

Minutes of ECB's December meeting once again confirm the 'good place' narrative

The just-released minutes of the ECB's December meeting confirm the ECB's wait-and-see stance in a macro environment, in which the base case looks very benign, but risks remain unusually high



ECB President Christine Lagarde at the World Economic Forum meeting in Davos

Remember that at its December meeting, the ECB kept interest rates on hold and didn't give any hint at what could be next. The just-released minutes of the meeting confirm this stance. In fact, the ECB had a discussion that every single economic research department currently is having: upside and downside risks, with a base case scenario that looks relatively benign.

In the past, former ECB president Mario Draghi always said that when in a dark room, you only move very cautiously and slowly. Despite lingering uncertainty, the ECB sees itself not in darkness but in a 'good place.' And when you're in a good place, there's no reason to leave.

Here are a few highlights from the minutes:

- Some ECB members brought back the 'Goldilocks' label. "The macroeconomic narrative of a recovery driven by domestic demand remained intact, while trade was expected to recover over the projection horizon." It was suggested that, overall, this looked almost like a "Goldilocks forecast." However, during the discussion, not everyone seemed to agree with

the Goldilocks idea, as there “were clear threats to the growth outlook and it would be misguided to use the 'Goldilocks' label.”

- Resilience doesn't mean strong growth. While the discussion on the base case scenario clearly stressed the unexpected strength of the eurozone economy, “it was argued that economic resilience did not constitute economic dynamism.”
- The ECB remains cautious on private consumption. “It was argued that private consumption was relatively fragile. Although consumption was expanding, it had not yet picked up strongly and, according to one view, it seemed unlikely to become the decisive engine behind the recovery.”
- Clearly concerned about Europe's geopolitical role, it didn't come as a surprise that the ECB remains concerned about the lack of structural reforms, stating that “Europe should make a conscious, strategic choice to assert a globally meaningful, independent role.”
- Two-sided risks to inflation. In the discussion on inflation, ECB members had somewhat diverging views, talking at length about upside and downside risks. As regards wage developments, some members argued “that wage growth posed an upside risk to the inflation projections. In particular, wage growth might no longer reflect mere catch-up effects but also rapid demographic change, with a large number of people retiring and immigration slowing, against the backdrop of an economic recovery with unemployment below the natural rate.”

No reason to move any time soon

Given all that is going on in the world, the ECB has almost become a beacon of continuity, some might even say boredom. The ECB simply calls it its ‘good place’, i.e., an economy that looks set to grow at around potential and inflation settling at around target. What else is not to like?

Well, maybe the high level of uncertainty, both in geopolitics and economic outcomes. Up to now, there has been a clear disconnect between geopolitics and macroeconomics. No one knows whether this disconnect will hold or whether one side of the equation will eventually move.

Either geopolitical risks slow down or the economy could eventually still weaken. But for now, the ECB remains comfortably in its good place. We expect policy rates to remain unchanged for the rest of the year. It would need strong positive or negative surprises to force the ECB back into action.

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