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The Investment Engineers

Reaction on ECB's meeting

Robeco Investment Solutions

- **European Central Bank increasing its buying program to EUR 1.14 trillion**
- **National central banks to carry the largest burdens**
- **Open-ended nature of the measures**

The European Central Bank (ECB) has increased its buying program to EUR 1.14 trillion. This amount is in any case optically marginally higher than the highest estimates floating around in the last couple of days (EUR 50 bln a month or a total amount of EUR 1.1 trillion). Government bonds will be bought now as well. Ongoing buying programs of covered bonds and asset backed securities will be expanded to government bonds and bonds issued by European supranational institutions with maturities between two and thirty years. The bonds will be purchased according to the national central bank's share in the ECB capital key. Countries under a European bailout program will be included, but with some additional criteria added. From March onwards every month EUR 60 billion will be bought in any case till September 2016, or longer if needed to get inflation on a sustainable path under but close to 2.0%.

National central banks will have to carry the largest burdens in case of a sovereign default or restructuring of their national debt. 20% of the risk on bought assets will be shared (mostly debt issued by European institutions). The ECB and the national central banks will never buy in excess of a third of the debt issuance in a country. The ECB has lowered the interest rate on LTRO's with ten basis points.

By announcing a EUR 60 billion monthly target for a period of 19 months, the program was clearly aimed at over-delivering on the headline, in order to not negatively surprise the markets. Looking at the initial reactions in the financial markets, the ECB appears to have been successful in doing so even though the underlying surprise is less impressive if you take the already existing asset buying programs into account. The real positive in this package is the open-ended nature of the measures, as it has specifically been linked to inflation moving into the direction of the ECB's inflation target before it will be ended. All in all, it has been a positive surprise for the markets, but given that the step towards QE was widely flagged in advance and given the additional size within the expected range of estimates, this is certainly not a shock-and-awe approach. Financial markets will get some support from this package, but it is certainly not a game changer.

Important information