BBVA Research

ECB hikes, December looms larger

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- **The ECB delivered another 25bp hike to 2.50% in a unanimous decision. Lagarde gave no guidance on what comes next.**
- **The new projections show a relatively upbeat growth outlook, while revising inflation higher and keeping it above target well into 2028.**
- **We now expect another 25bp hike towards the end of the year, taking the deposit rate to 2.75%, with further upside risk if the conflict and energy shock persist.**

The ECB delivered the expected 25bp hike, taking the deposit facility rate to 2.50%. **The decision was unanimous** and Lagarde described it as a “no-brainer”, reflecting continued inflationary pressures from the conflict in the Middle East, with **inflation expected to remain well above target for an extended period**. She also stressed that the move is robust across all three updated staff scenarios.

What comes next is much less clear. Lagarde said **the Governing Council focused entirely on today’s decision** and did not discuss either the future rate path or the likelihood of further hikes. The message therefore remains unchanged. Decisions will continue to be taken meeting by meeting, based on incoming data, with no pre-set path or forward guidance.

At 2.50%, **the deposit rate is now around the upper end of the ECB’s estimated neutral range**. Even so, Lagarde played down the relevance of that threshold, describing neutral as a continuously evolving and “highly conceptual” range that is especially difficult to pin down in an economy repeatedly hit by shocks. In practice, this suggests that **2.50% should not be seen as a hard ceiling.**

The new staff projections remain relatively upbeat on growth, particularly for 2027, reflecting stronger-than-expected resilience and broad-based momentum across countries and sectors despite the failed truce. Defence, infrastructure and AI-related activity continue to provide support. Still, in our view, a prolonged conflict could increasingly weigh on household consumption, which remains one of the strengths highlighted by the ECB.

The inflation outlook is less positive. **The new projections keep inflation above target for longer**, with a return to around 2% only towards the end of 2028. The baseline already incorporates a gradual pass-through from higher energy prices into core and food inflation, but still assumes **relatively limited indirect and second-round effects** overall. So far, those effects remain contained. Wages show no material response to the energy shock, while food inflation surprised to the downside, something Lagarde linked partly to milder weather earlier in the year.

Overall, the ECB delivered what markets had largely priced in after the latest growth and inflation data and recent comments from key Governing Council members. More importantly, **the new projections leave room for further tightening**. Growth remains relatively resilient, while inflation stays above 2% well into 2028. **We now expect another 25bp hike towards the end of the year**, taking the deposit rate to 2.75%. Risks around the energy outlook remain clearly tilted to the upside, with the ECB’s alternative scenarios reinforcing the possibility of a stronger inflation path if the conflict drags on.

Negative driver | Positive driver

Baseline scenario Annual. var. (%), unless otherwise indicated	2025	2026 ECB Sep.	2026 ECB Jun.	2027 ECB Sep.	2027 ECB Jun.	2028 ECB Sep.	2028 ECB Jun.
Real GDP	1.3	**0.9**	0.8	**1.4**	1.2	**1.5**	1.5
HICP	2.1	**3.0**	3.0	**2.5**	2.3	**2.1**	2.0
HICP excluding energy and food	2.4	**2.5**	2.5	**2.6**	2.5	**2.3**	2.2
Compensation per employee	3.8	**3.3**	3.2	**3.3**	3.2	**3.3**	3.2
Oil price (in USD/barrel)	69.1	**89.5**	96.9	**78.0**	82.2	**73.6**	77.1
Natural gas prices (EUR/MWh)	36.2	**51.0**	45.6	**43.3**	37.5	**30.3**	27.9

Source: ECB

Alternative scenarios Annual. var. (%), unless otherwise indicated	2026 Milder ECB Sep.	2026 Adverse ECB Sep.	2026 Severe ECB Sep.	2027 Milder ECB Sep.	2027 Adverse ECB Sep.	2027 Severe ECB Sep.	2028 Milder ECB Sep.	2028 Adverse ECB Sep.	2028 Severe ECB Sep.
Real GDP	0.9	0.9	0.8	1.5	1.1	0.4	1.6	1.4	1.4
HICP	2.9	3.1	3.3	1.9	3.2	5.4	1.8	2.3	3.2
HICP excluding energy and food	2.5	2.5	2.5	2.5	2.8	3.5	2.2	2.4	3.2
Oil price (in USD/barrel)	84.6	90.4	98.5	66.4	91.9	123.7	62.2	86.6	117.0
Natural gas prices	49.0	55.7	68.9	35.1	55.4	89.4	23.7	39.6	63.0

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,

Boris Vujčić, Vice-President of the ECB

~~Frankfurt am Main, 23 July~~Berlin, 10 September 2026

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 ~~keep~~raise the three key ECB interest rates ~~unchanged.~~by 25 basis points. The ~~outlook for energy prices, while highly volatile, currently stands close to the baseline of the June Eurosystem staff projections and well above the levels recorded prior to the~~ conflict in the Middle East~~. Uncertainty remains high~~ continues to generate inflation pressures, and ~~the full inflationary impact of the energy shock has yet to play out. We are therefore closely monitoring the intensity and duration of the shock, as well as its indirect and second-round effects. We are committed~~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~~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

~~Recent information points to some improvement in economic activity in the second quarter, even though the conflict in the Middle East remained a headwind. Surveys suggest that activity in the services sector has partly recovered, after weakening markedly in the immediate aftermath of the energy shock. Digital services have been robust, in part owing to the increasing contribution from AI-related activity. Manufacturing has continued to hold up, supported by firms building up stocks to guard against supply chain risks, as well as by higher defence spending. Unemployment stood at 6.2% in May, close to historical lows. At the same time, job postings have continued to decline and both firms and households expect the labour market to remain weaker than before the conflict.~~

~~Forward-looking indicators suggest that economic growth will remain modest in the near term, weighed down by the energy shock and related uncertainties. Yet the fundamental drivers of medium-term growth remain intact. Private consumption, investment in new digital technologies, government spending on defence and infrastructure, and some recovery in exports should all contribute to overall growth momentum.~~

~~The Governing Council reiterates its call for urgent action to strengthen the euro area economy while maintaining~~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~~. The positive vote in the European Parliament earlier this month was a significant milestone on the path to establishing the digital euro. We welcome the shared objective of the Parliament, EU Council and Commission of reaching agreement by the end of this year on the Single Currency Package. The digital euro will complement physical cash with its digital equivalent, providing a means of payment for any digital transaction throughout the euro area~~.

Inflation

Inflation ~~declined~~increased to ~~2.8~~ 3.3 per cent in ~~June~~August, from ~~3.~~2.9 per cent in ~~May~~July. Energy price inflation ~~declined~~rose to ~~8.5~~ 14.3 per cent, after 10.~~8~~3 per cent in ~~May, while food~~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 ~~fell from~~remained unchanged at 1.~~9 per cent to 1.5~~2 per cent. Inflation excluding energy and food ~~eased~~edged down to 2.4 per cent, from 2.~~6~~5 per cent in ~~May~~July, with goods inflation ~~decreasing~~increasing from 0.9 per cent to ~~0.7~~ 1.2 per cent and services inflation falling from 3.~~5~~3 per cent to 3.~~2~~0 per cent.

~~The energy shock continues to feed into higher prices. It is becoming more expensive for firms to source inputs and they therefore expect to put up their selling prices. While developments in~~ Most measures of underlying inflation ~~have remained contained, the full effects of~~ were broadly stable in July. Wages do not show a material response to the energy shock ~~have yet to play out. The ECB's wage tracker and surveys on wage expectations continue to indicate moderate wage growth over the coming quarters.~~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~~. Most~~, 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.

~~While energy price inflation declined in June, its rise since the start of the~~ The conflict ~~– and its impact on food, goods and services price inflation –~~ 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. ~~Inflation~~ Thereafter, energy inflation should ~~then~~ decline~~, as~~ and turn negative up to mid-2028, bringing headline inflation down. Higher energy prices are expected to ~~fall and other prices~~feed through gradually to core and food price inflation. The improved economic outlook should ~~rise more slowly. However, the conflict remains a major source of uncertainty.~~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 ~~are therefore~~will continue to monitor closely ~~monitoring~~ 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. ~~While the Memorandum of Understanding agreed between the United States and Iran~~This is due, in ~~June constituted a first attempt~~particular, to ~~resolve~~ the Middle East conflict~~, recent weeks have brought renewed setbacks and the geopolitical situation remains fragile.~~ and developments in Russia's unjustified war against Ukraine. Renewed disruption of energy supplies could ~~increase~~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 ~~a tighter supply of~~ spillovers in global bond markets could tighten credit ~~could~~ conditions and thereby dampen demand. ~~Additional frictions in international trade~~A resurgence of trade tensions between major economies 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 ~~conflict in the Middle East~~ongoing conflicts or if ~~the conflict was~~these were resolved sustainably. Moreover, ~~planned~~the adoption of new technologies by euro area firms and spending on defence and infrastructure ~~spending, and~~, as well as reforms to enhance productivity and complete the EU's Single Market~~, as well as euro area firms adopting new technologies~~, 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. ~~Ongoing~~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~~ – as illustrated by the ongoing heatwaves –~~, 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 ~~the conflict in the Middle East was~~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

~~Overall financial conditions~~Market interest rates have ~~become slightly tighter~~ increased since our previous meeting, ~~consistent with the~~ reflecting similar moves in global markets. Following our interest rate increase in ~~the key ECB interest rates. Bank~~June, bank lending rates for firms have risen, to stand at 3.8 per cent in June and ~~the~~ July, from 3.6 per cent in May. The cost of ~~issuing~~ market-based corporate debt ~~remained unchanged in May,~~stood at ~~3.6~~ 4.0 per cent in July, which was similar to previous months and ~~4.0 per cent respectively~~well above its level before the conflict in the Middle East. The annual growth rate of bank lending to firms~~ increased~~, which usually responds to changes in monetary policy with a longer delay, increased further to 4.~~0 per cent, from 3.~~4 per cent in ~~April, but this was partly offset by slower~~July, from 4.0 per cent in May and June. The annual growth ~~in~~rate of corporate bond issuance~~, which fell from 4.5 per cent to~~ was 3.4 per cent~~. Credit standards for business loans tightened somewhat in the second quarter, as reported in our latest bank lending survey for the euro area. Demand for loans to firms increased slightly, driven by higher working capital needs but also by borrowing for fixed investment by large firms.~~

, after 3.6 per cent in June and 3.3 per cent in May. Mortgage rates ~~rose to~~were unchanged in June and July, at 3.5 per cent~~ in May, after 3.4 per cent in April~~, while mortgage lending growth ~~edged up~~softened to 3.0 per cent in July, from 3.1~~ per cent. Credit standards for mortgages tightened in the second quarter as banks became more concerned about the economic risks faced by their customers and less willing to take on risks themselves. Demand for mortgages decreased on the back of deteriorating consumer confidence and higher interest rates~~ per cent in May and June.

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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