CENTRAL BANKS

ECB Minutes: 3 December meeting

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- A large majority of voting members supported a decision to recalibrate the degree of monetary accommodation.
- There was wide agreement among participants that additional monetary measures were warranted, although some members did not see sufficient evidence in support of recalibration of monetary policy at that meeting.
- There was discussion of the possibility of further measures and "a reassessment could be made in future."

The ECB released the monetary policy accounts of its 3 December meeting. The minutes confirm that a large majority of the voting members supported a decision to recalibrate the degree of monetary accommodation. The accounts revealed that there was wide agreement among the members that additional monetary policy measures were warranted, as the adjustment in inflation to rates closer to 2% would take longer than had been envisaged in March 2015 and that downside risks to both growth and inflation continued to prevail. Against this background, the minutes underlined that the monetary policy stance would remain accommodative for as long as necessary to ensure "a sustained return of inflation rates towards levels below, but close to, 2%." It was also recalled that the APP (asset purchase programme) provided sufficient flexibility in terms of adjusting its size, composition and duration.

The main part of the ECB's December meeting minutes was focused on the monetary policy stance, and particularly on the decision of additional monetary policy measures. Most of the Governing Council (GC) members judged that the degree of current monetary accommodation was insufficient to address returning inflation to levels below, but close to, 2% over the medium term. The minutes revealed that it was argued that "at the current juncture the risk of policy inaction clearly outweighed the risk of action". In particular, the accounts showed that at previous monetary policy meetings (the September and October meetings) the GC expressed concerns about increased downside risks to both the growth and inflation outlook, compared with expectations when the APP had been launched.

In this context, the minutes showed that there was a wide agreement among participants that additional monetary measures were warranted, although some members did not see sufficient evidence in support of a recalibration of monetary policy at that meeting. "Most members supported the set of policy measures proposed ... while some members did not, on balance, see a sufficient case for further policy action or were only prepared to support some of the elements put forward." Participants who were not in favour of further easing at that meeting argued that further measures at that time appeared premature, and they could be reconsidered at a later stage. "Existing policy measures were working in the right direction and more time should be given for them to unfold their full effect." In particular, they warned that purchases of sovereign debt "were seen to be associated with significant risks and side effects, and should therefore be kept in reserve as a contingency measure in case of extremely adverse developments, such as deflation, and should not be used as a means to fine-tune the inflation outlook."

There was broad agreement on all the measures taken: i) to cut the deposit facility rate by 10bp to -0.30%, a historical low; ii) to extend the asset purchase programme (APP) until at least March 2017; iii) to broaden the range of assets purchased (regional and local governments), in an effort to reinforce its forward guidance; iv) to reinvest the principal payments on the securities purchased under the APP as they mature, for as long as necessary, and finally v) to extend the FRFA (fixed rate tender procedures with full allotment) until at least the end of 2017. However, there was division among GC members on the size of the deposit rate cut, as some participants wanted a rate cut of 20 basis points.

Regarding further measures, the accounts showed that there was discussion about increasing the monthly purchases of APP bonds as well as extending the purchase period beyond six months. "However, there was broad agreement that such measures would not be warranted at this juncture, while a reassessment could be made in future."

The details of the December meeting minutes confirm that most of the GC members considered it appropriate to take further measures at that meeting. At next week’s monetary policy meeting, is expected that the ECB will remain on hold and to maintain its dovish communication, as it has been repeating for a long time, that it is committed to providing further stimulus if needed. The early stages and the fragility of the eurozone recovery warrant a highly accommodative monetary policy.

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