

ECB hikes, yet remains untied

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- The ECB raised rates by 25bp to 2.25% in a unanimous decision, arguing that the direct and indirect effect from the energy shock is spreading.
- New staff projections backed the hike, with core inflation revised up to 2.5% and growth only modestly downgraded.
- Lagarde stressed that second-round effects are not yet visible, allowing the ECB to keep a meeting-by-meeting approach without signalling another hike.
- Our baseline still points to no further hikes this year, assuming oil prices gradually retreat, but upside risks are rising as the conflict persists.

As expected, **the ECB raised its three key interest rates by 25bp**, taking the deposit facility rate to 2.25%. The decision was unanimous and, according to Lagarde, **endorsed “without reservation”**, with no alternative proposals discussed by the Governing Council. She stressed that the move is robust across all staff scenarios, including the updated adverse and severe scenarios as well as a newly introduced mild scenario.

Lagarde strongly rejected the idea that this was an “insurance” or pre-emptive hike. Instead, she argued that the decision reflects a major energy shock that has lasted longer than initially expected and is now broadening through the economy. **The ECB is already seeing direct and indirect effects** from higher energy prices, although **second-round effects are not yet visible**. In that sense, today’s move should simply be viewed as a monetary policy response to a shock that can no longer be treated as short-lived.

The updated projections (see table) provide the macro justification for the hike. **Growth was revised only modestly lower**, to 0.8% in 2026 and 1.2% in 2027, with Lagarde still describing the outlook as relatively decent despite the war shock. This looks constructive given that the staff figures include an ad-hoc adjustment to smooth the sharp decline in Ireland’s GDP, which would otherwise have dragged the 2026 profile materially lower.

The larger shift came on inflation, with headline inflation revised up to 3.0% in 2026 and 2.3% in 2027, while core inflation is now expected at 2.5% in both years. Importantly, **this was not accompanied by stronger wage revisions**. Lagarde stressed that wage indicators still point to moderation, second-round effects are not yet visible and longer-term inflation expectations remain broadly anchored. Instead, the ECB sees the energy shock broadening through direct and indirect channels, largely reflecting a **much higher oil price path** across the forecast horizon.

On future moves, Lagarde kept the ECB’s reaction function unchanged. Decisions will continue to be taken meeting by meeting, based on incoming data, with no pre-set rate path or forward guidance. She reiterated that, after today’s hike, **the ECB is “well positioned to navigate the uncertainty”** created by the war in the Middle East. Asked whether this marked the start of a hiking cycle, she avoided that characterisation and reiterated that future decisions will remain data-dependent.

Overall, today’s decision is consistent with the recent acceleration in inflation and the heightened uncertainty surrounding the global outlook. The new projections, with a sizeable upward revision to core inflation and only a modest downgrade to growth, clearly lean hawkish. However, **the ECB stopped short of signalling another move in July**. Whether rates rise again later this year will largely depend on the evolution of the conflict and energy prices. In our baseline, with oil prices following a downward path, another hike is not warranted and **we continue to expect the next move only around mid-2027**, taking the deposit rate to the neutral level of 2.5%. That said, inflation risks remain tilted to the upside and **an earlier move cannot be ruled out** if the conflict proves more persistent than expected.

 Negative driver
 Positive driver

Baseline scenario Annual var. (%), unless otherwise indicated	2026		2027		2028		
	2025	ECB Jun.	ECB Mar.	ECB Jun.	ECB Mar.	ECB Jun.	ECB Mar.
Real GDP	1.5	0.8	0.9	1.2	1.3	1.5	1.4
HICP	2.1	3.0	2.6	2.3	2.0	2.0	2.1
HICP excluding energy and food	2.4	2.5	2.3	2.5	2.2	2.2	2.1
Unit labour costs	3.1	2.8	3.0	2.4	2.3	2.2	2.1
Compensation per employee	3.9	3.2	3.4	3.2	3.2	3.2	3.1
Oil price (in USD/barrel)	69.1	96.9	81.3	82.2	72.1	77.1	70.2
Natural gas prices (EUR/MWh)	36.2	45.6	46.4	37.5	36.6	27.9	26.1

Source: ECB

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~~ Boris Vujčić, Vice-President of the ECB

Frankfurt am Main, ~~30 April~~ 11 June 2026

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

The Governing Council ~~today decided to keep the three key ECB interest rates unchanged. While the incoming information has been broadly consistent with our previous assessment of the inflation outlook, the upside risks to inflation and the downside risks to growth have intensified. We are~~ 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.

~~The war in~~ In the Middle East has led 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 sharp increase in higher path for energy prices, pushing up inflation and weighing on which, to some extent, is expected to feed into food, goods and services inflation. The baseline sees economic sentiment. The 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 economic activity growth will depend on the intensity and duration of the energy price shock and, as well as the scale of its indirect and second-round effects. The longer the war continues and the longer energy prices remain high, the stronger is This uncertainty is also reflected in the likely impact on broader broad range of outcomes for inflation and growth in the economy updated illustrative scenarios put together by Eurosystem staff. These will be published with the staff projections on our website.

~~We~~ With today's decision, we remain well positioned to navigate the ~~current uncertainty. The euro area entered this period of surging energy prices with inflation at around our two per cent target, and~~ caused by the economy has shown resilience over recent quarters. Longer-term inflation expectations remain well anchored, although inflation expectations over shorter horizons have moved up significantly.

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

The [Adjusting for a temporary factor in Ireland, the euro area economy was showing some momentum when the current turbulence started. Real GDP grew by 0.1 per cent in the first quarter of 2026, according to Eurostat's preliminary flash estimate. Domestic demand remains the main driver of growth, supported by a resilient labour market. However, the economic outlook is highly uncertain – \[domestic demand\]\(#\) and will depend on how long \[exports\]\(#\). \[Yet\]\(#\) the war in the Middle East lasts and how strongly it affects energy and other commodity markets, as well as global supply chains.](#)

The incoming information suggests that the conflict is [is weighing on economic activity](#). Surveys point to slowing growth, and consumers and businesses have become less confident about the future since the war began. Longer delivery times and rising input prices suggest supply chains [and surveys](#) are coming under pressure.

Looking ahead, high energy costs are expected to continue to weigh on real incomes, making households and [pointing to a slowdown, especially in services. Manufacturing has held up so far. In part, this is because firms are more reluctant to consume and invest. While unemployment remained \[have been building up stocks to cope with supply chain pressures. It also reflects higher defence spending.\]\(#\)](#)

[The labour market remains resilient. Unemployment, at 6.3 per cent in April, remains close to historical lows in March, at 6.2 per cent, labour.](#) 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, \[households\]\(#\) household balance sheets are still benefiting from a solid financial position, and 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 continue to be underpinned by \[governments\]\(#\) firms investing in new digital technologies. Governments spending more on defence and infrastructure and by firms increasingly investing in new digital technologies. This favourable starting point provides \[should continue to support public investment. These factors are expected to provide\]\(#\) 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 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, from 2.6 per cent in March and 1.9 per cent in February. The rise has been driven by surging energy prices caused by the war in the Middle East. Energy price inflation jumped to 10.9 per cent in April, after 10.8 per cent in March. Food price inflation edged up to 2.50 per cent in April. Inflation excluding energy and food decreased to 2.25 per cent, from 2.32 per cent in March, reflecting a fall in April, as goods inflation edged up to 0.9 per cent and services inflation, which declined to 3.0 per cent, from 3.2 per cent in March. Goods inflation went up to 0.8 per cent, from 0.5 per cent in March.

Indicators of underlying inflation have changed little over recent months. For now, 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 easing labour costs in the course of 2026. At the same time, surveys indicate an increase in that wage growth should ease over the year. However, it is becoming more expensive for firms to source other cost components and inputs and they therefore expect to put up their selling price expectations. Moreover, some indicators of underlying inflation have already been driven higher by the energy shock. Inflation expectations have moved up significantly over shorter horizons. Most 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 keep inflation further over the summer and keep it well above 2 per cent in the near term. A target into the period 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 impact on them are to drive up broader inflation through indirect and second-round effects intensifies. We will therefore closely monitor the size and persistence of the energy price surge, 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. The, mainly owing to the war in the Middle East remains a downside risk to the euro area economy, adding, which has added to the volatile global policy environment. Prolonged disruption of the supply 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 further dampen demand. Additional frictions in international trade could exacerbate also further disrupt supply chain disruptions 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 proved and energy markets were to be adapt more adaptable quickly than expected to the disruption caused by the war in the Middle East or if the conflict were war was resolved more quickly than currently expected 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. New trade agreements and 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 ~~and/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.

Financial and monetary conditions

The war in the Middle East has caused significant volatility in global financial markets. Overall financial 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 3.4.0 per cent in April, from 3.9 per cent in March, from 3.5 per cent in February.~~ Bank lending rates for firms —based on data recorded prior to the war— edged down to 3.5 per cent in February, while mortgage rates 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, from 3.0 per cent in February, while the growth rate of corporate bond issuance ~~fell~~ rose to 3.94.6 per cent, from 4.5 per cent in February. Credit standards for loans to firms tightened in the first quarter, as reported in our latest bank-lending survey for the euro area. This tightening was due to banks becoming more concerned about the economic risks faced by their customers. Demand for loans to firms decreased slightly in the first quarter, especially for fixed-investment.

~~Mortgage lending in April again~~ grew by 3.0 per cent in March, after 3.1 per cent in February, amid a small-tightening in credit standards and unchanged demand.

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 ~~keep~~ raise the three key ECB interest rates ~~unchanged~~ 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.

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