Press Release

CFS survey on the new strategy of the ECB

German financial industry takes a critical view of a “green” component of monetary policy – major concerns about continued low interest rate policy

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Background:

On 8 July 2021, the Governing Council of the ECB published its new monetary policy strategy. This envisages a symmetric inflation target of 2% over the medium term, meaning negative and positive deviations of inflation from the target are equally undesirable. However, if the economy is operating close to the lower bound on nominal interest rates, the Governing Council adds that this will require especially forceful or persistent monetary policy action to avoid negative deviations from the inflation target becoming entrenched. This may also imply a transitory period in which inflation is moderately above target. Furthermore, the ECB has announced its intention, within the scope of its mandate, to include climate protection considerations in its monetary policy framework. A comprehensive plan of measures has been adopted to this end.

Survey results:

In a survey conducted by the CFS among financial industry professionals and managers on the new ECB strategy, around 60% of the respondents believe that the ECB should have stuck to its previous inflation rate target of just under 2%. Roughly 37% of the respondents are of the opinion that the ECB should be willing to accept a slightly higher inflation rate temporarily.

In addition, 64% of the survey participants oppose the ECB anchoring a “green” component in its monetary policy in the future (for example, through the purchase of green bonds), while 32% would welcome this.

“It is too early to say exactly how the ECB will take climate protection factors into account in its decisions going forward, but many market participants apparently view this with scepticism,” explains Professor Brühl from the Center for Financial Studies.

“The ECB’s communication to date on climate change considerations and monetary policy leaves many questions unanswered and should be clarified in the near future,” adds Brühl.

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In light of the ongoing purchases of government bonds and sustained low interest rates, the vast majority of respondents (83%) see a risk that it will become increasingly difficult to depart from the ECB’s low-interest-rate policy as governments become increasingly dependent on purchases of their bonds and low interest rates.

“If inflation exceeds the target, the ECB should be given the option in the future of scaling back its bond purchases so that it can raise interest rates and counteract rising inflation. In addition, it should be ensured that the bond purchase program is not dominated by securities of climate-damaging companies and that climate-friendly investments are promoted instead," explains Hubertus Väth, Managing Director of Frankfurt Main Finance.

The results are based on a quarterly management survey in the German financial sector.

The Center for Financial Studies (CFS) conducts independent and internationally-oriented research in important areas of Financial and Monetary Economics, ranging from Monetary Policy and Financial Stability, Household Finance and Retail Banking to Corporate Finance and Financial Markets. The CFS is also a contributor to policy debates and policy analyses, building upon relevant findings in its research areas. In providing a platform for research and policy advice, the CFS relies on its international network among academics, the financial industry and central banks in Europe and beyond.

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