DECISION ECONOMICS, INC.
Information for Decisions™

Western European Indicators and Insights

December 23, 2011

Andrew Wroblewski
Chief Economist, Eurozone and UK

London
+44 20 7959 3244
awroblewski@decisioneconomicsinc.com

ECB: Splits widen?

QE debate more vocal than previously thought?

Breaking what seemed to be a taboo among his colleagues, ECB Council member Bini Smaghi suggested that quantitative easing could be used to boost the Eurozone economy if deflation risks emerge, seeing no reason why such an instrument, albeit tailor-made for the specific characteristics of the Eurozone, should not be used.

In what may be seen as valedictory remarks, given that he leaves the central bank at the turn of the year, Bini Smaghi went on to question the quasi-religious discussions about quantitative easing, noting that such steps had been taken in the US and UK, where their respective central bank had seen deflation risks.

Currently, Bini Smaghi underlined, the ECB did not see deflation risks for the Eurozone (NB updated projections unveiled by the central bank earlier this month showed no sign of falling prices). Therefore, rather than any hint that QE could be an option of the ECB in the near-term, his remarks are more philosophical, albeit very much a dig at the stance of the German contingent on the ECB which has repeatedly resorted to apparent legal restraints in arguing against a form of QE that would involve stepped-up bond purchases.

What the remarks do suggest is that there is clearly much greater debate within the ECB about possible further policy actions than perhaps rhetoric from the likes of President Draghi has suggested. The question is whether this means there are clear splits which may actually impair policy-making rather than a debate that increases policy-freedom. Regardless, perhaps the most notable thing is that at least some of the ECB accept (as do many independent observers) that the central bank actually does have the legal freedom to do the kind of QE seen in the UK and US.