ECB: July Minutes Anticipate September Moves

- **Minutes from the ECB's July meeting tilt toward the upper end of expectations raised by the Governing Council's statement and President Draghi's press conference on July 25. The minutes largely confirmed calls for September rate cut(s) and additional policy moves to ensure a highly accommodative monetary policy stance.**
- **The minutes noted, however, that Governing Council may still not be wholly aligned around either a move to a more symmetric inflation target or some specific possible efforts to mitigate the impact of negative interest rates on banks, such as a tiered-rate system.**

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LIMITED MARGINAL NEW INFORMATION

The minutes from the European Central Bank's (ECB) July 24–25 meeting provide only limited marginal additional information beyond the Bank's July 25 statement that indicated the need for a "highly accommodative stance of monetary policy" and President Draghi's subsequent press conference that pointed to the likely launch in September of further stimulus measures.

Data since the July meeting have generally been soft. ECB Governing Council members attributed the causes of economic weakness up to end-July mainly to external factors—global trade battles, China's slowdown, and Brexit, amongst others—with the prospect of further downward revisions in the ECB's baseline projections.

Governing Council members were concerned that markets, businesses, and households are losing faith in the Bank's wherewithal to accelerate inflation. Nevertheless, the minutes show that Governing Council does not yet have unanimity on the urgency and degree of action needed to ensure both inflation expectations and outcomes are aligned with the ECB's medium-term target.

SEPTEMBER ACTIONS

The minutes confirmed four key points of possible action.

1. **A cut in the ECB's deposit facility rate.** Expectations remain centred on a 10 bps cut from -0.40% to -0.50%. Further cuts could be possible in the future.

2. **The initiation of work on "modalities for potential new net asset purchases" that we would expect to begin in January 2020.** We continue to look for monthly purchases of around EUR 40 to 50 bn per month for 12 months, in line with 66 to 80% of the value of monthly purchases that occurred through 2017. The bulk of these purchases would likely remain focused on sovereign debt, but corporate and covered bonds would be expected to feature more prominently as the ECB nears its self-imposed limit of 33% of any one Eurozone member's outstanding bonds. New modalities could feature, amongst other things, a relaxation of this rule and/or new scope to purchase equities.

3. **New interest-rate guidance with symmetry in the ECB's inflation target**. The July statement and press conference pointed to the Bank's "commitment to symmetry in the inflation aim", which did away with explicit reference to convergence to "below, but close to" the 2% inflation target. The minutes, however, indicate that some Governing Council members disagreed with this reformulation and appear to have argued that any consideration of target symmetry should be brought forward in the context of a fundamental strategy review.

4. **Measures to mitigate the impact of negative interest rates on banks, including a tiered-rate system.** The minutes imply that these measures remain up for discussion and are not a foregone conclusion, with some Governing Council members expressing concern that the tiered-rate proposal could carry with it unintended consequences. The ECB could also improve the terms of a new batch of its targeted longer-term refinancing operations (TLTROs) by lowering interest rates or extending their maturities.

A PACKAGE, NOT STEPS

The minutes noted that the various options should be seen as a package, i.e., a combination of instruments with significant complementarities and synergies, since experience has shown that a policy package—such as the combination of rate cuts and asset purchases—is more effective than a sequence of selected actions. This implies that a majority of Governing Council members are in favor of a package of new measures, rather than a series of stepwise changes. It's now clear that Council member Olli Rehn was echoing this point in his August 15 interview in which he emphasized that, "When you're working with financial markets, it's often better to overshoot than undershoot, and better to have a very strong package of policy measures than to tinker."

Altogether, the minutes tilt toward the upper end of expectations raised by Pres. Draghi in his press conference on July 25.

Finally, it's worth noting that the minutes again featured a call by ECB officials for Eurozone governments to use their available fiscal space. However, despite the softening of data since July 25, today also saw the Bundesbank indicate that it doesn't see the need for German fiscal stimulus under current circumstances. Thus, it's still not clear that further exceptional measures from the ECB will be met by coordinated fiscal stimulus from the Eurozone's largest economies.