EUROPEAN CENTRAL BANK
EUROSYSTEM

MONETARY POLICY STATEMENT

Frankfurt am Main, 11 June 2026

PRESS CONFERENCE

Christine Lagarde, President of the ECB,
Boris Vujčić, Vice-President of the ECB

Good afternoon, the Vice-President and I welcome you to our press conference.

The Governing Council is committed to setting monetary policy to ensure that inflation stabilises at our two per cent target in the medium term. In line with this commitment, we today decided to raise the three key ECB interest rates by 25 basis points. The war in the Middle East is generating inflation pressures, and the decision to raise rates is robust across a range of scenarios mapping out how the shock might evolve and affect the medium-term outlook for the euro area.

In the baseline of the new Eurosystem staff projections, headline inflation is expected to average 3.0 per cent in 2026, 2.3 per cent in 2027 and 2.0 per cent in 2028. For inflation excluding energy and food, the baseline foresees an average of 2.5 per cent in 2026 and 2027 and 2.2 per cent in 2028. Compared with March, staff have revised up their baseline projection for inflation in 2026 and 2027 owing to a higher path for energy prices, which, to some extent, is expected to feed into food, goods and services inflation. The baseline sees economic growth at an average of 0.8 per cent in 2026, 1.2 per cent in 2027 and 1.5 per cent in 2028. This is a downward revision for 2026 and 2027, reflecting a more pronounced impact of the war on commodity markets, real incomes and confidence.

The outlook remains uncertain, with upside risks for inflation and downside risks for economic growth. The full implications of the war for medium-term inflation and growth will depend on the intensity and duration of the energy price shock, as well as the scale of its indirect and second-round effects. This uncertainty is also reflected in the broad range of outcomes for inflation and growth in the updated illustrative scenarios put together by Eurosystem staff. These will be published with the staff projections on our website.

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With today's decision, we remain well positioned to navigate the uncertainty caused by the war. We will closely monitor the situation and follow a data-dependent and meeting-by-meeting approach to determining the appropriate monetary policy stance. In particular, our interest rate decisions will be based on our assessment of the inflation outlook and the risks surrounding it, in light of the incoming economic and financial data, as well as the dynamics of underlying inflation and the strength of monetary policy transmission. We are not pre-committing to a particular rate path.

The decisions taken today are set out in a press release available on our website.

I will now outline in more detail how we see the economy and inflation developing and will then explain our assessment of financial and monetary conditions.

Economic activity

Adjusting for a temporary factor in Ireland, the euro area economy grew in the first quarter, supported by domestic demand and exports. Yet the war in the Middle East is weighing on activity and surveys are pointing to a slowdown, especially in services. Manufacturing has held up so far. In part, this is because firms have been building up stocks to cope with supply chain pressures. It also reflects higher defence spending.

The labour market remains resilient. Unemployment, at 6.3 per cent in April, remains close to historical lows. The first quarter saw additional jobs being created, although at a slower pace than in the last quarter of 2025. Labour demand has cooled further, and firms and households expect the labour market to weaken.

Looking ahead, staff now expect domestic demand to be weaker than they projected in March as the war weighs on confidence and higher energy costs erode real incomes. At the same time, household balance sheets are solid overall, and consumption should remain the main driver of growth. Higher energy costs and lower confidence will dent private investment in the short run, but it should be underpinned by firms investing in new digital technologies. Governments spending more on defence and infrastructure should continue to support public investment. These factors are expected to provide some cushioning against the fallout from the war.

The Governing Council highlights the urgent need to strengthen the euro area economy while maintaining sound public finances. Fiscal sustainability is a crucial anchor for broader economic stability. Fiscal responses to the energy price shock should be temporary, targeted and tailored, as

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emphasised in the European Commission's 2026 European Semester Spring Package. Reforms to enhance the euro area's growth potential and accelerate the energy transition to reduce reliance on fossil fuels are more vital than ever. Completing the savings and investments union is key to funding innovation, supporting the green and digital transitions and improving productivity. The digital euro and tokenised wholesale central bank money will enhance Europe's strategic autonomy, competitiveness and financial integration, and will boost innovation in payments. It is thus essential to swiftly adopt the Regulation on the establishment of the digital euro. Simplifying and harmonising rules across the EU's Single Market will help European firms grow faster.

Inflation

Inflation rose to 3.2 per cent in May, from 3.0 per cent in April. Energy price inflation ticked up to 10.9 per cent, after 10.8 per cent in April, while food price inflation fell from 2.4 per cent to 2.0 per cent. Inflation excluding energy and food picked up to 2.5 per cent, from 2.2 per cent in April, as goods inflation edged up to 0.9 per cent and services inflation increased from 3.0 per cent to 3.5 per cent.

Domestic cost pressures eased in the first quarter, supported by slower growth in wages and profits. The ECB's wage tracker and surveys on wage expectations continue to indicate that wage growth should ease over the year. However, it is becoming more expensive for firms to source other inputs and they therefore expect to put up their selling prices. Moreover, some indicators of underlying inflation have already been driven higher by the energy shock. Inflation expectations over shorter horizons remain well above levels before the outbreak of the war in the Middle East. At the same time, most measures of longer-term inflation expectations stand at around 2 per cent, supporting the stabilisation of inflation around target in the medium term.

The increase in energy prices will lift inflation further over the summer and keep it well above target into the first half of 2027. It will also have an impact on food, goods and services inflation. Inflation should then return to target in the second half of 2027, supported by falling energy prices and slower increases in other prices. However, the war in the Middle East remains a major source of uncertainty. The longer energy prices stay high, the more likely they are to drive up broader inflation through indirect and second-round effects. We will therefore closely monitor the size and persistence of the energy price increase, and how it feeds through to price and wage-setting, inflation expectations and overall economic dynamics.

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Risk assessment

The risks to the growth outlook are to the downside, mainly owing to the war in the Middle East, which has added to the volatile global policy environment. Prolonged disruption of energy supplies could increase energy prices further and for longer than currently expected. These factors would erode real incomes even more and make firms and households more reluctant to invest and spend. The drag on growth would intensify if the closure of major shipping routes were to cause acute shortages of key inputs that forced euro area firms to curtail output. A worsening of global financial market sentiment or a tighter supply of credit could dampen demand. Additional frictions in international trade could also further disrupt supply chains, reduce exports and weaken consumption and investment. Other geopolitical tensions, in particular Russia’s unjustified war against Ukraine, remain a major source of uncertainty. By contrast, growth could turn out to be higher if the economy and energy markets were to adapt more quickly than expected to the disruption caused by the war in the Middle East or if the war was resolved promptly and sustainably. Moreover, planned defence and infrastructure spending, reforms to enhance productivity and euro area firms adopting new technologies may drive up growth by more than expected. A deeper integration of the Single Market could also boost growth beyond current expectations.

The risks to the inflation outlook are to the upside. If energy prices were to rise by more and for longer than currently expected, euro area inflation would increase further. This could be reinforced and become more persistent if higher energy prices were to spill over by more than expected to other prices and to wages, if longer-term inflation expectations were to rise in response, or if global supply chains were disrupted more broadly. Ongoing trade tensions could also give rise to more fragmented global supply chains, curtail the supply of critical raw materials and worsen capacity constraints in the euro area economy. Extreme weather events, and the unfolding climate and nature crises more broadly, could drive up food prices by more than expected. By contrast, inflation could turn out to be somewhat lower if the economic effects of the war in the Middle East proved to be more short-lived than currently expected or if indirect or second-round effects proved less pronounced than anticipated. More volatile and risk-averse financial markets could weigh on demand and thereby lower inflation as well.

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Financial and monetary conditions

Financial conditions are broadly unchanged since our last meeting but remain tighter than before the war. The cost of issuing market-based debt rose to 4.0 per cent in April, from 3.9 per cent in March. Bank lending rates for firms remained at 3.6 per cent in April and mortgage rates at 3.4 per cent.

The annual growth rate of bank lending to firms increased to 3.4 per cent in April, from 3.2 per cent in March, while the growth rate of corporate bond issuance rose to 4.6 per cent. Mortgage lending in April again grew by 3.0 per cent.

In line with our monetary policy strategy, the Governing Council thoroughly assessed the links between monetary policy and financial stability. Euro area banks are resilient, supported by strong capital and liquidity ratios, solid asset quality and robust profitability. However, a sudden, sharp drop in asset prices, potentially amplified by the non-bank financial sector and deteriorating asset quality, particularly in energy and trade-sensitive sectors, would pose risks to financial stability. These risks increase the longer the current geopolitical conflicts last. Macroprudential policy remains the first line of defence against the build-up of financial vulnerabilities, enhancing resilience and preserving macroprudential space.

Conclusion

The Governing Council today decided to raise the three key ECB interest rates by 25 basis points. We are committed to setting monetary policy to ensure that inflation stabilises at our two per cent target in the medium term. We will follow a data-dependent and meeting-by-meeting approach to determining the appropriate monetary policy stance. Our interest rate decisions will be based on our assessment of the inflation outlook and the risks surrounding it, in light of the incoming economic and financial data, as well as the dynamics of underlying inflation and the strength of monetary policy transmission. We are not pre-committing to a particular rate path.

In any case, we stand ready to adjust all of our instruments within our mandate to ensure that inflation stabilises sustainably at our medium-term target and to preserve the smooth functioning of monetary policy transmission.

We are now ready to take your questions.

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