

Beat: Business

## Why the European Central Bank seems the Federal Reserve

### The ECB will purchase sovereign debt

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**USPA NEWS** - The European Central Bank (ECB) will allocate 1.1 billion euros (1.3 billion USD) to purchase sovereign debt of member countries of the European Union. The measure, adopted for the first time in the history of the ECB is similar to those adopted six years ago by the US Federal Reserve.

And tries to contain the danger of deflation in the eurozone. This was announced by ECB President Mario Draghi, who stood at 60,000 million euros (67,472 million USD) monthly disbursement of the ECB, until next September, to purchase sovereign debt. This type of debt was purchased so far by European banks to the ECB injected funds to the financial sector, but doing blocking citizens and businesses access to credit. The consequence was that the eurozone economy walked inexorably toward deflation.

By buying sovereign debt held by banks, the ECB wants to release funds and force financial institutions to lend to citizens and businesses. Thus increase consumption would rise commodity prices and the specter of deflation would go away. Eurozone inflation fell to -0.2% in December, the ECB hopes to reverse the trend and finish 2015 with inflation at 0.4% and 2016 with inflation at 0.3%.

According to Mario Draghi, buying sovereign debt was "necessary" to avert the danger of a prolonged period of deflation. But the measure has conditions: the titles of European institutions should not exceed 12% of the total acquired and, of these, the ECB will buy three quarters. In addition, national central banks will buy debt equivalent to its share capital in the ECB monthly percentage: 17.9% Germany, France 14.1%, Italy 12.3% and 8.84% Spain, among others. The ECB will coordinate purchases, in order to safeguard the unity of European monetary policy.

The markets of the continent have reacted to the announcement of the ECB with ups and, in the case of Spain, the risk premium on Thursday marked a new record low -the first since 2010- to drop to 96 basis points. Another effect of the announcement is the continuous depreciation of the euro, this Friday almost reached parity with the dollar, one euro changed by \$ 1.1.

#### Article online:

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#### Editorial program service of General News Agency:

United Press Association, Inc.  
3651 Lindell Road, Suite D168  
Las Vegas, NV 89103, USA  
(702) 943.0321 Local

(702) 943.0233 Facsimile

[info@unitedpressassociation.org](mailto:info@unitedpressassociation.org)

[info@gna24.com](mailto:info@gna24.com)

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