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Transcript

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 raise the three key ECB interest rates by 25 basis points. The conflict in the Middle East continues to generate inflation pressures, and 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 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 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.

Inflation

Inflation increased to 3.3 per cent in August, from 2.9 per cent in July. Energy price inflation rose to 14.3 per cent, after 10.3 per cent in 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 remained unchanged at 1.2 per cent. Inflation excluding energy and food edged down to 2.4 per cent, from 2.5 per cent in July, with goods inflation increasing from 0.9 per cent to 1.2 per cent and services inflation falling from 3.3 per cent to 3.0 per cent.

Most measures of underlying inflation were broadly stable in July. Wages do not show a material response to the energy shock 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, 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.

The conflict 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. Thereafter, energy inflation should decline and turn negative up to mid-2028, bringing headline inflation down. Higher energy prices are expected to feed through gradually to core and food price inflation. The improved economic outlook should 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 will continue to monitor closely 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. This is due, in particular, to the Middle East conflict and developments in Russia's unjustified war against Ukraine. Renewed disruption of energy supplies could 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 spillovers in global bond markets could tighten credit conditions and thereby dampen demand. A resurgence of trade tensions between major economies could also further disrupt supply chains, reduce exports and weaken consumption and investment. 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 ongoing conflicts or if these were resolved sustainably. Moreover, the adoption of new technologies by euro area firms and spending on defence and infrastructure, as well as reforms to enhance productivity and complete the EU's Single Market, 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. 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, 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 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

Market interest rates have increased since our previous meeting, reflecting similar moves in global markets. Following our interest rate increase in June, bank lending rates for firms have risen, to stand at 3.8 per cent in June and July, from 3.6 per cent in May. The cost of market-based corporate debt stood at 4.0 per cent in July, which was similar to previous months and well above its level before the conflict in the Middle East. The annual growth rate of bank lending to firms, which usually responds to changes in monetary policy with a longer delay, increased further to 4.4 per cent in July, from 4.0 per cent in May and June. The annual growth rate of corporate bond issuance was 3.4 per cent, after 3.6 per cent in June and 3.3 per cent in May. Mortgage rates were unchanged in June and July, at 3.5 per cent, while mortgage lending growth softened to 3.0 per cent in July, from 3.1 per cent in May and June.

Conclusion

The Governing Council today decided to raise the three key ECB interest rates 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.

We are now ready to take your questions.

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In July, you said that the ECB's reaction function is very well understood by markets. Today, markets are pricing a total of almost three hikes following today's move. Would you repeat what you said in July? And is it fair to say, also given higher inflation projections and the implied rate path, that the tightening cycle isn't over yet?

And the second one, on your own future again, there are consistent media reports that you have expressed your willingness to take over as chair of the World Economic Forum. Are these reports accurate, and do you intend to leave the ECB early or stay until the end of your term?

You give me a chance to, yet again, give what I like most, which is framework guidance. And that framework guidance is really encapsulated in the three key pillars that we use: the inflation outlook with the assessment of the risk, the underlying inflation, and the transmission. Those are the three pillars. And of course we do that on the basis of the analysis of the shock, in the present circumstances predominantly a supply shock, of which we analyse the intensity, the duration and the propagation. We do that on a meeting-by-meeting basis, and we are data-dependent. You've heard me say that probably ad nauseum to your taste, but this is what we stick to and this is how we operate.

Now, markets do what they have to do, and we do what we have to do, which is to provide price stability, which has been defined, as you know, as the 2% target in the medium term.

When I talk about framework guidance, this is what I'm talking about, and I'm assuming that markets find it helpful, in order to determine the path, that they understand it. But they do their job. We do our job. And I can assure you that the entire discussions that we had today were focused on today's decision. We have not actually debated at all any kind of future path, the likelihood of this or the likelihood of that, because we are dead serious about the framework that we observe and that we want to collectively respect.

I will say this: When there is something to report about me personally, you'll be the first one to know. After my grandchildren. And there is nothing to report.

You said that you haven't talked about the future rate path, but you're now at the top end of the neutral range of interest rates. So has there been anyone in the Council who has talked about moving into restrictive territory, or the need of it? And, that would be the question: How do you go on from here? That would be the thing that everybody would be interested in here.

You might try multiple angles to get me to identify what is the next move, but this is really not the point. And I can assure you that we are not taking a view as to which direction we go at our next meeting.

And why is that? I'll come back to the neutral rate in a second. You have a second question. Why don't you give it to me at the same time? Then it's fair for the others because they have to put their questions at the same time.

Projections are above target in the inflation range. Wouldn't that mean that you have to hike in the next couple of years again to make sure that you reach that aim?

I'll go back to the answer I was giving you for your first question. We don't focus on the meeting and on the data to annoy either you or the observers or the analysts. We do it because we are in this uncertainty that can change things almost overnight. I'll give you an example: Refining margins. If I had talked to you about refining margins six months ago, we wouldn't have known what we are really talking about. Now, whether you call it the crack spread or the refining margin, on liquid fuel, now we all know what it's about. And we all know that diesel is used by a category of economic actors. And we know now that it's yet another bottleneck. Those things happen as a result of multiple geopolitical changes, as a result of supply chain reorganinations, as a result of adjustment of the economy. And because we have that level of uncertainty, we simply cannot anticipate what exactly will be the next move.

Now, you could argue that, in the present state and assuming that nothing changes, we should be doing this and that, but this is not how we are trying to address the issue of price stability. We are focusing on what the data deliver today and we are ready to demonstrate the appropriate agility in whichever direction it is needed. I hope I'm clear on that.

Second point that you raised is the issue of the upper end of the neutral rate band. This neutral rate band is a work in progress on a constant basis. It is produced by staff, as you know, and they have delivered a band that they consider as the neutral rate band. But this is highly conceptua. You cannot actually pinpoint the neutral rate, because it's a factor of multiple variables that change over time, and because it is supposed to be defined in times of no shock. And we are constantly under shocks. So, we are not attaching great importance in the current circumstances to the neutral rate.

And your second question -- I don't want to leave you frustrated because I did not address your question. You say that our projections are not at target. So, the decision that we took today – which was, by the way, a unanimous decision,– was a no-brainer. What we will have to do in the future will be determined at each and every meeting.

But what I can tell you, and this is in the monetary policy statement, is that we are determined to deliver on our target. Voilà.

My first would be on the bond yields, because we are seeing across the globe a rise in bond yields. We can look at the United States, Japan, Europe. How concerned are you about that development, and do you factor that also into future monetary policy decision, because there's a tightening per se through the capital markets.

My second question would be on the outlook for inflation, because if I compare your statements in the communiqué from July to this one now in September, it sounds that the alertness of the ECB has risen, if you like, or the concerns about the future inflationary development. Is that the case?

On bond yields: It's a phenomenon, as we indicated clearly in the monetary policy statement, which is taking place across global markets. It's not a euro-specific issue. It's happening across the world. And it's a factor having multiple causes.

I would mention, as the obvious one, supply and demand. When you have significant financing needs arising out of -- I will not say hyperscalers, because I think that is actually narrowing the economic sector that is concerned -- any AI-related activity at the moment is a potential consumer of financing. And whatever form it takes: it used to be restricted to equity, it's moving now clearly to bonds, in the private credit area as well. So that's a key driver of what we see.

And then there are fundamentals having to do with each and every economy, and I would venture that the US market, which is so large and so liquid andsuch a driver, is also playing a role.

Having said all that, it's incorporated in our projections, taken into account, and obviously we are monitoring attentively what is happening in the markets and particularly on the long end of the yield curve.

On inflation: Thank you for asking that question because it gives me a chance to really explain what we discussed over the meeting and how we see things. We have been, in a way, surprised at both ends, and that's the reason why we have revised upward our projection for growth, as well as for inflation, although at different horizons.

We have been surprised by the resilience of our economy and we had anticipated in previous projections that growth would be lower than what we are seeing and what we are projecting. So we moved from 0.8% to 0.9% for 2026. If you factor into that numbers released post cut-off date, it's actually more than 0.9%. Q2 was 0.6%, it came as an upward surprise. If you factor that number into the projection – but it's not a projection, because the cut-off date was earlier – but if you were to revise it, it's more than 0.9%.

So we've been surprised in a way for good, because growth is stronger than we had anticipated, the economy is adjusting better. And we've also been surprised on the inflation front, because we have seen inflation, in a way, lower than we had anticipated. This is particularly the case for food. But we believe that inflation will be longer lasting than we had anticipated.

So you have these two phenomena: More resilience, better adjustment of the economy, lower inflation, but longer lasting. So we are adjusting our projections on that basis.

You mentioned the digital euro. Would that be such a high priority for you without US President Donald Trump, who has repeatedly shown how vulnerable Europe is through sanctions, tariffs, and other economic threats?

And the second question was: will the test phase of the digital euro start before you leave office?

Thank you for putting the spotlight on the digital euro, because it's a topic and a project that I attach great importance to, ever since the day I joined almost seven years ago. And it was then endorsed by Fabio Panetta and then now Piero Cipollone with great talent and great energy, as well as many of our staff as well.

TSo, there are multiple reasons why the digital euro is important.

One is, as we move into a world of digital payments, including by private sector actors, we think that it's important that central bank money also has a digital shape and form. That's number one.

Number two has to do with sovereignty. It has to do with not sovereign autonomy, but with our capacity to keep control of our currency and keep control of the railguards on which digital payments circulate. Because, as you know, payment infrastructure is part of our sovereignty, and he who does not control his payment infrastructure is potentially vulnerable. I'll say no more on that front, but I think I've answered your first question.

I'm very hopeful – and it's included in the monetary policy statement – that, as early as possible and certainly before year end, the piece of legislation that is in discussion at the moment in trilogue will actually be voted upon. I look forward to it. I encourage members of Parliament to look at it and to negotiate as fast as they can. There are a series of topics under discussion at the moment: the allocation of fees, the cap. All that is highly technical and quite sensitive. But I really hope that this is going to be completed in short order, so that we can then launch the test phase as quickly as possible. We're all working hard on that now.

I have two questions. And the first one is about the Fed's intervention in currency markets, which happened without telling the ECB in advance why the Fed sold euros. Were you concerned about that? And what does it tell us about transatlantic cooperation between central banks.

And my second question is about your autobiography, which will come out in January. Your publisher said that there will be book promotion events in January and February, I think. How will you make sure that the commercial promotion of this book is kept separate from your public role as ECB president?

First of all, I'm not going to comment on any FX intervention of any kind. But, just like you all, I have seen the volume of the intervention, the selling of euros to purchase yen: 0.5 billion, okay? 500 million euros, okay?

Second, any marketing, publishing, commercial operations will happen either at weekends or on a day or two that I will take as a holiday, so that it is not confused with my ECB duties.

And by the way, I strongly encourage you to buy the book. It will include nothing on monetary policy, but it will tell you all about my childhood, when I was born, how I grew up, and how a little girl coming from nowhere can become someone, without necessarily having been born in the right family, having had enough money, or going to the right schools. And I'm dedicating that not only to my grandchildren, but to all girls that are keen to progress professionally.

In a high-rate environment, is it normal for spreads to widen when these higher borrowing costs come from excessive debt and deficit levels? I want to know if you consider it as a fragmentation risk.

And second question: Back at the start of the summer, you said you wanted a European voice to be heard in the French presidential debates. Right now, a political leader wants to freeze, or even cancel, a share of French debt. And the idea is gaining ground in the debate, and has some real popularity in the country. You know it, because, Mr. Nagel, you reacted to it, so it clearly matters. So, Madame Lagarde, what's your take on that proposal? Does it put France and consequently Europe in danger?

The widening of spreads is something that I'm not going to comment upon, and that is a reflection of how markets perceived the strength, the standing, the value of a particular treasury bond, and this is something that I'm not going to – we'll look at it obviously, as we look at all data points of relevance – but I'm not going to comment on that.

I'm not going to comment on a piece of a political programme either, but I have to say that it's not because you repeat something that doesn't make any sense -- either legally, technically, or financially -- that it becomes something valid.

Cancellation of debt is covered under Article 123 of the Treaty on the Functioning of the European Union. It's a pillar of stability, one of the few pillars of stability going forward. And it has been agreed to, endorsed, and approved by all member states. That's on the legal front. So anything that would go against the financing of debt in that way would be a pure violation of the Treaty. That's number one.

Technically, there have been very, very solid economists, including, for instance, my old colleague – he's not old, but my former colleague – Olivier Blanchard, who knows that inside out, who can demonstrate easily that it's not by taking from one pocket to put in the other pocket that you actually cancel a debt. You don't. You can argue ad infinitum about minuscule moves in one direction or the other. But it's technically not good, if not hopeless. And it's financially dangerous. I'm sorry, but you know: behind any loan, there is a lender. If I lend you 1,000, you come back a few years later to say, "You know what? I'm never going to reimburse your 1,000. I'm not in good shape at the moment, I will not reimburse you. But by the way, I might need to refinance something else, or I might just need additional financing." I'm not going to finance you. Or if I do, I'm going to significantly increase the interest rate that I will charge you. So legally, technically, financially: really not a good idea. And a large waste of time, however popular that could be in any member state in the euro area.

President Lagarde, in June, your adverse scenario had gas at 60 euro, we're now at 82. So, how close is the euro area today to the adverse scenario becoming the baseline?

And the second question: Do you worry that increasingly interventionist US Treasury policies could export volatility to European markets?

You give me a chance to clarify that we will be publishing new scenarios. You will have a chance to see how the scenarios have evolved over the course of this period between June and September. And we are yet again producing a benign scenario, an adverse scenario, and a severe scenario.

And we – well, staff has produced that with great talent – but they are predominantly looking at what is the big source of the shock, which is the price of energy. And by varying the hypotheticals that they use, it produces those outcomes.

It also gives me a chance to indicate to you that, against all three scenarios – "scenari", I guess – our decision to increase rates by 25 basis points is robust, on all three accounts.

Look, financial markets are without borders. They're not without different currencies. They're not without different characteristics. But money moves without borders. And developments that are taking place in one market will have spillover effects, and sometimes spillback effects in other markets. So everything that happens on the financial scene has ramification, reverberation, consequences, spillovers, if you will, on all markets, and we pay attention to that.

Mrs President, I would like to touch on the development of inflation in food and alimentation. You touched on it already. For some time, we saw that this type of inflation was relatively low. It doesn't increase as much as some observers had thought. It is stagnant, more or less. And I'm asking you this because it hits the general population most. How do you explain why this sector isn't so much affected from overall developments?

And my second question, I know that you can't comment on developments in member states, but we see these developments in many countries. We have a rise of right-wing parties who are very opposed to the European Union, to the eurozone. Some argue we should even leave the eurozone. Some even argue that the euro is an unstable currency. How concerned are you about this rise of these right-wing parties?

I think I'll share that question with my colleague and friend, President Nagel.

So, very pertinent question about food developments, because we all at the table of the Governing Council also were quizzical about the evolution of food prices, because as you said, we revised the price for food down, relative to what we had assumed. And, as I said, as much as energy prices have increased more than we had anticipated, food prices have increased less: you know, 14.3% for energy, and 1.2% for food. So we asked ourselves, and we asked staff: what is it?

So first of all, you have to distinguish between processed and unprocessed food. Processed food increased less than unprocessed food. And there are several explanations for all of that.

Unprocessed food that finds its way into processed food, of course, has benefited from milder weather conditions in the early part of the year. And you can see it coming out in the last few months, and certainly in the month of August.

Number two: Because inflation did not – overall inflation, and particularly energy inflation – did not rise as much as we had anticipated, we are not really seeing much of the indirect effects. We're seeing some of them, but it's still contained. And that is visible in processed food. Anything that goes into processed food, like transportation, like manufacturing cost, labor cost, that has not really moved by much.

So, those are two reasons. There is a third reason, and that is more anecdotal and more coming from data that we collect on a frequent basis, but are not captured by one single index. And it is the slight change to the consumer basket, where you see that demand is also evolving, as a result of which supply cannot necessarily pass through all the cost increases that they have to take up.

So those are the three key reasons why the price of food is lower than we had anticipated.

But I have to tell you that in our projections, we are taking into account higher food prices in the future. Because we believe that if we continue to have this longer-than-anticipated energy shock, it will find its way. We're not seeing it. Indirect effects are contained, and second-round effects, we're not seeing. But if it continues, we will be seeing it, and it would impact food prices.

So of all the elements that we look at very carefully to try to anticipate if inflation is going to move upward, this is a key one, you know.

The frequency with which suppliers can pass through cost increases, composition of the consumer basket, price of commodities, price of energy, of course, multiple data points that we observe.

On the latter point, I will simply say one thing before I give the floor to my friend, President Nagel.

The euro has never been as popular as it is, in Europe, and in the euro area in particular. I think we are at 82% support and favorable view about our currency. So, of course, 82% is not 100%. And you always have people who are not pleased with it. But it's the highest that we have ever seen.

Bundesbank President Joachim Nagel:

Yes, I'm concerned. What does this make with our country, with our society, the values we are sharing? And some of these concepts are self-defeating in an economic sense. Is this helpful to attract foreign investors to come to this country? Definitely not. I think they will be reluctant. They will shy away from doing business here. So yes, I'm concerned.

You mentioned your childhood, and according to studies, the ECB's monetary policy has benefited the wealthiest households disproportionately, as rising financial asset prices have boosted their wealth. And at the same time, as mentioned here before, political dissatisfaction is growing across Europe. With both the far right and the far left gaining support. So, does the ECB see a link between these two things, and what can, or should, it do about it?

When we do our job, collectively as Governing Council, we are guided by what the Treaty has asked us to do. And what we have to do is provide price stability in the euro area. This is what is guiding us.

By providing price stability, making sure that we reach our target in the medium term, we're also providing the conditions under which investments are made, under which employers hire. And I remember my predecessor, who also faced a similar question, who could report back to you that two million jobs had been created as a result of price stability.

I would also mention that, as you probably know, we have entered a policy of reducing the size of our balance sheet, of letting bonds expire to maturity, and we are not buying bonds anymore, as a result of which our liquidity pool has moved from 4.7 trillion down to 2.1 trillion. This has an impact as well.