ECB minutes: Glimmers of doubt

The minutes of the October meeting of the ECB's Governing Council show some signs of doubt about the growth picture, though the ECB felt it was too soon to change its assessment. This could still happen in December though

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Moderating global growth

From the minutes of the October meeting of the Governing Council, it's clear that the central bank acknowledges a moderation of global growth and some tensions in financial markets. While this was also reflected in the slightly weaker economic data for the eurozone, the overall feeling was that the news flow was still consistent with the baseline scenario of an ongoing broad-based expansion. At the same time, the Governing Council remained confident that underlying inflation would pick up on the back of higher wages and the build-up of pipeline price pressures.

Downside risks

While there was broad agreement that at present the risks to growth could still be considered to be balanced overall, a remark was made that a number of arguments pointed towards risks to the growth outlook tilting to the downside. Indeed, all members agreed that the risks related to the external environment were pointing downwards. It was recalled that the September 2018 ECB staff projections had incorporated a small acceleration in quarterly growth rates in 2019, compared with the profile for 2018, which could be revisited. The publication of the December 2018 Eurosystem staff projections would provide an occasion for a more in-depth assessment.

No change in policy guidance

While the Governing Council decided to leave the communication regarding monetary policy unchanged, there was also broad agreement that in light of still prevailing uncertainties and only gradually rising underlying inflation, it was essential to remain prudent, patient and persistent with regards to monetary policy.

What about Italy?

Italy was mentioned only in general terms (with some tightening of monetary conditions in the country), there was no discussion on how the ECB would have to cope with a potential escalation of the situation. However, the remark was made that the maturity of some of the targeted longer-term refinancing operations would fall below one year in the course of the next year, which could impact the evolution of excess liquidity and might affect banks' liquidity position. Given the fact that Italian banks have been amongst the main beneficiaries of the TLTROs, it is clear that a new TLTRO could mitigate some of the monetary tightening in Italy caused by the significant increase in sovereign bond yields.

Down but not out

Our take on the discussion in the Governing Council is that the assessment of the growth outlook could be somewhat more downbeat in December, without becoming outright pessimistic. Therefore, it is still unlikely that the ECB will refrain from ending its net asset purchases in December. However, we wouldn't be surprised if December's statement has a whiff of doubt in it, which would limit expectations of a rate hike to at most one in 2019. As for a new TLTRO, it is probably too soon to pencil it in now. A new TLTRO is only likely to be considered if the situation in Italy really deteriorates in the course of 2019.

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