

## ECB: Minutes from December meeting show strong support for latest package

The just-released minutes of the European Central Bank's December meeting illustrate the strong support for the announced package as well as clear concerns about the economic outlook and low inflation. The strengthening of the euro is getting more and more attention



ECB President Christine Lagarde

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Back in early December, when the main stories in the eurozone were the rolling out of the vaccine amidst short-term disruptions from new lockdowns and rising infections, the ECB announced a new policy package, extending and increasing the level of monetary policy accommodation until March 2022. The just-released minutes of this meeting illustrate the ECB's broad support for this decision as well as concerns about the outlook for the eurozone economy and inflation.

Here are some highlights from the minutes:

- The December 2020 staff projections expected the eurozone economy to return to pre-crisis levels by mid-2022
- The ECB saw the balancing act between “positive news regarding the availability of vaccines on the medium-term outlook” and the “impact of the more negative latest news on

infection rates and containment measures in the short term”.

- The ECB showed clear concerns that “the second wave of the pandemic would not make the crisis deeper as a whole, but would make it more drawn out than previously anticipated. It was felt that a protracted curtailment of activity might inflict more lasting damage on a number of sectors, with heightened risks of rising insolvencies and unemployment affecting the medium-term outlook and more protracted scarring effects owing to the delay in the recovery.”
- The exchange rate is getting more and more attention as “it was pointed out that the nominal effective exchange rate currently stood at an all-time high and that the recent appreciation could contribute significantly to the subdued inflation outlook”. Also, the minutes said that “concerns were voiced over risks related to developments in the exchange rate that might have negative consequences for the inflation outlook”.
- As regards the decision to increase the size of the Pandemic Emergency Purchase Programme, some ECB members advocated a somewhat lower increase than the announced €500bn, given that “significant space for purchases was still available from past decisions and that in an environment of high uncertainty it was worth “keeping some powder dry” by maintaining the option to further adjust the envelope in the future”. Other members, however, argued in favour of a larger envelope to offset the ending of the additional asset purchases by €120bn for 2020.

## What to expect next

The next ECB meeting will take place next Thursday. After the December decision, it is clear that the ECB will want to stay on the sidelines for as long as possible. By extending and partly increasing the level of monetary policy accommodation until early 2022, there is very little the ECB can and would want to do. The short-term path of the eurozone economy will be determined by the virus, vaccine, lockdowns and fiscal stimulus, not additional monetary stimulus. In fact, and absent of any additional major economic accident, there are in our view only two factors which could trigger new ECB action in the coming months: a further rapid strengthening of the euro and an unexpected surge [in inflation expectations in financial markets](#). Let’s also be clear: any new action would first consist of words, not policy action.

## Author

### Carsten Brzeski

Global Head of Macro

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

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