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Transcript

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.

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 grew by 0.3 per cent in the fourth quarter of 2025, according to Eurostat's preliminary flash estimate. Growth has mainly been driven by services, notably in the information and communication sector. Manufacturing has been resilient despite the headwinds from global trade and geopolitical uncertainty. Momentum in construction is picking up, also supported by public investment.

The labour market continues to support incomes, even though demand for labour has cooled further. Unemployment stood at 6.2 per cent in December, after 6.3 per cent in November. Growing labour incomes together with a lower household saving rate should bolster private consumption. Government spending on defence and infrastructure should also contribute to domestic demand. Business investment should strengthen further, and surveys indicate that firms are increasingly investing in new digital technologies. At the same time, the external environment remains challenging, owing to higher tariffs and a stronger euro over the past year.

The Governing Council stresses the urgent need to strengthen the euro area and its economy in the present geopolitical context. Governments should prioritise sustainable public finances, strategic investment and growth-enhancing structural reforms. Unlocking the full potential of the Single Market remains crucial. It is also vital to foster 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

Inflation declined to 1.7 per cent in January, from 2.0 per cent in December and 2.1 per cent in November. Energy inflation dropped to -4.1 per cent, after -1.9 per cent in December and -0.5 per cent in November, while food price inflation increased to 2.7 per cent, from 2.5 per cent in December and 2.4 per cent in November. Inflation excluding energy and food 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 declined to 3.2 per cent, from 3.4 per cent in December and 3.5 per cent in November.



Indicators of underlying inflation have changed little over recent months and remain consistent with our two per cent medium-term target. Negotiated wage growth and forward-looking indicators, such as the ECB's wage tracker and surveys on wage expectations, point to a continued moderation in labour costs. However, the contribution to overall wage growth from payments over and above the negotiated wage component remains uncertain.

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 euro area continues to face a volatile global policy environment. A renewed increase in uncertainty could weigh on demand. A deterioration in global financial market sentiment could 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, including through positive effects on business and consumer confidence. New trade agreements and a deeper integration of our European Single Market could also boost growth beyond current expectations.

The outlook for inflation continues to be more uncertain than usual on account of the volatile global policy environment. Inflation could turn out to be lower if tariffs 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 beyond current expectations. More volatile and risk-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. If wage growth moderated more slowly, services inflation might come down later than expected. The planned boost in defence and infrastructure spending could also 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 come down since our last meeting, while global trade and geopolitical tensions temporarily increased financial market volatility. Bank lending rates for firms ticked up to 3.6 per cent in December, from 3.5 per cent in November, as did the cost of issuing market-based debt. The average interest rate on new mortgages again held steady, at 3.3 per cent in December.

Bank lending to firms grew by 3.0 per cent on a yearly basis in December, after 3.1 per cent in November and 2.9 per cent in October. The issuance of corporate bonds rose by 3.4 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 grew by 3.0 per cent, after 2.9 per cent in November and 2.8 per cent in October, in response to still rising demand for loans and an easing of credit standards.

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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My first question is on the risk assessment. Given the events of recent weeks, including new tariff threats by the United States, would you say that inflation and economic risks on both sides have become more pronounced again, and has the ECB's good place perhaps become



a little less comfortable? And I'm also curious how you discussed the euro's exchange rate this week during your meeting. Has the recent appreciation against the dollar perhaps increased any concerns in the Governing Council that inflation might turn out lower than expected?

Let me first of all mention to all of you that the Governing Council took a unanimous decision to keep the rates at their current level, unchanged. In relation to our risk assessment, you will have seen that we take a "one hand, the other hand" approach, both in relation to activity and in relation to inflation. And if you look at the balancing act between the two, we are – as I would call it – in a broadly balanced situation when it comes to risk assessment. Some risks have ticked up. Others have ticked down. But on balance, taking the various specific elements that we make sure we list in a rather exhaustive way, we believe that we are in a broadly balanced situation at the moment.

On the exchange rate, because I know that this is a question that has been on the mind of some, I just want to remind you – and this will not come as a surprise – that we do not target an exchange rate in terms of policy target, but we also recognise that it is important for both growth and the inflation outlook. So for that reason, we always keep a close eye on exchange rate developments, and the Governing Council discussed this matter today. What we observed collectively is that the dollar has depreciated measurably against the euro, but not in the last few days. But since March 2025. That's when you saw the significant change, at the time. And in the last few weeks – actually since the summer – it has fluctuated within a range. And whether you look at the Euro/US dollar or whether you look at the nominal effective exchange rate, the story is the same. So as a result of that observation, we concluded that the impact of exchange rate appreciation since last year is incorporated in our baseline. But of course, as I said, we always monitor whether the impact is passing through as expected and how it affects our reaction function. That's the analysis that we conducted. So it's a topic that we touched upon, that we explored, and our conclusion is as I have just described. I would also observe that the current range within which the euro relative to the dollar is evolving is very much in line with the overall average of that exchange rate between the euro and the dollar for as long as the euro has been around.

I have two questions. Firstly, on the role of the global euro, you wanted to push the importance of the euro globally. Don't you have to take into account then also a stronger euro towards the rest of the world? My second question is: there are reports that you're looking into repurposing the swap lines, enlarging the liquidity pool which is available of euro also beyond its current purpose, in order to also enlarge the importance of the euro. Perhaps you can tell us a little bit more about those plans, also in light of the fact that the independence of the Fed is actually currently questioned by the markets.

Your first question has to do with the international role of the euro. And it is a point that I made about a year ago and that we collectively as Governing Council feel strongly about. First observation: it is not because you have an international currency that plays a global role that it necessarily implies that it is "strong" relative to others. There is currently a currency which is playing that role, but it does not necessarily come together with a currency being as a result



strong. There is no fatality, if you will, or correlation between the two: being a strong international currency and appreciating relative to other currencies. Second observation: I have said in the past – in that speech which I think I gave in Berlin, if I recall – that for a currency to play an international global role, and to be powerful as a result, it requires a few other elements that build over the course of time. And it clearly goes with a reliable environment and a safe environment, where the rule of law is known and respected. I have no doubt about that particular aspect as far as the euro and the euro area is concerned. It requires a strong position relative to the rest of the world, and there are clearly investments that are flagged in our monetary policy statement, particularly in relation to defence and infrastructure that go in that direction, but where clearly work has to be done. There is a third component, which is also improving and has continued to improve recently, which is the capacity to trade with the rest of the world, and I would regard both the Mercosur, the EU-India trade agreement, and subsequent trade agreements in Australia and other corners of the world, where the Commission is doing hard work, as other components that are necessary for the currency to be strong. So yes, not necessarily aligned with an appreciation of the currency. More work needs to be done in those various directions. One of the attributes of a strong currency is to be the provider of liquidity. And while we are tied to the monetary purpose of what we do in terms of liquidity and we have to constantly assess the proportionality of what we do, it is a fact that we are looking at our liquidity framework and that the repo lines – to be distinguished from the swap lines – are in progress in terms of reframing them, opening up the access and making them more attractive to other national central banks outside the euro area and outside Europe. So this is in the works, and I hope to be able to announce a bit more in a few days.

My first question is about the balance of risk. You said it's broadly balanced. Could you give us some of the flavour of the discussion? Because I don't see it in the opening statement. And the second question is about the good place. Are we still in a good place?

You will have noted, because you are an avid reader of our monetary policy statement, that we no longer state in the monetary policy statement whether the risks are broadly balanced or tilted to the downside or tilted to the upside. We did that during the period of COVID because we thought it was good guidance to have at the time. Now what we do as a policy and as a general practice that we have not moved since COVID is we list the upside and the downside risks component, both in relation to growth and in relation to inflation and then it's not for you to actually second guess. There is a debate that goes on in the Governing Council because it's always a question of judgement and collective approach to those risks and the range of the risks and the extensiveness of the risks. That is debated. What I can tell you is that we are not seeing a reduction of the range of risks. But when I think of geopolitical risks, for instance, it's ebb and flow. When I look at uncertainty about tariffs, it's up and down and out and back. And that has been going on for quite a few quarters actually. So no reduction of the range, but equally the sentiment around the table of the Governing Council is that it's broadly balanced.



Are we still in a good place? I would certainly argue that we are in a good place and inflation is in a good place. Two words of explanation, because some of you might be riveted to the January data point: I would like just to remind you that our good place is a factor of whether we are convinced that we will reach our medium-term target of 2%. And we cannot be hostage to one data point. I've said that many times. We cannot be hostage to one reading of inflation, which is set to vary over the next months. I'm happy to go down into what's underneath, but there are multiple causes of this 1.7%, and in the monetary policy statement we take really good care of saying what has gone up and what has gone down. You have a bit more of one category versus the others. So as a result of that, we have this particular reading. But some of them are idiosyncratic and will go away. There is a significant component on energy, which has gone to minus five point something and which is largely a base effect from last year's energy costs. But it is also a fact that inflation is moving gradually down to our target, and we see it at target in the medium term.

Under what conditions of inflation undershooting would the ECB consider easing monetary policy? How long and how far below 2%? And on another subject, in the United States, Kevin Warsh has been nominated to chair the Federal Reserve. Former central banker Mark Carney called it a fantastic choice. Do you share that view, and have you worked with Mr Warsh before?

On Kevin Warsh, yes, I have known him for a long, long time since back in the financial crisis days, where he was in public service and I was Minister of Finance at the time. So we go back a long way, and I very much welcome the announcement of his appointment.

I just want to take you back to the undershooting. We have projected undershooting in 2026 for a long time. And if you go back to our September projections, for instance, which were the last projections conducted by the ECB, we had actually this 1.7%, for the entire year. This was changed and moved up in December. In a way, we are going back to the track that we had anticipated, and this is also what markets and economists are anticipating. But if you look at our medium-term target, which is what we rely upon, we are at 2% in 2028. I myself am particularly attentive, as you know, to services. Services is declining a little bit. I'm also very attentive, as a result, to wages. We have the wage tracker, which seems to guide us towards more growth moderation. We will have more data and intelligence coming out of the March exercise, but there is nothing that is really changing the baseline at all. As I said, we will be looking at all data, not one single data point.

My first question is on making sense of the mood music in the monetary policy statement. Some analysts noted that it seems to have a bit of a hawkish subtext because you're emphasising the positive elements and also emphasising that inflation is on track to meet your target. Would you share that view that it's more hawkish than dovish? My second question is on core inflation, which has fallen to, I think, the lowest level since October 2021 and is also below the ECB's first-quarter forecast. Does the Governing Council see this as a good development, as it suggests inflation is coming down further and quicker than potentially expected? Or is this seen as a rather negative trend because disinflation might be stronger than you want it to be?



On your first question, I would like to mention that our monetary policy is in good shape. And it's in good shape because it is agile and it is prepared to do what is necessary in order to reach our medium-term 2% target in a symmetric way, as we decided in our strategy assessment determination back in July 2025. So I'm not trying to characterise the hawkishness or the dovishness. This is something that you enjoy doing and that markets look at very attentively. But we are data-dependent. We will decide meeting-by-meeting. We are not rate path predetermined. We do not give forward guidance. We are in this world of significant uncertainty, where geopolitics determine a lot of developments, and that's what we're going to continue doing.

Core inflation, you're right, is one of the underlying inflation elements that we consider. That is one which has gone from 2.4% to 2.2%. We're still at 2.2% by the way, and I think that it's following a path that we had anticipated and that we are pleased to see is taking us to target.

I would like to emphasise one element, which you will allow me to pick up because I think it might be interesting. As you probably know, the leaders are meeting in a week's time to examine competitiveness reforms and hopefully to accelerate the process. So in our monetary policy statement, as you well know, we always have this paragraph which has slightly evolved over the course of time, in which we stress the urgent needs to strengthen the euro area and its economy in the present geopolitical context. And you generally look at this paragraph and say "OK, still the same thing". What we decided to do in anticipation of that meeting on 12 February is to actually give our checklist to the leaders, so I will send it to each of the leaders of the European Union, to the President of the European Commission and to the President of the European Council. And this is our checklist of what we regard as very much likely to enhance growth, to improve productivity and to really unleash the talent of Europe. We're not shooting above our range, but we believe that whether it's the savings and investment union, the digital euro and the tokenised wholesale central bank money, the deepening of the EU single market, the fostering of innovation and protection of open strategic autonomy, or simplifying legislation and strengthening core institutional framework, on these five accounts we hold views. We cannot deliver it all. We are delivering monetary policy and compliance with our mandate. But we strongly feel that significant reforms have to be either deepened or accelerated in order to deliver on what is the potential of Europe. So that's something that I thought I would mention.

I have a follow-up on the global euro debate, in particular with regard to euro bonds. You checked a few items that you think are important, but what about common defence spending as a critical element in this regard? Is it sufficient in terms of a global euro, or should the EU be even bolder when it comes to euro bonds and making it a permanent feature of a euro safe asset?

It is definitely part of our checklist.



Today's statement talked about the low employment rate, but if you look at some of the other indicators of labour market resilience, they seem to be telling a slightly different story – things like labour demand, hiring intentions, vacancy rates. So I'm wondering how you're balancing these different signals. Is the labour market potentially weaker than it may appear based on the unemployment rate? And I also wanted to ask about AI. I think you've mentioned a couple of times that we are seeing this benefit of AI investment in Europe, but I think in the global context there is this concern that Europe is falling behind, whether that means adoption or data centre investment. So I was just wondering if you could shed a little more light on what benefits we are actually seeing in terms of the economic impact in Europe and how that might impact broader growth.

On the labour market: first of all, a lot of the data that we get on labour and the labour market in its various dimensions – you referred to vacancies and rotation – are a bit backdated. So very often in January we look at data that we get from the third quarter, some of it from the fourth, but it's generally with a lag. What we are seeing is increased participation in the labour market. We are seeing slightly lower unemployment: 6.2% coming from 6.3%. We are seeing vacancies that are growing more moderately than we had in the past. It's a labour market that is still active, as I said, where unemployment is almost at rock bottom. So we will continue to pay close attention because obviously it has an impact on particularly the wage negotiations that we pick in our wage tracker to try to understand where salaries and where the drift is going, which is a difficult part to determine, and where the one-offs are likely to arise as well. So that's what I can tell you about employment, but we're certainly not saying that the labour market is in difficulty.

On AI investment, one of the good news stories, as far as the European economy is concerned, is that while the net export activity and contribution to growth is on the decline, the domestic market is responding strongly. Consumption is improving a little bit but not much, but investment is the big story. And whether you look at public investment, particularly in defence and infrastructure, and as a result – I'll come to that in a second – construction is also a derivative of infrastructure investment. But it's not just the public sector, it's also the private sector. We see a significantly higher number in terms of private sector investment, and that is particularly the case in what I used to call ITC or ICT, which I think we have to be a bit more granular about because it's AI-related but it's everything having to do with AI. So it's not just AI: it's AI, it's the infrastructure that comes with it, so construction of data centres in the pipeline and going through the process of licensing and authorisation, it's software, it's hardware, it's a lot of investment that is coming out of that particular segment. The really interesting thing from our perspective is how it will impact productivity and how it will contribute or not to inflation, depending on the level of improved productivity. There is a little bit of that, but it's going to take a while to unleash.