

# ECB in wait-and-see mode

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- The ECB kept rates at 2%, with Lagarde reinforcing the message that policy remains in “a good place” as inflation converges to target over the medium term.
- The euro’s appreciation was acknowledged but largely played down, with its impact seen as already reflected in the outlook.
- Lagarde leaned into the euro’s longer-term role, highlighting ongoing work on liquidity tools, including repo lines.
- The macro tone was mildly upbeat, stressing growth resilience, treating the inflation undershoot as temporary and largely overlooking tighter credit conditions.

The ECB unanimously kept policy rates unchanged, holding the deposit facility rate at 2% and reinforcing the message that policy is firmly in a “good place”. Lagarde made clear that the Council is comfortable with inflation converging to 2% over the medium term and sees no need to pre-commit to any rate path, sticking instead to a strictly data-dependent, meeting-by-meeting approach amid elevated geopolitical and trade uncertainty.

The euro took centre stage in the discussion. Lagarde confirmed that the Governing Council has actively debated the currency’s appreciation but struck a relaxed tone, noting that most of the dollar’s depreciation dates back to early 2025 and that recent moves have remained range-bound. The ECB’s view is that the impact of a stronger euro is already embedded in the baseline, even as it continues to watch the pass-through closely.

Beyond near-term policy, Lagarde steered the conversation toward the euro’s longer-term ambition. She argued that a stronger international role for the currency is not about mechanical appreciation, but about building credibility through institutions, defence and infrastructure investment, and deeper trade integration. In that context, she revealed ongoing work on the ECB’s liquidity framework, notably repo lines, aimed at widening access for non-euro area central banks.

On the macro front, Lagarde struck a cautiously upbeat tone. Euro area resilience, buoyant AI-related investment and low unemployment were emphasised, while signs of cooling in labour demand were largely played down. The inflation undershoot was again framed as temporary and already priced into the baseline, as is the stronger euro, with risks judged to be broadly balanced. Notably, the latest Bank Lending Survey — which recently flagged tighter credit conditions and weak corporate loan demand — barely featured in the discussion.

Overall, the message was one of deliberate patience. The ECB appears content to sit at 2% for quite some time/many quarters, with inflation expectations anchored and activity holding up. With little urgency around either the euro’s strength or the inflation dip, the focus — particularly in the Q&A — shifted decisively toward longer-term themes such as structural reform, AI-driven investment and the global role of the euro, rather than imminent policy moves.

**PLEASE NOTE: TRACKING CHANGES IN FOLLOWING STATEMENTS**

**i** 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**

*Frankfurt am Main, 18 December 2025* 5 February 2026

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

We would like to begin by congratulating Bulgaria on joining the euro area on 1 January 2026. We also warmly welcome Dimitar Radev, the Governor of Българска народна банка (Bulgarian National Bank), to the Governing Council. Membership of the euro area has almost doubled since 1999 and is testimony to the attractiveness of the single currency and the enduring benefits of European integration.

We will now report on the outcome of today's meeting.

The Governing Council today decided to keep the three key ECB interest rates unchanged. Our updated assessment reconfirms that inflation should stabilise at our two per cent target in the medium term. The economy remains resilient in a challenging global environment. Low unemployment, solid private sector balance sheets, the gradual rollout of public spending on defence and infrastructure and the supportive effects of our past interest rate cuts are underpinning growth. At the same time, the outlook is still uncertain, owing particularly to ongoing global trade policy uncertainty and geopolitical tensions.

The 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 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 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 has been resilient. It grew by 0.3 per cent in the ~~third~~fourth quarter, mainly reflecting stronger consumption and investment. Exports also increased, with a significant contribution from chemicals. The sectoral composition of growth was dominated ~~2025, according to Eurostat's preliminary flash estimate. Growth has mainly been driven~~ by services, especially ~~notably~~ 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. ~~Manufacturing has been resilient despite~~ the near term ~~headwinds from global trade and geopolitical uncertainty. Momentum in construction is picking up, also supported by public investment.~~

The economy is benefiting from a robust ~~The~~ labour market. Unemployment, at 6.4 per cent in October, is close ~~continues~~ to its historical low, and employment grew by 0. ~~support incomes, even though demand for labour has cooled further. Unemployment stood at 6.2 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 demand as the main engine of growth in the years ahead. Real incomes are set to rise further and the ~~December, after 6.3 per cent in November. Growing labour incomes together with a lower household~~ saving rate should gradually come down from its still high level, supporting consumption. Business investment and substantial government ~~bolster~~ private consumption. Government spending on ~~defence and~~ infrastructure and defence should ~~also contribute to domestic~~ demand. Business investment should strengthen further, and surveys indicate that firms are increasingly ~~underpin~~ investing in new digital technologies. At the ~~economy. However~~ same time, the challenging ~~external~~ environment for global trade is ~~likely~~ remains challenging, owing to ~~remain~~ higher tariffs and a drag on growth in the ~~stronger~~ euro area this ~~over the past~~ year and next.

The Governing Council stresses the urgent need to strengthen the euro area and its economy in the present geopolitical context. ~~We welcome the European Commission's call for governments to~~ ~~Governments should~~ prioritise sustainable public finances, strategic investment and growth-enhancing structural reforms. Unlocking the full potential of the Single Market ~~is~~ ~~remains~~ crucial. It is also vital to foster ~~further~~ ~~greater~~ capital market integration by completing the savings and investments union and the banking union to an ambitious timetable, and to rapidly adopt the Regulation on the establishment of the digital euro.

## Inflation

Annual inflation has been in a narrow range since the spring. ~~Inflation declined to 1.7 per cent in January, from 2.0 per cent in December and remained at 2.1 per cent in November. Energy prices were~~ inflation dropped to -4.1 per cent, after -1.9 per cent in December and -0.5 per cent lower than a year ago, after a larger decline in October. ~~Feed~~ ~~in November, while food price inflation was increased to 2.4~~ 7 per cent, after ~~from~~ 2.5 per cent in October ~~December and 3.0~~ 2.4 per cent in September ~~November~~. Inflation excluding energy and food was steady at 2.4 per cent, as goods and ~~eased to 2.2 per cent, after 2.3 per cent in December and 2.4 per cent in November. Goods inflation edged up to 0.4 per cent, whereas~~ services inflation moved in opposite directions. Goods inflation declined to 0.5 in November, from 0.6 per cent in October and 0.8 per cent in September. Services inflation rose to 3.2 per cent, from 3.4 per cent in October ~~December~~ 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 Negotiated wage growth in unit profits was unchanged in the third quarter, unit labour costs 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~~ forward-looking indicators, such as the ECB's wage tracker and surveys on wage expectations, suggest that ~~point to a continued moderation in labour costs. However, the contribution to overall~~ wage growth will ease in the coming quarters, before stabilising somewhat below 3 per cent towards the end of 2026 ~~from payments over and above the negotiated wage component remains uncertain.~~

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

While trade tensions have eased, the still The euro area continues to face a volatile international global policy environment. A renewed increase in uncertainty could disrupt supply chains, dampen exports, and weigh on consumption and investment demand. A deterioration in global financial market sentiment could lead to tighter financing conditions, greater risk aversion and weaker growth. also dampen demand. Further frictions in international trade could disrupt supply chains, reduce exports and weaken consumption and investment. Geopolitical tensions, in particular Russia's unjustified war against Ukraine, remain a major source of uncertainty. By contrast, planned defence and infrastructure spending, together with the adoption of productivity-enhancing reforms and the adoption of new technologies by euro area firms, may drive up growth by more than expected. An improvement in, including through positive effects on business and consumer confidence. New trade agreements and a deeper integration of our European Single Market could stimulate private spending also boost growth beyond current expectations.

The outlook for inflation continues to be more uncertain than usual on account of the still volatile international global policy environment. Inflation could turn out to be lower if the rise in US tariffs reduces reduce demand for euro area exports by more than expected and if countries with overcapacity increase further their exports to the euro area. Moreover, a stronger euro could bring inflation down further than expected. An increase in volatility beyond current expectations. More volatile and risk-aversion in averse financial markets could weigh on demand and thereby also lower inflation. By contrast, inflation could turn out to be higher if there were a persistent upward shift in energy prices, or if more fragmented global supply chains pushed up import prices, curtailed the supply of critical raw materials and added to capacity constraints in the euro area economy. A slower reduction in wage pressures could delay the decline in growth moderated more slowly, services inflation. A might come down later than expected. The planned boost in defence and infrastructure spending could also raise cause inflation to pick up over the medium term. Extreme weather events, and the unfolding climate and nature crises more broadly, could drive up food prices by more than expected.

## Financial and monetary conditions

Market rates have increased come down since our last meeting, while global trade and geopolitical tensions temporarily increased financial market volatility. Bank lending rates for firms 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 ticked up to 3.6 per cent in December, from 3.5 per cent, unchanged from September. The in November, as did the cost of issuing market-based debt was 3.4 per cent, also close to its September level. The average interest rate on new mortgages again held steady, at 3.3 per cent in October December.

Bank lending to firms grew by 2.93.0 per cent on a yearly basis in October, unchanged from September. Corporate bond December, after 3.1 per cent in November and 2.9 per cent in October. The issuance of corporate bonds rose by 3.2 per cent, broadly unchanged as well. 4 per cent in December. According to our latest bank lending survey for the euro area, firms' demand for credit was up slightly in the fourth quarter, especially to finance inventories and working capital. At the same time, credit standards for business loans tightened again.

Mortgage lending strengthened, growing grew by 2.83.0 per cent, after 2.69 per cent in September November and 2.8 per cent in October, in response to still rising demand for loans and an easing of credit standards.

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. 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 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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