

## ECB meeting: Increased alertness

The European Central Bank has woken up to the new reality of increased uncertainty, and become more dovish in the process. At the same time, the bank has indirectly suggested that it's as much in the dark about the growth outlook as anyone else



European Central Bank HQ, Frankfurt

Source: Shutterstock

Today's ECB meeting did not bring any new action but marked a clear change in the ECB's growth assessment. While back in December, the bank's growth outlook for 2019 was still very upbeat-forecasting 1.9% GDP growth- it's now less optimistic. In fact, the ECB has finally caught up with reality. Reality is not yet a protracted slowdown but rather an unprecedented list of possibly severe uncertainties. This list is well-known: global trade tensions, a Chinese slowdown, the German automotive sector and Brexit. These risks are not new but ECB President Mario Draghi stressed that the ECB's biggest concern now is that these risks could materialise and he is concerned about the persistence of general uncertainty. The latter clearly runs the risk of becoming a self-fulfilling prophecy, eventually undermining still solid domestic demand through a negative sentiment loop.

At the same time, Draghi also said that a part of the ECB's Governing Council still does not exclude a more benign outcome and also stated that the probability of a recession was still low. In sum, the increased uncertainty, as well as the persistence of the uncertainty, motivated the ECB to shift

its balance of risks to the growth outlook to the downside. To be precise, the ECB used a small linguistic trick, stating that “the risks have moved to the downside”. This is slightly stronger than the December “risks are moving to the downside” but not necessarily as strong as the usual “the balance of risks is tilted to the downside”. A small but significant detail. Welcome to the world of ECB watchers.

This is the first time since April 2017 that the ECB is using “downside risks” in its growth assessment. Actually, except for the period between April 2017 and December 2018, risks to the ECB’s growth assessment have always been to the downside since Mario Draghi took office.

## Still reluctant to decide on new liquidity operations

Ahead of today’s meeting, there had been a discussion about the possibility of new targeted and longer-term liquidity operations. Here, the ECB still seems to be very reluctant to take any imminent decision. Several times during the press conference, Draghi stressed that banks were now stronger than ten years ago. More interesting, Draghi literally said that “several members mentioned the issue”. Remember that back in December it was “some” and in October it was “a couple”. No significant change here.

## ECB is on higher alert

With today’s meeting, the ECB has joined the crowd of concern. The return of a downside risks to the growth assessment does not, yet, signal any policy changes but only a slight easing bias. Or to put it differently: the ECB also does not know where the eurozone economy is heading. Therefore, in terms of actual steps, not a lot has changed. The ECB will try to buy as much time as possible in the coming months to see how the March folly (Brexit, US-China trade talks, German automotives) will evolve. We will probably have to wait until the June meeting before the dust has settled. Until then, the ECB will be on higher alert than before. However, it will require a very benign outcome on all these risk factors to see Draghi hiking rates before he leaves office.

## 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 [www.ing.com](http://www.ing.com).