EUROPEAN CENTRAL BANK

EUROSYSTEM

Combined monetary policy decisions and statement

29 October 2026

Monetary policy decisions

The Governing Council today decided to keep the three key ECB interest rates unchanged. Energy prices have continued to rise, posing upside risks to the inflation outlook and downside risks to the growth outlook. While the full effects of the energy shock are still unfolding, underlying inflation has remained broadly stable so far and wages do not show a material response at this stage. The increased magnitude and duration of the energy shock, as well as the implications for indirect and second-round effects, are likely to drive up inflation and lower growth. Financing conditions have tightened since the Governing Council's last meeting, which is likely to weigh on inflation and growth. The Governing Council is committed to setting monetary policy to ensure that inflation stabilises at its 2% target in the medium term.

The Governing Council remains well positioned to navigate the current elevated uncertainty. It will follow a data-dependent and meeting-by-meeting approach to determining the appropriate monetary policy stance. In particular, the Governing Council's interest rate decisions will be based on its 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. The Governing Council is not pre-committing to a particular rate path.

Key ECB interest rates

The interest rates on the deposit facility, the main refinancing operations and the marginal lending facility will remain unchanged at 2.50%, 2.65% and 2.90% respectively.

European Central Bank
Directorate General Communications
Sonnemannstrasse 20, 60314 Frankfurt am Main, Germany
Tel.: +49 69 1344 7455, email: media@ecb.europa.eu, website: www.ecb.europa.eu

Reproduction is permitted provided that the source is acknowledged.

Asset purchase programme (APP) and pandemic emergency purchase programme (PEPP)

The APP and PEPP portfolios are declining at a measured and predictable pace, as the Eurosystem no longer reinvests the principal payments from maturing securities.

***

The Governing Council stands ready to adjust all of its instruments within its mandate to ensure that inflation stabilises at its 2% target in the medium term and to preserve the smooth functioning of monetary policy transmission. Moreover, the Transmission Protection Instrument is available to counter unwarranted, disorderly market dynamics that pose a serious threat to the transmission of monetary policy across all euro area countries, thus allowing the Governing Council to more effectively deliver on its price stability mandate.

The President of the ECB will comment on the considerations underlying these decisions at a press conference starting at 14:45 CET today.

Monetary policy statement

Press conference

Christine Lagarde, President of the ECB,
Boris Vujčić, Vice-President of the ECB

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. Energy prices have continued to rise, posing upside risks to the inflation outlook and downside risks to the growth outlook. While the full effects of the energy shock are still unfolding, underlying inflation has remained broadly stable so far and wages do not show a material response at this stage. The increased magnitude and duration of the energy shock, as well as the implications for indirect and second-round effects, are likely to drive up inflation and lower growth. Financing conditions have tightened since our last meeting, which is likely to weigh on inflation and growth. We are committed to setting monetary policy to ensure that inflation stabilises at our two per cent target in the medium term.

We remain well positioned to navigate the current elevated uncertainty. 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 incoming data suggest that the euro area economy continued to expand in the third quarter of the year. Services have recovered, after weakening at the start of the Middle East conflict. Manufacturing, digital services and exports are benefiting from AI-related business investment. Government spending on infrastructure and defence is also supporting activity. These factors should continue to underpin growth in the near term. At the same time, renewed energy price increases have hit consumer confidence, and higher financing costs are likely to weigh on growth.

The unemployment rate remained at 6.4 per cent in August. Growth in employment and the labour force remains subdued, while productivity has gradually picked up.

Over the medium term, a recovery in confidence and real incomes, driven by gradually declining energy prices and a robust labour market, should bolster domestic demand. Investment in AI-related activities and government spending on infrastructure and defence should also continue to support growth. Export growth should pick up on the back of strengthening foreign demand.

Higher potential growth requires structural reform and has to be underpinned by sound public finances. Fiscal sustainability is a crucial anchor for broader economic stability. Fiscal responses to the energy shock should be temporary, targeted and tailored. 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 to make our economy more dynamic and resilient. 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.

Inflation

Inflation rose to 3.8 per cent in September, from 3.2 per cent in August. Energy price inflation increased markedly, to 18.9 per cent, from 14.3 per cent in August. Diesel and petrol prices reached new peaks in September, in part reflecting elevated refining margins. Inflation excluding energy increased to 2.3 per cent in September, from 2.1 per cent in August. Food price inflation increased to 1.3 per cent, from 1.1 per cent. Services inflation increased to 3.2 per cent in September, from 3.0 per cent in August, while goods inflation declined to 1.1 per cent from 1.2 per cent.

Indicators of underlying inflation have remained broadly stable, although the early stages of the pricing chain point to upward pressures. Wage pressures remain moderate. Compensation per employee grew by 3.3 per cent in the second quarter, down from 3.6 per cent in the first quarter, while rising productivity has helped contain the growth of unit labour costs. Our forward-looking wage tracker suggests that negotiated wage growth will fluctuate between 2.5 per cent and 2.8 per cent in the remaining months of 2026 and average 2.6 per cent in the first three quarters of 2027. Inflation expectations over shorter horizons have risen, 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.

Energy prices have increased beyond the baseline path foreseen in the September ECB staff projections. This is likely to raise inflation further in the near term and keep headline inflation well

above target over the coming quarters. Thereafter, declining energy inflation, together with the effects of higher interest rates, should support the return of inflation to target.

Risk assessment

The risks to the growth outlook are to the downside. This is due, in particular, to the Middle East conflict and recent developments in Russia's unjustified war against Ukraine. Continued 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 intensifying spillovers in global bond markets could tighten financing conditions and thereby dampen demand. Fiscal uncertainty may also further tighten financing conditions and weaken confidence, thereby lowering consumption and investment. A resurgence of trade tensions between major economies could 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 government spending on infrastructure and defence, 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 recent 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 if supply is disrupted further or an unusually cold winter coincides 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 higher energy prices proved less pronounced than anticipated. More volatile and risk-averse financial markets, together with higher long-term interest rates, could weigh on demand and thereby lower inflation as well.

Financial and monetary conditions

Financial conditions have tightened since our previous meeting. Interest rates have broadly moved up, while stock prices have fallen.

The cost of market-based debt for firms rose to 4.1 per cent in August, from 4.0 per cent in July, while bank lending rates for firms remained at 3.8 per cent. Growth in bank lending to firms slowed to an annual rate of 4.2 per cent in August and September, from 4.4 per cent in July, while corporate bond issuance grew at an annual rate of 4.2 per cent in September, up from 3.8 per cent in August and 3.5 per cent in July. Credit standards for loans to firms tightened in the third quarter, as reported in our latest bank lending survey, with banks citing concern about the economic risks faced by their customers. Despite higher financing needs for inventories and working capital, corporate loan demand declined, reflecting in particular higher interest rates.

Mortgage rates rose to 3.6 per cent in August, from 3.5 per cent in July, while mortgage lending growth edged down to 3.0 per cent in September. Credit standards for mortgage lending were unchanged in the third quarter, whereas demand for mortgages declined substantially given higher interest rates.

Conclusion

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