CENTRAL BANKS

ECB Minutes: 3 September meeting

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- The GC agreed not to take further measures at the meeting. Instead, it emphasised that appropriate communication of monetary policy remains essential.
- The GC underlined its willingness and ability to act, but it showed no signs of immediate action.
- For the time being, it prefers to communicate that it is maintaining a balance between not drawing premature conclusions and recognising that the downward risks have clearly increased.

The ECB released the minutes of the monetary policy conclusions of its 3 September meeting. The minutes confirmed the dovish tone struck by the ECB´s President at that meeting, **highlighting that there was broad agreement that downside risks to the outlook for both inflation and growth have increased.** In this context, **the Governing Council (GC) remained willing and able to act if necessary**. In particular, the minutes revealed that there **was also wide agreement for emphasising that the current programme would be fully implemented until the end of September 2016 and beyond** and, in any case, until a sustained adjustment in the path of inflation had been achieved, below but close to 2%. Moreover, there was broad agreement on not taking further measures at that meeting, and there was no discussion on possible measures.

On the inflation and growth outlook, the GC members were in general agreement that the downside risks have increased, largely reflecting the slowdown in emerging economies. Nevertheless, **participants broadly agreed that the central bank should avoid "drawing premature conclusions regarding a possible longer-lasting impact on the euro area outlook and policy implications."**

In particular, on the prices outlook, the GC members agreed that the risks were tilted to the downside, given lower commodity prices, a stronger euro exchange rate and a somewhat lower growth outlook. **Participants judged that it is key to distinguish whether the recent deterioration in the outlook for inflation is due to temporary factors or to more persistent factors.** They are unable to conclude, at this point in time and looking at a broad range of measures of underlying inflation, that "a turning point in inflation dynamic had been reached". Against this background, members highlighted the importance of closely examining developments in the measurement of underlying inflation, together with the need "for close monitoring of any possible signals of an unanchoring of inflation expectations."

Besides, **on the economic outlook,** the accounts showed that GC members are worried about the latest developments in China, but also highlighted that it would be premature to make a conclusion on their implications for the euro area from a medium-term perspective.

The minutes also point out that there was broad agreement among GC members that there was no need to act at the present meeting. Moreover, the accounts stressed the importance of finding the "the right balance between, on the one hand, not drawing premature conclusions on the lasting impact of the latest economic and financial developments and, on the other hand, recognising that downward risks had clearly increased." In this context, **the minutes revealed that the appropriate communication of monetary policy remains essential.**

Regarding implementation aspects of the APP (asset purchase programme), the minutes showed that the decision to increase the share issue limit from 25% to 33% (subject to a case-by-case verification that this would not create a situation whereby the Eurosystem would have minority blocking power), was made for two reasons: i) first, because the APP guidelines foresaw a review of the limit after the initial six months of purchases, and ii) because this decision benefits the exercise of the programme, enabling its smooth implementation.

On the execution of the APP, the minutes announced that from September to November 2015 purchases under the programme would again (as in the period from May to July) be somewhat frontloaded to prepare for the expected decline in market liquidity in December. In fact, in September the central bank surpassed the stated monthly target of EUR60bn, with EUR63bn in assets acquired.

The minutes confirmed that the ECB is committed to carrying out the full implementation of the APP until the end of September 2016, or beyond if necessary, and **underlined the possibility of making adjustments to the programme if needed.** However, the central bank **stressed the need not to take premature decisions on future steps in monetary policy**. Moreover, the accounts stressed that "the recent weakness in growth momentum and the renewed risks to the inflation outlook were mainly related to external factors, which were outside the control of monetary policy".

In this context, we consider that the most likely scenario is for the ECB to remain on hold in the near future.