The European Central Bank kept interest rates unchanged at record lows as investors wait for signs from President Mario Draghi on whether he’ll push for more stimulus for the euro area.

The 24-member Governing Council left the main refinancing rate at 0.05 percent at its meeting today in Frankfurt. The decision was predicted by all 55 economists in a Bloomberg News survey. The deposit rate remained at minus 0.2 percent and the marginal lending rate at 0.3 percent.

The focus now shifts to the press conference at 2:30 p.m., when Draghi will probably insist he can overcome divisions on the Governing Council to boost stimulus if needed. While he’s unlikely to announce major new measures yet, he may use the platform to hint at an expansion of asset purchases as soon as next month, when the ECB will publish new predictions for growth and inflation in the currency bloc.

“Draghi will take today’s press conference as an opportunity to reaffirm his leadership,” said Frederik Ducrozet, an economist at Credit Agricole CIB in Paris. “While the ECB probably won’t start buying sovereign bonds, he’ll send a message that he’s ready to act in December to further expand the balance sheet.”

Growing Dissent

One argument for more stimulus this year is that inflation remains stuck well below the central bank’s goal of just under 2 percent, even after a series of measures since June. The ECB has cut interest rates twice, offered cheap long-term loans to banks and embarked on covered-bond purchases. It also completed a yearlong review of lenders’ balance sheets that officials say will strengthen the financial system.

Draghi has repeatedly said ECB policy makers are unanimous in their willingness to add stimulus if needed to prevent a deflationary spiral of falling prices. Further options include purchases of corporate bonds or Japan-style buying of government debt.

In contrast, the U.S. Federal Reserve said last month that it’s ending its quantitative-easing program as the world’s biggest economy improves. The Bank of England left its key interest rate unchanged at a record-low 0.5 percent in London today and kept its bond-purchase program at 375 billion pounds ($598 billion).
Policy Divisions

QE could be difficult to sell in either of the ECB’s final two monetary-policy meetings of this year. Bundesbank President Jens Weidmann opposed the latest stimulus and his compatriots in Germany, the region’s largest economy, have argued that buying sovereign bonds constitutes monetary financing of governments.

Austria’s Ewald Nowotny joined Weidmann in opposing the plan to buy ABS, and Sabine Lautenschlaeger, the Executive Board’s newest member, has said “the balance between cost and benefit is at the moment negative” for some non-standard tools.

Reuters reported this week that as many as 10 policy makers are against sovereign QE, and that discomfort is mounting over Draghi’s management style. Former Fed Chairman Ben S. Bernanke said yesterday that the ECB will find it challenging to implement monetary easing on a large scale amid political and legal barriers.

The resistance may persuade Draghi to focus on existing programs for now. Officials will kick off the ABS program this month after they picked four financial companies to help execute the purchases. Draghi has indicated that he intends to boost the ECB’s assets by as much as 1 trillion euros ($1.25 trillion).

Economic Forecasts

“The latest data should allow the ECB to take a breather,” said Carsten Brzeski, chief economist at ING-DiBa in Frankfurt. “However, pressure on the ECB to do more is likely to flare up again, bringing the issue of how to ‘super-size’ the latest measures back to the forefront soon.”

Inflation in the currency bloc was 0.4 percent in October, barely improving from a five-year low of 0.3 percent in the previous month. Unemployment of 11.5 percent in September was still near a record.

The ECB currently predicts inflation of 0.6 percent this year and 1.1 percent in 2015, with economic growth of 0.9 percent and 1.6 percent, respectively. The European Commission lowered its own outlook for the region this week.

“The ECB will have to slash its staff projections,” said Holger Schmieding, chief economist at Berenberg Bank in London. “That will be a strong argument for loosening policy further.”

Draghi’s immediate action, if any, may be limited to minor tweaks. He could reduce the cost of the targeted-loan program, dubbed TLTRO, to make it more attractive, said Greg Fuzesi, an economist at JPMorgan Chase & Co. in London. The next operation will take place a week after the December policy meeting.

“The ECB will move to sovereign QE only as a last resort, if the macro data disappoint further and
if existing measures are shown to be insufficient,” Fuzesi said.

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