EUROPEAN CENTRAL BANK
EUROSYSTEM

Meeting of 22-23 July 2026

Account of the monetary policy meeting of the Governing Council of the European Central Bank held in Frankfurt am Main on Wednesday and Thursday, 22-23 July 2026

27 August 2026

1. Review of financial, economic and monetary developments and policy options

Financial market developments

Ms Schnabel started her presentation with the observation that since the Governing Council's monetary policy meeting on 10-11 June 2026 financial markets had continued to be driven by the evolving conflict in the Middle East and developments around artificial intelligence (AI).

Oil prices had remained highly sensitive to geopolitical developments. Vessel traffic through the Strait of Hormuz had increased temporarily but remained well below historical norms. Since the latest escalation of the conflict, traffic had declined again, underscoring the persistence of the disruptions to global energy supply chains. These developments had led to pronounced swings in oil markets. Brent crude oil prices had briefly fallen back to pre-war levels following the announcement of a preliminary peace agreement. In spite of the recent rebound, current prices remained well below their recent peaks and below the levels prevailing just ahead of the Governing Council meeting on 10-11 June. By contrast, prices for longer-dated oil futures contracts had remained elevated throughout the short-term oil price volatility. While the futures curve had shifted downwards since June 2026, it remained well above pre-war levels over the entire horizon, pointing to a persistent increase in oil prices with risks remaining tilted to the upside.

Ms Schnabel highlighted the fact that financial market developments had decoupled somewhat from the short-term volatility in oil prices. When oil prices had moved sharply lower, the one-year overnight index swap (OIS) rate one year ahead had adjusted more modestly due to the limited response of inflation compensation over the same horizon. However, inflation compensation, and thus interest rate expectations, had quickly risen again once oil prices had rebounded, surpassing the levels reached at the time of the Governing Council meeting on 10-11 June. One reason for these developments was that oil prices had not been representative of broader energy markets over recent weeks. Crack spreads, i.e. the differences between wholesale petroleum product prices and crude oil prices, often used to estimate refining margins, had been on a steep upward trend in recent weeks, reaching new all-time highs. Tight inventories and constrained refining capacity due to the destruction of refining facilities in the Middle East and in Russia had pushed up petrol and diesel prices. Natural gas prices had also remained significantly above their pre-war levels and stood not far from the peak reached after the outbreak of the war. Risks around future gas prices remained sharply tilted to the upside, which was probably partly related to continued low gas storage levels.

Food prices had also been on an upward trend lately. While fertiliser prices had fully reversed the spike seen after the start of the war, food commodity prices had risen notably since the Governing Council meeting on 10-11 June. One factor might have been weather-related risks, with the latest meteorological forecast expecting with certainty El Niño conditions over the coming months. The recent heatwaves in Europe were likely to put additional pressure on food production and prices. Another factor contributing to persistently higher expectations for inflation, and hence for interest rates, was the improvement in the macroeconomic outlook over recent weeks. For the euro area, economic data releases had come into line with or even been above market expectations in recent months. The resilient macroeconomic environment had been one key factor supporting investor risk sentiment, supported by continued optimism around AI.

Looking at the market-based inflation outlook, inflation fixings (excluding tobacco) had edged down over the very near term but had remained broadly unchanged thereafter compared with their levels at the time of the Governing Council meeting on 10-11 June. From mid-2027 onwards, however, inflation fixings had moved up and remained visibly above 2% over the medium term, implying that the drop in oil prices had not brought relief to the priced path for inflation over the medium term. The balance of risks over the next two years was again noticeably tilted to the upside, while long-term inflation expectations continued to be anchored.

A decomposition of euro area risk-free rates showed that the rise in nominal yields since the onset of the war in the Middle East reflected both higher inflation compensation and higher real rates, with higher inflation compensation dominating over shorter horizons. As regards policy rate expectations, the OIS forward curve in the euro area was close to the curve prevailing at the time of the Governing Council meeting on 10-11 June. Markets continued to expect further policy tightening, with a hike in September 2026 almost fully priced in and an additional hike fully priced in by February 2027. The OIS forward curve remained above median expectations reported in the Survey of Monetary Analysts, with participants continuing to foresee only one further rate hike in 2026. However, the survey only partly reflected the recent re-escalation of the conflict.

In the United States, monetary policy expectations had also remained broadly stable, but with noticeable movements in the inter-meeting period. Following the June 2026 Federal Open Market

Committee meeting the federal funds futures curve had moved up markedly before retreating after the release of lower than expected US consumer price index (CPI) data.

The euro had initially depreciated further against the US dollar, following the repricing of expectations for US monetary policy, before reversing part of this move after the weak US CPI data. The euro had remained well below the level prevailing at the beginning of the war in the Middle East against the US dollar. Exchange rate movements since May 2026 had been closely linked to shifts in short-term rate differentials.

Equity markets had continued to march higher, supported by positive earnings expectations. Semiconductor stocks had been the dominant driver of US stock market gains in 2026. In the euro area stock market, gains had instead been dominated by the utilities and energy sector. Recent equity price gains had been boosted by rising earnings expectations rather than by valuations. In the week of 13-17 July, however, technology stocks had experienced a sharp correction, particularly in the United States. The recent fragility in technology stocks could intensify if the revenues of AI companies and returns on AI investment fell short of the high expectations embedded in market prices. Indeed, Chinese AI models had approached the performance of US frontier models, while operating at significantly lower costs, thus intensifying competition and putting pressure on the profits of US firms.

A reassessment of US tech sector valuations could also have implications for corporate credit markets. Spreads on corporate bonds in the US technology sector had recently decoupled from spreads on non-tech investment-grade US non-financial corporate bonds. This reflected rising risk compensation demanded by investors in the wake of the record bond issuance by hyperscalers. In the euro area, by contrast, spreads on investment-grade bonds in the technology sector had remained broadly stable. More generally, there had been increasing concern about rising leverage related to technology and AI, and the expansion of leveraged investment products might amplify possible market corrections.

Ms Schnabel then turned to money markets. There had been a gradual upward drift in general collateral repo rates relative to the deposit facility rate over recent quarters, pointing to less abundant excess liquidity. The June 2026 quarter-end had generated a pronounced upward spike in general collateral repo rates, and afterwards repo rates had not fully returned to pre-quarter-end levels. The rate increase had been widespread across collateral jurisdictions and market participants, indicating a gradual return to more balanced liquidity conditions, in line with the objectives of the operational framework for implementing monetary policy. Overall repo markets continued to function smoothly.

The global environment and economic and monetary developments in the euro area

Mr Lane then went through the latest economic, monetary and financial developments in the global economy and the euro area. Starting with developments in energy commodity prices, oil prices stood

6% lower than at the time of the June Governing Council meeting, at USD 89 per barrel. With the recent reversal, the latest oil futures curve now lay close to the assumptions for the milder scenario contained in the June projections, in the near term, and between the June baseline scenario and the milder scenario from the end of 2026 onwards. Renewed geopolitical tensions, low gas storage levels in Europe, and resilient gas demand from Asian countries had pushed European gas prices up by 16% since the June Governing Council meeting. The divergence between oil and gas price dynamics in part reflected the less elastic gas demand from Asian countries. As a result, the latest gas futures curve stood above the assumptions for the June baseline until the end of 2027. Owing to these price movements, the synthetic energy commodity price index (SECPI), a weighted average of oil and gas prices with a greater weight for oil, had increased by 2% since the June Governing Council meeting. The futures curve of this index was now very close to the June baseline assumptions. Moreover, the 95th, 75th and 25th percentiles of the option-implied densities of the latest energy price futures broadly replicated the severe, adverse and milder scenarios for energy price developments from the June staff projections. Mr Lane noted that overall the outlook for energy prices, while highly volatile, currently stood close to the baseline of the June Eurosystem staff projections and well above the levels recorded prior to the start of the conflict in the Middle East. Risks remained to the upside for inflation and to the downside for growth.

Turning to inflation in the euro area, headline inflation, as measured by the Harmonised index of Consumer Prices (HICP), had decreased to 2.8% in June, from 3.2% in May. Headline inflation in the second quarter of 2026 had been 0.2 percentage points below the June projections. Energy inflation had declined to 8.5%, from 10.8%. Non-energy inflation had also surprised to the downside, easing to 2.2%, from 2.4% in June, and standing 0.1 percentage points below the June projections in the second quarter of 2026. Food inflation had declined to 1.5%, from 1.9%, and stood 0.4 percentage point below the June projections in the second quarter of 2026. Core inflation (HICP inflation excluding energy and food) had edged down to 2.4% in June, from 2.6% in May, reflecting a 0.2 percentage point reduction in goods inflation to 0.7% and a 0.3 percentage point decrease in services inflation to 3.2%.

The energy shock continued to feed into higher prices. Compared with before the conflict, firms faced higher input costs and reported an increase in expected selling prices. Meanwhile, supply chain pressures generally remained stronger than before the conflict. At the same time, input prices, selling price expectations and supply chain pressures had moderated according to the latest survey responses, which had in part been collected after the signing of the US-Iran Memorandum of Understanding but before the latest renewed escalation of the conflict. Developments in underlying inflation had remained contained so far: both exclusion-based and model-based measures of underlying inflation had eased in June. The Persistent and Common Component of Inflation for headline inflation had declined by 0.2 percentage points to 2.1% in June. The Indicator of Core by Aggregating Regimes of Inflation Sub-components (ICARIS), which captured the breadth of inflation pressures, suggested that indirect effects from the energy shock were not broad-based as yet.

However, it would take time for the indirect and second-round effects from the energy shock to emerge, and the response of domestic prices would ultimately depend on the joint dynamics of profits and wages. Adjusting for special factors in Ireland, profit margins had been broadly stable in the first quarter, while forward-looking indicators pointed to downward pressures on profit margins in the second quarter. The ECB wage tracker pointed to moderate wage pressures in the near term, with negotiated wage growth with unsmoothed one-off payments averaging 2.6% this year and 2.7% in the first quarter of 2027. The latest results of surveys on wage expectations also suggested that labour cost pressures were edging lower. The limited scale of the fiscal response to the energy shock to date should also help to contain second-round effects.

Inflation expectations over shorter horizons remained at elevated levels. Most measures of longer-term inflation expectations stood at around 2%, supporting the stabilisation of inflation around the Governing Council's 2% target in the medium term. Market-based measures of inflation compensation averaged 2.9% for 2026, 2.3% for 2027 and 2.0% for 2028 (as at the daily closing on 21 July). The latest Survey of Monetary Analysts – conducted after the Memorandum of Understanding had been agreed but largely before the renewed escalation of the conflict – continued to point to above-target inflation over the coming quarters but a return to target in the second quarter of 2027, one quarter earlier than previously foreseen. Survey responses collected prior to the latest flare-up of the conflict showed that the inflation expectations of households one year ahead had eased from 3.5% to 3.0% and were now aligned with the expectations of firms, which were unchanged. Longer-term inflation expectations of professional forecasters, consumers and firms were broadly stable.

The global composite Purchasing Managers' Index (PMI), excluding the euro area, remained in expansionary territory, averaging 52.2 in the second quarter after 52.4 in the first quarter. In advanced economies, manufacturing had been especially strong, supported by stockbuilding by firms amid concerns about supply disruptions, as well as some temporary frontloading of trade ahead of the expiry of the latest US tariffs in late July. AI-related goods and semiconductors were one of the main drivers of global import growth, which had been 1.8% in the first quarter of this year, up from 1.1% in the fourth quarter of last year.

There continued to be very little movement in the exchange rate of the euro, both against the US dollar and against a broad basket of currencies. The euro had weakened against the US dollar by -1.0% since the previous Governing Council meeting, and stood at USD 1.14 per euro. In nominal effective terms, the euro had been broadly stable since the June monetary policy meeting. From a macroeconomic point of view, the dominant issue remained the significant appreciation of the euro in the first half of last year, which was still working its way through the euro area economy.

For the euro area, recent information pointed to some improvement in economic activity in the second quarter, even though the conflict in the Middle East remained a headwind. The composite PMI had declined from an average of 51.3 in the first quarter of the year to 49.1 in the second quarter, but it had edged up in June by 1.4 points to 50.0. Surveys suggested that activity in the services sector had partly recovered, after weakening markedly in the immediate aftermath of the energy shock: the services PMI had increased by 1.8 points in June, to 49.4. Digital services had been robust, in part owing to the increasing contribution from AI-related activity. Manufacturing had continued to hold up, with the headline PMI being little changed in June and increasing from an average of 50.6 in the first quarter to 51.7 in the second quarter, supported by firms building up stocks to guard against supply chain risks, as well as by higher defence spending. Forward-looking indicators suggested that economic growth would remain modest in the near term, weighed down by the energy shock and related uncertainties. Yet the fundamental drivers of medium-term growth remained 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.

As regards the labour market, unemployment had stood at 6.2% in May, close to historical lows. At the same time, job postings had continued to decline: in June Indeed postings and the LinkedIn hiring rate had been respectively around 14% and 17% lower than a year ago. Both firms and households expected the labour market to remain weaker than before the conflict.

The latest fiscal developments since the cut-off date for the June projections pointed to a slightly more expansionary euro area fiscal stance in 2026 and a less contractionary stance for 2027. But overall the fiscal stance for 2026-28 remained broadly unchanged since the June projections.

Overall financial conditions had become slightly tighter since the Governing Council's previous meeting, consistent with the increase in the key ECB interest rates. Bank lending rates for firms and the cost to firms of issuing market-based debt had remained unchanged in May, at 3.6% and 4.0% respectively. The annual growth rate of bank lending to firms had increased to 4.0%, from 3.4% in April, but this had been partly offset by slower growth in corporate bond issuance, which had fallen from 4.5% to 3.4%. Credit standards for business loans had tightened somewhat in the second quarter, as reported in the latest bank lending survey for the euro area. Demand for loans to firms had increased slightly, driven by higher working capital needs, but also by borrowing for fixed investment by large firms. The Survey on the Access to Finance of Enterprises had confirmed the signals from the bank lending survey, with respondents signalling broadly unchanged loan availability in the second quarter after a net decrease in the first quarter.

Mortgage rates had risen to 3.5% in May, after 3.4% in April, while mortgage lending growth had edged up to 3.1%. Credit standards for mortgages had 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 had decreased on the back of deteriorating consumer confidence and higher interest rates.

Monetary policy considerations and policy options

Based on the incoming information on the inflation outlook and surrounding risks, the dynamics of underlying inflation and the strength of monetary policy transmission, Mr Lane proposed that the Governing Council keep the three key ECB interest rates unchanged. Following the interest rate hike in June, the Governing Council remained well positioned to navigate the current uncertainty and respond appropriately to the evolving outlook and distribution of risks. The September meeting would provide the next opportunity for a comprehensive assessment of the inflation outlook and surrounding risks, taking into account the evolution of the conflict in the Middle East.

2. Governing Council's discussion and monetary policy decisions

Economic, monetary and financial analyses

Regarding the economic analysis, members agreed with the assessment provided by Mr Lane in his introduction. Starting with the external environment, the global economy was proving more resilient than expected, notwithstanding the fluid and volatile situation in the Middle East. Global manufacturing activity remained strong – partly supported by precautionary stockbuilding amid concerns about possible supply chain disruptions, including risks of additional restrictions owing to the conflict in the Middle East, and about possible new tariff actions by the US Administration. But part of the global resilience was also assessed to stem from the AI boom, which was acting as a positive global demand shock and boosting investment and trade.

Uncertainty, mostly stemming from the conflict in the Middle East, as well as from geopolitical developments more broadly, remained elevated. The geoeconomic "roller coaster" since the previous meeting, following the signing of the US-Iran Memorandum of Understanding and the subsequent resumption of hostilities, illustrated that the crisis would not be over until a long-lasting solution was reached. This fluidity made it difficult to assess the likely duration and intensity of the conflict, the risk of escalation around key energy supply choke points and the resulting volatility in oil and gas prices. As a result, predicting what would happen next had been very difficult, although staff baseline projections and market-based assumptions underpinning scenarios provided useful references in this environment of uncertainty.

Turning to commodity markets, members noted that incoming data showed continued volatility in energy prices. Following the signing of the Memorandum of Understanding and the announcement of a ceasefire, oil prices had fallen significantly, briefly returning to pre-war levels. But they had reversed course following the end of the ceasefire and remained highly volatile and vulnerable to renewed disruptions. It was emphasised that, in addition to developments in crude oil futures prices, other energy price components – such as crack spreads, affected by the destruction of Russia's oil refining capacities, and natural gas prices – were key drivers of energy price movements and significant for the inflation outlook. Yet while crack spreads were informative for very near-term energy inflation developments, they tended not to persist in most instances and thereby provided only limited information beyond that short horizon, unless persistent destruction of refinery capacities was involved. It was considered that the increase in crack spreads, even when crude oil prices were falling, reflected capacity constraints as well as possible market power. Imperfect competition and procyclical margins might stem from the nature of the oil industry, which faced high fixed costs for setting up and maintaining facilities. These elements needed to be monitored. In this context, it was noted that following the announcement of the Memorandum of Understanding, the synthetic energy commodity price index, which combined crude oil and natural gas prices, had initially moved down closer to the milder scenario outlined in the June projections. Following the resumption of hostilities, however, it had moved up sharply and was now back around the baseline assumptions of the June projections. However, its composition had altered, with natural gas prices higher than in June but crude oil prices somewhat lower.

As regards global food prices, members noted that these remained sensitive to changes in the energy supply, fertilisers and weather events. Food prices had risen strongly since the June meeting, driven by subcomponents such as coffee and cocoa, with cocoa prices having surged particularly sharply.

Looking ahead, members identified several risk factors in commodity markets. The intensity and duration of the energy price shock depended on how geopolitical tensions might evolve, the resilience of production and refining capacities, the level of gas and oil inventories, and the functioning of supply chains and transport routes. On the supply side of petroleum markets, while the United States and OPEC+ countries had announced increases in production, there was conflicting information on how much oil and gas was being provided through the Middle East. It was noted that petroleum inventories had played an important cushioning role thus far but that there was also uncertainty surrounding current levels, with official estimates sometimes differing from estimates from private sources. One possible explanation for this uncertainty was the limited amount of information available on how much, in addition to what was held in official reserves, was held in commercial reserves, including Chinese ones. The cushioning role of inventories might diminish the more they were drawn down, which could create an upside risk to prices. Oil futures might therefore underestimate risks. On the demand side, China also played an important role. At the start of the Middle East conflict, the reduction in oil imports and drawdown of inventories in China had attenuated the global impact of the conflict. More recently, China had again started to increase its purchases of liquefied natural gas (LNG), which meant additional demand and upward price pressures in the global market for LNG. At the same time, if economies adjusted and adapted to the current situation, a lasting resolution could bring about an abrupt fall in energy prices, as there might then be overcapacity.

Members noted that euro area economic activity had continued to grow and remained broadly resilient, notwithstanding the continuing headwinds from the conflict in the Middle East and the associated energy shock, as well as ongoing elevated uncertainty. Incoming high-frequency indicators suggested that the economy remained broadly in line with the June projections. It was considered that the euro area economy was more resilient than had been expected, while the conditions did not appear to be in place for excessive aggregate demand. One of the factors behind the economy's resilience this year was the fact that previously restrictive monetary policy was not weighing on activity anymore, which supported construction investment and credit expansion.

Recent incoming information suggested that the short-term outlook had improved slightly since the June projections. While the euro area composite PMI had declined in the second quarter compared with the first, it had edged up in June. Manufacturing output continued to expand, with the PMI manufacturing component broadly stable in June and higher on average in the second quarter compared with the first. Manufacturing activity appeared to have been supported by higher defence spending as well as by firms building up stocks to guard against potential supply chain risks. Without this build-up of inventories, growth would have been more modest and incoming growth data could have been interpreted as pointing to only broadly stagnant growth momentum. Surveys also suggested that activity in the services sector had partially recovered, after weakening markedly in the immediate aftermath of the shock caused by the Middle East conflict. Digital services in particular had been robust, possibly owing to AI-related activity. Short-term estimates suggested higher growth in the coming quarters than projected in June.

Business investment was seen as supported by several structural and policy-related factors. These included investment in new digital technologies, AI-related activity, and spending on defence and infrastructure. In addition, it was noted that firms surveyed in the Survey on the Access to Finance of Enterprises were investing in energy efficiency to counter energy price shocks. At the same time, uncertainty and elevated energy costs were seen as factors that could constrain business investment. With regard to housing investment, construction activity had improved but the sector remained sensitive to financing conditions and confidence.

The euro area labour market had remained largely resilient and, although employment growth showed signs of softening, the unemployment rate remained close to historical lows. The latest evidence was mixed. On the one hand, firms that took part in the Survey on the Access to Finance of Enterprises on average expected no impact from the Middle East conflict on employment, hours worked or investment. On the other hand, job postings continued to decline, with Indeed postings and the LinkedIn hiring rate considerably lower than a year ago.

Looking further ahead, while the recent resumption of the conflict in the Middle East made it very difficult to anticipate growth developments, the fundamental drivers of medium-term economic growth were seen as remaining intact, with private consumption, investment in new digital technologies, government spending on defence and infrastructure, and some recovery in exports expected to contribute to overall momentum. However, while the geopolitical situation remained fragile and uncertainty continued to be elevated, the energy shock and related uncertainties were expected to weigh on sentiment and confidence, real incomes, spending and investment.

Turning to structural and fiscal policies, members reiterated their call for urgent action to strengthen the euro area economy while maintaining sound public finances. On structural policies, simplifying and harmonising rules across the EU's Single Market, accelerating the energy transition and completing the savings and investments union were key building blocks. The positive vote in the European Parliament earlier this month was a significant milestone on the path to establishing the digital euro. The objective shared by the Parliament, the EU Council and the European Commission of reaching an agreement by the end of this year on the Single Currency Package was welcomed. The digital euro would complement physical cash with its digital equivalent, providing a means of payment for any digital transaction throughout the euro area. On fiscal policy, responses to the energy shock should be temporary, targeted and tailored.

Against this background, members assessed that the outlook for activity remained surrounded by high uncertainty. Incoming information had been better than expected, and downside risks to growth were judged to have become less pronounced, as confidence indicators had continued to recover. As a result, 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 were resolved sustainably. Moreover, planned defence and infrastructure spending and the adoption of new technologies by euro area firms might drive up growth by more than expected. At the same time, members stressed that the outlook remained difficult to assess and that resilience should not lead to a premature sense of reassurance. While the Memorandum of Understanding agreed between the United States and Iran in June constituted a first attempt to resolve the conflict, recent weeks had brought renewed setbacks and the geopolitical situation remained fragile. The fragile situation in the Middle East created downside risks for growth owing to renewed disruptions to energy supplies, a tighter supply of credit, additional trade frictions, other geopolitical tensions and a deterioration in global financial market sentiment. Higher energy prices could weigh on real incomes, profitability and investment, while uncertainty could dampen household consumption and firms' spending plans.

With regard to price developments, members concurred with the assessment presented by Mr Lane in his introduction, noting that the latest data had been more favourable than expected, although they did not materially change the medium-term inflation assessment. While highly volatile since the previous meeting, the energy price outlook was once again close to the baseline of the June Eurosystem staff macroeconomic projections and was well above the levels recorded prior to the conflict in the Middle East.

Inflation had declined to 2.8% in June, from 3.2% in May, and had surprised to the downside. This downside surprise was large, with all the main components of the HICP – energy, food, goods and services – recording a decline. The short-term decline relative to the June projections largely reflected falling energy inflation, with oil prices volatile around the June baseline, and gas prices above it. Food inflation had continued to ease. In the very near term, headline inflation was expected to increase and return to around the path outlined in the June projections. The impact of energy price increases on consumer liquid fuel prices might not yet be fully visible in the July data and could take until August to materialise.

The incoming data since the June meeting were seen as containing both reassuring elements and reasons for continued vigilance and caution, although the risks to inflation remained to the upside. While energy price inflation had declined in June, energy commodity prices had recently rebounded. Members warned against taking too much reassurance from the June HICP outcome, as the resumption of hostilities in the Middle East had driven energy prices back up, so that the short-term windfall in the latest data was not expected to last. Uncertainty had been assessed as remaining high, and the full inflationary impact of the energy shock had yet to materialise. The rise in energy commodity prices since the start of the Middle East conflict – and its impact on food, goods and services price inflation – was seen as likely to keep year-on-year HICP inflation rates well above target into the first half of 2027. Inflation should subsequently decline, as the energy price contribution was expected to fall and other price components should rise more slowly.

The fact that natural gas prices were now higher than the baseline assumptions was considered to be especially important for the outlook for electricity price developments and possibly for core inflation. It was noted that one of the reasons gas prices had had such an inflationary impact in 2022, aside from their larger increase than in the current situation, was the role of gas as the marginal factor for electricity production at that time. Not only had this important role changed substantially since 2022, but it varied significantly across countries depending on the role played by renewable and nuclear energies, and continued to change. Price-setting might also be less reliant on spot markets and more reliant on longer-term contracts. While this would mean a lesser impact in the nearer term, if natural gas prices remained elevated, the impact would ultimately be felt.

It was noted that food price inflation had made an important contribution to the recent disinflation, but it still remained a source of possible renewed pressure over the medium term. The contribution to disinflation was likely caused by the lagged effects of earlier falls in global food commodity prices and the deceleration in wage growth. Looking at the medium term, several forces could cause food price inflation to rise again, including the impact of the energy shock passing through to agricultural input costs, including transport costs, as well as weather-related effects from recent heatwaves and the materialisation of El Niño. The outlook for food prices had to factor in these counteracting tendencies and had to be compared with the baseline, which already foresaw some pick-up in food inflation. Specifically, regarding the impact of weather conditions on food prices, it was noted that the staff projections had already made some allowance for possible El Niño effects but, in any event, food price developments would be monitored closely in the September projections and beyond.

Food prices were considered particularly important for a couple of reasons. First, they might be an indicator of indirect effects from the energy shock, although it was welcomed that, for the time being, energy inflation and food inflation were not going in the same direction. Second, they tended to be highly visible to consumers and play an important role in shaping inflation perceptions and expectations, and could exert some pressure on wage claims.

Members noted that underlying price pressures had continued to moderate and that more persistent inflation components had evolved more favourably than expected. Measures of underlying inflation remained above 2% but had eased, and services inflation had moderated. Non-energy industrial goods inflation was seen as contained, consistent with the easing of input cost pressures in the goods sector and the absence of broad-based pass-through from the energy shock. However, it was noted that there was evidence of strong pipeline pressures that could affect goods prices with a lag, with domestic producer price inflation for intermediate goods having climbed higher, and import price inflation having risen sharply. At the same time, according to the latest Survey on the Access to Finance of Enterprises, firms' expectations for higher selling prices had also moderated. It was important to mention, however, that this survey had in part been conducted after the signing of the Memorandum of Understanding and might not fully capture the latest renewed escalation of the conflict. Still, while most firms did not expect the conflict to have an impact on employment, average hours worked or investment, a net 58% expected to raise their selling prices. In addition, in the ECB's Corporate Telephone Survey (CTS), a significant share of firms reported that they were reviewing and adjusting their prices more frequently, with some automatically passing through higher input costs via contractual clauses. This survey information clearly indicated that indirect effects were materialising, possibly with some lags before inflation was affected. Double-digit price increases for memory chips had been reported in the CTS, reflecting the impact of AI-related demand. While services price inflation had moderated, it remained volatile and was still running at elevated levels. It remained subject to higher energy input costs being passed through to this sector with a lag. Members also considered that the easing in services inflation could be a sign that indirect effects in the travel sector had not materialised to the extent expected. This might be evidence of resistance to price increases, as airlines had faced a reduction in demand when attempting to raise prices.

With regard to labour costs and wages, incoming data were generally assessed as contained and moderating, and as yet were not showing signs of second-round effects. The ECB wage tracker pointed to moderate wage pressures in the near term. The most recent data from surveys of wage expectations also suggested that labour cost pressures were edging lower, and the CTS indicated lower wage inflation than previously anticipated. Rising labour productivity was also seen as helping to contain growth in unit labour costs. On the other hand, it was noted that around 20% of non-financial companies expected higher wage demands due to the recent energy price shock, and around 10% had already introduced, or were planning to introduce, measures to compensate for inflation. Members also warned that wage responses could take time to emerge and that the absence of second-round effects at this stage should not be taken as a given, which meant continued monitoring was required. At the same time, it might be that AI spending could substitute capital for labour, which could lessen the negotiating power of workers and therefore limit second-round effects.

Inflation expectations were assessed as anchored over longer horizons. While nearer-term expectations remained elevated, with some measures having moved higher more recently, the longer-term expectations of professional forecasters, consumers and firms were broadly stable. With regard to market-based measures of inflation expectations, inflation fixings were higher than at the time of the June meeting and stood above 2% beyond 2027. While the possible role played by risk premia in inflation fixings had to be considered, particularly as the horizon extended, it could also be the case that market participants were attaching significant weight to factors such as crack spreads, transportation costs or other bottlenecks that could affect fuel and energy prices. Regarding firms' inflation expectations, the European Commission and other surveys were also discussed and seen to be pointing towards pipeline pressures from non-labour input costs, although firms appeared to be absorbing part of these costs, limiting the pass-through.

Overall, moderating wage growth, anchored medium and longer-term inflation expectations, stable profit margins and the limited scale of the impact of fiscal policy on aggregate demand supported the assessment that second-round effects of energy price shocks had not yet become embedded in domestic price and wage dynamics. When abstracting from the decline in survey-based measures of short-term inflation expectations and looking at forward inflation compensation measures adjusted for risk premia further out, there had been practically no change in expectations. But members also cautioned that, while inflation expectations currently remained well anchored for the medium-term horizon, high short-term inflation expectations had continued to persist since the outbreak of the war.

Against this background, members concluded that the risks to the inflation outlook were to the upside. These upside risks could also be seen in survey information on inflation, including the ECB Survey of Professional Forecasters and the Survey on the Access to Finance of Enterprises. The energy shock could intensify further and its effects on other prices and on wages could be stronger than currently expected. Seasonally low gas storage levels in Europe could exacerbate energy supply disruptions, with substantial effects on energy prices, especially if the coming winter was cold. In this context, it was noted that gas options prices were signalling strong upside risks. An additional risk factor for energy price developments was the extent of infrastructure damage in the Middle East. Ongoing trade tensions could give rise to more fragmented global supply chains, as well as 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. While the limited scale of the fiscal response was seen as helping to contain inflation, there was also a risk that fiscal policy could contribute more than anticipated to inflation if countries were to activate revised national escape clauses to cover expenditures. By contrast, inflation could turn out to be lower if the Middle East conflict were 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 also lower inflation. Overall, however, the longer energy prices stayed high, the more likely they were to drive up broader inflation through indirect and second-round effects. Consequently, even though the evidence available thus far was still reassuring, given the positive signals from selling price expectations and wage indicators, the projected duration of above-target inflation was seen as an important reason for continuing to monitor the intensity and persistence of the energy price shock, as well as indirect and second-round effects.

Members felt that, in view of the ongoing elevated uncertainty, supplementing the baseline staff projections and the regular risk assessment with alternative illustrative scenarios continued to be informative in giving an indication of the broad range of possible outcomes for inflation and growth.

Turning to the monetary and financial analysis, members largely concurred with the assessment provided by Ms Schnabel and Mr Lane in their introductions. Overall financial conditions had become slightly tighter since the previous monetary policy meeting, consistent with the increase in the key ECB interest rates at the June meeting. At the same time, some of this tightening had been offset by stronger risk asset valuations.

Members judged that, despite repeated and sizeable shocks, financial markets had broadly continued to function well but were vulnerable to a reassessment of risk, with drivers including stretched valuations, competition in technology sectors, questions about the durability of AI-related earnings expectations, geopolitical uncertainty, and the benign pricing of risks in financial markets. In particular, there was an increasing risk of a sell-off in the AI sector in global financial markets. One sign of the increasing fragility of global stock markets was the greater volatility in the Nasdaq stock index, which was heavily weighted towards technology and growth-oriented companies. Rising leverage increased the risk of systemic repercussions for the euro area economy in the event of a market correction.

Regarding financing conditions for firms and households, bank lending rates for firms and the cost of issuing market-based debt had remained unchanged in May, at 3.6% and 4.0% respectively, while mortgage rates had risen to 3.5% in May after standing at 3.4% in April. According to the latest bank lending survey for the euro area, credit standards for business loans had tightened somewhat in the second quarter, while those for mortgages had also tightened, as banks became more concerned about the economic risks faced by their customers and were less willing to take on risks themselves.

Despite slightly tighter financing conditions since the start of the war, loan growth had been resilient for both firms and households, and had accelerated further in May. It was highlighted that not only had growth in short-term loans increased, reflecting a need for working capital in line with what had been observed during previous periods of energy price increases, but also the flow of longer-term loans had been quite robust. Moreover, with respect to the Survey on the Access to Finance of Enterprises, members noted that the war had so far had only a limited impact on firms’ expectations for investment over the next 12 months. Corroborating evidence using AnaCredit data had shown a strong increase in funding, mostly for large companies. This could be evidence that the increase in loans might also contain a structural element, which could be linked to the construction of data centres or the expansion of defence-related manufacturing capacity.

Monetary policy stance and policy considerations

Turning to the monetary policy stance, members assessed the data that had become available since the last monetary policy meeting in accordance with the three main elements that the Governing Council had communicated in 2023, and updated in July 2025, as shaping its reaction function, namely: (i) the implications of the incoming economic and financial data for the inflation outlook and the risks surrounding it; (ii) the dynamics of underlying inflation; and (iii) the strength of monetary policy transmission.

Starting with the inflation outlook, members widely agreed that the incoming information had been broadly consistent with the baseline in the June projections. Headline and core inflation had declined, and the downside inflation surprise in June had been both sizeable and broad-based across energy, food and other components. However, it was also stressed that the largest part of the decline in inflation was attributable to energy and food-related factors, which were rather volatile and could reverse in the near term. Even if the situation in the Gulf calmed down once more, some price pressures were already in the pipeline, as reflected in the rise in domestic producer prices. Further energy price pressures could stem from elevated oil refining margins as well as from high shipping costs. Overall, it was reiterated that the June staff projections saw inflation remaining elevated in the near term, with a slowdown in 2027 and a return to target in 2028. This profile continued to be broadly corroborated by market expectations for inflation.

Members took comfort from the fact that most survey and market-based inflation expectations, when abstracted from the near term, had remained well anchored, supporting the view that inflation would stabilise around target in the medium term.

Members judged that the inflation outlook remained vulnerable to renewed shocks and that the risks surrounding the inflation outlook remained to the upside. Geopolitical developments continued to create risks for energy markets. It was pointed out that upside risks might even have increased, in view of the deterioration in the geopolitical situation since the Governing Council's previous monetary policy meeting. The presence of multiple choke points for energy supply chains, including the latest tensions in the Red Sea, amplified risks and could increase the magnitude and duration of the impact. Seasonally low gas storage levels posed upside risks to energy price developments in winter. Likewise, strategic oil reserves had been used heavily. Members also highlighted the risk that food prices might move up again as a result of recent heatwaves and if the current forecasts for another El Niño event this summer became a reality. A renewed increase in both food and energy prices risked being reflected in inflation expectations, given that these prices played a disproportionate role in shaping the inflation expectations of households. As a result, there remained a risk that a combination of indirect effects and a possible second wave of energy price spikes might trigger second-round effects.

On the other hand, risks did not all point in the same direction. Upside risks to inflation hinging on the duration of the Middle East conflict could diminish, as a ceasefire might become more likely towards the autumn in view of upcoming elections. The risk assessment could therefore change direction quickly. This had been shown by oil prices having rapidly fallen temporarily to pre-war levels after the ceasefire, which called into question the narrative of persistent disruptions to oil markets. In addition, a severe asset price correction on account of a financial market risk reversal could weaken consumption, investment and firms' ability to increase prices.

Turning to underlying inflation, members concurred that while developments in underlying inflation had remained contained, the full effects of the energy shock had yet to play out. Wage data continued to show signs of easing, with forward-looking indicators pointing to moderating labour cost pressures. Firms seemed to be absorbing the increases in non-labour input costs to a larger extent than during the post-pandemic recovery in demand. Since labour market conditions had softened at the same time, this suggested a relatively low likelihood of second-round effects.

Finally, despite repeated and sizeable shocks, the transmission of monetary policy had remained orderly. It was recalled that this was the first year in which the previous tightening cycle was no longer weighing on the euro area economy, which was one of the factors explaining its resilience. Since June financial conditions had tightened slightly, which was consistent with the increase in the key ECB interest rates, and there was evidence that the tightening at the longer end of the yield curve was passing through to the cost of bank loans and of bank bonds. According to the most recent bank lending survey for the euro area, bank lending conditions were also tightening amid higher perceived risk and lower risk tolerance. Meanwhile, bank lending growth had been quite resilient. The growth of credit to the private sector had picked up and stood above the level embedded in the June staff projections. More data were needed to distinguish whether the strength in credit growth was signalling that investment could also turn out stronger than projected, or could largely be explained by firms needing more working capital as they grappled with higher costs and a build-up of inventories.

Monetary policy decisions and communication

Against this background, all members agreed with the proposal by Mr Lane to keep the three key ECB interest rates unchanged. Uncertainty had remained high and the full inflationary impact of the energy shock had yet to play out. Following the timely and appropriate increase in the deposit facility rate in June, leaving interest rates unchanged at the present meeting would keep the Governing Council well positioned to navigate the uncertainty caused by the conflict.

Members stressed that the incoming data provided a strong case for a pause in rate hikes at the current meeting. Conditions were judged to be fragile, rather than acute, and the baseline outlook broadly stable. The lower than expected inflation outturn for June, the slight easing in underlying inflation in June, and the fact that wage dynamics remained consistent with the inflation target, were all supporting factors. Despite the upside risks to inflation, most measures of longer-term inflation expectations had remained well anchored at around 2%, supporting the stabilisation of inflation around target in the medium term. Moreover, there had been little evidence of second-round effects materialising. Since staff analysis attributed the increase in inflation so far almost entirely to energy supply developments, with virtually no contribution from aggregate demand or fiscal policy, unlike in the case of the 2021-22 inflation surge, it was argued that a rate increase would not address the underlying cause of the rise in inflation. Yet it was also cautioned against downplaying today’s inflation challenge and the costs to households and businesses from inflation being above target by comparing the current situation with the pandemic-era inflation surge. The Governing Council should rather reiterate its commitment to bring inflation back to target in a timely manner and should act accordingly. For a number of weeks the situation had in fact been more benign than in June, with only the recent worsening of the conflict bringing the outlook broadly back to the June baseline. Against this background, it was stressed that the June rate increase had improved the Governing Council’s position by underlining its readiness to act.

Some members noted that, as the incoming data since the June Governing Council meeting had underlined the case for further policy tightening, they would not have opposed raising rates at the current meeting.

These members stressed the low likelihood of a situation in which a further rate hike would not be warranted. They referred to the analysis conducted in June which had shown that rates needed to increase further under all scenarios contained in the June projections, including the milder scenario. The option value of waiting was therefore small. A durable resolution of the conflict in the Middle East, and thereby a benign scenario, had become less likely owing to fundamental disagreements over Iran’s nuclear programme and the control of the Strait of Hormuz. A prolonged conflict would amplify the pass-through of higher costs and strengthen indirect effects, increasing the inflationary impact. It was emphasised that even during the ceasefire oil price futures had remained elevated over the medium term, while gas prices and crack spreads had risen further, with the ceasefire providing only limited relief. The view was also expressed that more resilient than expected aggregate demand enabled firms to pass through some of the higher costs, including refineries, whose pricing power hinged on robust demand.

These members thus placed stronger emphasis on the upside risks to the inflation outlook. A delayed monetary policy response might hold up the return of inflation to 2%, affect inflation expectations in a more lasting manner and require even greater tightening later on, hurting both households and businesses. Although second-round effects had not emerged yet, monetary policy needed to act before they appeared so as not to risk falling behind the curve. Recent developments in the Middle East had demonstrated how quickly geopolitical tensions could re-escalate.

These members also argued that rates needed to move into mildly restrictive territory, with current interest rates seen as not restraining the economy, which was corroborated by the further acceleration in the growth of loans to firms and households.

In spite of these concerns, all members were willing to rally behind the decision to keep policy rates unchanged provided that communication stressed the Governing Council's firm commitment to setting monetary policy to ensure that inflation stabilised at the 2% target in the medium term.

The central question for monetary policy remained whether the current increase in inflation reflected a short-lived supply-side disturbance or indicated broader underlying pressures. Members considered that they did not yet have sufficient visibility to determine which of these was more likely. The uncertainty surrounding both the evolution of the conflict and its economic impact suggested that both scenarios remained plausible.

It was argued that pre-emptive action could be justified if the situation turned sufficiently acute, as reflected in an unanchoring of inflation expectations, clear signs of a pick-up in underlying price pressures, or firms moving to a more rapid pace of price adjustment than usual. There was some evidence that acting earlier could at times be less costly and lowered the risk of falling behind the curve. However, under the current circumstances of a fragile, albeit not acute, situation, with the economy close to the June baseline outlook, the most prudent course of action was to move slowly, reflecting the option value of waiting to see how the situation evolved over the summer before considering any further policy steps. It was argued that this also minimised unnecessary rate volatility, given that a rate increase might entail some probability of a subsequent rate reversal.

It was judged that the Governing Council was in a position to wait for more evidence. In September new projections would be available, as well as the estimate for GDP in the second quarter, in addition to further inflation data and fresh evidence on developments in wages and both wage and inflation expectations, all of which would help to distinguish whether the increase in inflation remained largely a direct repercussion of the energy shock or reflected a more persistent change in the inflation outlook.

Waiting until September would also provide more time to assess more recent developments, including the rotation of energy price increases towards gas, the persistence of elevated crack spreads and the resilience of the economy.

All in all, it was recognised that waiting and reassessing the situation in September represented a reasonable decision. Market participants also appeared to have a good understanding of the ECB's reaction function.

Members emphasised again the value of the scenarios both in informing their decisions and for communication purposes in a situation that was complicated by the fluid geopolitical environment. Against this background, members recalled the Governing Council's important earlier debate on the distinction between a decision that was robust across scenarios and an "insurance hike". The ECB's monetary policy strategy prescribed that the Governing Council should make appropriate monetary policy decisions to ensure that inflation stabilised at the 2% target in the medium term. While in June the appropriate decision had been to set interest rates in a manner that was robust in all scenarios, in other instances, "insurance" considerations might be more at the forefront, for example to prevent a move towards more adverse scenarios. The recent resumption of hostilities in the Middle East reminded members how uncertain the situation remained, which implied a possibility of the economy moving towards outcomes that might require monetary policy decisions not prescribed by the entire range of scenarios.

With regard to communication, members reiterated that the Governing Council would continue to follow a data-dependent and meeting-by-meeting approach to determining the appropriate monetary policy stance, without pre-committing to a particular rate path. The Governing Council's future interest rate decisions would continue to 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 data-dependent, meeting-by-meeting approach was particularly important in view of the high uncertainty, which meant that the situation could change rapidly. The Governing Council remained well positioned to navigate the uncertainty caused by the conflict and stood ready to adjust the stance if the outlook required it. It was pointed out that a data-dependent, meeting-by-meeting approach did not imply that decisions were unpredictable. Rather, it indicated a systematic reassessment at each meeting, with a clear choice between holding or hiking rates based on the assessed outlook and risks.

Members emphasised the need to communicate that risks lay to the upside for inflation and that the Governing Council was closely monitoring the intensity and duration of the shock as well as its indirect and second-round effects. Communication should remain simple, clear and firmly data-dependent, while keeping options open for upcoming meetings. On the one hand, it was important not to suggest that the pause in rate hikes at the current meeting meant that the end of the tightening cycle had been reached. While decisions remained data-dependent, another rate hike would likely be necessary unless the inflation outlook improved significantly. On the other hand, communication should stress that the Governing Council was not pre-committed to a hike in September, to allow for the possibility that the medium-term inflation outlook might improve.

In line with the monetary policy strategy, members underscored the medium-term orientation of monetary policy, stressing their full commitment to price stability and their resolve to act in a timely manner to bring inflation back in line with the 2% target over the medium term.

Taking into account the foregoing discussion among the members, upon a proposal by the President, the Governing Council took the monetary policy decisions as set out in the monetary policy press release. The members of the Governing Council subsequently finalised the monetary policy statement, which the President and the Vice-President would, as usual, deliver at the press conference following the Governing Council meeting.

Monetary policy statement

Monetary policy statement for the press conference of 23 July 2026

Press release

Monetary policy decisions

Meeting of the ECB's Governing Council, 22-23 July 2026

Members

Ms Lagarde, President

Mr Vujčić, Vice-President

Mr Cipollone

Mr Demarco

Mr Dolenc

Mr Elderson

Mr Escrivá

Mr Kaasik*

Mr Kažimír*

Mr Kocher

Mr Lane

Mr Makhlouf

Mr Moulin

Mr Nagel

Mr Panetta

Mr Patsalides

Mr Pereira

Mr Radev*

Mr Rehn*

Mr Reinesch

Ms Schnabel

Mr Šimkus

Mr Sleijpen*

Mr Stournaras

Mr Wunsch*

Mr Žigman

* Members not holding a voting right in July 2026 under Article 10.2 of the ESCB Statute.

Other attendees

Mr Dombrovskis, Commissioner**

Ms Senkovic, Secretary, Director General Secretariat

Mr Straub, Secretary for monetary policy, Director General Monetary Policy

Ms Baumann, Deputy Head of Division, Directorate General Monetary Policy

Mr Brand, Head of Section, Directorate General Monetary Policy

** In accordance with Article 284 of the Treaty on the Functioning of the European Union.

Accompanying persons

Ms Bénassy-Quéré

Ms Brezigar

Mr Dewachter

Ms Köhler-Geib

Mr Koukoularides

Mr López

Mr Lünnemann

Mr Madouros

Mr Martin

Mr Nicoletti Altimari

Ms Petersen

Mr Randveer

Ms Raposo

Mr Rutkaste, Alternate to Mr Kazāks

Ms Schembri

Mr Šošić

Ms Stiftinger

Mr Tavlas

Mr Välimäki

Mr Vilerts

Other ECB staff

- Mr Proissl, Director General Communications
- Ms Vansteenkiste, Counsellor to the President
- Ms Rahmouni-Rousseau, Director General Market Operations
- Mr Arce, Director General Economics
- Ms Nickel, Deputy Director General Economics

Release of the next monetary policy account foreseen on 8 October 2026.