

CENTRAL BANKS

ECB Minutes: 10 March meeting

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- A large majority of voting members supported the proposed policy package, but support for the various components of the package was varied.
- The ECB discussed introducing a negative-rate exemption, but finally this was rejected as "too complex."
- The minutes revealed that members do not rule out the possibility of further cuts if warranted by the outlook for price stability

The ECB released the monetary policy accounts of its 10 March meeting. The minutes confirm that a large majority of voting members supported the proposed policy package, but support for the various components of the package was varied. The accounts revealed that this decision arises as members widely agreed the need to reconsider the degree of monetary policy stance to try to counteract heightened risks to the ECB's price stability target.

The main part of the ECB's March meeting minutes focused on the monetary policy stance, and particularly, on the decision on additional monetary policy measures. There was broad agreement on the measures taken, but support for the various elements of the package was varied:

- Interest rate cuts.** There was broad support for the proposal to lower all the key ECB policy interest rates further. The ECB to cut the main policy rate by 5 bps to 0.0%, a historic low, the deposit facility rate by 10 bps to -0.40% and the marginal lending rate by 5 bps to 0.25%. However, different views were expressed about the costs and benefits of moving further into negative territory. Regarding the cut in the deposit facility rate, members broadly supported the cut of 10 basis points, although a sharper rate cut could be considered; finally, the proposed limited rate cut could be judged as appropriate for now. However, the minutes reveal that members do not rule out the possibility of further cuts if warranted by the outlook for price stability. Moreover, members discussed the possibility of introducing an exemption scheme for the deposit facility rate, in order to mitigate possible negative effects on bank profits. Finally this system was rejected, partly due to the complexity of the system and also because there was "little evidence" of the negative effects on banks' profitability.
- APP expansion.** The minutes showed that members widely agreed with the proposed sizeable expansion of the monthly purchases from EUR60 billion to EUR80 billion. Nonetheless, a few members voiced concerns as on previous occasions about a further expansion of asset purchases, with the view that this measure should remain as a contingency instrument, "to be used only as an *ultima ratio* in an adverse scenario."
- Broadening the scope of assets purchased under the APP** (to now include investment-grade euro-denominated bonds issued by non-bank corporations). Broad support was expressed for including corporate bonds. However, some members warned that this measure could lead to market distortions. "In the euro area, the market for these bonds was generally not very liquid or large." "The direct impact on corporate financing conditions and investment behaviour appeared doubtful, as the euro system (of central banks) would mainly purchase bonds from highly-rated, cash-rich corporations, whose financing costs were already very low."
- Introduction of a new round of four-year TLTROs (TLTRO II).** The minutes showed that there was very broad support among ECB members for the introduction of this measure in order to provide support for the bank lending channel. In this regard, the accounts also said that "very broad support" was expressed for the view that "TLTRO II would need to be equipped with strong price incentives to encourage new lending to the real economy." Nevertheless, a few members expressed concerns about these operations, warning that they could perpetuate banks' dependence on Eurosystem financing.

On the inflation outlook, the accounts revealed increased concerns among ECB members over potential second-round effects. In particular, the minutes stated that second-round effects might be larger than those incorporated into the staff projections.

Participants reiterated the necessity for other policy areas to support sustained output growth, stressing that monetary policy on its own was not sufficient. "A strong call was reiterated for other policy areas to step up."

The details of the March meeting minutes confirm that most of the GC members considered it appropriated to take further measures at that meeting. At the April monetary policy meeting the ECB is expected to remain on hold and to retain its dovish communication, repeating as it has long been doing that it is committed to further stimulus if needed. After the announcement of this package of measures, the ECB has less and less margin for manoeuvre while, as the minutes stressed, monetary policy measures should be accompanied by coordinated fiscal stimuli.

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