

## ECB: Between hope and facts

The minutes of the ECB's December meeting show an upbeat assessment of the economic outlook but also reflect doubts about a pick-up in inflation



Source: iStock

The press conference after the ECB meeting was short and not very eventful. The just-released minutes of the meeting, however, show that the discussion behind closed doors must have been livelier and more exciting.

### Highlights of the minutes

There were three interesting points emerging from a quick read through the minutes:

- Upbeat growth forecast. For the first time, ECB members use the term “upside risk” in connection with the growth outlook. At least in the near term, “some upside risk could result from the US tax reform”.
- Inflation pick-up still more wishful thinking than reality. The wording of the inflation assessment reflects a very cautious stance by the ECB. Phrases like “the steady absorption of economic slack gave grounds for increased confidence that price pressures would gradually take hold” or “...increased the level of confidence in a sustained return of inflation towards the Governing Council's aim” in our view illustrate that the ECB is not convinced,

yet. This hesitance was also reflected by the statement that “measures of underlying inflation had weakened overall and had yet to show convincing signs of a sustained upward trend” and “Caution was expressed regarding the projected pick-up in underlying inflation over the projection horizon, in particular with respect to the assumed rebound in wage dynamics”.

- Dissenting views remain. The statement that “a remark was made that a gap appeared to be emerging between favorable economic conditions and a policy stance that remained in a crisis configuration” clearly shows that not all ECB members are satisfied with the current stance.

## Further steps towards the exit?

Against all of the above, it is not surprising that the ECB is not ignoring further steps in its tapering (or recalibration) process. Phrase like “the language pertaining to various dimensions of the monetary-policy stance and forward guidance could be revisited early in 2018” or “the view was widely shared among members that the Governing Council’s communication would need to evolve gradually, without a change in sequencing, if the economy continued to expand and inflation converged further towards the Governing Council’s aim” indicate a further adjustment but in our view no abrupt end.

## First another 'lower for longer', then the end

We stick to our previous view that the ECB will not stop QE in September but will rather decide on another “lower for longer” beyond September, probably until the end of the year. Interestingly, the ECB is increasingly focused on growth and seems to regard inflation only as a derivative of growth developments. Judging from previous experiences, to get an inflation rate sustainably around 2%, the Eurozone economy needs to have a positive output gap. This could, but does not necessarily have to, happen in the course of 2018.

Also, it is obvious that the ECB’s balancing act between uniting the Governing Council and not distorting markets on the way towards the exit is a difficult one. While the ECB had actually tried to hush speculation with the October decision for “lower for longer”, some ECB officials’ talks are clearly undermining this intention. In this regards, next week should be interesting when both Jens “the hawk” Weidmann and Benoit “first proponent now advocate for a September end” Coeure will have public appearances.

### Author

#### Carsten Brzeski

Global Head of Macro

[carsten.brzeski@ing.de](mailto:carsten.brzeski@ing.de)

### Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user’s investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss

arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.