

## Minutes of ECB's September meeting add more colour to the 'good place'

The just-released minutes of the ECB's September meeting show a unanimous decision to keep interest rates on hold, viewing this approach as the most appropriate response to ongoing elevated uncertainty



ECB President Christine Lagarde

Here are some of the most relevant passages from the minutes:

- The ECB failed to specifically name Spain in its reference to exceptional performance, as well as sounding more confident about eurozone resilience. “Although the euro area economy had in the second quarter been more resilient than expected, this was largely due to the exceptional performance of the euro area’s fourth-largest economy. Other economies were not performing well, as also reflected in the visible softening of their respective labour markets.”
- The ECB increasingly doubts the drop in the household savings rate. “The projections were based on a decline in the household saving rate. The robustness of this assumption was questioned, given that uncertainty about the economy was not expected to fade any time soon, and it was normal for households, in such conditions, to save more for precautionary reasons.”

- There are growing concerns that Europe can live up to the 'global euro moment'. "While this message deserved the full support of the Governing Council, concerns were expressed that there was still insufficient drive for structural reform. In this context, it was observed that, according to the European Policy Innovation Council, only 11% of the Draghi report's proposals had been fully implemented one year on."
- Even though there is no official 'balance of risk' for inflation, the minutes state that "risks surrounding the inflation outlook were identified on both sides".
- Apparently, there are still more concerns about inflation undershooting than overshooting, as the minutes state that "several members viewed inflation risks as tilted to the downside", while "a few members viewed inflation risks as tilted to the upside."
- Keeping rates on hold as a means to tackle uncertainty. "The environment remained more uncertain than usual, especially because of the still volatile global trade policy environment, but also owing to geopolitical developments. Such uncertainty could also justify keeping interest rates unchanged. In particular, the current situation is likely to change materially at some point, but it is currently difficult to know when and in which direction."
- No deviating views on the decision to keep rates on hold. "All members supported the proposal made by Mr Lane to keep the three key ECB interest rates unchanged."

In short, even though the famous 'good place' is only mentioned twice in the minutes, it is clear that the ECB took an unchanged policy stance as the best option to tackle uncertainty. At the same time, the minutes seem to imply that the ECB's willingness to react to a changing macro backdrop is higher than markets think.

## Our base case sees the ECB staying on hold for the next two years, but...

Looking ahead, the bar for yet another rate cut from the European Central Bank remains high. In fact, the ECB currently feels very comfortable in what it calls a 'good place'. With the ECB's own growth forecasts seeing the eurozone economy growing by slightly more than 1% each year and inflation nicely settling down at 2% over the next few years, there is indeed very little reason to change its monetary policy stance.

At the same time, however, there are still some valid dovish arguments that could still force the central bank to cut further over the coming months. Just think of the delayed adverse impact of US tariffs, the stronger euro exchange rate, French politics or a delay in Germany's fiscal stimulus. If any of these downside risks still materialise, we can see the ECB engaging in one or two more rate cuts. If not, and this is our base case scenario, interest rates will remain on hold for the next two years.

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