

**BULLET POINT OUTLINE OF NEW PAPER BEING ISSUED BY THE BRUGES GROUP**

**The ECB's Pandemic Emergency Purchase Programme – the undermining of the Eurozone as a free financial market, the epitome of the failure of the Euro project, and a coup d'état by the European Central Bank**

**By Bob Lyddon**

- New study of the European Central Bank's response to the pandemic – the Pandemic Emergency Purchase Programme, or PEPP
- The PEPP bought the majority of new debt issued in 2020 by the likes of Spain, Italy and Portugal
- Concentration of an ever-higher proportion of the Eurozone public sector debt into the hands of Eurozone financial mechanisms – over 50% and possibly much higher if we were ever allowed to see the original, unnetted balances in the TARGET2 payment system
- ECB operations have driven down bonds yields to around 0%, saving Eurozone public sector borrowers billions of euros in debt interest
- This has driven out whole classes of financial market actors (speculators and private investors), concentrating market activity on trading between Eurozone financial mechanisms and investment banks: that has damaged liquidity
- The ECB's actions have distorted the market to eliminate yield and diminish liquidity, and to compromise the standards for the safety of investment in Eurozone bonds
- There are 25,000+ bond issues on the ECB's list of eligible collateral – almost anything can be classed as "central bank money" like this but without its being free of credit risk. Many of these bonds are rated at the lower end of Investment Grade
- Worse than that, the ECB has relaxed its credit quality criteria so as to permit the PEPP to hold Speculative Grade bonds, and even to buy new bonds of Speculative Grade issuers
- The ECB's many distortions have undermined the principles of a free financial market, and holed below the waterline a main promise of the euro – of broad and liquid capital markets
- The PEPP is the epitome of this degradation
- A group of German academics and lawyers took a case to the German Constitutional Court in 2020 to attempt to rein in the ECB's pre-existing Purchase Programme for public sector securities
- The ECB appears to have written its mandate for the PEPP so as to make it inviolate to any such challenge, and to permit itself to alter its mandate at its own discretion
- The ECB has put itself beyond democratic control from either Member States or EU organs: the ECB has, through the PEPP, carried out a coup d'état
- Ironically it has converted itself at the same time into the type of financial institution that the euro was meant to produce of its own accord but hasn't: a pan-European commercial bank
- Through the PEPP and its pre-existing programmes the ECB is exposed to credit risk on corporate and retail customers right across the Eurozone, but without its having its own credit department to assess and manage the risk
- The ECB has not only undermined the Eurozone financial market through the PEPP: it has fundamentally undermined itself
- The UK government is currently discussing a Brexit financial services deal with the EU based on equivalence – but there can be no equivalence between the UK's free financial market and the Eurozone's controlled one: they are incompatible

About the author: Bob Lyddon is an experienced management consultant both privately and with PwC, with a specialization in banking and payments. He has published numerous papers about the financial mechanisms of the EU, through the Bruges Group, Politeia and Global Britain.