

CENTRAL BANKS

ECB Minutes: 21 January meeting

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- The minutes confirm that the central bank will review and possibly reconsider its monetary policy stance at the March monetary policy meeting.
- There was broad agreement with the GC that downside risks have increased since the start of the year.

The ECB released the monetary policy accounts at its 21 January meeting. The minutes confirm that the Governing Council (GC) was unanimous regarding reviewing and possibly reconsidering its monetary policy stance at the March meeting. The accounts revealed that this assessment came about because downside risks had increased since the start of the current year. In this context, the minutes underlined that the GC remained willing and able to act, if warranted, reaffirming that the GC had a broad range of instruments at its disposal.

On the inflation and economic outlook, the GC members broadly agreed that downside risks have increased again amid heightened uncertainty about the growth prospects in emerging economies, volatility in the financial and commodity markets, and geopolitical risks. In particular, on the outlook for prices, the minutes showed that in the current environment, inflation dynamics have continued to be weaker than expected, which, in conjunction with declining inflation expectations, has increased the risk of second-round effects. "There were stronger signs again that repeated downward revisions of the inflation outlook were feeding through to inflation expectations, which had again increased the probability of the euro area economy remaining in a low inflation environment for an extended period of time." "More lasting deviations (from the inflation target) could be misinterpreted as a lack of willingness to act or the lack of an effective monetary policy."

The main part of the ECB's January meeting minutes focused on the monetary policy stance, and, in particular, on the decision regarding additional monetary policy measures. The minutes underlined that members considered it premature to act at the present meeting and to discuss which precise policy options that could be used. Some participants considered that it would be preferable to act pre-emptively, taking emerging risks into account, rather than to wait until after the risks had fully materialized, but a remark was also made "cautioning against adopting an explicit risk based approach to monetary policy."

On the possible options for providing further easing, the minutes did not signal any specific measure, but they revealed that the CG would not hesitate to intensify the use of the available range of policy options to achieve its price stability mandate. Moreover, the accounts stressed that the GC has a variety of instruments at its disposal to respond to circumstances and that there was no limit to how far it was willing to deploy instruments within its mandate to achieve its objective for inflation rates.

The GC members agreed on reaffirming its forward guidance communication, highlighting that rates would remain "at current or lower levels for an extended period of time," which opens the door for further deposit rate cuts.

The minutes revealed that there was wide agreement among members and appropriate monetary policy communication remains essential. The accounts stressed the importance of the "need to strike a balance between signaling clearly its full capacity, willingness and determination to act and at the same time." Moreover, the minutes highlighted that monetary policy should be predictable but "should not be seen as being pre-committed or geared to fulfilling prevailing undue market expectations."

The details of the January meeting minutes confirm the unanimity of the GC members in reviewing and possible reconsidering its monetary stance at the next meeting. We expect the ECB to act in March in response to the context of greater global uncertainty and growing downside risks. We expect a cut in the deposit rate of 10 basis points, as well as changes in the APP (asset purchase program). Although the cyclical situation and the fragility of the recovery justify continuing with a highly accommodative monetary policy, the fact is that the ECB has less and less margin for maneuver and effective action.

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