

## Increased hawkishness confirmed in ECB minutes

The just-released minutes of the European Central Bank's March meeting confirmed the official tone from the session and reflect many official statements since then: the ECB has become more hawkish



ECB President, Christine Lagarde's future options are somewhat limited

The European Central Bank is facing looming stagflation but according to the minutes, officials were not yet concerned that the eurozone economy is *immanently* facing such difficult conditions. This might only be a matter of definition. In any case, the minutes reflected the macro view of a more negative short-term outlook for the economy but still a strong belief in a gradual rebound in the second half of the year.

Inflation is now the main concern, with ECB members increasingly voicing worries about the staff projections' expected return of headline inflation to 1.9% in 2024 in the face of extraordinary shocks and possible turning points or regime shifts. Not for the first time, there appear to be several critical voices as to the technical assumptions of the forecasts, particularly the use of energy future prices at the current juncture.

Probably the most important message from the minutes is the paragraph that many members believed that the current high level of inflation and its persistence called for immediate further

steps towards monetary policy normalisation. That's a clear signal that the announced policy normalisation at the March meeting might not be sufficient. According to the minutes, some members even argued in favour of a firm end to the net asset purchase programme in the summer. The finally agreed phrasing - that these purchases could end in the third quarter, conditional on the inflation outlook - has clearly been a compromise.

## Looking at next week's meeting and beyond

Looking ahead, we still think that the ECB will make a clear distinction between policy normalisation and monetary policy tightening. Normalisation would include an end to net asset purchases and bringing the deposit rate back to zero. Tightening would be the start of a longer rate hike cycle, bringing rates close to, or even above, neutral levels (wherever these levels might be). Normalisation seems to be acceptable for both hawks and doves; there are only different views regarding the timing. Tightening is definitely not yet an option for the doves, nor for all hawks.

Next week's meeting is not one for actual policy action. There simply is too little hard data yet on the macro-economic implications of the war in Ukraine. And there simply is too much uncertainty about how the conflict will evolve. Staying put and continuing with the announced reduction of net asset purchases looks like the only viable option for now. However, given the latest market pricing of future ECB rate hikes and a lack of clarity around the ECB's exact reaction function in these times of high uncertainty, ECB President Christine Lagarde could find her options somewhat limited.

## Author

**Carsten Brzeski**

Global Head of Macro

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

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