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Bundesbank president Jens Weidmann steps up criticism of QE

Claire Jones in Frankfurt

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Jens Weidmann, the hawkish president of Germany’s Bundesbank, has stepped up his calls for the European Central Bank to hold fire on more monetary action, highlighting the scale of Mario Draghi’s task in selling full-blown quantitative easing to the eurozone’s most powerful member state.

Mr Weidmann, widely viewed as the most vocal objector of the 24-member governing council to buying government debt, signalled in Frankfurt on Monday night that he would reject bond buying even if prices started to fall. The ECB targets inflation of below but close to 2 per cent.

Mr Draghi, ECB president, could table the option of broad-based asset purchases as soon as the ECB’s next policy vote on January 22. While such a move is likely to find majority support, the ECB is expected to form a strong consensus around more controversial decisions. The council has taken tough decisions without unanimity in the past, but objections could limit the size and scope of any QE programme.

Mr Weidmann claimed there was “a whole row of economic reasons” against QE, even before considering legal questions on whether sovereign bond buying contravenes EU rules on financing governments.

Commenting on recent splits within the council over a toughening of the ECB’s rhetoric on plans to swell its balance sheet, the Bundesbank president said it was “not so bad” that rate-setters did not resemble “lemmings all running in the same direction”.

While Berlin is unlikely to speak out against QE, the Bundesbank remains highly regarded by the German public and criticisms by Mr Weidmann are likely to fuel hostility towards the ECB.

The Bundesbank president and the rest of the ECB council signed up to a pledge earlier this month agreeing that if lower oil prices began to threaten the outlook for inflation, or existing measures disappointed, then more radical easing was warranted.

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A downbeat assessment "would imply altering early next year the size, pace and composition of our measures" in the first quarter of 2015, the monthly policy statement said.

Since then, a closely watched gauge of inflation expectations has hit another low on the back of the slump in crude and the second of the ECB's offers of cheap four-year loans missed all but the most modest of market forecasts.

The Bundesbank president acknowledged that inflation, which is already at a five-year low of 0.3 per cent, could completely disappear in the coming months, but said: "Such a development initially requires no monetary policy response, as long as no second round effects are to be seen."

While asset purchases would lift inflation, "one should not expect miracles," he said.

"Significant volumes would have to be deployed, even to achieve a modest and uncertain effect," he added.

Mr Weidmann signalled that he would be less critical of a QE programme based on buying debt with the highest triple-A credit rating, such as German Bunds, or which placed the burden for losses on national central banks. Anything else would "lead to a redistribution of risks between taxpayers in the member countries".