MONETARY POLICY STATEMENT

Berlin, 10 September 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. I would like to thank President Nagel for his kind hospitality and express our special gratitude to his staff for the excellent organisation of today's meeting of the Governing Council.

The Governing Council today decided to raise the three key ECB interest rates by 25 basis points. The conflict in the Middle East continues to generate inflation pressures, and inflation is set to remain well above target for an extended period. Today's decision underscores our commitment to setting monetary policy to ensure that inflation stabilises at our two per cent target in the medium term.

The baseline of the new ECB staff projections sees headline inflation averaging 3.0 per cent in 2026, 2.5 per cent in 2027 and 2.1 per cent in 2028. For inflation excluding energy and food, the baseline foresees 2.5 per cent in 2026, 2.6 per cent in 2027 and 2.3 per cent in 2028. Compared with June, the baseline projection for inflation in 2026 is unchanged, while it has been revised up for 2027 and 2028. The baseline projection for economic growth is 0.9 per cent for 2026, 1.4 per cent for 2027 and 1.5 per cent for 2028. This is an upward revision for both 2026 and 2027, mainly reflecting the greater than expected resilience of the euro area economy.

The outlook remains highly uncertain, with risks to the upside for inflation and to the downside for economic growth. In relation to the energy shock, the updated scenarios put together by staff illustrate the broad range of outcomes for how growth and inflation would evolve under different assumptions about its intensity and duration, as well as its indirect and second-round effects.

With today's decision, we remain well positioned to navigate the uncertainty caused by the conflict. We will 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

The economy proved resilient in the second quarter, despite headwinds from the energy shock. Growth was broad-based across countries and sectors. This pattern is likely to have continued into the third quarter. Manufacturing continues to perform solidly as governments spend more on defence and infrastructure. Consumer confidence has rebounded from low levels, helping services recover from the initial energy shock. Increased AI-related activity is visible in digital services, business investment and exports.

The labour market has remained robust, with the unemployment rate unchanged in July at 6.4 per cent. Growth in employment and the labour force continues to slow, while productivity has gradually picked up.

Looking ahead, the near-term growth outlook has improved compared with the last round of staff projections, reflecting, in particular, the resilience of private consumption and public spending. Over the medium term, consumption should be supported by gradually falling energy prices and a strong labour market. Growth will increasingly be bolstered by business and housing investment. Export growth should benefit from rising foreign demand but is being held back by competitiveness challenges and uncertainty about global trade policies.

Higher potential growth requires structural reform and has to be underpinned by sound public finances. Simplifying and harmonising rules across the EU’s Single Market, accelerating the energy transition and completing the savings and investments union are key building blocks. As the process for agreeing on the legal framework for the digital euro moves into its final stage, we reiterate the importance of reaching agreement on the Single Currency package as quickly as possible. Fiscal responses to the energy shock should be temporary, targeted and tailored.

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Inflation

Inflation increased to 3.3 per cent in August, from 2.9 per cent in July. Energy price inflation rose to 14.3 per cent, after 10.3 per cent in July. This increase is likely to reflect, in particular, a strong contribution from refining margins on liquid fuels, as well as higher energy commodity prices. Food price inflation remained unchanged at 1.2 per cent. Inflation excluding energy and food edged down to 2.4 per cent, from 2.5 per cent in July, with goods inflation increasing from 0.9 per cent to 1.2 per cent and services inflation falling from 3.3 per cent to 3.0 per cent.

Most measures of underlying inflation were broadly stable in July. Wages do not show a material response to the energy shock at this stage. Compensation per employee grew at an annual rate of 3.3 per cent in the second quarter, down from 3.5 per cent in the first quarter. Rising labour productivity has also helped contain growth in unit labour costs, which slowed to 2.6 per cent, from 3.5 per cent in the first quarter. At the same time, growth in unit profits rose from 0.3 per cent to 2.2 per cent. Looking ahead, the ECB’s wage tracker points to a modest uptick, to 2.7 per cent, in negotiated wage growth in the first half of 2027. Inflation expectations over shorter horizons remain at elevated levels, but 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 conflict in the Middle East and recent developments in Russia’s unjustified war against Ukraine have pushed the path of energy prices up further. This is likely to keep headline inflation well above target into the first half of 2027. Thereafter, energy inflation should decline and turn negative up to mid-2028, bringing headline inflation down. Higher energy prices are expected to feed through gradually to core and food price inflation. The improved economic outlook should also contribute to slightly higher core inflation, which is expected to keep rising until early 2027 and stay elevated for the rest of the year, before moderating in 2028. Overall, headline inflation is expected to return to around target towards the end of 2027, supported by the effects of higher interest rates. We will continue to monitor closely 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.

Risk assessment

The risks to the growth outlook are to the downside. This is due, in particular, to the Middle East conflict and developments in Russia’s unjustified war against Ukraine. Renewed disruption of energy supplies could cause energy prices to rise further and for longer than currently expected. This would weigh on real incomes, spending and investment. A worsening of global financial market sentiment or spillovers in global bond markets could tighten credit conditions and thereby dampen demand. A

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resurgence of trade tensions between major economies could also further disrupt supply chains, reduce exports and weaken consumption and investment. 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 ongoing conflicts or if these were resolved sustainably. Moreover, the adoption of new technologies by euro area firms and spending on defence and infrastructure, as well as reforms to enhance productivity and complete the EU's Single Market, may drive up growth by more than expected.

The risks to the inflation outlook are to the upside. This is due, in particular, to the Middle East conflict and developments in Russia's unjustified war against Ukraine. The energy shock could intensify further and its effects on other prices and wages could be stronger than currently expected. Gas prices, in particular, could increase in the event of further supply disruptions or an unusually cold winter coinciding with low storage levels. The longer energy prices stay high, the more likely they are to drive up broader inflation through indirect and second-round effects. Renewed trade tensions could 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, potentially reinforced by intensifying "El Niño" conditions, 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 lower if ongoing geopolitical conflicts were resolved sustainably or if indirect or second-round effects from the recent energy price shock proved less pronounced than anticipated. More volatile and risk-averse financial markets could weigh on demand and thereby lower inflation as well.

Financial and monetary conditions

Market interest rates have increased since our previous meeting, reflecting similar moves in global markets. Following our interest rate increase in June, bank lending rates for firms have risen, to stand at 3.8 per cent in June and July, from 3.6 per cent in May. The cost of market-based corporate debt stood at 4.0 per cent in July, which was similar to previous months and well above its level before the conflict in the Middle East. The annual growth rate of bank lending to firms, which usually responds to changes in monetary policy with a longer delay, increased further to 4.4 per cent in July, from 4.0 per cent in May and June. The annual growth rate of corporate bond issuance was 3.4 per cent, after 3.6 per cent in June and 3.3 per cent in May. Mortgage rates were unchanged in June and July, at 3.5 per cent, while mortgage lending growth softened to 3.0 per cent in July, from 3.1 per cent in May and June.

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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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