

Press Release

CFS survey: Financial industry believes bubbles are likely to form on the European financial markets due to QE measures and the ECB's zero interest rate policy / Rapid departure from expansive monetary policy is favored, yet not expected. This is cause for alarm.

FRANKFURT, 19 October 2017. According to a recent survey by the Center for Financial Studies, there is firm agreement within the German financial industry (92%) that bubbles have formed or will form on the European financial markets (e.g. stock markets, real estate markets) due to the ECB's expansive monetary policy if this strategy is maintained.

Since 2015 the European Central Bank (ECB) has pursued a policy of quantitative easing (QE). In addition, the key interest rate of the eurozone, which is the main refinancing rate paid by banks when they borrow from the ECB, has been kept at zero since March 2016. Aside from the feared negative impacts, opinions in the financial industry are split as to whether these measures have brought about the desired results in terms of increasing the rate of inflation and boosting economic growth. Half the survey respondents (49%) regard the ECB's expansive monetary policy as partially effective, whereas 38% believe the stated goals have not been reached. Just 12% of the respondents regard the expansive monetary policy as clearly effective.

"The survey illustrates the scepticism of market participants about the effectiveness of the ECB's monetary policy strategy. In particular, the ECB should take the concern about bubbles forming in particular asset classes very seriously," Professor Volker Brühl, Managing Director of the Center for Financial Studies, interprets the survey results. "A further cause for alarm is the prevailing opinion of market participants that a departure from the expansive monetary policy is called for, yet not expected. This could mean the markets will be caught wrong-footed if the ECB, contrary to market expectations, does initiate a change of direction. It is crucial that the ECB communicates its intentions clearly and in good time," Professor Brühl adds.

On 26 October 2017 Mario Draghi will announce the next key interest rate decision that will determine the future direction of ECB monetary policy for 2018. The majority of the financial industry (78%) favors a decision to rapidly depart from the expansive monetary policy (by Q1 2018 at the latest). However, hardly any of the respondents (2%) anticipate this outcome.

"The disparity between the desire for an exit from the expansive monetary policy and the low expectation that this wish will be fulfilled is, in itself, a clear warning signal. Real market prices have now been lacking for a considerable period of time," says Dr. Lutz Raettig, Executive Chairman of Frankfurt Main Finance e.V., commenting on the survey results.

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The results are based on a quarterly management survey of around 400 companies in the German financial sector.

The Center for Financial Studies (CFS) conducts independent and internationally-oriented research in important areas of Financial and Monetary Economics, ranging from Monetary Policy and Financial Stability, Household Finance and Retail Banking to Corporate Finance and Financial Markets. CFS is also a contributor to policy debates and policy analyses, building upon relevant findings in its research areas. In providing a platform for research and policy advice, CFS relies on its international network among academics, the financial industry and central banks in Europe and beyond.

We would like to thank Frankfurt Main Finance e.V. for financially supporting the project.

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