Rates steady, growth revised up

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- **As expected, the ECB kept rates unchanged (depo at 2.00%) in a unanimous decision.**
- **Lagarde reiterated that the ECB is in a "good place" but stressed that "all optionalities should remain on the table" amid high uncertainty.**
- **Growth projections were revised up, but the ECB remains cautious about drawing structural conclusions.**
- **Inflation was revised up in 2026 on persistent services inflation and wage surprises, though pressures are expected to ease.**

The ECB left all key interest rates unchanged at its December meeting, maintaining the deposit facility at 2.00%, the main refinancing operations rate at 2.15%, and the marginal lending facility at 2.40%. The decision was unanimous.

During the Q&A, President Lagarde reaffirmed that **monetary policy is in a “good place,” while stressing that the ECB remains flexible.** The Governing Council unanimously agreed to maintain a **data-dependent, meeting-by-meeting approach, with no pre-set path or forward guidance**. “There is no set date for any move,” she said, referring to ongoing geopolitical risks and global trade tensions. Despite the recent upside surprises in data, Lagarde highlighted that **uncertainty remains high**, with the ECB closely monitoring potential supply chain disruptions and other external shocks. She confirmed that the Council is **not discussing the timing or direction of any next move.** Asked about Isabel Schnabel’s recent comments suggesting she was comfortable with markets pricing in a potential hike, Lagarde clarified that the ECB is not pre-committing to any path and that all optionalities remain on the table.

Lagarde tried to tone down what could have been read as a hawkish, albeit largely **expected, upward macro revision** (see table below). The **growth outlook was revised up**, mainly reflecting stronger near-term domestic demand and **upside surprises in investment and exports**, initially linked to front-loading but proving somewhat more persistent. Investment has been broader than expected, with the private sector also contributing, partly linked to digitalisation and **AI-related spending**. That said, Lagarde stressed it is still **too early to conclude that this marks a structural shift** in the euro area’s growth profile, and trade is still expected to weigh on growth ahead. Despite better growth data, uncertainty remains high, while labour market tightness is starting to ease at the margin.

Inflation is still expected to converge to 2% over the medium term, but the 2026 forecast was revised higher, as expected, due to **more persistent services inflation** driven by stronger-than-expected wage growth. However, part of the wage surprise reflects one-off and catch-up effects, with wage pressures expected to ease. The **dip in 2027 inflation mainly reflects the delay in ETS2** (the tighter CO2 emissions trading system that would have an temporary impact of between 0% and 0.4% on inflation, according to the institution), with the return to target in 2028 driven by its implementation rather than underlying pressures.

Overall, while the ECB revised growth and inflation slightly higher, **Lagarde struck a cautious tone, reiterating the high level of uncertainty and avoiding any forward guidance.** The central bank is increasingly watchful of services inflation and wage dynamics, while also beginning to assess the structural impact of AI on growth. **Barring major surprises, the ECB appears set for a prolonged pause,** with depo rates at 2% through 2026 and well into 2027.

Negative driver | Positive driver

Annual. var. (%), unless otherwise indicated	2024	2025 ECB Dec.	2025 ECB Sep.	2026 ECB Dec.	2026 ECB Sep.	2027 ECB Dec.	2027 ECB Sep.	2028 ECB Dec.
Real GDP	0.9	**1.4**	1.2	**1.2**	1.0	**1.4**	1.3	**1.4**
HICP	2.4	**2.1**	2.1	**1.9**	1.7	**1.8**	1.9	**2.0**
HICP excluding energy and food	2.8	**2.4**	2.4	**2.2**	1.9	**1.9**	1.8	**2.0**
Unit labour costs	4.6	**3.3**	2.8	**2.6**	2.2	**2.0**	1.9	**2.1**
Compensation per employee	4.5	**4.0**	3.4	**3.2**	2.7	**2.9**	2.7	**3.0**
Labour productivity	-0.1	**0.7**	0.6	**0.6**	0.5	**0.9**	0.8	**0.9**
3-month EURIBOR	3.6	**2.2**	2.2	**2.0**	1.9	**2.1**	2.1	**2.3**
10-year government bond	2.9	**3.1**	3.1	**3.2**	3.4	**3.4**	3.6	**3.6**
Oil price (in USD/barrel)	81.2	**69.2**	69.7	**62.5**	65.1	**62.6**	65.1	**64.0**
Natural gas prices (EUR/MWh)	34.4	**36.5**	37.3	**29.6**	32.9	**27.5**	29.7	**25.0**
USD/EUR exchange rate	1.08	**1.13**	1.13	**1.16**	1.16	**1.16**	1.16	**1.16**
World real GDP (excl. EZ)	3.6	**3.5**	3.3	**3.3**	3.1	**3.3**	3.3	**3.3**
Global trade (excl. EZ)	4.3	**4.4**	2.8	**2.0**	1.5	**3.1**	3.1	**3.1**
Euro area foreign demand	3.7	**3.8**	2.8	**1.9**	1.4	**3.1**	3.1	**3.0**
World CPI (excl. EZ)	4.0	**3.1**	3.2	**2.8**	2.9	**2.5**	2.5	**2.6**

Source: ECB

PLEASE NOTE: TRACKING CHANGES IN FOLLOWING STATEMENTS

in grey, wording common to both the current and previous statements, in light grey and crossed, previous wording that was replaced by new wording, in blue and underlined (YES, TRACK CHANGES ARE THERE ON PURPOSE).

Christine Lagarde, President of the ECB,

Luis de Guindos, Vice-President of the ECB

~~Florence, 30 October~~Frankfurt am Main, 18 December 2025

Good afternoon, the Vice-President and I welcome you to our press conference. ~~I would like to thank Governor Panetta 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 keep the three key ECB interest rates unchanged. ~~Inflation remains close to our two per cent medium-term target and our~~Our updated assessment ~~of the~~reconfirms that inflation ~~outlook is broadly unchanged.~~ should stabilise at our two per cent target in the medium term.

The ~~economy has continued to grow despite the challenging global environment. The robust labour market, solid private sector balance sheets~~new Eurosystem staff projections show headline inflation averaging 2.1 per cent in 2025, 1.9 per cent in 2026, 1.8 per cent in 2027 and 2.0 per cent in 2028. For inflation excluding energy and food, staff project an average of 2.4 per cent in 2025, 2.2 per cent in 2026, 1.9 per cent in 2027 and ~~our past interest rate cuts~~ 2.0 per cent in 2028. Inflation has been revised up for 2026, mainly because staff now expect services inflation to decline more slowly. Economic growth is expected to be stronger than in the September projections, driven especially by domestic demand. Growth has been revised up to 1.4 per cent in 2025, 1.2 per cent in 2026 and 1.4 per cent in 2027 and is expected to remain ~~important sources of resilience. However, the outlook is still uncertain, owing particularly to ongoing global trade disputes and geopolitical tensions~~at 1.4 per cent in 2028.

We are determined 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. 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~~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 grew by 0.2 per cent in the third quarter of the year, according to Eurostat's preliminary flash estimate published today. The services sector continued to grow, boosted by strong tourism and, especially, by a pick-up in digital services. According to surveys, the pick-up reflects the fact that many firms have stepped up efforts to~~

~~modernise their IT infrastructures and integrate artificial intelligence into their operations. Meanwhile, manufacturing was held back by higher tariffs, still-heightened uncertainty and a stronger euro.~~

~~The divergence between~~The economy has been resilient. It grew by 0.3 per cent in the third quarter, mainly reflecting stronger consumption and investment. Exports also increased, with a significant contribution from chemicals. The sectoral composition of growth was dominated by services, especially in the information and communication sector, while activity in industry and construction remained flat. This pattern of services-led growth is likely to continue in the near term.

The economy is benefiting from a robust labour market. Unemployment, at 6.4 per cent in October, is close to its historical low, and employment grew by 0.2 per cent in the third quarter. At the same time, labour demand cooled further, with the job vacancy rate at its lowest level since the pandemic.

The staff projections see domestic ~~and external~~ demand ~~is likely to persist~~as the main engine of growth in the ~~near term. The economy~~years ahead. Real incomes are set to rise further and the saving rate should ~~benefit from consumers spending more as real incomes rise. Unemployment, at 6.3 per cent in September, remains close to its historical low, even though demand for labour has cooled. Households continue to save an unusually large proportion of their incomes, which should give them greater margin to increase spending further. Substantial~~gradually come down from its still high level, supporting consumption. Business investment and substantial government ~~expenditure~~spending on infrastructure and defence~~, as well as our past interest rate cuts,~~ should increasingly underpin ~~investment.~~

~~By contrast,~~ the ~~global~~economy. However, the challenging environment for global trade is likely to remain a drag~~. Goods exports declined from March to August, reversing the earlier frontloading of international trade ahead of recent tariff increases. New export orders in manufacturing point to further declines. The full impact of higher tariffs~~ on growth in the euro area ~~exports and manufacturing investment will only become visible over time~~this year and next.

The Governing Council stresses the urgent need to strengthen the euro area and its economy in the present geopolitical ~~environment, and we~~context. We welcome ~~EU leaders reaffirming this ambition at last week's Euro Summit. Fiscal and structural policies should boost productivity, competitiveness and resilience. It is essential to implement~~ the European Commission's ~~competitiveness roadmap swiftly. Governments should~~ call for governments to prioritise sustainable public finances, strategic investment and growth-enhancing structural reforms~~ and strategic investment, while ensuring sustainable public finances~~. Unlocking the full potential of the Single Market is crucial. It is also vital to foster further capital market integration by completing the savings and investments union and the banking union to an ambitious timetable, and to rapidly adopt the ~~regulation~~Regulation on the establishment of ~~a~~the digital euro.

~~The Governing Council is committed to making retail and wholesale central bank money fit for the digital age. In this vein, the Governing Council today decided to move to the next stage of the digital euro project. This will ensure technical readiness for potential issuance and support Europe's digital sovereignty once the legislation has been adopted. The details of this decision are available in a separate press release.~~

Inflation

Annual inflation ~~increased to 2.2 per cent~~has been in ~~September, from~~a narrow range since the spring and remained at 2.~~0~~1 per cent in ~~August. This was mainly because energy~~ November. Energy prices ~~fell by less~~were 0.5 per cent lower than ~~before. Energy~~ a year ago, after a larger decline in October. Food price inflation was ~~-0~~2.4 per cent~~ in September, up from -2.0~~, after 2.5 per cent in ~~August. Meanwhile, food price inflation eased to~~ October and 3.0 per cent in September~~, from 3.2 per cent in August.~~. Inflation excluding energy and food ~~rose to~~ was steady at 2.4 per cent, ~~from 2.3 per cent in August,~~ as goods and services inflation ~~ticked up~~moved in opposite directions. Goods inflation declined to 0.5 in November, from ~~3.1~~0.6 per cent ~~to 3.2 per cent, while goods inflation was again unchanged at~~in October and 0.8 per cent in September. Services inflation rose to 3.4 per cent in October and 3.5 per cent in November, from 3.2 per cent in September.

Indicators of underlying inflation have changed little over recent months and remain consistent with our two per cent medium-term target.~~ ~~ While ~~firms'~~growth in unit profits ~~are recovering,~~was unchanged in the third quarter, unit labour costs ~~are set to~~

~~moderate further owing to rising productivity and an easing in wage growth.~~grew at a slightly higher rate than in the second quarter. Compensation per employee rose at an annual rate of 4.0 per cent. This was more than expected in the September staff projections, and was due to payments over and above negotiated wages. Forward-looking indicators, such as the ECB's wage tracker and surveys on wage expectations, ~~point to slower~~suggest that wage growth ~~over the remainder of the year and the first half~~will ease in the coming quarters, before stabilising somewhat below 3 per cent towards the end of 2026.

Inflation should decline in the near term, mostly because past energy price rises will drop out of the annual rates. Staff expect it to stay below 2 per cent on average in 2026 and 2027, with energy inflation negative over most of this period and inflation excluding energy gradually declining. Inflation should then return to target in 2028, amid a strong rise in energy inflation. This in part reflects the upward effect on inflation of the EU Emissions Trading System 2, which is now expected to start in 2028, a year later than assumed in the September staff projections. Inflation excluding energy is projected to stabilise at around 2 per cent in the final years of the projection horizon.

Most measures of longer-term inflation expectations continue to stand at around 2 per cent, supporting the stabilisation of inflation around our target.

Risk assessment

~~The EU-US~~While trade ~~deal reached over the summer, the recently announced ceasefire in the Middle East and today's announcement of progress in the US-China trade negotiations~~tensions have ~~mitigated some of the downside risks to economic growth. At the same time~~eased, the still volatile ~~global trade~~international environment could disrupt supply chains, ~~further~~ dampen exports, and weigh on consumption and investment. A deterioration in global financial market sentiment could lead to tighter financing conditions, greater risk aversion and weaker growth. Geopolitical tensions, in particular Russia's unjustified war against Ukraine, remain a major source of uncertainty. By contrast, ~~higher than expected~~planned defence and infrastructure spending, together with productivity-enhancing reforms, ~~would add to~~may drive up growth~~.~~ by more than expected. An improvement in ~~business~~ confidence could stimulate private ~~investment. Sentiment could also be lifted and activity spurred if the remaining geopolitical tensions diminished, or if the remaining trade disputes were resolved faster than expected~~spending.

The outlook for inflation continues to be more uncertain than usual on account of the still volatile ~~global trade policy~~international environment. ~~A stronger euro could bring inflation down further than expected. Moreover, inflation~~Inflation could turn out to be lower if ~~higher~~the rise in US tariffs ~~lead to lower~~reduces demand for euro area exports and ~~induce~~if countries with overcapacity ~~to further~~ increase their exports to the euro area. Moreover, a stronger euro could bring inflation down further than expected. An increase in volatility and risk aversion in financial markets could weigh on ~~domestic~~ demand and thereby also lower inflation. By contrast, inflation could turn out to be higher if ~~a fragmentation of~~more fragmented global supply chains pushed up import prices, curtailed the supply of critical raw materials and added to capacity constraints in the ~~domestic economy.~~euro area economy. A slower reduction in wage pressures could delay the decline in services inflation. A boost in defence and infrastructure spending could also raise inflation over the medium term. Extreme weather events, and the unfolding climate and nature ~~crisis~~crises more broadly, could drive up food prices by more than expected.

Financial and monetary conditions

~~Since~~ Market rates have increased since our last meeting~~, market rates have remained broadly unchanged. Our past interest rate cuts have continued to reduce bank~~. Bank lending rates for firms~~, which averaged 3.~~ have been broadly stable since the summer, after falling in response to our policy rate cuts over the previous year. In October they stood at 3.5 per cent~~ in August. Meanwhile, the~~ , unchanged from September. The cost of issuing market-based debt ~~remained at~~was 3.~~5~~4 per cent~~ in August, as the longer-term yields on which such debt is priced have been relatively stable~~, also close to its September level. The average interest rate on new mortgages again held steady, at 3.3 per cent in October.

~~The annual growth rate of bank~~Bank lending to firms ~~edged down to~~ grew by 2.9 per cent on a yearly basis in ~~September, from 3.0 per cent in August. At the same time, corporate~~October, unchanged from September. Corporate bond issuance ~~slowed to 3.~~rose by 3.2 per cent ~~on a yearly basis. According to our latest bank~~, broadly unchanged as well. Mortgage lending ~~survey for~~strengthened, growing by 2.8 per cent after 2.6 per cent in September.

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. But geopolitical uncertainty and the possibility of a sudden repricing in global financial markets pose risks to financial stability in the euro area~~, credit standards for business loans tightened moderately in the third quarter, as banks became more concerned about the risks faced by their customers. Firms' demand for credit picked up slightly~~. Macroprudential policy remains the first line of defence against the build-up of financial vulnerabilities, enhancing resilience and preserving macroprudential space.

~~The average interest rate on new mortgages has barely changed since the start of the year and stood at 3.3 per cent in August. Growth in mortgage lending ticked up to 2.6 per cent in September, from 2.5 per cent in August, on the back of a further increase in demand and unchanged credit standards in the third quarter.~~

~~Growth in broad money – as measured by M3 – slowed to 2.8 per cent in September, down from 2.9 per cent in August and an average of 3.8 per cent over the first half of the year.~~

Conclusion

The Governing Council today decided to keep the three key ECB interest rates unchanged. We are determined 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.

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