Snap | 20 August 2020

ECB minutes: In one word, “uncertainty”

The minutes of the European Central Bank's July meeting can be summarised with one word: “uncertainty”. Uncertainty about the economic outlook and the pandemic is keeping the central bank on high alert

The ECB's inflation forecasts, in particular, suggest the current neutral stance on policy is the right one

The just-released minutes of the ECB’s July meeting illustrate that, at least in the current crisis, the ECB does not have any exclusive insights but is looking at the same developments like the rest of us. And the conclusion from looking at the available data is and was that the eurozone economy will see a sharp initial rebound, while the shape of the subsequent recovery is anything but clear. The word “uncertainty” appeared 20 times in the minutes.

During the discussion on the economic outlook, the ECB made the important distinction between rebound and recovery, by for example stating that “it was important to emphasise that, although economic activity was gaining momentum, there was no room for complacency.” The fact that the outlook for growth and inflation in the June staff projections was “conditional on substantial monetary policy support, while any premature tightening of financial conditions could put the ongoing recovery at risk”, shows that the current monetary stance is here to stay for a while.

Interestingly, there seems to have been at least a bit of a controversy during the discussion. Not surprisingly regarding the Pandemic Emergency Purchase Programme. Some ECB members argued that the total size of the PEPP purchases (€1.35 trillion) should be “considered a ceiling rather than a target”. When such a statement is followed by “the point was made that incoming data had surprised on the upside and some of the downside risks surrounding the outlook prevailing at the time of the Governing Council's June monetary policy meeting had receded", weathered ECB watchers know that opponents to quantitative easing have not given up their resistance, yet.

Looking ahead, the latest comments from senior ECB officials at the start of August underlined that the ECB remains on high alert. A blog entry by Chief Economist Philip Lane stressed that the ECB expects a very gradual recovery after the initial rebound and suggested a clear willingness to do more if needed in order to bring inflation back to target. In this regard, the next ECB meeting in September will probably come too early to take a more distinct position on the shape of the recovery but will definitely create some more headaches regarding the inflation outlook. The appreciation of the euro exchange rate over the summer months could lower the inflation forecasts almost mechanically by between 0.2 and 0.4 percentage points. Remember that in the June forecasts, inflation was expected to come in at 0.8% in 2021 and 1.3% in 2022. An inflation forecast of below 1% for 2022 would, in our view, be a strong invitation for additional monetary stimulus before the end of the year.

As uncertainty will defintely not have disappeared at the September meeting, the meeting will come too early for new action. However, new downward revisions to the inflation forecasts could be the trigger for fresh monetary stimulus before year end.

Author

Carsten Brzeski
Global Head of Macro
carsten.brzeski@ing.de