

Christine Lagarde's ECB wants to be unshakeable

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ZOOM OF WILFRID GALAND, STRATEGIST DIRECTOR

On May 5th, the German Constitutional Court in Karlsruhe, in a resounding ruling, ordered the European Central Bank to justify "within three months" to the Bundesbank its purchases of sovereign debt made since 2015 within the framework of monetary operations known as "Quantitative Easing".

It is up to it to demonstrate the "proportionality" of the means employed - the massive purchases of sovereign debt from the euro zone - with the goal pursued, namely the stability of the European financial system. Despite this rather vague formulation, the result was immediate on the markets with the rise, albeit moderate, in the Italian debt rate and the widening of the spread with the German Bund.

More fundamentally, many voices were raised to denounce a profound attack on the independence of the ECB, the integrity of the euro zone, and even the architecture of European integration itself. What is the real situation?

In the medium term, the Court's judgment is indeed not good news for European construction: it calls into question the hierarchy of standards, not only by subjecting a European body to the goodwill of a national body of the same type (the central bank) and under its direct responsibility, but also by reversing a prior decision of the EU Court of Justice. It is true that some people in Germany are concerned about the increase in the ECB's balance sheet (42% of GDP vs. 27% for the FED in the United States).

Should we then worry about Europe and the single currency? Let us first note that, from a strictly financial point of view, the cost of a break-up of the euro zone would be colossal for Germany, not only because of the increase in the price of the future "euro-mark", but also because of the necessary provisions, amounting to hundreds of billions of euros, on the European claims currently held by the Bundesbank in the books of the ECB, in excess of 930 billion euros at last count.

Without going to such extremes, the actual scope of what appears to be more of a mood gesture than a real threat should be put into perspective.

First of all, the President of the Constitutional Court, Andreas Vosskuhle, is at the end of his term of office and may well have tried both to mark his passage and to show the irritation of certain financial circles across the Rhine at the liberties taken by the ECB in interpreting his mandate. It is not at all certain that his successor will follow in his footsteps.

Moreover, German support for the ECB and the ECJ was swift and powerful: as early as 6 May, both Olaf Scholz, the Federal Republic's Minister of Economics, and the highly respected and rigorous Jens Weidmann, President of the Bundesbank, clearly affirmed their support for the European bodies and the monetary policy conducted by Christine Lagarde.

The reactions of the European authorities were equally determined. The day after the decision, Christine Lagarde declared her determination to continue her actions and "undeterred" - unshakeable - in the face of the headwinds. On 7 May, the Court of Justice of the European Union recalled that it alone was in charge of the legal control of the ECB's action. And on Sunday 10 May, the European Commission itself, through its President, Mrs. Von der Leyen, declared that it was studying an infringement procedure against Germany following this decision.

Of course, the story is not over and we will have to be vigilant about the possible political consequences of this event. But it is in nobody's interest to weaken the euro zone at a time when the Covid-19 crisis is far from over. As under Mario Draghi, the ECB, led by Christine Lagarde, is fiercely watching over its integrity, which once again gives politicians time to coordinate... and reassures the markets!

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