ECB Should Discuss Ending Bond Reinvestments Sooner, Wunsch Says

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European Central Bank Governing Council member Pierre Wunsch said officials should consider a quicker start to rolling off almost €1.7 trillion ($1.8 trillion) in bonds bought during the pandemic — despite a recent jump in Italian bond yields.

While the ECB has said it will reinvest any maturing securities from the so-called PEPP portfolio through end-2024, “I don’t think there is any any strong rationale for doing that today,” the Belgian central bank chief told Bloomberg TV.

“I’m in favor of at least reopening the discussion,” he said Thursday. “We need to think about a world where we’re going to stop PEPP reinvestments.”

Wunsch also indicated that the increase in Italy’s borrowing costs shouldn’t have a big impact on the discussions.

“I don’t want to be in a situation where stopping a bit before or a bit later makes a huge difference, because that would mean that we have a problem,” he said.

Italy has drawn the attention of investors ever since a botched attempt to tax banks was followed up by a budget from Giorgia Meloni’s government that Fitch Ratings has described as a “significantly loosening” of its plans.

Irish central bank Governor Gabriel Makhlouf told Bloomberg this week that investors’ assessment of Italy is “absolutely something” that the ECB will be focused on.

On inflation, Wunsch said it’s “comforting” that consumer-price gains are now coming down in line with recent economic projections from the ECB.

“If we keep seeing inflation numbers aligned with the forecast, then we don’t have to hike anymore,” he said. “If we would see inflation going above what we have in the forecast — not marginally, but in any more or less significant way — then we would have to do more.”

Discussing the potential for rate cuts in the coming months, Wunsch said such a step would require more than just inflation undershooting.

“I’m not saying we need wait for 2025 to cut,” he said. “But I’m saying that, if we have a few surprises on the downside, it doesn’t mean that we have to preempt to cut.”

Identifying the right moment to reduce borrowing costs is “tricky,” according to Wunsch. “But if you’re at 3.5% inflation — we should be there quite soon — and rates are at 4%, conditions aren’t very tight,” he said.
