

## CENTRAL BANKS

# ECB Minutes: 22 October meeting

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- However, the central bank would not want to create "undue expectations" of a certain course of action.
- The Governing Council members voiced concern about the prospect of a further deterioration in the outlook for prices, but there is an open debate about the nature of subdued inflation and the policy response.

The ECB released the monetary policy accounts of its 22 October meeting. The minutes confirm that the central bank will re-examine the degree of monetary accommodation at the December monetary policy meeting. The accounts revealed that this reassessment arises because the impact of external factors and heightened uncertainty raised the possibility that the current ECB measures might not be enough to achieve the ECB's objective in terms of inflation rates. In this context, the minutes underlined that the Governing Council (GC) remained willing and able to act, if warranted, by using all available instruments within its mandate. It was also recalled that the APP (asset purchase programme) would be fully implemented until the end of September 2016, or beyond if necessary.

While the minutes showed that "members widely shared" the view that weak price pressures continued and that a sustained normalisation of inflation could be pushed back further, they also revealed a debate within the GC members regarding two main questions: i) to what extent the outlook has materially changed, and ii) whether a policy response is needed. Thus, members of the GC voiced concern about the prospect of a further deterioration in the outlook for prices. They broadly agreed that downside risks remained high, showing concern about the fact that the "prolonged period of low inflation could last longer than previously anticipated". In particular, they emphasised that this prolonged period of low inflation was itself a downside risk and it "could contribute to an unanchoring of inflation expectations". Moreover, it was highlighted that, in a context in which the risk of deflation remained relevant, the view was to consider reinforcing the ECB's accommodative monetary policy stance, and, in any case, "to act sooner rather than later".

But at the same time, "members expressed caution" about recent data and continued to consider that it could be premature to reach any conclusions. Moreover, they emphasised that long-term inflation expectations remained well anchored and "there appeared to be no indications of a risk of deflation". They clarified that the probability of such a scenario had decreased since the start of the year. All in all, participants broadly agreed that euro area inflation continued to be expected to increase towards 2% over the medium term, but at a slower pace than previously anticipated. In this context, members highlighted the need to continue monitoring the factors behind the current period of low inflation and the implications for the medium to long term.

On the economic outlook, the accounts showed that the GC members continued to be worried by the significant uncertainty surrounding the economic outlook, as the economic environment appeared fragile, in particular in emerging market economies.

Regarding the expected further easing of the ECB's monetary policy stance at the December meeting, the minutes revealed that members realise the need to communicate "a full reassessment of the situation and a comprehensive review of policy options" at that meeting. However, the accounts showed that the central bank would not want to create "undue expectations" of a certain course of action or "being perceived as pre-committing to a certain course of action". Judging by the market's reaction, this expectation did not work.

On the possible options for providing further easing, the minutes showed that the central bank is assessing adjustments to the size and range of eligible assets of the APP, while “the present communication already catered for the possibility of extending the programme beyond September 2016”. The accounts also clarified that “other options might also be examined”. On the possibility of a further reduction of policy rates (in particular the rate on the deposit facility), the minutes showed that there are both costs and benefits and the technical committees are working on it. In particular, members made reference to the experience of other central banks in which jurisdictions “negative rates had not appeared to result in major difficulties.” However, other members argued that a rate cut would “venture further into uncharted territory and have repercussions on the functioning of markets and the behaviour of banks and customers”.

All in all, the minutes revealed a more balanced approach than had been expected, considering the latest monetary policy press conference. We expect the ECB to act in December. In our view, an extension of the asset purchase programme (APP) could be one of the preferred options (given the bank's implicit commitment to keep rates low for longer).

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