

Press Release 12/2017

Halle (Saale), 9 March 2017

Comment:

Keep cool and be prepared –

IWH president Gropp on the ECB's interest rates decision

"The European Central Bank (ECB) decided to keep interest rates unchanged today. No surprise here. But Mario Draghi unfortunately did not provide a signal to markets that the ECB may be moving on interest rates in the foreseeable future. "This is a reasonable decision, but also a missed opportunity", Reint E. Gropp, president of the Halle Institute for Economic Research (IWH) – Member of the Leibniz Association, says. "An ECB increase interest rate move must be well prepared, and today's press conference would have been an opportunity to prepare markets for the fact that interest rates cannot stay where they are forever."

Inflation finally accelerated to the ECB target rate of 2%. Immediately, many observers, mainly in Germany, are urging the ECB to increase interest rates quickly and stop the bond purchases. But the ECB rightly doubts whether the return of inflation is sustainable. "For the time being, we should keep cool and wait for more data", says Gropp. "An interest rate increase that hits markets unprepared may backfire and squash whatever positive price and economic developments we observe at the moment."

„If things keep moving the way they have been in the past months, a first (small) interest rate step may be justifiable this summer, regardless of the bond purchases", the IWH president explains. "It would have been nice if Draghi had used the opportunity to prepare financial markets for this."

A second area for concern is the ECB's bond purchase programme. From the experience of the Fed we have learnt that there is a need for a careful plan on how to phase out the programme. "Expectations management will be crucial. The ECB should clearly present its plans, carefully communicate the next steps and try to avoid surprising markets at all cost."

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Council Meeting of ECB

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