability of returning to price stability, as well as the chances for a wide-spread economic recovery in the euro area.

It is also important to recognise that the old saying may apply that if “God wants to punish you, he fulfills your wishes”. A premature exit from Quantitative Easing (QE) by the ECB would in the short run exacerbate the problems faced by European banks, not alleviate them. It is one absurdity of the situation that those banks currently suffering from the low interest rate policy (and QE) would precisely be those banks that would also most suffer if short term rates suddenly increased. That is due to the fact that loans extended under the low interest environment would not fall due until in a few years while interest rates on deposits would most likely tend to rise immediately, further squeezing margins. Hence, if and once the ECB decides to exit from QE and the low interest environment, this step has to be prepared extremely well in order to avoid significant

Press contact  
Rahel Künkele  
Tel +49 345 7753 832  
[presse@iwh-halle.de](mailto:presse@iwh-halle.de)

Scientific contact  
Reint E. Gropp  
Tel +49 345 7753 700  
[president@iwh-halle.de](mailto:president@iwh-halle.de)

Keywords  
ECB, asset purchase programme

Halle Institute for Economic  
Research (IWH) – Member of the  
Leibniz Association  
Tel +49 345 7753 60  
Fax +49 345 7753 820

Kleine Maerkerstrasse 8  
D-06108 Halle (Saale)  
Germany

P.O. Box 11 03 61  
D-06017 Halle (Saale)  
Germany

[www.iwh-halle.de](http://www.iwh-halle.de)

financial instability. This became obvious when the Fed started its process of exiting from QE late last year.

---

#### Scientific contact

Reint E. Gropp  
Tel +49 345 7753 700  
president@iwh-halle.de

#### Press contact

Rahel Künkele  
Tel +49 345 7753 832  
presse@iwh-halle.de

 IWH on [Twitter](#)

 IWH on [Facebook](#)

#### IWH List of Experts

The [IWH List of Experts](#) gives an overview of the IWH research themes. The institute's [press office](#) will be pleased to establish contact to the respective experts.

The Halle Institute for Economic Research (IWH) – Member of the Leibniz Association was founded in 1992. With its three research departments – Macroeconomics, Financial Markets, and Structural Change –, the IWH conducts economic research and provides economic policy recommendations, which are founded on evidence-based research. With the IWH's guiding theme "From Transition to European Integration", the institute's research concentrates on the determinants of economic growth processes with a focus on efficient capital allocation in a national and European context. Particular areas of interest for the institute are macroeconomic dynamics and stability, microeconomic innovation processes, productivity and labour markets, the dynamics of structural adjustment processes, financial stability and growth and the role of financial markets for the real economy.

The Leibniz Association connects 88 independent research institutions that range from the natural, engineering and environmental sciences via economics, spatial and social sciences to the humanities. Leibniz institutes address issues of social, economic and ecological relevance. They conduct knowledge-driven and applied basic research, maintain scientific infrastructure and provide research-based services. For further information see <http://www.leibniz-gemeinschaft.de/en/home/>.