

## ECB's October minutes: Delayed inflation normalization process leaves the door open for further policy stimulus in December

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- ECB's account of its monetary policy meeting on October 21-22 was largely consistent with the dovish comments by ECB President Mario Draghi at the October press conference, suggesting enhanced probability for further monetary policy easing at the December 3 meeting.
- The discussion in the Governing Council (GC) highlighted downside risks to the inflation outlook, with concerns expressed that the prolonged period of low inflation could last longer than previously anticipated. Although weak inflationary pressures are mainly due to lower oil prices, indirect effects on core inflation are significant in the present environment. The GC continues to expect euro area inflation to increase towards the ECB's inflation target of below, but close to, 2% over the medium term, albeit at a slower pace than previously expected.
- According to the ECB's October minutes, high-frequency indicators confirm a continued moderate euro area economic recovery, in line with the September 2015 ECB staff projections. Domestic demand continued to be resilient, supported by robust private consumption expenditures, external demand proved weaker than expected on subdued global trade growth and decelerating economic activity in emerging market economies.
- The account of the October monetary meeting underlined that although the ECB's expanded asset purchase programme (APP) was effective in expanding liquidity, supporting favorable financing conditions and ultimately reaching output and prices, a number of adverse external developments -i.e. persistently low oil prices, weakness in emerging economies and the postponement of the expected adjustment in policy rates in the United States- has generated increased uncertainty and has weighed on the achievement of the ECB's medium-term inflation target.
- As a result, the GC argued that it will have to re-examine the degree of monetary policy accommodation at its December 2015 monetary policy meeting, at the time of the release of updated Eurosystem staff macroeconomic projections. Additionally, ECB staff together with the relevant Eurosystem committees should conduct a technical analysis of the monetary policy stimulus achieved, review the available options and analyze their efficacy.

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- As regards to the possible options for monetary easing, an adjustment of the size, composition or duration of the APP is on the cards, dependent on progress in achieving a sustained adjustment in the inflation path towards ECB's target. Further lowering the deposit facility rate was also discussed as a possible measure, referring to the the experience in other jurisdictions, where negative rates had not appeared lead to any major difficulties or widespread substitution into cash.
- We continue to expect further monetary policy accommodation at the following ECB monetary policy meeting on December 3, given the downside risks to the euro area economic and inflation outlook stemming from the external environment. An extension of the time frame of asset purchases beyond September 2016 is highly likely, accompanied with a strengthening of its forward guidance. Nevertheless, an increase in the amount of its monthly purchases and/or a cut in the deposit rate by ca. 10bps cannot be ruled out. The updated staff December projections will probably be downgraded and the normalization of inflation will likely be pushed back again, providing the background for the announcement of further monetary policy easing.

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