EUROPEAN CENTRAL BANK

EUROSYSTEM

Meeting of 28-29 October 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, 28-29 October 2026

26 November 2026

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

Financial market developments

Ms Schnabel started her presentation on the latest financial market developments with the observation that higher energy prices since the Governing Council's previous monetary policy meeting on 9-10 September 2026 had reinforced concerns about persistent inflationary pressures. At the same time, market attention had shifted towards fiscal dynamics and concerns about the increasingly debt-financed artificial intelligence (AI) investment cycle.

Energy price pressures had intensified substantially since the September meeting, pushing oil and gas prices above the adverse scenario of the September 2026 ECB staff macroeconomic projections for the euro area. In response to renewed tensions in the Middle East, the latest oil futures curve had shifted markedly higher compared with the baseline of the September projections and had also moved visibly above the adverse scenario over the short term. The repricing in gas markets had been even more pronounced, with the futures curve currently standing well above the adverse scenario over the entire horizon.

Diesel refining margins stood at a historically high level, with euro area diesel crack spreads – the differences between wholesale prices and crude oil prices – above the levels observed after Russia's invasion of Ukraine in 2022. Freight rates from the Gulf region to Europe had surged to record highs, while the probability of a US-Iran peace deal by the end of 2026 was at its lowest since the start of the war in the Middle East. The increase in energy prices was reflected in inflation compensation. Inflation fixings throughout 2026 and 2027 had shifted higher, peaking at 4.5% for January 2027 and remaining above 2.5% until the first quarter of 2028, while inflation fixings for 2028 were broadly unchanged.

Option-implied inflation risks continued to be skewed to the upside over the next two years and five years.

Despite the sharp increase in energy prices and the deterioration in the inflation outlook, expectations for the key ECB interest rates stood near their September levels. The one-year overnight index swap (OIS) rate one year ahead had decoupled from energy prices, consistent with communication that interest rates would not move in lockstep with energy costs. Immediately after the Governing Council's September monetary policy meeting, the OIS forward curve had shifted markedly higher, temporarily pricing in more than four additional 25 basis point hikes over the next 12 months, before investors pared back expectations to just under three additional hikes. Market pricing adjusted for term premia pointed to an expected peak in the deposit facility rate at around 3%, implying a more pronounced tightening than the median expectation of participants in the Survey of Monetary Analysts, which foresaw only one more hike.

Euro area risk-free rates had stabilised and, at longer tenors, had even declined since the September meeting, while US rates had risen across maturities on the back of higher real rates. The divergence between real yields in the euro area and the United States was consistent with investors' perceptions of a more dynamic US economy.

The rise in euro area ten-year rates relative to the average in 2024 had been driven primarily by higher real term premia, reflecting increased uncertainty about the long-run macroeconomic outlook and a growing net supply of public and private debt. Higher expected short-term real rates and higher inflation expectations accounted for around one-third of the increase in ten-year rates. Moreover, the shift in stock-bond correlations into positive territory pointed to reduced diversification benefits from bonds amid more frequent adverse supply shocks, requiring greater compensation to hold duration risk.

As higher real rates raised governments' borrowing costs and reduced fiscal space, sovereign bond yields had become more sensitive to differences in the fiscal outlook. Sovereign bond spreads had increased notably for some countries since the previous monetary policy meeting, but they had generally remained well below earlier peaks and broadly in line with fundamentals. A greater responsiveness of euro area sovereign bond yields to market stress also reflected a shift towards more price-sensitive investors. Despite the recent widening in spreads, systemic stress indicators had remained contained, well below levels recorded in previous episodes of market strain.

Euro area bank equities had overall remained resilient and, despite a recent correction, had continued to trade in positive territory over the year to date, benefiting from the higher interest rate environment and banks' solid profitability and strong capital positions. Euro area banks had continued to reduce their domestic exposures in total government bond holdings. This suggested that they were less exposed to domestic shocks, as portfolios had become more diversified.

Concerns about inflation, financial conditions and fiscal policy had also extended to broader equity markets, with euro area stocks underperforming. A further factor weighing on equity markets globally

had been the sharp correction in tech stocks, as growing concerns about the increased debt financing of the AI build-out and the returns it would generate had caused significant volatility. The substantial increase in debt issuance by hyperscalers to finance AI investment had so far been smoothly absorbed in euro area corporate bond markets, but at a higher cost for issuers.

Weakening risk sentiment towards the euro area and diverging interest rates had been reflected in the EUR/USD exchange rate, which had depreciated noticeably since the September meeting. Overall, financial conditions had tightened recently, mainly owing to a correction in risk assets and higher sovereign yields, although partly offset by the weakening of the exchange rate.

Ms Schnabel then turned to short-term funding markets. Bank borrowing costs in overnight repo markets had continued their gradual upward trend, with the spreads between rates for French, Italian and Spanish collateral broadly stable against those using German collateral. Liquidity redistribution across banks had continued to operate smoothly, with money market conditions adjusting well to an environment with less excess liquidity. On 27 October 2026, recourse to the Eurosystem's standard refinancing operations had risen to its highest level since the end of 2016, with short-term money market rates remaining close to the deposit facility rate. Both the seven-day main refinancing operation, which covered the October 2026 month-end, and the three-month longer-term refinancing operation, which covered the 2026 year-end, had contributed to the increase. Overall, this was a comforting sign that banks were becoming more accustomed to using standard refinancing operations in their day-to-day liquidity management as balance sheet normalisation and the reduction of excess liquidity progressed.

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 inflation in the euro area, Mr Lane noted that headline inflation, as measured by the Harmonised index of Consumer Prices (HICP), had risen to 3.8% in September, from 3.2% in August. This increase had been driven by energy price inflation, which had increased markedly to 18.9% from 14.3%. Diesel and petrol prices had reached new peaks in September, in part reflecting elevated refining margins. Inflation excluding energy had risen to 2.3% in September, from 2.1% in August. Food inflation had increased by 0.2 percentage points in September, to 1.3%, in part owing to the impact of the summer heatwaves on the unprocessed food component. Core inflation (HICP inflation excluding energy and food) had edged up to 2.5% in September, from 2.4% in August: a 0.1 percentage point decline in goods inflation to 1.1% had been offset by a 0.2 percentage point increase in services inflation to 3.2%.

The pass-through of the energy shock to inflation remained most visible in direct effects. Indirect effects had, overall, evolved as expected and were still limited. So far there had been no material signs of second-round effects. Indicators of underlying inflation had remained broadly stable and wage pressures remained moderate. Compensation per employee had grown by 3.3% in the second

quarter, down from 3.6% in the first quarter, while rising productivity had helped contain the growth of unit labour costs. At the same time, the early stages of the pricing chain pointed to upward pressures. The ECB's forward-looking wage tracker suggested that negotiated wage growth would fluctuate between 2.5% and 2.8% in the remaining months of 2026 and average 2.6% in the first three quarters of 2027, broadly in line with the September staff projections. However, in the composite Purchasing Managers' Index (PMI) input prices had picked up to 67.3 in October, from 67.0 in September and 62.8 in August. In addition, the selling price expectations of firms over the coming year had increased in the latest round of the Survey on the Access to Finance of Enterprises in the euro area. These signals suggested that indirect and second-round effects would become more material over time, as anticipated in the September staff projections.

Market and survey-based inflation expectations over shorter horizons had risen, but most measures of longer-term inflation expectations stood at around 2%, supporting the stabilisation of inflation around target in the medium term. Estimates of market-implied inflation expectations (derived from measures of inflation compensation by adjusting for risk premia) averaged 3.1% for 2026, 3.3% for 2027 and 2.1% for 2028. Expectations of professional forecasters for headline inflation had been revised up for 2027 but were unrevised for 2028 at 2.0%. Medium to longer-term inflation expectations of consumers were broadly stable, as were expectations of firms, according to the second quarter and third quarter rounds of the Survey on the Access to Finance of Enterprises.

Brent crude oil prices (front month – based on futures) had increased by 13% to USD 115 per barrel since the Governing Council's previous monetary policy meeting, in an environment of heightened volatility, elevated freight rates and high global prices for refined products. Price pressures had been particularly pronounced for physical Brent contracts, which reflected prices for more immediate delivery than the front-month prices. Gas prices had increased by 22% to €97 per MWh over the same period, owing to upward pressure from the Middle East conflict. The euro had depreciated by 4.0% against the US dollar since the September meeting, and by 2.2% in nominal effective terms.

The incoming information pointed to continued global economic growth in the third quarter, with the global composite output PMI (excluding the euro area) increasing to 54.5 in September, reflecting expansion in both the manufacturing and services sectors. At the same time, stocks of finished goods had increased to well above their long-term averages, suggesting some hoarding of finished goods to insulate against persistent uncertainties. Global trade continued to grow, bolstered by AI-related demand, but had shifted from goods to services.

For the euro area, the incoming data suggested that the economy had continued to expand in the third quarter. The October figure of 51.9 for the composite output PMI remained in expansionary territory, although it was slightly lower than the readings for August (52.0) and September (53.1). Both the services and manufacturing PMIs signalled expansion. Manufacturing, digital services and exports were benefiting from AI-related business investment. Government spending on infrastructure and defence was also supporting activity. These factors should continue to underpin growth in the near term. At the same time, renewed energy price increases had hit consumer confidence and higher financing costs were likely to weigh on growth.

As regards the labour market, the unemployment rate had remained at 6.4% in August. Growth in employment and the labour force remained subdued, while productivity had gradually picked up. Indeed job postings had moved sideways in recent months, while the composite employment PMI remained just above the 50 threshold. The unemployment expectations of consumers for one year ahead had risen to the highest level since the start of the Middle East conflict, but expectations in the Survey of Professional Forecasters were little changed. While the survey pointed to a gradual moderation in the unemployment rate, to 6.3% in 2027 and 6.2% 2028, this was above the rates in the September staff projections, which saw unemployment at 6.1% in 2027 and 5.9% in 2028.

Turning to fiscal policies, the profile continued to be one of significant loosening in 2026 followed by a significant tightening in 2027 and 2028. Newly specified fiscal measures since the September staff projections reinforced that pattern, with some additional loosening this year and some additional tightening next year.

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.

Financial conditions had tightened since the Governing Council's previous monetary policy meeting. Interest rates had broadly moved up, while stock prices had fallen. The increase in interest rates had been part of a more general trend in global financial markets, reflecting the fallout from the Middle East conflict and high debt issuance in the public and private sectors in many economies. As the rise in long-term yields had been driven in part by higher real risk premia, it constituted a tightening impulse that would contribute to restraining demand.

The cost of market-based debt for firms had risen to 4.1% in August, from 4.0% in July, while bank lending rates for firms had remained at 3.8%. Growth in bank lending to firms had slowed to an annual rate of 4.2% in August and September, from 4.4% in July, while corporate bond issuance had grown at an annual rate of 4.2% in September, up from 3.8% in August and 3.5% in July. Credit standards for loans to firms had tightened in the third quarter, with banks citing concern about the economic risks faced by their customers. The latest round of the Survey on the Access to Finance of Enterprises corroborated the message of tightening credit conditions, as firms had widely reported a further net tightening in bank lending rates. Despite higher financing needs for inventories and working capital, demand for corporate loans had declined, reflecting in particular higher interest rates. Mortgage rates had risen to 3.6% in August, from 3.5% in July, while mortgage lending growth had edged down to 3.0% in September. Credit standards for mortgage lending had been unchanged in the third quarter, whereas demand for mortgages had declined substantially given higher interest rates.

Monetary policy considerations and policy options

Based on the assessment of the incoming information against the three elements of the Governing Council's reaction function, Mr Lane proposed that the Governing Council keep the three key ECB

interest rates unchanged. Energy prices had increased beyond the baseline path foreseen in the September ECB staff projections, posing upside risks to the inflation outlook and downside risks to the growth outlook. The increase was 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. While the full effects of the energy shock were still unfolding, underlying inflation had remained broadly stable so far and wages did not show a material response at this stage. The interest rate hikes in June and September left the Governing Council well positioned to navigate the current elevated uncertainty. The December projections, which would extend the forecast horizon to include 2029, would provide an updated integrated assessment of how the energy shock, AI-related dynamics, the shift in financing conditions and all other relevant developments were shaping the inflation outlook and the surrounding risks. The data that had come in by December would also help the Governing Council to assess developments in underlying inflation and the strength of monetary transmission.

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 continuing to prove more resilient than expected, notwithstanding further increases in energy prices, tighter financial conditions and elevated geopolitical tensions. The incoming information pointed to steady global economic growth in the third quarter, with the global composite output PMI (excluding the euro area) increasing in September, reflecting expansion in both the manufacturing and services sectors. Global activity was being supported by AI investment, inventory accumulation and the fact that tariffs had turned out to be lower than initially announced. AI was driving an investment boom, bolstering global trade and the manufacturing cycle. Inventory accumulation was in part related to some hoarding of finished goods to insulate against persistent uncertainties.

While it was noted that the resilience of economic growth had persisted despite the headwinds of higher energy prices, geopolitical uncertainties and tighter financial conditions, concern was expressed about how far AI investment growth and inventory accumulation could be relied on to continue providing support to global activity. The Middle East conflict and geopolitical tensions had persisted much longer than initially anticipated. Uncertainty, including about a potential intensification of geopolitical tensions, remained elevated. The positive impact of AI investment on global economic activity and its broader global inflation implications needed to be monitored. On the one hand, AI investment growth was supporting economic activity and global demand via manufacturing activity, investment and trade, and was thereby increasing inflation. On the other hand, if AI raised productivity,

it could be disinflationary. Specifically, it could lower employment and curtail the ability of firms to raise prices.

Turning to commodity markets, members noted that energy prices had gone above the adverse scenario of the September projections. Not only had crude oil prices risen further, but increases in energy prices had also broadened and strengthened, including for natural gas and refined products, especially diesel. This development was linked to geopolitical tensions and supply-side factors. Euro area natural gas prices had tripled since the start of the conflict in the Middle East and were now at their highest level since 2022. As for liquid fuel prices, the initial shock seemed to have been absorbed to some degree by adjustments in both supply and demand. The renewed spike appeared to be due to an anticipation of further escalations in the Middle East conflict. On the one hand, there was little indication that the conflict in the Middle East would be resolved soon, suggesting an even more prolonged energy price shock. On the other hand, the geopolitical origins of the energy shock created two-sided risks as regards the direction of energy prices. The spread between the price of refined diesel and the price of crude oil had widened, owing in large part to supply disruptions in the Middle East and in Russia, as well as a reduction in supply from China. The current high levels of prices for refined products were seen as worrying, as they could feed into transport, shipping, agricultural and production costs, spreading the impact beyond that of the direct energy component of inflation. Food commodity prices, especially in Asia, were also coming under pressure owing to adverse weather conditions linked to the “El Niño” phenomenon. While it was noted that staff had already incorporated some lagged effects from energy price increases and weather conditions into their food inflation projections, further effects could materialise next year as new contracts and price agreements were established for food production. Energy prices could ease if the current premium for diesel spurred the use of the available capacity to narrow the global supply gap, or, if the geopolitical situation were to improve, the associated risk premium could unwind relatively quickly. Conversely, gas prices could rise further if supply were disrupted further or an unusually cold winter coincided with low storage levels, amid global competition for liquified natural gas.

With regard to domestic economic activity, members concurred with the assessment presented by Mr Lane. Despite higher energy prices and tighter financial conditions, euro area economic growth had continued to display some resilience and had performed better than expected so far. The incoming data suggested that the euro area economy had continued to expand in the third quarter of the year. Services had recovered, after weakening at the start of the Middle East conflict. Manufacturing, digital services and exports were benefiting from AI-related business investment. Government spending on infrastructure and defence was also supporting activity. These factors should continue to underpin growth in the near term. At the same time, renewed energy price increases had hit consumer confidence, and higher financing costs were likely to weigh on growth.

Despite higher energy prices and tighter financial conditions, the October PMI still signalled expansion in the manufacturing and services sectors. There was some indication of positive, albeit not strong, growth momentum in some sectors, particularly those linked to AI and to defence and infrastructure spending in Germany. The euro area had benefited from AI-related activity in the first two quarters of

the year, with the services most involved in the digitalisation process accounting for about one-third of growth in value added, which was a good sign for the future.

While growth had held up at around 0.2-0.3% per quarter, there were some signs that economic activity might be slowing, particularly as the PMI had declined markedly in October and consumer confidence and private consumption had weakened. The short-term growth outlook was considered to be gloomier than previously expected and downside signals were more visible, although it was noted that near-term growth expectations reported in the Survey of Monetary Analysts had been revised up.

Looking ahead, members generally agreed that tightening financial conditions and the renewed spike in energy prices would have a negative effect on growth, although its magnitude remained to be seen. The decline in demand for loans suggested a stronger adverse effect on activity than had been seen so far, although some of the effect from higher rates on private investment spending, housing and consumption might be attenuated by the weaker exchange rate. The more recent surge in energy prices since August was creating a stronger headwind and, overall, higher energy prices still had to feed through to euro area activity and become visible in GDP data.

Private consumption, having previously developed in line with the projected recovery, had begun to weaken. There were a number of factors at play. Higher energy prices were having an impact on real incomes and were weakening consumer confidence. Higher interest rates had increased incentives to save and to reduce consumption. The sharp decline in demand for housing loans and rising mortgage rates could start to weigh on housing investment. One area of support was strong demand for tourism services. Over the medium term, recovering confidence and real incomes, supported by gradually declining energy prices and a robust labour market, were expected to strengthen domestic demand.

Business investment was being supported by AI-related activity, but there were increasingly questions as to how long this factor (alongside lower than initially announced tariffs) might continue to provide support. Higher borrowing costs and tighter credit standards were expected to constrain investment more broadly.

The euro area labour market had remained largely resilient, although there were some signs of softening. The unemployment rate had remained near historical lows in August. Employment and the labour force continued to grow, albeit at a subdued pace, while productivity had gradually picked up. Job postings had remained stable in recent months and the composite employment PMI remained just above the threshold of 50. The unemployment rate expectations of professional forecasters as reported in the Survey of Professional Forecasters were little changed and continued to point to a gradual decline in the unemployment rate from the current level. However, consumers' expectations for unemployment one year ahead had risen to the highest level seen since the start of the Middle East conflict. An additional factor to consider was the potential impact of AI on productivity and jobs.

The fiscal stance, while providing support to growth in 2026 through defence and infrastructure spending, was likely to be tighter in 2027. At the same time, upcoming elections could result in more

spending than currently envisaged. By contrast, elevated fiscal and political uncertainty could weigh on growth.

Members considered that, 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.

Concerning structural and fiscal policies, members reiterated that higher potential growth required structural reform and had to be underpinned by sound public finances. Fiscal sustainability was a crucial anchor for broader economic stability. Governments needed to be proactive in enhancing fiscal sustainability. To this end, fiscal responses to the energy shock should be temporary, targeted and tailored.

Increasing the euro area's growth potential required structural reform: simplifying and harmonising rules across the EU's Single Market, accelerating the energy transition and completing the savings and investments union. These were key building blocks for making the euro area economy more dynamic and resilient. As the process for agreeing on the legal framework for the digital euro moved into its final stage, members reiterated the importance of reaching agreement on the European Commission's Single Currency Package as quickly as possible.

Against this background, members assessed that the risks to the growth outlook were to the downside. This was 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 might 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, might drive up growth by more than expected.

With regard to price developments, members concurred with the assessment presented by Mr Lane in his introduction, noting that, on the one hand, energy prices had increased beyond the baseline path foreseen in the September ECB staff projections, which was likely to raise inflation further in the near term and keep headline inflation well above target over the coming year. On the other hand, underlying inflation had remained broadly stable in recent months and wage growth data had moderated further.

With the further and broader rise in energy prices, headline inflation had increased by more than expected, rising to 3.8% in September, from 3.2% in August. Energy price inflation had increased markedly, to 18.9%, from 14.3% in August. Other components of consumer price inflation, however, including food, non-energy goods and services, were either in line with or slightly lower than what had been previously expected. Inflation excluding energy had increased to 2.3% in September, from 2.1% in August. Food price inflation had increased to 1.3%, from 1.1%. Services inflation had increased to 3.2% in September, from 3.0% in August, while goods price inflation had declined to 1.1% from 1.2%. It was noted that, while inflation in non-energy industrial goods had risen since the start of the year, much of this increase was due to electronics, likely reflecting the AI boom. Services inflation had been broadly flat over the past 12 months and, excluding travel-related items, had registered a noteworthy decline.

Indicators of underlying inflation had remained broadly stable, although they stood above 2% and the early stages of the pricing chain pointed to upward pressures. The year-on-year increase in the HICP excluding energy and food had turned out to be slightly lower than had been anticipated in the baseline of the September projections. Some measures had started to pick up, including the Persistent and Common Component of Inflation (PCCI), which was seen as having been a reliable predictor of future inflation during the COVID-19 pandemic, as well as the Indicator of Core by Aggregating Regimes of Inflation Sub-components (ICARIS).

Regarding the near-term outlook, on the one hand, it was clear that inflation would be higher for longer than previously expected. The latest energy futures indicated that headline inflation could peak above 4%. While the expected inflation profile remained highly dependent on volatile energy assumptions, HICP inflation in 2027 could exceed the inflation figures projected by ECB staff under the adverse scenario in the September projections. On the other hand, the latest data for inflation in the HICP excluding energy and food suggested a slightly better outlook than previously expected, but allowing for pass-through from higher energy prices would suggest a higher core inflation trajectory at or above the level seen in the adverse scenario. It was suggested that perhaps underlying inflation could become sticky at around 2.5% rather than receding.

It was cautioned that such partial and mechanical updates of otherwise comprehensive projection exercises had to be interpreted with caution. Importantly, the fact that oil and gas futures were now at levels above those in the adverse scenario did not necessarily imply that this scenario would also materialise for HICP inflation. The adverse HICP inflation scenario already factored in judgement about other, non-energy price-related elements, specifically in terms of further indirect and second-round effects, and it did not yet include the impact from the tightening in financial conditions.

Looking further ahead, there was considerable uncertainty about the impact of countervailing forces on inflation. On the one hand, base effects on account of the declining profile of energy price futures would mechanically suggest a sustained disinflation path for headline HICP inflation by the end of 2027 and, additionally, by dampening demand, the impact of tighter financing conditions and weaker growth conditions would exert downward pressure on inflation. On the other hand, while it was noted

that mechanical base effects were not informative for the momentum in underlying inflation, higher energy prices were likely to generate further indirect and second-round effects than currently factored in, which could result in inflation remaining above target in 2028.

Regarding the direct, indirect and second-round effects from higher energy prices, thus far it was mostly direct effects that were materialising. Indirect effects had overall remained limited, as expected, and so far there were no material signs of second-round effects. However, the fact that energy prices had risen even higher and for longer, together with the signals from input prices and selling price expectations, suggested that indirect effects would become stronger over time and some second-round effects would eventually materialise, as already anticipated to a degree in the September projections. Firms were more likely to pass on higher costs to prices as their margins became compressed, as signalled in the ECB's Corporate Telephone Survey, and workers were more likely to seek to at least restore lost purchasing power through higher wage demands. While no clear signs of second-round effects had been seen thus far, it was important to watch for early warning signals, including signs of indirect effects. In this regard, the increase in consumers' expectations for inflation one year ahead, the acceleration in euro area producer prices, especially for intermediate goods, and higher selling price expectations were all relevant. Furthermore, the fact that households and firms still remembered the 2022 inflation shock could imply that another prolonged period of rising energy prices could affect wage negotiations, pricing decisions and inflation expectations faster than in the past. It was recalled that in the round of the Survey of Professional Forecasters for the fourth quarter of 2026, which had been conducted in October, expected indirect and second-round effects for 2027 had more than doubled to 0.4 percentage points since the survey for the third quarter.

In addition to a broadening of increases in energy inflation from crude oil to refined products, such as diesel, and natural gas and electricity, there were also indications of broadening pressures at the earlier stages of the producer price chain, especially for intermediate and capital goods. For instance, while the share of prices of consumer goods and services that were growing by more than 3-4% was still relatively stable, the share of intermediate goods producer prices registering increases above 3% had risen sharply compared with three months earlier and was at a level also seen in 2021-22. It was argued that these price pressures could over time feed through to consumer goods prices, implying a further increase in non-energy industrial goods inflation. Yet it was also noted that so far this broadening remained largely limited to prices of indirectly energy-related goods and some intermediate goods, and was less true for consumer prices. It remained to be seen whether the impact on intermediate goods prices would feed more into consumer prices or into prices for AI goods for export. The fact that the elasticity of demand to certain components of the HICP basket that were previously considered to be inelastic appeared to have increased could also mean lower indirect effects from the energy price shock. Other factors attenuating inflation pressures included possible lower demand stemming from lower real incomes, elevated uncertainty and reduced confidence, and tighter financial conditions.

Regarding food inflation, the small, lower than expected, increase in September was entirely due to developments in the unprocessed food component and was most likely related to weather conditions,

notably the summer heatwave. Processed food inflation had declined slightly further, as it had still reacted with some lag to the previous decline in upstream prices. But the effect of more recent increases in agricultural commodity prices and indirect effects from energy prices would likely start to materialise. Overall, food inflation was expected to increase over the coming year from its current levels and staff had already incorporated some lagged impact from energy price increases and weather conditions into their food inflation projections.

Wage developments had remained moderate so far. Compensation per employee had grown by 3.3% in the second quarter, down from 3.6% in the first quarter, while rising productivity had helped contain the growth of unit labour costs. The forward-looking ECB wage tracker suggested that negotiated wage growth would fluctuate between 2.5% and 2.8% in the remaining months of 2026 and would average 2.6% in the first three quarters of 2027. While the wage tracker remained close to its level prior to the conflict in the Middle East, with recent wage agreements showing no significant uptick, it was acknowledged that wage pressures were likely to build if headline inflation rose further above wage growth. The extent of the pass-through would depend on demand conditions and competitiveness. Depreciation of the euro could strengthen the latter, while competition from China and AI-related developments could limit firms' pricing power. This would be a key issue for the December projections. A question was raised regarding the degree of forward-looking information in the wage tracker. It was noted that the wage tracker was forward-looking in the sense that it provided information on what firms and workers had so far agreed to in relation to future wage increases. Thus far, there had been no big increase in wage settlements and the wage tracker was now around the same level as before the start of the conflict in the Middle East. These were hard data on what had already been agreed for next year, not a projection of future wage agreements.

Clearly, wage negotiations taking place around the turn of this year could be affected by the actual inflation rate prevailing at that time, as well as by higher food prices and concerns about the cost of living. In this regard, the fact that inflation could peak above 4% and could be higher than wage growth (implying a decline in real wages) was a factor to consider. It was noted that expectations for wage growth had been revised up in surveys, such as the Corporate Telephone Survey, the Survey of Professional Forecasters and the Survey on the Access to Finance of Enterprises, potentially providing a first indication of second-round effects.

While inflation expectations over shorter horizons had risen, most measures of longer-term inflation expectations stood at around 2%. The shorter-term inflation expectations of professional forecasters, financial markets, firms and consumers had all increased. Financial market-based inflation compensation measures peaked above 4% around the beginning of 2027 and did not decline to 2% until 2028. The selling price expectations of firms had increased, while consumers' expectations for inflation one year ahead had edged up and higher food price inflation might have a further impact. The upward movement in consumer inflation expectations was considered to be a warning sign. Specifically, five-year-ahead inflation expectations in the Consumer Expectations Survey had moved upwards over the past two years, to 2.5% from 2.0%. However, most measures of longer-term inflation expectations stood at around 2%.

Overall, looking ahead, some indirect and second-round effects of the energy price shock on HICP inflation were inevitable and had already been factored into the staff projections, while their eventual strength and timing remained uncertain. Nonetheless, declining energy inflation, past increases in consumer prices falling out of calculations of the annual rate of change, and higher interest rates were expected to support the return of headline inflation to target.

Against this background, members assessed, overall, that the risks to the inflation outlook were to the upside, and more so than in September. This was 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 was disrupted further or an unusually cold winter coincided with low storage levels. The longer energy prices stayed high, the more likely they were 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.

Turning to the monetary and financial analysis, members largely concurred with the assessment provided by Ms Schnabel and Mr Lane in their introductions. Since the Governing Council's previous monetary policy meeting in September, overall financial conditions had tightened on account of a repricing of risk. Front-end €STR forward rates had initially shifted up, but had eased following communication in the period between the monetary policy meetings and deteriorating risk sentiment, with financial markets and analysts expecting no rate change at the current meeting and attaching a high probability to a hike at the next monetary policy meeting in December. Term premium-adjusted forward rates subsequently factored in a further hike in the deposit facility rate to 3.0% by mid-2027.

In a departure from the conditions still prevailing at the time of the Governing Council's monetary policy meeting in September, members assessed financial conditions to have tightened, mostly on account of a correction in stock prices and an increase in sovereign yield spreads. On the one hand, high current inflation and elevated short-term inflation expectations were seen as implying lower real interest rates at shorter maturities and a more accommodative policy stance than nominal rates alone would suggest, despite the tightening in overall financial conditions. On the other hand, members noted that long-term sovereign yields, at both the global and the euro area level, had increased on account of rising sovereign risk premia and real term premia. The observation was made that yields appeared to have risen beyond the transmission of past interest rate decisions and above what could be explained by their estimated inflation compensation component.

Members considered the role of fiscal factors, geoeconomic and political uncertainty and the AI funding boom as drivers of rising risk premia in long-term yields.

Members discussed the widening of sovereign yield spreads. While market conditions were not assessed to indicate disorderly conditions, sovereign yield developments in the euro area required attention owing to their potential spillovers into broader financing conditions. These could be amplified by weakening growth and drive up borrowing costs further.

Members noted that the tightening in financial conditions also originated from lower risk appetite in stock markets and expressed concerns about a potential AI-related stock market correction. Euro area equity prices had increased throughout the year, even if they had underperformed the US S&P 500 index. Given the importance of AI-related earnings expectations in stock market performance, members questioned how long high equity valuations could be sustained if expected earnings and productivity gains did not materialise. There were increasing concerns among financial market participants about whether the exceptional amounts of capital being committed would generate sufficient returns to justify the scale of the investment. The associated risks were becoming increasingly apparent, as exposures were becoming more interconnected. Financing structures remained opaque and expected stock returns relied on highly optimistic revenue assumptions. This situation required vigilance regarding euro area banks' exposures to these risks.

The question was raised as to how to quantify the macroeconomic impact and the effects on the monetary policy stance of the increase in long-term sovereign yields and the tightening of financial conditions since the start of the Middle East conflict. It was not clear whether this tightening was sufficient to compensate for the deterioration in the inflation outlook since the September staff projections. The increase in yields might nonetheless contribute to a reduction in inflation and growth relative to what staff had projected in September.

Members also discussed the weakening of the euro exchange rate since the Governing Council's September meeting and its impact on financial conditions. Given uncertainties about placing weights on different components of financial conditions, it would be important to also assess the economic nature of the drivers of these components.

Regarding financing conditions for households and firms, members observed that bank lending conditions had tightened and loan demand had decreased.

The cost of market-based debt for firms had risen in August, while bank lending rates for firms had remained stable. Growth in bank lending to firms had slowed in August and September, while corporate bond issuance had continued to grow in September. Credit standards for loans to firms had tightened in the third quarter, as reported in the latest bank lending survey, with banks having cited concern about the economic risks faced by their customers. Despite higher financing needs for inventories and working capital, corporate loan demand had declined, reflecting in particular higher interest rates.

Mortgage rates had risen in August, while mortgage lending growth had edged down in September. Credit standards for mortgage lending had been unchanged in the third quarter, whereas demand for mortgages had declined substantially given higher interest rates.

The overall tightening in financing conditions had been driven particularly by the price components, but quantities were also affected because of tighter standards. It was observed that weaker loan demand despite higher financing needs, given higher lending rates, which was reported in the bank lending survey and the Survey on the Access to Finance of Enterprises, could indicate a faster adjustment relative to the lagged and gradual pattern of monetary policy transmission during the previous tightening cycle. These developments could dampen demand by more than previously expected. Yet, notwithstanding financial market volatility, funding costs for firms and banks had not tightened in a sustained and broad-based manner. Despite the easing in mortgage lending growth, overall loan growth had remained resilient. It was therefore argued by some members that interest rates could be considered to remain non-restrictive at current levels. Overall, higher lending rates and slowing demand for loans were showing that the transmission of previous interest rate increases was working smoothly.

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.

Members largely agreed that the inflation outlook had deteriorated, with headline inflation rising by more than expected to 3.8% in September, from 3.2% in August. This had taken place amid slowing economic activity, as the conflict in the Middle East and recent developments in Russia’s unjustified war against Ukraine had pushed energy prices above the baseline scenario foreseen in the September ECB staff projections. This further reinforced upside risks to the inflation outlook and downside risks to the growth outlook.

Front-end oil price futures, gas prices and the synthetic energy commodity price index calculated by ECB staff had exceeded energy price assumptions for the period until the end of 2027 under the adverse scenario in the September projections, with gas prices at their highest level since 2022.

The energy shock had intensified and had spread beyond oil and gas to refined products and electricity. The impact of energy price increases on consumer prices had so far been concentrated in direct effects. There were few signs of energy price increases spreading beyond energy components in the HICP, but pipeline pressures had broadened, as reflected in producer prices, especially for

intermediate and capital goods. Indirect effects on consumer prices were strengthening and likely to come to the fore more forcefully in 2027.

Looking ahead, energy price developments were likely to raise inflation further in the near term, keeping headline inflation well above target over the coming quarters. Concerns were expressed that inflation could only return to target after 2028.

It was remarked that external observers such as participants in the Survey of Monetary Analysts also now expected that headline inflation would peak at a higher level over the coming months, but that, as in 2023, strong base effects from the impact of the shock on energy prices would support a sharp deceleration of inflation readings towards target already in the second half of 2027.

Members expected higher energy prices to feed through gradually to core and food price inflation. Indirect effects were building up, and second-round effects were expected to unfurl gradually as of next year. While the full effects of the energy shock were still unfolding, wages did not show a material response to the energy price shock at this stage, with the still resilient labour market conditions softening, economic activity slowing and downside risks to growth increasingly weighing on the inflation outlook.

Members generally agreed that there were so far no material second-round effects from the energy price increases on wage and price-setting. Overall, the expected decline in energy inflation, together with the effects of higher interest rates, should support the return of inflation to target.

All members viewed the risks surrounding the inflation outlook as being to the upside relative to the staff baseline projections, with the evolution of the conflict in the Middle East and recent developments in Russia’s unjustified war against Ukraine being the key sources of risk. The energy shock could intensify further amid a possible re-escalation of the Middle East conflict. A more intensive and persistent energy price shock such as this would be akin to commodity price assumptions under the severe scenario in the ECB staff projections. Gas prices, in particular, could increase if supply was disrupted further or if an unusually cold winter coincided with low storage levels. Constraints in refining capacities could sustain high fuel prices. The increased magnitude and duration of the energy shock was likely to generate larger indirect and second-round effects in price-setting and wage negotiations, imply higher food and core inflation than previously projected, and drive up inflation and lower growth. 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. A general deterioration in financial market sentiment triggered by a repricing of AI-related equity valuations and of credit risk

could spill over more widely into private and public debt markets, tightening credit conditions and lowering growth and inflation. The tightening in financing conditions indicated in the bank lending survey and the Survey on the Access to Finance of Enterprises also suggested downside risks to steady but subdued growth. Second-round effects factored into the staff projections might not materialise, because of countervailing pressure on wages from weakening economic activity and employment. The looming impact of AI on jobs and productivity might weigh separately on wage developments. In addition, the energy supply shock and the associated economic uncertainty also reduced demand through their impact on real disposable income. This impact was highly uncertain but could be substantial.

Turning to underlying inflation, members assessed indicators of underlying inflation to have remained broadly stable, although the early stages of the pricing chain pointed to upward pressures. Wage pressures remained moderate. The growth of compensation per employee had eased, and rising productivity had helped contain the growth of unit labour costs. While wages did not yet show a reaction to the energy price shock, the expected peak in inflation at around the 4% mark could well affect wage negotiations at the start of the coming year, possibly triggering second-round effects, by more than factored into the projections. Meanwhile, the forward-looking wage tracker suggested that negotiated wage growth would fluctuate between 2.5% and 2.8% in the remaining months of 2026 and average 2.6% in the first three quarters of 2027. Market and survey-based inflation expectations over shorter horizons had risen. The increase was more visible for households, as reflected in the Consumer Expectations Survey, than for firms, as reflected in the Survey on the Access to Finance of Enterprises. Short-term inflation expectations had also risen in the Survey of Professional Forecasters and the Survey of Monetary Analysts. But most measures of medium to longer-term inflation expectations were well anchored at around 2%, supporting the stabilisation of inflation around target in the medium term.

While underlying inflation indicators did not point to broadening underlying pressures, inflation in the HICP excluding energy and food had already been projected to be above 2% in the September projections, with most recent inflation data suggesting the risk of this overshoot had worsened. The experience from the pandemic-related inflation surge suggested that a shock of the current size and persistence could be expected to feed into underlying inflation over time. This effect was already reflected in the September projections, which foresaw core inflation remaining above target over the entire projection horizon. Recent developments could push core inflation measures further above 2%. Tentative signs of rising pressures were visible in some measures of underlying inflation, including the PCCI. Nevertheless, members observed that so far second-round effects had not materialised and that underlying inflation had remained broadly stable.

Finally, the transmission of monetary policy had been smooth. Financial conditions had tightened since the Governing Council’s last monetary policy meeting, in September. Credit conditions for households and firms had also tightened. These developments dampened demand and inflation, and thereby supported the intended monetary policy stance.

Several members assessed financing conditions to have tightened on account of increased risk premia and sovereign yield spreads, and a repricing in equities. At the same time, the mild easing in risk-free components of the yield curve and in short-term policy interest rate expectations, as well as the depreciation of the euro since the Governing Council's previous monetary policy meeting, were seen as counteracting the tightening of financial conditions to some extent. In light of elevated uncertainty, the observed tightening in financial conditions was likely to persist, weighing on demand and ultimately inflation.

Credit conditions for households and firms had tightened in the third quarter, according to the latest bank lending survey, as lending standards had tightened and loan demand had decreased. The demand for mortgages had declined substantially given higher interest rates. The tightening in credit standards for lending to firms reflected concerns about the economic risks they faced. Despite higher financing needs for inventories and working capital, corporate loan demand had declined, reflecting in particular higher interest rates. Members observed that the tightening in credit standards reflected in the bank lending survey was to be welcomed as part of monetary policy transmission and seen as contributing to lower inflation. Past interest rate increases were still working their way through the system, and the increase in bond yields was dampening demand and the impact of energy prices on inflation.

Monetary policy decisions and communication

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

The incoming data had supported the case for a pause in rate hikes at the current meeting. Underlying inflation had so far remained broadly stable, and as yet there were no indications of second-round effects, with wages showing no material response at this stage. Economic and financial conditions were deemed to be subject to considerable uncertainty and were therefore challenging, with risks tilted in opposite directions for growth and inflation. Moreover, despite upside risks to inflation, most measures of longer-term inflation expectations remained well anchored at around 2%, supporting the stabilisation of inflation around target in the medium term. Financing conditions had tightened since the last meeting, which was likely to weigh on both inflation and growth. The argument was made that more data and staff projections were needed to confirm that further tightening was appropriate.

While the direction of travel was clear, the need remained for a measured policy response to the predominantly energy supply-driven rise in inflation. The energy shock was still unfolding, pushing headline inflation above target along a path that was higher than previously projected. Furthermore, its

increased magnitude and duration, as well as the implications for indirect and second-round effects, were expected to drive up inflation and lower growth.

A large number of members noted that, as the incoming data since the September Governing Council meeting had confirmed the case for further policy tightening, they could have supported raising interest rates at the current meeting. These members stressed that a further rate hike was warranted in light of the deteriorating inflation outlook, while acknowledging elevated uncertainty, the impact of higher yields on financial conditions and the limited evidence so far of second-round effects. Energy prices had moved above the levels seen in the adverse scenario and energy inflation was broadening and becoming more persistent. The outlook for headline inflation might be shifting towards, or even above, that contained in the adverse scenario. Accordingly, a tighter stance than under the baseline scenario of the September projections would be warranted. Since a further interest rate hike was necessary, unless the inflation outlook improved significantly, the only issue was timing.

According to these members, the option value of waiting was assessed to be rather small, as a durable resolution of the conflict in the Middle East had become less likely. The direction of travel was clear enough not to have to wait for further information or the December Eurosystem staff projections. While the tightening in financial conditions had to be factored into the calibration of the policy decision, the tightening seen so far was not sufficient to bring inflation back to target, given the size and persistence of the inflation shock. Members also recalled that the deposit facility rate, at 2.50%, still lay within the range of point estimates of neutral rates provided by ECB staff, suggesting that interest rates were not restraining the economy. A hike at the current meeting would simply frontload the necessary monetary policy tightening.

These members placed stronger emphasis on the upside risks to the inflation outlook. The more persistent energy price shock in an environment of still resilient economic growth increased the risk of indirect and second-round effects. A deferred monetary policy response might delay 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. The argument was made that although second-round effects had not emerged yet, monetary policy needed to act to pre-empt them.

In spite of these concerns, all members, including those seeing a case for acting at the current meeting, supported 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, as well as that, without pre-committing to a rate hike, the direction of travel was clear, unless the inflation outlook improved significantly.

In light of the energy price shock driving inflation and output in opposite directions, members supported a continuation of the measured policy response, while noting that further tightening was likely necessary. A combination of factors and shocks had created an increasingly complex environment with more difficult trade-offs for monetary policy. These factors included: the ongoing correction in financial market sentiment and the tightening of financial conditions, which were in part due to global factors unrelated to the euro area; the intensifying supply-side nature of the energy price

shock; and the observation that, in view of downside risks to growth, indirect and second-round effects from the energy price shock were building only gradually, and the expectation that this would continue, affording room for patience. Future monetary policy tightening was already priced into markets, allowing a gradual approach now. While it was deemed reasonable to stand ready to shift gear should incoming data provide sufficient evidence, consistent with the meeting-by-meeting approach, there was not enough evidence to support a gear shift away from a measured reaction towards a more forceful response. This prudent approach of acting at a measured pace in times of uncertainty had served the Governing Council well so far. The data-dependent approach implied that there was value in basing decisions on a broader set of data, including staff projections, than single data points. Keeping policy action consistent with all criteria of the reaction function was the best approach to preserving credibility. Overall, complex trade-offs and high uncertainty made a measured pace appropriate. The argument was made that, in view of the marked tightening in financial conditions, the costs of erring on the side of over-tightening outweighed the benefits of acting before more information on the impact of the energy shock had become available.

Since further tightening was data-dependent, it was necessary to wait to see more data before considering any further policy steps. The increase in goods inflation and the renewed energy price surge were fairly recent and had amplified uncertainties, requiring time to assess their impact. Additional data were needed to assess the strength of indirect effects and the impact of the tighter financing conditions. A new round of Eurosystem staff projections would be available in December, including a projection for 2029, and there would be additional information on wage negotiations, third quarter GDP numbers and two further inflation releases. This wealth of information would help the Governing Council to arrive at a better understanding of whether the energy shock was becoming embedded in wage and price-setting. Members also stressed that, given the complex trade-offs generated by the energy supply shock, postponing action until more information had become available was consistent with rational behaviour, as currently also priced in by markets.

Members discussed whether both actual policy decisions and market expectations of them could become overly tied to meetings when staff projections were available. It would be inappropriate to convey that interest rate changes occurred only at meetings when there were new projections. Tying the timing of an increase in interest rates to the availability of staff projections would, currently, also run counter to these being less important an input than in the past, when uncertainty had been lower. Again, it was emphasised that, in the current circumstances, proceeding at a measured pace was not about the availability of projections but about the appropriate pace of interest rate adjustment.

All in all, it was recognised that waiting and reassessing the situation in December represented a reasonable decision.

Against this backdrop, it was argued that communication should clarify that the Governing Council took its monetary policy decisions independently of market expectations, that such decisions were not made only at meetings with new projections and that the meeting-by-meeting approach applied to all meetings.

Members reiterated the importance of conveying their commitment to do whatever was necessary to bring inflation back to target in a timely manner. 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 Governing Council would also 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.

In this context, communication should convey that the current decision represented a measured adjustment of policy rates at the current stage, which did not imply anything about their future path. At the same time, conveying vigilance was vital. Therefore, it was important to communicate that the Governing Council was closely monitoring all incoming information, and remained agile and flexible to respond to changes in the inflation outlook in either direction.

Members emphasised the need for communicating that the inflation outlook had deteriorated further, that risks were on the upside for inflation and the downside for growth, and that the Governing Council would closely monitor the intensity and duration of the shock as well as the emergence of indirect and second-round effects. Communication should explain that the euro area economy was facing multiple shocks at the same time. While upside pressures on inflation from energy prices had increased, counterbalancing forces had emerged as well, including downside risks to growth from tighter financing conditions. The Governing Council was not satisfied with the inflation trajectory drifting further away from target, thus potentially requiring further monetary policy tightening – although the Governing Council was not pre-committing to this.

In line with the data-dependent approach, communication needed to sustain existing policy rate expectations by conveying that another rate hike would likely be necessary unless the inflation outlook improved significantly. In guiding expectations for monetary policy at the December meeting, it was important to communicate that the Governing Council retained optionality, while reaffirming its determination to maintain price stability. Communication should highlight that the pause at the current meeting did not reflect diminished concern about the inflation outlook, and that, in fact, the persistence and broadening of the shock increased the risks of larger indirect and second-round effects that would likely require additional tightening. Over the coming months, it would be particularly important to gauge the strength of indirect effects and watch carefully for second-round effects, as these dynamics could make the direct inflationary impact of the energy shock more persistent. Vigilance was warranted given the upside risks to the inflation outlook and the risk of persistently above-target inflation becoming entrenched in expectations, especially after the 2021-22 inflation surge. At the same time, caution was also warranted given the high uncertainty.

Communication should emphasise that higher potential growth required structural reform and had to be underpinned by sound public finances, and that fiscal sustainability was a crucial anchor for broader economic stability. To contribute to sustainable public finances, fiscal responses to the energy shock should be temporary, targeted and tailored.

Overall, communication would convey the Governing Council's commitment to setting monetary policy to ensure that inflation stabilised at its 2% target in the medium term. The June and September hikes had left the Governing Council well positioned to navigate the current elevated uncertainty and to gather more information about how the economy was reacting to shocks. The Governing Council was not pre-committing to a particular interest rate path. It stood ready to adjust all of its instruments within its mandate to ensure that inflation stabilised sustainably at the medium-term target and to preserve the smooth functioning of monetary policy transmission.

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 29 October 2026

Press release

Monetary policy decisions

Meeting of the ECB's Governing Council, 28-29 October 2026

Members

Ms Lagarde, President

Mr Vujčić, Vice-President

Mr Cipollone

Mr Demarco*

Mr Dolenc

Mr Elderson

Mr Escrivá

Mr Kaasik

Mr Kazāks*

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 October 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

Mr Kisselevsky, Observer

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

Mr Koukoularides

Mr López

Mr Lünnemann

Mr Madouros

Ms Mauderer

Mr Meichenitsch

Mr Nicoletti Altimari

Mr Paredes

Mr Randveer

Ms Raposo

Mr Rutkaste

Ms Schembri

Ms Tamoševičienė

Mr Tavlas

Mr Välimäki

Mr ter Weel

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

Release of the next monetary policy account foreseen on 21 January 2027.