

FTSE 100 wobbles as ECB begins to pull back emergency economic support

THE EUROPEAN Central Bank today signalled it would begin to withdraw its emergency support for the eurozone [economy](#), the first major central bank to do so.

That comes amid growing concern that the economic recovery from [Covid](#) is slowing, while [inflation](#) looks set to ratchet higher.


The [ECB](#) kept [interest rates](#) at 0% but said it would dial back its bond purchase programme, a scheme to inject money into the system.

It has been buying up e80 billion a month. Analysts think that could fall to e70 billion or e60 billion, though the ECB wasn't exact.

It said in a statement: "Based on a joint assessment of financing conditions and the inflation outlook, the Governing Council judges that favourable financing conditions can be maintained with a moderately lower pace of net asset purchases under the (PEPP) than in the previous two quarters."

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Hinesh Patel, portfolio manager at Quilter Investors, said:

“It may be small but it is noteworthy that the European Central Bank has beaten the Federal Reserve to the punch and is tapering its support first. It was thought developed economies would wait for the Fed to move first and react accordingly, but these are not normal times for monetary policy.”

Markets were jittery ahead of the ECB news. In particular, traders are worried what happens if the ECB and the US Federal Reserve pull back from emergency support for the economy at the same time.

As the ECB's Christine Lagarde prepared to speak, the [FTSE 100](#) was down 70 points, 1%, at 7025.

Alastair George, Equity Strategist at Edison Group, said: “Today's ECB decision moderates the pace of the Pandemic emergency purchase program (PEPP) asset purchases. We believe this is a nod to more hawkish recent ECB policymakers' comments on the duration of the ECB's emergency policies, given the narrowing of output gaps in the eurozone and sharply rising inflation.

The ECB repeated that interest rates will remain at their present or lower levels until inflation is seen reaching 2%.

“This may also imply a transitory period in which inflation is moderately above target,” the ECB added.

Yesterday, the Fed said the US economy has “downshifted slightly”.