

## CENTRAL BANKS

# ECB Minutes: 15 April meeting

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Governing Council (GC) members reaffirm their commitment to firmly and fully implement the ECB's announced purchasing programme.

- There was broad agreement that the APP is progressing smoothly and is having a positive impact.
- Some GC participants warned about the risk of growing complacency with fiscal reform.

The ECB released an account of its 15 April meeting. **The ECB members agreed the need for the firm implementation of the GC's recent monetary policy decisions.** Moreover, the minutes showed that there was no need to consider any change in the current monetary policy stance, or to modify any of the characteristics of the PSPP. **The minutes revealed concerns on the risk of insufficient reform progress, particularly on structural policies.** "A strong signal needed to be sent to euro-area governments urging them to press ahead with structural reforms and to take measures to improve the business environment."

**On the prices outlook,** the GC members judged that the downward trend in headline inflation and inflation expectations had appeared to reach a turning point and they had recovered from their record lows reached in mid-January. **GC members broadly agreed that the PSPP has been crucial in confronting the risks of too prolonged a period of low inflation.**

**Meanwhile, on the economic outlook, GC participants seemed confident on the recovery,** stating that the euro area's economy has gained momentum since the end of 2014, and that the bank expects the economic recovery "to broaden and strengthen gradually." The minutes showed that the risks for the economic outlook have become more balanced, although remaining to the downside.

The minutes focused on the effectiveness of the Asset Purchase Programmes (APPs), and in particular on the public sector purchase programme (PSPP) initiated on 9 March. **Council members agreed that the implementation of the PSPP had had a "significant impact"** on euro area financial markets and, combined with other measures, is having a "significant number of positive effects." However, they cautioned that the PSPP (the most powerful measure in place) had been running for little over a month and that the outlook for growth and inflation was conditional on the full implementation of the measures already taken.

**The minutes revealed that there was broad agreement that the APP has been progressing smoothly since the start of the PSPP,** emphasising that the liquidity was ample across jurisdictions and hence worries about a potential scarcity of bond seem to be exaggerated. In mid-April, the percentage of European debt securities priced in the market at levels reflecting negative rates had been above 30%, but recently this has come down substantially and currently stands at around 15%. Against this background, **the ECB members underlined that the PSPP is flexible enough to be adapted if needed.** In particular, this week, the ECB Executive Board member Benoit Cœuré said that the bank will increase its asset purchases in May and June ahead of expected lower market volatility from mid-July and into August. **Moreover, GC members agreed to carefully monitor the implementation of APP to ensure the continued smooth functioning of those programmes.**

**There was also discussion about the risks that spring from the current monetary policy and the need to monitor them.** i) Evaluate the impact and risk implications derived from the rise in the balance sheet. ii) Look for any potential financial stability linked to both the low interest rate environment and the recent increase in asset prices. iii) Monitor the response of governments to the APP, more specifically the implications for their budgets and fiscal discipline. iv) Assess the impact of APP on asset prices and, consequently, the impact on wealth and income distribution.

The minutes confirm that the ECB is committed to the full implementation of its current policy measures. That said, the GC made clear its discomfort with the risk of governments delaying structural reforms in the current environment of low inflation. Some GC members thus emphasised that structural reforms remain essential, as they complement the ECB's monetary policy actions.

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