

Press Release

No unlimited purchase of state bonds by ECB

Berlin, 16/6/2015

The ruling by the European Court of Justice will contribute to further controversy on the limits of ECBs mandate because its economic arguments ignore market reality.

The unsurprising legal clearance of ECB's OMT programme by the ECJ goes hand in hand with a strong conditionality: the Eurosystem is not allowed to circumvent the general prohibition of monetary state financing through unlimited purchases on the secondary market. Therefore ECB has to make sure that the underwriting on the primary market is not purely transitional but leaves time for a market adequate price formation.

That conditional clearance ignores the impact that ECB's declared intention of unlimited purchases would have on the primary market. Underwriters will of course take that declaration into account because they are aware of a big investor called ECB on the secondary market and the distortion of competition generated thereby. Thus the borderline between direct monetary financing by ECB and open market policy has become foggy.

Thanks to the ECJ's ruling the controversy on the limits of ECB's mandate has been given renewed impetus.

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