

Snap | 26 November 2020

## ECB: Preparing for December action

The minutes of the October ECB meeting display the central bank's concerns about the economic and inflation outlook but give very little away in terms of what it wants to do at the December meeting. We think an extension of favourable TLTROs, an increase in PEPP by up to 500bn euros and an emphasis on the role of the asset purchase programme will be on the cards



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The minutes of the ECB's October meeting confirmed the central bank's alertness on the weakening economic outlook, the impact of the second lockdown and the potential downward revisions of the ECB's projections. The minutes echoed the official wording at the October press conference that the risks surrounding the growth outlook are "clearly tilted to the downside".

During the discussion, the ECB did not only touch upon the short-term outlook but also emphasised: "the possibility that the pandemic might have longer-lasting effects both on the demand side and on the supply side, reducing potential growth". Also, the ECB showed concerns that the crisis could have longer-term effects on balance sheets of firms, households, banks and governments. In the discussion on policy instruments, ECB members highlighted both the TLTROs and PEPP as the most effective policy instruments.

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With exactly two more weeks to go until the next ECB meeting, the unity in official comments has been impressive. After the October meeting and Christine Lagarde's de facto commitment to deliver new policy action, the only question has been 'what' and not 'if' the ECB is going to do. Today's minutes and official comments so far have hardly given away anything.

Having said that, the Austrian central bank governor Robert Holzmann today broke this alliance, stating that a lower deposit rate wouldn't have any effect on the real economy.

In our view, we think the ECB will mainly focus on TLTROs and the PEPP as screws to turn on 10 December.

Focusing on these two instruments would be a continuation of the crisis mode and will probably be the best way forward to receive support from the ECB hawks, who in turn want to prevent the crisis measures from becoming permanent.

In short, an extension of (even more) favourable TLTROs, an increase in the PEPP by up to 500bn euro to ensure quantitative easing purchases continue at least until the end of 2021 as well as emphasising the role of the Asset Purchase Programme (the 'old' QE programme) in sustainably pushing up inflation look like the most likely outcome of the December meeting.

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