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Transcript

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. Our updated assessment reconfirms that inflation should stabilise at our two per cent target in the medium term.

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 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 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 demand as the main engine of growth in the years ahead. Real incomes are set to rise further and the saving rate should gradually come down from its still high level, supporting consumption. Business investment and substantial government spending on infrastructure and defence should increasingly underpin the economy. However, the challenging environment for global trade is likely to remain a drag on growth in the euro area this 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 prioritise sustainable public finances, strategic investment and growth-enhancing structural reforms. 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 on the establishment of the digital euro.

Inflation

Annual inflation has been in a narrow range since the spring and remained at 2.1 per cent in November. Energy prices were 0.5 per cent lower than a year ago, after a larger decline in October. Food price inflation was 2.4 per cent, after 2.5 per cent in October and 3.0 per cent in September. Inflation excluding energy and food was steady at 2.4 per cent, as goods and 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 3.4 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 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-looking indicators, such as the ECB's wage tracker and surveys on wage expectations, suggest that wage growth 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

While trade tensions have eased, the still volatile international environment could disrupt supply chains, 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, planned defence and infrastructure spending, together with productivity-enhancing reforms, may drive up growth by more than expected. An improvement in confidence could stimulate private spending.

The outlook for inflation continues to be more uncertain than usual on account of the still volatile international environment. Inflation could turn out to be lower if the rise in US tariffs reduces demand for euro area exports and if countries with overcapacity 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 demand and thereby also lower inflation. By contrast, inflation could turn out to be higher 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 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 crises more broadly, could drive up food prices by more than expected.

Financial and monetary conditions

Market rates have increased since our last meeting. 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 3.5 per cent, unchanged from September. 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.

Bank lending to firms grew by 2.9 per cent on a yearly basis in October, unchanged from September. Corporate bond issuance rose by 3.2 per cent, broadly unchanged as well. Mortgage lending 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. 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.

We are now ready to take your questions.



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Two questions, President Lagarde. The first one is about interest rates, and the question is: Are we still in a good place? Whenever the interest rate moves next time, is it more likely to go up or down? Do you have clarity on that?

The second question is about economic growth, given your second straight, fairly large revision in the growth outlook. Is this just simply resilience to uncertainty, or should we be rethinking our entire assessment of the growth profile? Are we catching perhaps a windfall from the AI boom? Are firms more resilient and adapting to the new reality better? Is there some fundamental change about growth, or is it just a one-off improvement?

On interest rate, we reconfirmed that we are in a good place, which does not mean that we are static. There was a unanimous decision that was taken today concerning the rates that we decided to hold, but there was also a unanimous view that all optionalities should remain on the table and that we would stick to the meeting-by-meeting, data-dependent approach, with no rate path set and no set date for any move, and it was a unanimous view around the table. So I think that addresses your first question.

Your second question is, always an interesting question from you, but it's an interesting question because it raises issues that we will probably review in deeper detail at our February meeting, because we will also be looking at the surveillance report that we produce, we will be looking at the fiscal policy note, we might look also at the supply side review to go a bit deeper in some of the facts that would answer your question.

We think that there is some change taking place in our economies, and if you look in particular at the drivers and what has surprised us on the upside, it's characteristically investment, and it's not just spending by the public sector, which there is. But it's also the private sector, the corporate sector, both large corporates but also SMEs as well. And their investment, based on the data that we collect, based on the surveys that we conduct, is largely attributable to the development of AI. And AI takes multi-facets, but certainly computer capacity, telecommunication, additional investment in intangible – more than tangible – CapEx is really characteristic of what we are seeing at the moment.

So that is something that we can already analyse, but I think we will be able to go a bit deeper in February, as we will see a bit of a longer interval to determine whether that's a long-lasting fact that is characteristic of this new growth, but that is clearly in play.

The second one, which came as a bit of a surprise to us, is the contribution of exports. We had anticipated that exports – particularly out of the chemical industry, and out of Ireland notably, but not only – would really correspond to a build-up of inventory and to a front-



loading in the early months after the decision to increase tariff or pre-decision to increase tariff. Well, that has been sustainable, and the contribution of exports has surprised us on the upside.

So, we don't know whether it's entirely attributable to the weight-losing drugs that are largely exported or to other phenomena, but the contribution of export has surprised on the upside, when in fact we believe that trade is more likely, as a result of tariffs, to be a drag on growth going forward. So that's also something that we will be attentive to.

I have a question as well, going back to Isabel Schnabel's comment on the rate hike: Are you as comfortable with how the market is pricing in the current rate expectation as she is?

Second question is on the fiscal stimulus in Germany: We were waiting for that for this year; now there's hope it comes next year. What is your assessment on what it does to other countries in the euro area when it comes to the growth outlook for the whole?

You know, certain things have changed and others have not changed. So, when we look at activity, we have upgraded our projections. They've moved to the upside, across the projection period. When we look at inflation, we've also increased our inflation projection for 2026 and we have taken into account the movement from 2027 to 2028. So there are lots of things that have moved in that respect.

One thing that has not changed much at all and which, if anything, may have actually worsened is uncertainty. And uncertainty is not a comfortable position. So I think we all suffer from that degree of lack of comfort. And we are all attentive to uncertainty: how it pans out, whether it's uncertainty related to geopolitics, whether it's uncertainty related to the movement of trade from countries with overcapacity in particular, what happens at the borders of Europe. So there are lots of factors that are in play and that will evolve over the course of 2026 that are generating uncertainty.

As far as the future is concerned, as I told your colleague just earlier on, there was unanimous agreement around the table about the fact that all optionalities should be on the table and that we should stick to the meeting-by-meeting approach, to the data dependency – and we will be looking at all sorts of data in the field of wages, salaries, the decomposition of it; we will be particularly attentive because it plays a significant role in relation to services – and we do not have a set path for our rates going forward.

I know everybody would like some forward guidance, but in the current situation, with the degree of uncertainty that we are facing, we simply cannot offer forward guidance.



Now, your second question related to government spending, public investment: we take into account the documents that are filed by the various Member States with the Commission to review the path of investments going forward, and we have an impact on growth for certain countries – Germany being obviously one – in 2026, in 2027 and still a bit in 2028, and so much can change in the meantime. But it does have an impact, and it is a driver of growth in the investment section that I was describing earlier.

The first question, unfortunately also on rates: The discussion today, was there any discussion about a cut today or about hikes today, just to have more clarity on the discussions today?

I don't have to wait for your second question. The answer is no.

Okay. The second question is on the revamp of the Executive Board over the next two years. That also includes your role in 2027. I know it's a long time off, to be honest, but there's already a discussion in Germany on whether it's time for a German to become the ECB President, and I just wanted to know if you think that would be good, after 25 years of the institution, if a national from the largest euro area Member State would become the ECB President, and as you already publicly said that Klaas Knot would be a good candidate, what do you think about Isabel Schnabel and Joachim Nagel, who both recently signaled some interest?

Well, let me clarify one thing. I don't have any favourite candidate, and I did not say that Klaas Knot was *the* good candidate. There are plenty of very good candidates, and Isabel is one of them, but there are plenty of them, and I'm sure that there will be more in the future. Why not?

I find it terribly satisfactory, in a way, that so many people want to have my job. It's a great job, and it's one where you feel that you can actually matter and affect the life of people and try to deliver for the European Union and for our currency, the euro. But as to who it is, what nationality, I'll have nothing to say about that. It will be for the European Council, and the decision will be made outside this beautiful institution, so whatever they decide.

But thank you. You have still a long time to ask all those questions.

The euro's nominal effective exchange rate is at record levels. I know it's not a part of your mandate, but has this point been discussed by the Governing Council?

And second question, still regarding to currency: How do you balance the benefits of a strong euro for import prices, good for your mandate, with the risk of greater exposure to China, which is an important issue for Europe at the moment?



I might give you the answer that you expect, which is that we do not target exchange rate. We do refer to exchange rate in the risk section of our monetary policy statement, if I recall, when we refer to a possible higher exchange rate, an appreciation of the euro. So I'll refer you to that section in the risk segment of the monetary policy statement.

And obviously it is something that we look at carefully as we look at the way in which currencies are positioned around the world. And obviously the current situation of the renminbi is one that we pay attention to, yes.

I have one question on inflation: The higher inflation in 2026 was justified, or explained, with higher services inflation. It's gone up to three and a half in whatever it was, November, and it was on an upward trajectory in the past few months. How concerned are you about service inflation overall? Could this be turned into a nasty surprise?

And my second question again is on ECB succession. One of the sitting members of the Executive Board has basically showed interest in becoming your successor. What's your reading on the law in terms of is it possible legally to appoint a sitting member of the Executive Council as ECB President? Because, as far as I understand it, it clearly says terms are non-renewable. And would that be in line with the law, and also in line with the spirit of that rule, which I think is intended to kind of prevent Governing Council members or Executive Board members from kind of jostling for their next job in their current job.

On your first question, thank you for focusing on inflation on services because it's clearly one domain that we will be attentive to, going forward. So, you are right that services inflation has increased. It went from 3.2% in September to 3.4% to 3.5%. So there is a trend that we look at carefully. A lot of that is related, based on the staff study, to wages. And wages have surprised us to the upside. If we look at compensation per employee, for instance, we are at 4%, which is more than had been anticipated in particular in the September projections. So with wages having increased more than anticipated, and being a strong contributor to most activities of services – not all of them, but most activities of services – it's hardly surprising that services inflation is higher than anticipated and contributing to the current inflation number that we have.

It's balanced out by goods, as you will have seen in the monetary policy statement. They go in opposite directions. Goods go down, services increase, and we anticipate two things in relation to that. Number one, that wages will follow a slightly declining trend, going forward, and we have wages slightly below 3% at the end of 2026, and that is based on measurement instruments that we have: whether it's the wage tracker, which incorporates all the collective bargaining agreements that are negotiated, and which roll out in either one or two or three years, depending on the countries, and under which we cover now eight countries with quite a large number of employees, workers, or whether it is the surveys and the corporate telephone survey that we conduct asking corporates, you know, where do you see salaries,



where do you see wages, how are the negotiations going? So, on the basis of all that, we believe that this compensation per employee should decline in the course of 2026.

But we are attentive because while we believe that a lot of the catch-up, for instance, has taken place, a lot of the one-off specific payments have occurred, we were surprised, between September and December in our projection, and that is reflected in our numbers. So we are humble, we look at as many details and data, and we look at the vacancy, of course, to see what's likely to happen. We look at PMI numbers, but that's where we are, and it's a big contributor to services.

This is one that we really debated quite a bit and that we looked into, and staff is working really hard to get to the bottom of it. Services is a big package, you have lots of things in there – you have accommodation, transportation, telecom, IT, financial services – there is a lot in there, and some of those subsectors of services are labor-intensive, are wage-intensive, others less so, so we have to sort of balance out and distribute the wage increases that we expect in between all that. But there is really solid work done in that respect.

So, your question is: Can a sitting member of the Executive Board be eligible for another board position or the position of President?

This matter was looked at in the past. It was looked at when Christian Noyer, the then Vice-President of the ECB, was possibly considered for Presidency. It was looked at for Benoît Cœuré, who was then an Executive Board member, and who was also considered possibly for the replacement of Mario Draghi.

I think in both those instances, the determination by the jurists, the lawyers of various corners of Europe was that it was not possible. But I think the matter needs to be looked at again in order to ascertain what is possible, what is not possible, what are the conditions. And it's not for me to pass a judgment on that. I think it needs to be cleared so that everyone knows where to stand.

President Lagarde, I have two questions on financial stability, as it was also mentioned in the statement. So financial stability and the international role of the euro could be threatened by the reparations law for Ukraine using the cash balance of Russia's asset. However, so far the euro has been quite resilient in spite of Putin's retaliation threats. So what is your assessment of this kind of resilience of the euro so far in this respect?

And also on financial stability and the digital euro project, which is making progress. The Council orientation these days is a milestone, and the digital euro is viewed more and more as an anchor to strengthen financial stability in the euro area. So in your opinion, could the



ECB become a role model in the world to assess the importance of central bank digital currencies?

I'll start with your second question. I know these are important moments for the digital euro because we have done our work, we have carried the water, but it's now for the European Council and certainly later on for the European Parliament to identify whether the Commission proposal is satisfactory, how it can be transformed into a piece of legislation or amended.

Our ambition is not to be role models. Our ambition is to make sure that in the digital age, there is a currency that is the anchor of stability for the financial system. For the moment, that anchor is central bank money, which essentially has material form: it's the banknotes that you have in your wallet. But in the digital age, it has to be a digital expression of that sovereignty and a digital anchor for the purpose of the financial system that we have. So that's what we're pursuing, in addition to making sure that it is user-friendly, not costly, fast, efficient, private, that it can work online, offline. I mean, I could go on and on, because you know that I've followed that very carefully with my Italian colleagues, and both Luis and myself are very strong supporters of this initiative, and we place great hopes in the work that will be done in Parliament, once the Council has determined its views.

On the other topic that you raised, I'm not going to expand on this matter, because it's something that is under review, that is under work at the moment, which is of the competence of the European leaders and which is the expression of foreign policy. So, it's not for a central bank to have either political views or central banks' choice as to what is appropriate or not appropriate. Our job, and we are trying to do it as much and as well as we can at the odd hours of the day or the weekend, is to respond to the requests that are put upon us to determine that whatever choice is made by the leaders is going to respect the treaty, is going to respect the international rule of law, and will not damage financial stability. This is the remit of what is our duty. Beyond that, it's something that is outside our remit.

I have a follow-up question on your first comment about the changing growth profile due to AI. Isabel Schnabel made a similar comment in her interview with Bloomberg, where she said that the natural interest rate might rise because of that. Do you agree with that assessment?

And my second question is on stablecoins. They have gained significant importance globally, but many experts see this as a threat to Europe's monetary sovereignty and are calling for stronger support for stablecoins in Europe as well. What's your position on that?

We are lucky in Europe to have something that is called MiCAR. It's the legal framework within which instruments like stablecoins can work and can be supervised and can be regarded as safe. So our view is that an instrument that is in compliance with MiCAR is an alternative form



of payment, which might have its benefit, might have a business case for those that issue the stablecoins.

To the extent that it conforms to MiCAR, that it is properly organised, that it has the right one-to-one guarantee for the users, I don't need to have a view. Supervisors need to have a view, those who control that there is actually the reserve.

Where I have a concern is when you have (something that is getting a bit technical now, if we go there) the situation of multi-issuance currency for stablecoins, because without going into the details of how it is structured, it exposes the reserves, the resolution mechanisms and the redemption mechanism in Europe, as is organised under MiCAR, to other currencies under which the stablecoin would be issued and which could be a threat and a drain on the provisions of MiCAR that apply in Europe. So on that particular area, I think that we need to be extremely attentive to what the potential risks are for the system itself and for the holders of stablecoins.

On your first question: Look, I'm not going to agonise over the issue of where and how is the r -star and the rate which is ideal because it neither stimulates nor restricts our economies. There are multiple factors that can affect it. Productivity is obviously one of them. If we draw a lot of productivity out of artificial intelligence, it will impact it, but there are multiple other factors as well that will impact r -star. One of the characteristics of r -star is that you can only sort of identify it, eventually, in completely stable circumstances. I don't think that we can call the current circumstances perfectly stable and predictable. There is, as I said earlier, too much uncertainty, too much risk, and too many shocks, under the spell of which we still are, to actually identify r -star and have a view as to whether it's going to increase.

So, as I said, it's not observable, so to speak, and I think it's a very good debate to have, but I'm not sure that this is the one that has caught the attention of the Governing Council. It's certainly not one that we debated today, or yesterday for that matter.

I have two questions on the same issue, if I may. It's related to Ukraine. You know that in these hours the 27 heads of state meet in Brussels with a bold agenda. And one of the points is to try to agree on this reparation plan for Ukraine. So the single question is: Are you confident that they will succeed to find a solution?

And the second one is: Earlier this month, the ECB said we cannot provide a backstop to use the frozen Russian assets to finance Ukraine, for the simple reason, it would likely breach the treaty, prohibiting monetary financing is the other point, but in these severe times, shouldn't the overriding interest of the people of Ukraine to have the right to rebuild their country and live in peace not come above all kinds of purely factual legal considerations?



As you said before, for the case of Ms Schnabel, would it be possible to maybe look at it again, if the question is again raised? Because there is overriding interests of the people of Ukraine that may be above the pure legal considerations. So I would like to have your point on this.

The first question: There is work going on at the moment. Again, it's not our remit, it's for the leaders to decide, and given the importance of the matter, given what is at stake, I am fully confident that they will find a solution. It might be in the usual European way, you know, going in circles and being time-consuming and giving rise to a lot of speculation as to whether it will work, it will not work, there will be one camp or the other, but I'm confident that they will find a solution, because it's too important.

We are an area of the world which prides itself for respecting the rule of law, and this is one of the characteristics of our democracy. The leaders will decide. And I'm sure that there are solutions that can be debated and discussed, and there are constructions that can be elaborated. But it is not for the Central Bank to actually encourage or support a mechanism under which we would be called upon and scheduled to breach Article 123 of the Treaty. Monetary financing is not allowed under the Treaty. You cannot expect me to validate ex ante a mechanism under which there would be monetary financing. This is pretty obvious.