CENTRAL BANKS

ECB Minutes: January 22st Meeting

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Large majority of Governing Council members agreed to launch the expanded asset purchase programme

- Some GC participants considered that sovereign bond purchases should be used as a last resort
- There was broad support to raise the monthly purchase volume to EUR60bn from the EUR50bn initially proposed.
- GC participants warned not to have an attitude of “benign neglect” on inflation

Today, for the first time, the ECB released an account of the 22 January meeting. From now on, this publication will be released four weeks after each meeting. We already knew that the summary will be “in unattributed form”, i.e. the central bank will not disclose how the Governing Council (GC) members voted. One of the main reasons behind this decision is that the accounts must respect the ECB’s set-up without putting into question the Council members´ independence. Other developed central banks, e.g both the BoE and the Fed, provide minutes from their monthly meetings and the voting records of individual members of the monetary policy Committee prior to the subsequent monetary policy meeting.

In the first section, the ECB minutes analysed the latest happenings in the markets, in the economy and monetary developments. In the second section, it includes the GC´s discussion and monetary policy decisions.

On the prices outlook, **the GC saw a deterioration of inflation expectations,** emphasising that the risk of second-round effects had increased, **which would not permit an attitude of 'benign neglect'”** by policy makers. Meanwhile, on the economic outlook, the GC maintained that the risks for growth outlook were on the downside, but stressed that “while downside risks had diminished as a result of the fall in oil prices.”

The main part of the ECB’s January meeting minutes was focused on the monetary policy stance, and particularly, on the decision of launching the expanded asset purchase programme. **On the GC’s support for using government bonds**, **“all members** considered sovereign bond purchases to be part of the set of monetary policy instruments”, although, **some participants** noted that this instrument should only be used as a last resort. “Purchases of sovereign bonds should remain a contingency instrument of monetary policy, to be used **only as a last resort** in the event of an extremely adverse scenario, such as a downward deflationary spiral.”

On the need to take further action at the January meeting, most of the Governing Council members judged that the degree of current monetary accommodation was insufficient to address the ECB´s medium-term price stability objective and, hence, there was a **broadly shared view** to take action at that meeting. However, some participants were in favour of maintaining a “wait-and-see stance” as they considered that “the cost-benefit assessment of the proposed measures was not positive in their view.” Moreover, those members argued that the full effect of the measures in place “was still to be seen.”

On the “variants” considered for expanding the asset purchase programme, the ECB meeting accounts showed that most natural extension of the current ECB´s credit easing package would be to buy corporate bonds, but it was widely judged that the limited size of this market would not be enough “for providing the degree of accommodation needed at this stage.” Against this background, and in order to maximise the effectiveness of different options, the ECB members **broadly agreed** that further monetary policy measures would need **to include government bond purchases**.

The ECB meeting discussion also touched **on the appropriate modalities of risk sharing**. Some participants were in favour of full risk sharing, in order to avoid perceptions of a lack of unity, while others showed concern about moral hazard. The accounts showed that weighing those arguments, the **consensus** opted for a risk-sharing mechanism in which the potential losses of only 20% of its purchases would be mutualised among sovereigns

The minutes revealed "there was **broad support in favour of some frontloading by increasing the monthly purchase volume to EUR60bn**." The final volume of the programme approved by the central bank was higher than the EUR50bn initially discussed, **"in order to accelerate the impact"**. Moreover, members agreed that the purchases will be in place until the end of September 2016 (vs. December 2016 as initially discussed) and **contingent "on the evolving path of inflation** being consistent with the Governing Council's price stability objective.This provided an important element of **forward guidance**."

Regarding the technical design features of the sovereign purchase programme, there was **broad** agreement on: i) restricting the purchases to investment-grade securities; ii) establishing an issue share limit of 25% and a issuer limit of 33%, and iii) conducting the additional purchases according to the Eurosystem NCBs´ shares in the ECB´s capital key. Regarding the latter, the accounts revealed that it was initially proposed that this benchmark would be revised on a quarterly basis and adjusted in the future, to take market conditions into account.

The minutes showed concern on the possible moral hazard behaviours of euro area governments after the measures taken. In this regard, most of the GC members judged that **the effectiveness of the expanded asset purchase programme would also depend on the actions of other policy-makers** in the euro area.

The details of the January meeting minutes confirm that the all GC members considered the asset purchase programme as part of the set of monetary policy tools, although divergences within the GC remain in terms of timing. However, most of the GC members judged that the weakened medium-term inflation outlook for price stability justified taking additional monetary policy action.