By Christoph Schupp and Joseph Mapother

29 November 2006 (Bloomberg) -- Thorsten Polleit, chief economist for Germany at Barclays Capital in Frankfurt, comments on European Central Bank monetary policy and expected inflation.

Polleit is part of ‘ECB Observer’, an independent ECB watcher group (www.ecb-observer.com). He spoke German in a television interview today marking comments on the ninth report of the group.

``It is likely that inflation will not drop below 2 percent next year. It will be driven primarily by a robust increase in liquidity within the eurozone that will flow into the economy in coming years.

``There are signs excess liquidity is having an increased impact on assets and capital markets, for example on real estate prices or bond and stock markets.

``The effect is to drive prices higher, creating assets-price inflation.

``These are developments that carry long-term risks that could create a financial crisis, or eventually drive consumer prices higher.

``Our research shows us'' that ECB monetary policy is too expansive. ``That's why we recommend their interest rate be raised to around 4 percent.''

--Editor: Tromm

Story illustration: To graph the ECB benchmark rate, click on EURR002W <Index> GP <GO> . Click on ECB <GO> for ECB announcements.

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