Combined monetary policy decisions and statement

23 July 2026

Monetary policy decisions

The Governing Council today decided to keep the three key ECB interest rates unchanged. The outlook for energy prices, while highly volatile, currently stands close to the baseline of the June Eurosystem staff projections and well above the levels recorded prior to the conflict in the Middle East. Uncertainty remains high and the full inflationary impact of the energy shock has yet to play out. The Governing Council is therefore closely monitoring the intensity and duration of the shock, as well as its indirect and second-round effects. The Governing Council is committed to setting monetary policy to ensure that inflation stabilises at its 2% target in the medium term.

With today's decision, the Governing Council remains well positioned to navigate the uncertainty caused by the conflict. 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 2.25%, 2.40% and 2.65% respectively.

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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.

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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. The outlook for energy prices, while highly volatile, currently stands close to the baseline of the June Eurosystem staff projections and well above the levels recorded prior to the conflict in the Middle East. Uncertainty remains high and the full inflationary impact of the energy shock has yet to play out. We are therefore closely monitoring the intensity and duration of the shock, as well as its indirect and second-round effects. We are committed to setting monetary policy to ensure that inflation stabilises at our two per cent target in the medium term.

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

Recent information points to some improvement in economic activity in the second quarter, even though the conflict in the Middle East remained a headwind. Surveys suggest that activity in the services sector has partly recovered, after weakening markedly in the immediate aftermath of the energy shock. Digital services have been robust, in part owing to the increasing contribution from AI-related activity. Manufacturing has continued to hold up, supported by firms building up stocks to guard against supply chain risks, as well as by higher defence spending. Unemployment stood at

6.2% in May, close to historical lows. At the same time, job postings have continued to decline and both firms and households expect the labour market to remain weaker than before the conflict.

Forward-looking indicators suggest that economic growth will remain modest in the near term, weighed down by the energy shock and related uncertainties. Yet the fundamental drivers of medium-term growth remain intact. Private consumption, investment in new digital technologies, government spending on defence and infrastructure, and some recovery in exports should all contribute to overall growth momentum.

The Governing Council reiterates its call for urgent action to strengthen the euro area economy while maintaining 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. Fiscal responses to the energy shock should be temporary, targeted and tailored. The positive vote in the European Parliament earlier this month was a significant milestone on the path to establishing the digital euro. We welcome the shared objective of the Parliament, EU Council and Commission of reaching agreement by the end of this year on the Single Currency Package. The digital euro will complement physical cash with its digital equivalent, providing a means of payment for any digital transaction throughout the euro area.

Inflation

Inflation declined to 2.8 per cent in June, from 3.2 per cent in May. Energy price inflation declined to 8.5 per cent, after 10.8 per cent in May, while food price inflation fell from 1.9 per cent to 1.5 per cent. Inflation excluding energy and food eased to 2.4 per cent, from 2.6 per cent in May, with goods inflation decreasing from 0.9 per cent to 0.7 per cent and services inflation from 3.5 per cent to 3.2 per cent.

The energy shock continues to feed into higher prices. It is becoming more expensive for firms to source inputs and they therefore expect to put up their selling prices. While developments in underlying inflation have remained contained, the full effects of the energy shock have yet to play out. The ECB's wage tracker and surveys on wage expectations continue to indicate moderate wage growth over the coming quarters. Rising labour productivity has also helped contain growth in unit labour costs. Inflation expectations over shorter horizons remain at elevated levels. Most measures of longer-term inflation expectations stand at around 2 per cent, supporting the stabilisation of inflation around target in the medium term.

While energy price inflation declined in June, its rise since the start of the conflict – and its impact on food, goods and services price inflation – is likely to keep inflation well above target into the first half of 2027. Inflation should then decline, as energy prices are expected to fall and other prices should rise more slowly. However, the conflict remains a major source of uncertainty. We are therefore closely monitoring 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. While the Memorandum of Understanding agreed between the United States and Iran in June constituted a first attempt to resolve the conflict, recent weeks have brought renewed setbacks and the geopolitical situation remains fragile. Renewed disruption of energy supplies could increase energy prices further and for longer than currently expected. This would weigh on real incomes, spending and investment. A worsening of global financial market sentiment or a tighter supply of credit could dampen demand. Additional frictions in international trade could also further 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 economy and energy markets were to adapt more quickly than expected to the disruption caused by the conflict in the Middle East or if the conflict was resolved sustainably. Moreover, planned defence and infrastructure spending, and reforms to enhance productivity and complete the Single Market, as well as euro area firms adopting new technologies, may drive up growth by more than expected.

The risks to the inflation outlook are to the upside. The energy shock could intensify further and its effects on other prices and wages could be stronger than currently expected. The longer energy prices stay high, the more likely they are to drive up broader inflation through indirect and second-round effects. Ongoing 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 – as illustrated by the ongoing heatwaves – 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 the conflict in the Middle East was resolved sustainably or if indirect or second-round effects 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

Overall financial conditions have become slightly tighter since our previous meeting, consistent with the increase in the key ECB interest rates. Bank lending rates for firms and the cost of issuing market-based debt remained unchanged in May, at 3.6 per cent and 4.0 per cent respectively. The annual growth rate of bank lending to firms increased to 4.0 per cent, from 3.4 per cent in April, but this was partly offset by slower growth in corporate bond issuance, which fell from 4.5 per cent to 3.4 per cent. Credit standards for business loans tightened somewhat in the second quarter, as reported in our latest bank lending survey for the euro area. Demand for loans to firms increased slightly, driven by higher working capital needs but also by borrowing for fixed investment by large firms.

Mortgage rates rose to 3.5 per cent in May, after 3.4 per cent in April, while mortgage lending growth edged up to 3.1 per cent. Credit standards for mortgages tightened in the second quarter as banks became more concerned about the economic risks faced by their customers and less willing to take on risks themselves. Demand for mortgages decreased on the back of deteriorating consumer confidence and 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.