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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. We are determined to ensure that inflation stabilises at our two per cent target in the medium term. The war in the Middle East has made the outlook significantly more uncertain, creating upside risks for inflation and downside risks for economic growth. It will have a material impact on near-term inflation through higher energy prices. Its medium-term implications will depend both on the intensity and duration of the conflict and on how energy prices affect consumer prices and the economy.

We are well positioned to navigate this uncertainty. Inflation has been at around our two per cent target, longer-term inflation expectations are well anchored, and the economy has shown resilience over recent quarters. The incoming information in the period ahead will help us assess how the war will affect the inflation outlook and the risks surrounding it. We are closely monitoring the situation, and our data-dependent approach will help us set monetary policy as appropriate.

The new ECB staff projections exceptionally incorporate information up to 11 March, a later cut-off date than usual. In the baseline, headline inflation is seen to average 2.6 per cent in 2026, 2.0 per cent in 2027 and 2.1 per cent in 2028. Inflation has been revised up compared with the December projections, especially for 2026. This is because energy prices will be higher owing to the war in the Middle East. For inflation excluding energy and food, staff project an average of 2.3 per cent in 2026, 2.2 per cent in 2027 and 2.1 per cent in 2028. This is also higher than the path in the December projections, mainly owing to higher energy prices feeding into inflation excluding energy and food. Staff expect economic growth to average 0.9 per cent in 2026, 1.3 per cent in 2027 and 1.4 per cent in 2028. This implies a downward revision, especially for 2026, reflecting the global effects of the war on commodity markets, real incomes and confidence. At the same time, low unemployment, solid private sector



balance sheets, and public spending on defence and infrastructure should continue to underpin growth.

In line with our monetary policy strategy commitment to incorporate risks and uncertainty into our decision-making, staff also assessed how the war in the Middle East could affect economic growth and inflation under some alternative illustrative scenarios. These scenarios will be published with the staff projections on our website. The scenario analysis suggests that a prolonged disruption in the supply of oil and gas would result in inflation being above, and growth being below, the baseline projections. The implications for medium-term inflation depend crucially on the magnitude of indirect and second-round effects of a stronger and more persistent energy shock.

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 0.2 per cent in the fourth quarter of 2025, driven by stronger domestic demand. Households increased their spending as real incomes rose and unemployment remained close to its historical low. Construction and housing renovation strengthened, and firms invested more, particularly in areas such as research and development, software and databases. Growth was no longer weighed down by net exports as it had been in the previous two quarters. It was underpinned mainly by services.

Staff still see private consumption as the main driver of growth over the medium term. Investment should also continue to grow, with governments spending more on defence and infrastructure, and firms increasingly investing in new digital technologies. The external environment remains challenging, including in light of volatile global trade policies.

The war in the Middle East is disrupting commodity markets and weighing on real incomes and confidence. This has led to a downward revision of consumption and investment in the



baseline staff projections, especially for 2026. The impact would be even more pronounced in alternative scenarios with a more severe and prolonged energy shock.

The Governing Council highlights the urgent need to strengthen the euro area economy while maintaining sound public finances. Any fiscal responses to the energy price shock should be temporary, targeted and tailored. The current energy crisis underscores the imperative to further reduce dependence on fossil fuels. Completing the savings and investments union is vital to fund innovation and support the green and digital transitions. 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 1.9 per cent in February, from 1.7 per cent in January. Energy prices were 3.1 per cent lower than a year ago, after being 4.0 per cent lower in January. Food price inflation edged down to 2.5 per cent. Inflation excluding energy and food increased to 2.4 per cent in February, from 2.2 per cent in January. The increase reflected goods inflation rising to 0.7 per cent from 0.4 per cent and services inflation moving up to 3.4 per cent from 3.2 per cent.

Indicators of underlying inflation have changed little over recent months and remain consistent with our two per cent medium-term target. Corporate profits recovered further in the fourth quarter of 2025, while unit labour costs rose at a similar rate as in the previous quarter. Growth in compensation per employee slowed to 3.7 per cent, from 4.0 per cent in the third quarter. Negotiated wage growth and forward-looking indicators, such as the ECB's wage tracker and surveys on wage expectations, suggest that labour costs will ease further in the course of 2026, which should support the return of inflation to target.

The increase in energy prices caused by the war will drive inflation above 2 per cent in the near term. If persistent, higher energy prices may lead to a broader increase in inflation through indirect and second-round effects, a situation which requires close monitoring. Inflation expectations in the financial markets have moved up significantly over shorter horizons. Most measures of longer-term inflation expectations stand at around 2 per cent, supporting the stabilisation of inflation around our target.



Risk assessment

The risks to the growth outlook are tilted to the downside, especially in the near term. The war in the Middle East is a downside risk to the euro area economy, adding to the volatile global policy environment. A prolonged war could increase energy prices further and for longer than currently expected, and also weigh on confidence. These factors would erode incomes and make firms and households more reluctant to invest and spend. A worsening of global financial market sentiment could further dampen demand. Additional frictions in international trade could 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 economic repercussions of the war in the Middle East proved to be more short-lived than currently expected. 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 tilted to the upside, especially in the near term. A prolonged war in the Middle East could lead to a larger and longer-lasting upward shift in energy prices than currently expected, raising euro area inflation further. This could be reinforced and become more persistent if inflation expectations and wage growth were to rise in response, if the energy price increase were to spill over to non-energy inflation to a larger extent than assumed in the baseline, or if the war disrupted global supply chains more broadly. Ongoing trade tensions could also give rise to more fragmented global supply chains, curtail the supply of critical raw materials and tighten capacity constraints in the euro area economy. By contrast, inflation could turn out to be lower if the economic repercussions of the war in the Middle East proved to be more short-lived or if indirect and second-round effects proved less pronounced than currently expected. Inflation could also be lower if tariffs reduced demand for euro area exports by more than expected and if countries with overcapacity increased further their exports to the euro area. 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 had a pronounced impact on global financial markets. Overall financial conditions have tightened since our last meeting. Stock markets have fallen and market interest rates in the euro area, especially short-term rates, have risen notably.

In January, bank lending rates for firms and the cost of issuing market-based debt both remained at 3.6 per cent, while the average interest rate on new mortgages edged up to 3.4



per cent. Bank lending to firms grew by 2.8 per cent on a yearly basis in January, down from 3.0 per cent in December. However, this was offset by stronger issuance of corporate bonds, with the annual growth rate rising to 4.0 per cent, from 3.5 per cent in December. Mortgage lending grew by 3.0 per cent, unchanged from December.

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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I have two questions. The first one is how the discussion went inside the Governing Council regarding the very uncertain outlook for monetary policy, whether you are all in one camp or whether there is perhaps a range of opinions. The second question is on the markets, because the markets are trying to understand how fast you're willing to act. You were quite fast in the projections already reflecting the changed situation, I would say. So is it the next meeting, perhaps, where we're going to see action? We're in the medium term, obviously, so longer term, but when do you think it is time to act?

Let me give you a little bit the ambiance and the process through which we went in the last couple of days. We had an in-depth discussion on the current situation, and we are ever so grateful that our staff – at the risk of having zero weekends and very, very short nights – was able to provide us with a baseline and scenarios, the overall projection efforts, as at 11 March. This is very unusual, and it's specifically included in the monetary policy statement that this is exceptional. I don't wish to impose that exercise on a regular basis, but this was the information which we could actually discuss in depth. We went a bit further than that, and we managed to make sure that the members of the Governing Council were extensively briefed by experts. We had a defence and military affairs professor who briefed us the day



before the Governing Council meeting, and by the randomness of calendar scheduling we also had a very good presentation of climate change impacts on the ocean. And it's not unrelated in many ways, but it's totally random, I can assure you. So I think my goal and the goal of the Executive Board was to make sure that governors were starting from the best-informed basis to hold their in-depth discussion. And I would characterise the overall mood of the group as being calm, being determined and being laser-focused on the information that we have, the projections that we received and all data that can be analysed and factored into our decision-making process. Our decision was unanimous. You asked me about a range of views. There was no range of views. It was a unanimous decision that was taken not to move rates at all. We are going to continue doing what we have been doing, and that's addressing the second part of your question. We are starting from a good base. I'm not saying that we are in a good place. We are well positioned, and actually you find that in the monetary policy statement. I think we are both well positioned and well equipped to deal with the development of a major shock that is unfolding, and we will continue doing that. You probably have heard me ad nauseam say "meeting by meeting", "data-dependent" and "no preset pace". And this was embedded in our strategy review of last July. But I'm so pleased that we finalised our agreement to operate on that basis, which is proving extremely helpful, because at the time we anticipated that we would be facing a succession of shocks, possibly in close sequence, and this is what we are seeing at the moment. That's what we will do, which explains why I cannot give you a timeline, a date, but I can assure you that we will proceed on the basis of this analysis and on the basis of the hard work produced by staff to make sure that we have not only the baseline that you will see after this press conference, because it will be published, but also the scenarios that you will also see after the press conference, because they will also be on the website.

My first question is about your reaction function, if you could explain that a little bit. What would trigger ECB action? Are you looking at expectations? Are you looking at core inflation? Is it wage growth that needs to move? What is it that would get the ECB to actually act? The second question is: could you please preview the alternative scenarios for us? I'm curious about the adverse scenario. What does it look like? How high does inflation go? How long would it take to fall back? And how much of the energy shock would translate into core inflation?

I hope everybody else will be patient, because I might take a little longer than I normally take, but I hope it informs all of you. As I said, we will continue to apply the three key principles that I have outlined, and being data-dependent will lead us to look at everything that we normally look at, but we will be particularly attentive to a number of things, and that's, I think, the point of your question. We will be particularly attentive to developments in all commodity markets. We will be particularly attentive to supply bottlenecks. We will be particularly attentive to selling price expectations of firms, and through the corporate telephone survey in particular and other surveys that we hold of good value, we can assess how often price revisions will take place. That will be important. We will be particularly attentive to all demand indicators, be it PMIs, consumer confidence, etc. We will be particularly attentive to wage trackers. Because what we want to really come back to is these three key points that I have mentioned and that are also in the monetary policy statement. All of that which is unfolding



at the moment, which is a severe shock, will depend on the duration, the intensity and the propagation. And by propagation, I mean the indirect effects and the second-round effects. And we need to have the best sensors and the best way to anticipate where these indirect effects and where these second-round effects are going, if at all. That's what we will be attentive to.

Now, I'm going to try to take you through a little bit the scenarios, but I very strongly encourage you to look at the material that we will be releasing after this press conference, which will be far more detailed and informative. But essentially, the work that was done by staff is the following. Number one, they did a first baseline as at 4 March, which would have been normal exercise. And that will be available as well in what we publish later today. But that was very quickly superseded by the turn of events. So they did a second baseline as at 11 March, and that is the baseline that we hold as our baseline in our projections. And you will find all the hypotheticals that are used there in terms of the price of oil, the price of gas and the duration of the shock and the propagation. And there is a bit of propagation actually, some of it being judgemental. Some indirect effects, some secondary effects as well. And then they produced two scenarios. One is the adverse scenario, and the other one is the severe scenario. Now, you will ask me "what's the difference between the two?" In the adverse scenario, the price of oil and gas goes significantly up and higher than in the baseline, but it falls back to the 4 March baseline pretty much at the end of our projection horizon. On the other hand, in the severe one, it goes up as well, a little higher than in the adverse, but it doesn't fall back very fast, so it stays high for a longer period of time and it settles at the 4 March baseline beyond the end of our projection horizon. That's one of the key differences, and obviously, given the hypotheses that are taken, the impacts on inflation and on growth are different and are higher on inflation and lower on growth. But I'm not going to give you year-by-year details of those consequences. You will find that in the scenarios. But it's a significant difference.

How are the lessons of the 2022 inflation shock informing your approach to the current crisis? You've said in the run-up to the meeting that you won't allow the same kind of inflation to materialise again, so I'm wondering whether your threshold is lower than in the past and potentially also a bit closer? That would be my first question. And the second one relates to the core inflation projections. I noticed that they are above 2%, not much, but they are above 2% throughout the forecast horizon, and I'm wondering if those are already second-round effects. And more generally, I would be interested in how you feel about those projections in relation to your mandate.

I feel very proud of our staff. That I can assure you, because I don't think that there are many other central banks that have had the courage to try to cut off at 11 March and produce the set of data that we have had available. That's how I feel. From 2022 to now, four years later, I would characterise our current position, I would have two characteristics. One is: I think we are well positioned, and I would call it the "three times two". 2% inflation at or around target in the medium term, 2% medium-term inflation expectations, and 2% interest rates. So target, target, broadly neutral. That leads me to say that we start from a good position and we are well positioned to demonstrate our capacity to apply our strategy and to be agile, to do what



is necessary. Because the second point is that we are determined to ensure that inflation stabilises at 2% in the medium term. This is our commitment. When I say also that we are well equipped, I think that in those four years we have learned, we have improved our models, we have changed our strategy and we are now in particular more attentive to risks around the outlook. We are developing scenarios and sensitivity analyses to make sure that we are as well informed as possible in order to assess the situation. So I would say that this enables us to better understand and better make our determination. I think we also understand better the mechanism of the pass-through into indirect and second-round effects. On your second question, as I said, I'm proud of the projections that have been delivered. Granted, on core, we are 2.1% in 2028. You have to remember that we include in that ETS2 applying as of 2028, and you still have a little bit remaining of the base effect and a little bit of second round.

My first question is: how concerned is the ECB about private credit in the United States? Do you see potential contagion risks in the broader financial system, so in Europe as well? And my second question is about the European Commission, which is considering a review of EU merger rules to encourage cross-border consolidation, including in the banking system, while national authorities continue to pose obstacles to such transactions. What's the ECB's view on this? I'm not making names.

Thank you for being so discreet about names, but you also give me a chance to offer the floor to my Vice-President, whom I am so grateful for.

Vice-President: If you look at our recent financial stability reports, we have been dealing with private credit quite a lot, and we have paid a lot of attention to private credit and the potential risks that private credit and private equity – private markets in general – have posed for financial stability. The exposure in Europe of private credit and private markets in general is much more limited than in the United States. Nevertheless, we have seen that the market is growing and these kinds of activities are exponentially growing recently and lately. What are the main problems that we have identified here and that we have indicated in our previous reports? The first one is opacity, a lack of transparency. There are some difficulties in order to know the valuations of the assets that they have in their portfolios. And even lately you have seen that some of them have started to incorporate what they call continuity funds, continuation funds. It's an indication that there were some problems in terms of the liquidity and the valuation of these assets. There is another issue that we have paid a lot of attention to and that is quite opaque and for which there is no transparency, and that is the leverage of these kinds of instruments. And finally, we have seen as well in the case of some private credit funds that they have started to limit redemptions and to impose what they call gates. This is an indication of all the problems that I have indicated before and that I have seen before, and it's a clear indication that there are liquidity mismatches in these kinds of funds. The interconnection with the banks and the non-banks is something that we have analysed quite in detail. As I have said before, in the case of Europe it's much more limited, the exposure to these kinds of instruments, but it's something that we are following closely. And for sure, what is happening in the United States could be a sort of lead indicator. Nevertheless, I repeat again that exposure in Europe is much more limited of the European banks to these kinds of instruments. So it deserves and it merits attention. I think that we need much more



transparency with respect to the operations of these kinds of instruments. And the links and the interconnections with the banks is something that for sure that SSM is looking at very carefully.

President: And we are always keen to see the work produced by the Commission. We know that the 28th regime was released yesterday. We're going to look at it carefully. Obviously on the state aid and on the encouragement of mergers, we will be looking at that also attentively, including in the banking sector.

Just coming back to your core inflation again, you've said that you've better understood the mechanisms and how energy prices translate into second-round effects. Could you maybe expand more on that and how it has maybe structurally changed? Because before, oil price increases maybe didn't have such a big effect on core inflation. And after 2022, maybe it's different now.

We're back to the difference with 2022. I think another point that we have to keep in mind is that back in 2022, when the shock hit, inflation was already at 6%. That's a big difference with where we are at the moment, where the latest reading was 1.9% and we had inflation at target in the medium term. So that's a major difference. I think the labour market is also quite a bit different. And I'm not saying that to avoid your question, but I think all this actually matters. The fact that we have a labour market which is solid but not as hot as it was back in 2022, where we had shortages of labour and a different bargaining position, will also play a role. A caveat though: inflation expectations have a lot to do with the memory that people and corporates have of inflation. And back in 2022 the memory was dating way back. Now the memory is rather fresh because people have seen inflation. So the reaction function that they will have in terms of investment, in terms of wage negotiations and in terms of consumption is going to be informed by a fresher memory of inflation that went high and that we managed to bring back to 2%. I think the third element which is different as well and that we will have to be attentive to is that while it was a major supply shock to begin with, in 2022 we had the pent-up demand and a demand shock element about the situation that we faced. Now there's one thing that I want to mention because I'm going to have to run, I'm sorry to say, because I need to catch a plane to go to Brussels, because I have to be there at around 5:30. When you look at the scenario analysis that will be published later on, don't forget to keep in mind that our scenario work does not factor in any monetary policy measures, so the numbers that you will see are without monetary policy beyond the baseline, that includes what is anticipated by markets as at the cut-off date. So that's a big difference before you jump to conclusions. So I wanted to just mention that before I say goodbye and see you again on 30 April.