

## ECB minutes show that the hawks are calling the shots

The European Central Bank hawks are calling the shots. The minutes of the ECB's April meeting just confirmed that the hawks increasingly have the upper hand in discussions. A rate hike in July is no longer uncertain, the only uncertainty is whether it will be 25bp or 50bp



The minutes of the ECB's April meeting provided more evidence that a majority of policymakers at the ECB have become increasingly concerned about the inflation outlook. The most important elements of the minutes are:

- Pipeline inflationary pressure. "The war in Ukraine and the pandemic measures in China suggested that pipeline pressures and bottlenecks were likely to intensify further, affecting consumer prices over a relatively long period of time."
- Fear of stronger wage growth. While the ECB currently only sees moderate wage pressure, "there could be little doubt that workers would eventually ask for compensation for the loss in real income." There was also evidence from different countries pointing to some heterogeneity across the eurozone.
- Greenflation. The accelerated decarbonisation and the attempt to increase Europe's energy independence was another factor structurally pushing up prices. Also, reshoring efforts

could reduce the disinflationary impact of globalisation on wages and inflation.

## Not whether the ECB will hike in July but by how much

As regards the next policy steps, several members claimed that the accommodative monetary stance “was no longer consistent with the inflation outlook”, arguing for a faster normalisation process. Otherwise, inflation expectations could continue to rise further from a level that is already above the Governing Council's target. Acting too late could also lead to second-round effects and “might have high economic, financial stability and credibility costs if the Governing Council were forced to tighten more aggressively at a later stage in order to re-anchor inflation expectations.”

All in all, the minutes confirmed the increasingly hawkish tone of many ECB members since the April meeting. There seems to be an eerie feeling that the ECB is acting too late and quickly needs to join the bandwagon of monetary policy normalisation. This means that the question is no longer whether the ECB should hike interest rates in July but by how much. Former ECB President Mario Draghi once said that “when in a dark room you move with tiny steps. You don't run but you do move”. It currently looks as if there is a growing majority at the ECB that wants not just to run but to sprint.

### Author

#### Carsten Brzeski

Global Head of Macro

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

### Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.