

Snap | 19 May 2022

## 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.

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