



EUROPEAN CENTRAL BANK

EUROSYSTEM

Monetary policy in a world of overlapping shocks

Isabel Schnabel

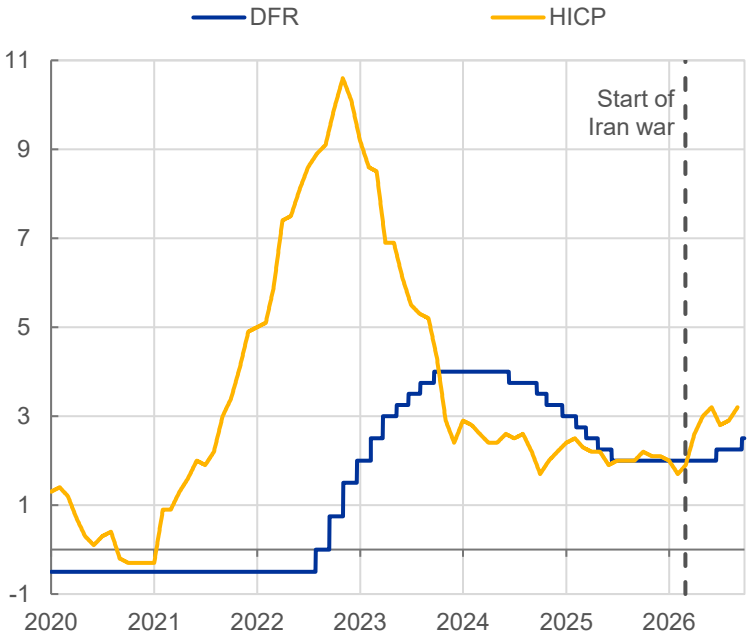
*Member of the Executive Board
of the ECB*



8th Annual EC-EIB-ESM Capital Markets Seminar
Luxembourg, 30 September 2026

ECB has taken timely action in response to deteriorating inflation outlook

ECB deposit facility rate (DFR) and HICP inflation (percent)



Sources: ECB and ECB calculations.
Latest observation: 24 September 2026 for DFR and August 2026 for HICP.

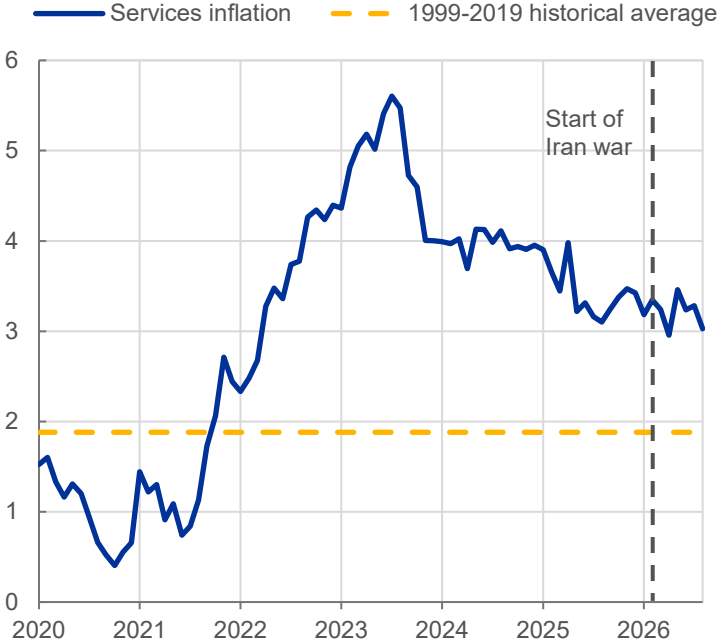
Real ex-ante cost of borrowing for euro area firms (percent per annum)



Sources: ECB (MIR), Consensus Economics and ECB calculations.
Notes: The real cost of borrowing is deflated using 12-month ahead inflation expectations from Consensus Economics.
Latest observation: July 2026.

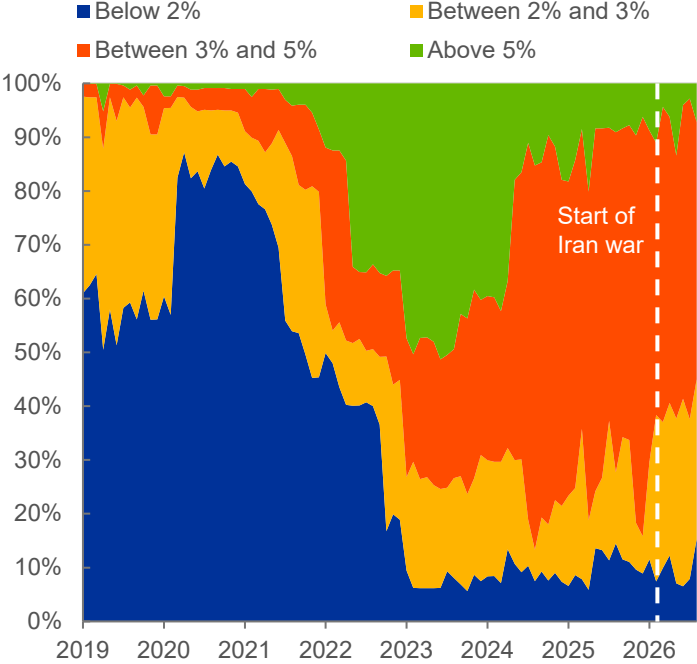
Energy shock has hit an economy with some residual price pressures

Services inflation
(percent)



Sources: Eurostat and ECB staff calculations.
Latest observation: August 2026.

Weighted distribution of price changes
in services items
(percentage share)

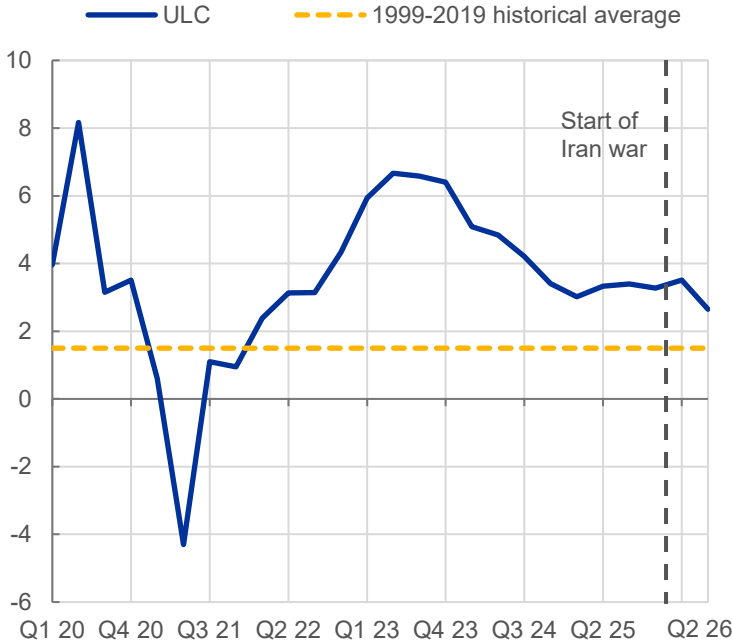


Sources: Eurostat and ECB calculations.
Notes: The areas display the weighted share of services items for different annual percentage changes. The vertical line indicates the start of the war in Iran on 28 February 2026.
Latest observation: August 2026.

Unit labour costs and inflation perceptions were still elevated ahead of latest shock

Unit labour cost (ULC)

(annual change in percent)



Sources: Eurostat and ECB staff calculations.
Latest observation: 2026 Q2.

Consumer inflation perceptions

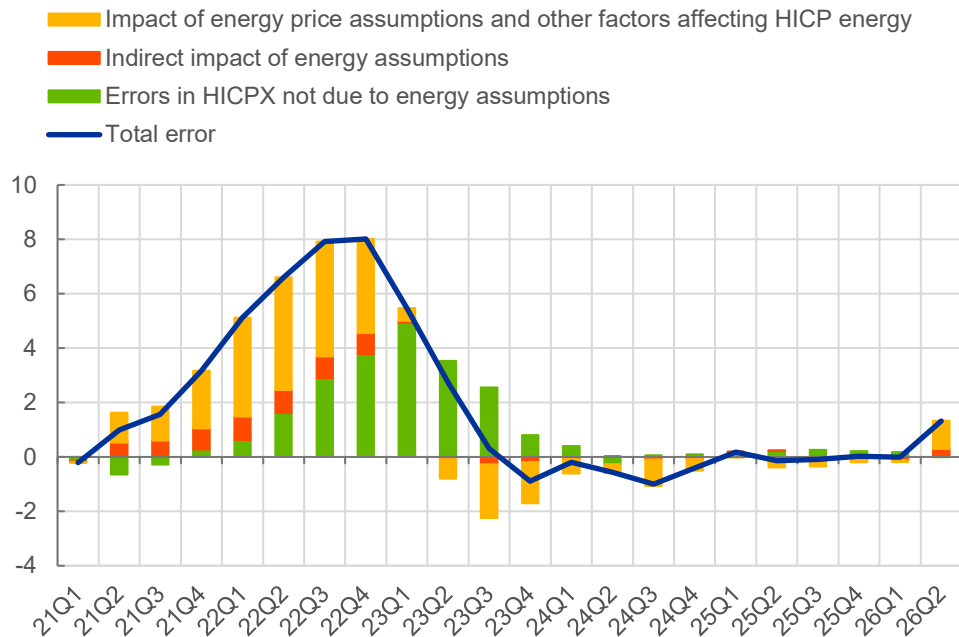
(percent balance)



Sources: European Commission and Haver Analytics.
Latest observation: September 2026.

Decomposition of one-year ahead HICP inflation errors

(percentage points and percentage point contributions)

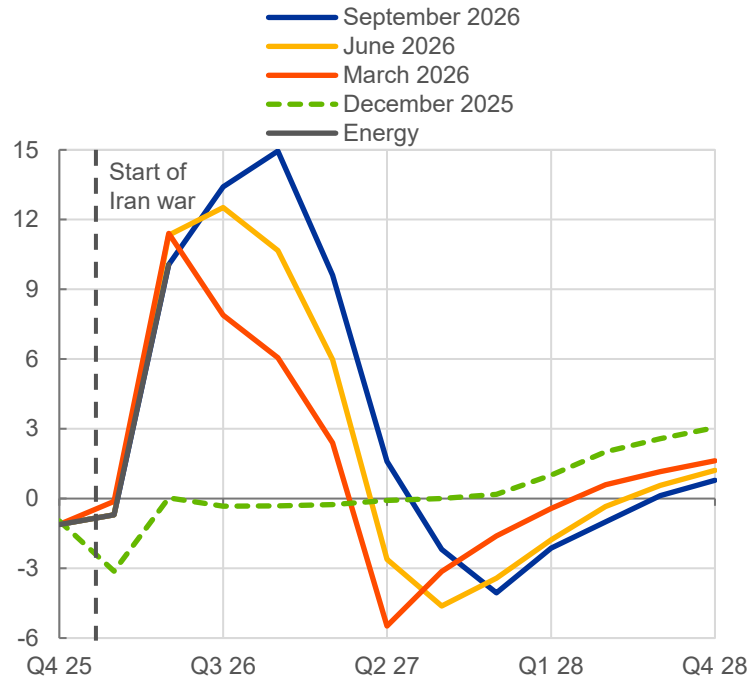


Sources: Eurostat, ECB/Eurosystem staff projections and ECB calculations based on the elasticities derived from Eurosystem staff macroeconomic models.

Note: "Total error" is the outturn minus the projection.

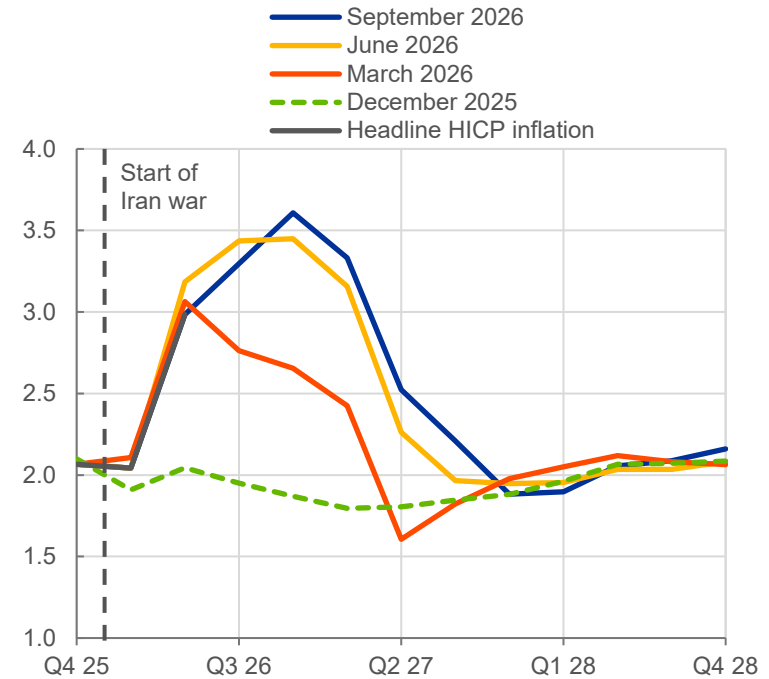
Energy price assumptions based on futures can make shocks appear short-lived

Projected HICP energy inflation (percent)



Sources: Eurostat; Eurosystem staff macroeconomic projections for the euro area, December 2025 and June 2026; ECB staff macroeconomic projections for the euro area, March and September 2026; ECB calculations.

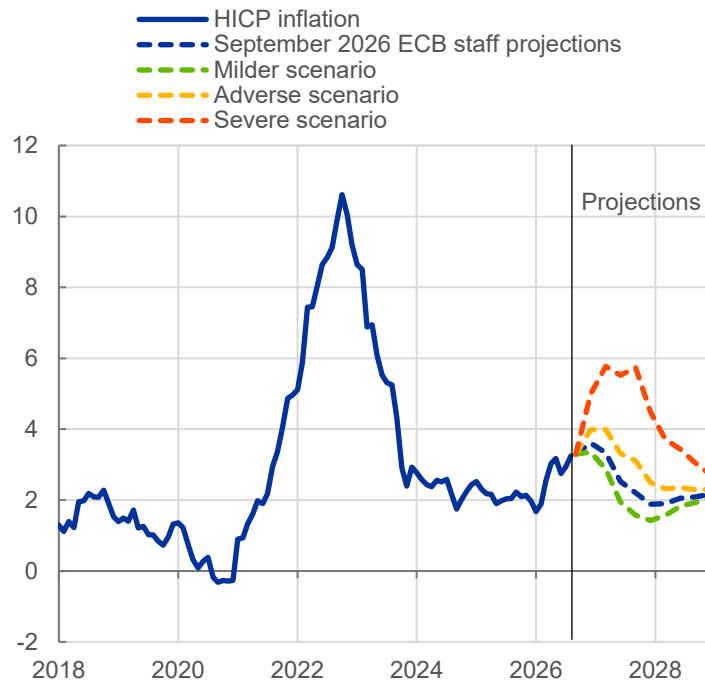
Projected HICP headline inflation (percent)



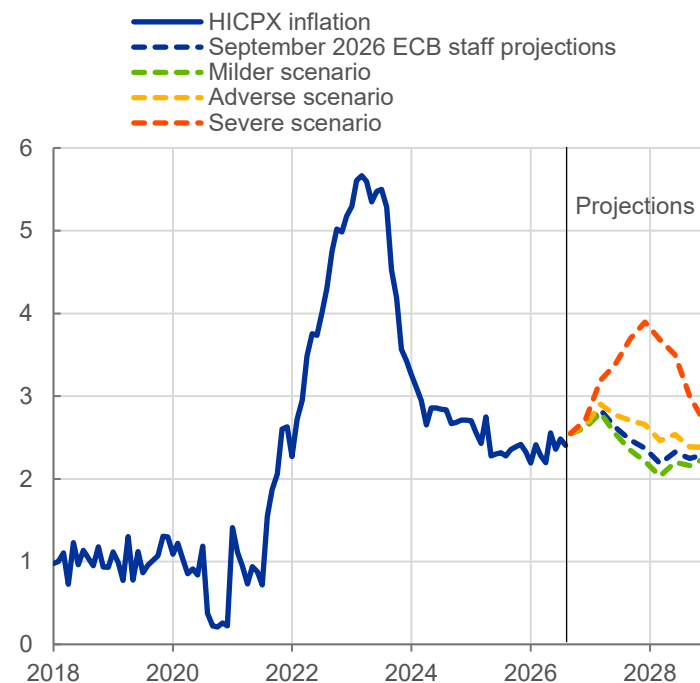
Sources: Eurostat; Eurosystem staff macroeconomic projections for the euro area, December 2025 and June 2026; ECB staff macroeconomic projections for the euro area, March and September 2026; ECB calculations.

Scenarios complement baseline with varying intensity of indirect and second-round effects

HICP inflation (percent)



HICP inflation excluding food and energy (percent)



Sources: Eurostat, ECB staff projections (September 2026) and ECB staff calculations based on ECB-BASE model simulations.

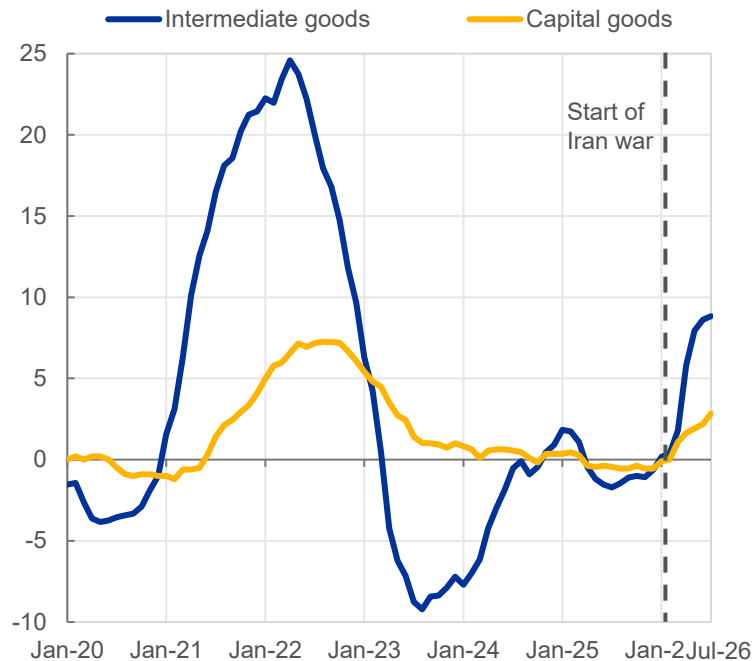
Note: The vertical line indicates the start of the September 2026 projection horizon.
Latest observation: 2028 Q4.

Sources: Eurostat, ECB staff projections (September 2026) and ECB staff calculations based on ECB-BASE model simulations.

Note: The vertical line indicates the start of the September 2026 projection horizon.
Latest observation: 2028 Q4.

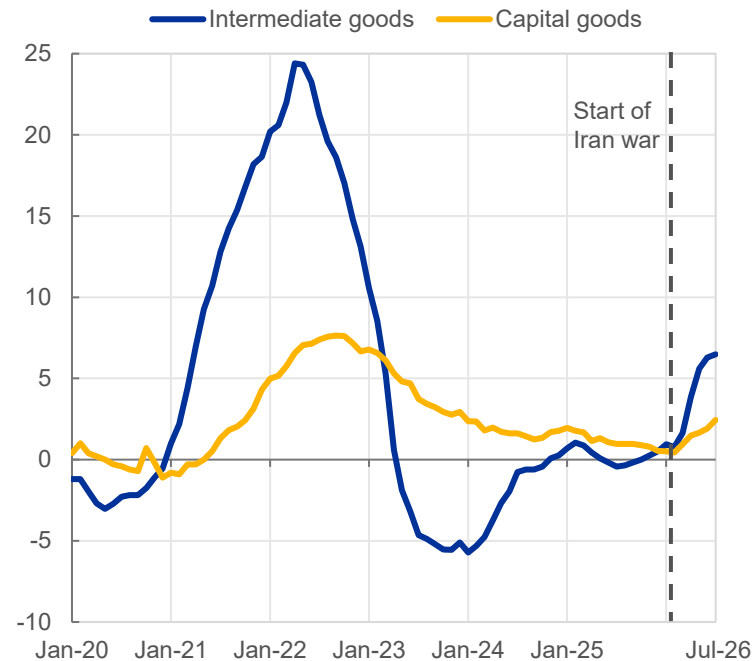
Import and producer prices signal increasing pass-through of input costs

Import price inflation (percent)



Source: Eurostat.
Latest observation: July 2026.

Producer price inflation (percent)

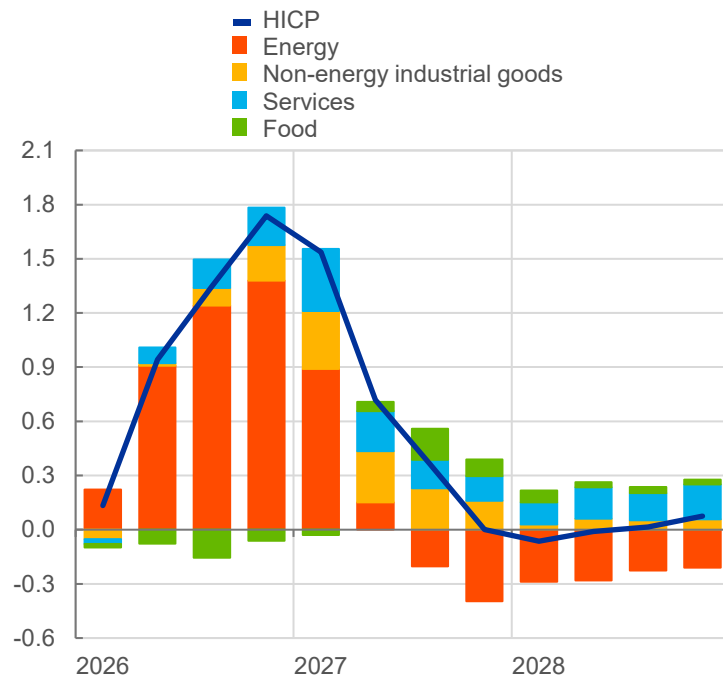


Source: Eurostat.
Latest observation: July 2026.

Staff projections of non-energy inflation and wages embed indirect & second-round effects

Revisions to the inflation projection (vs December 2025 projections)

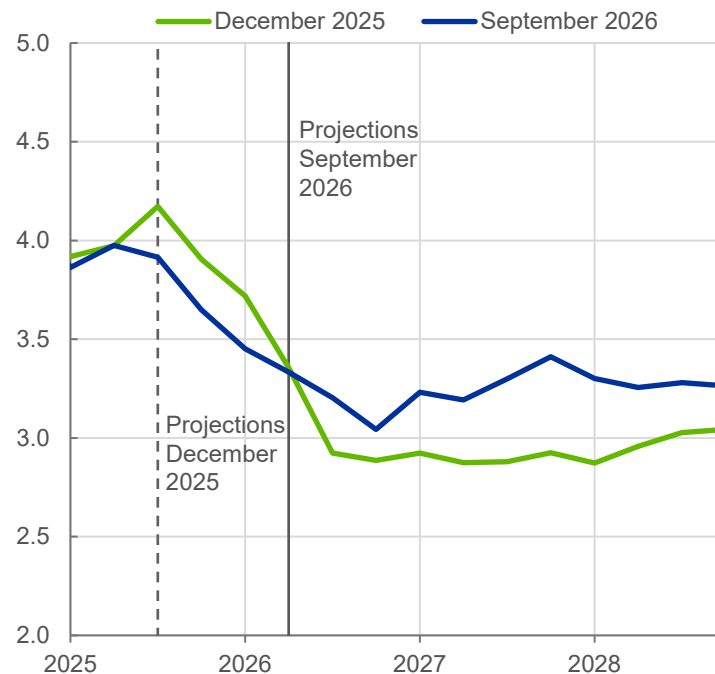
(percentage points and percentage point contributions)



Sources: December 2025 Eurosystem staff macroeconomic projections for the euro area and September 2026 ECB staff macroeconomic projections for the euro area and ECB calculations.

Compensation per employee projection

(annual change in percent)



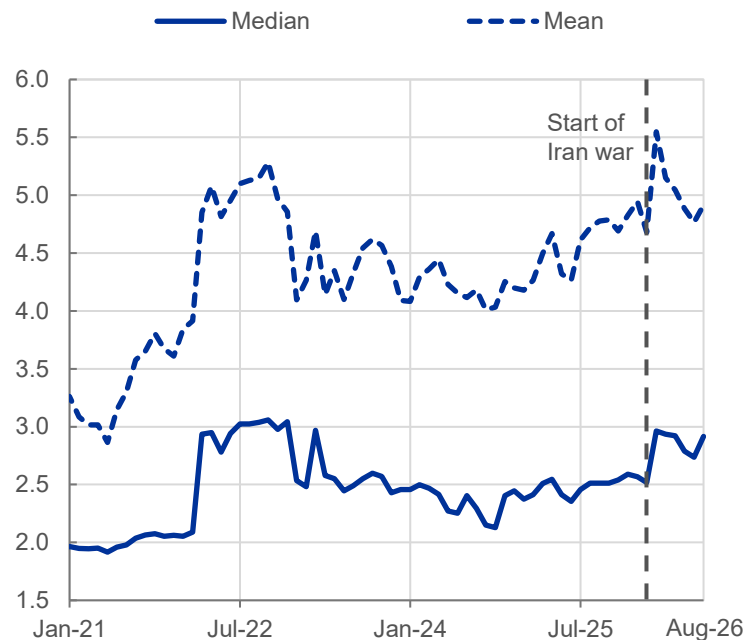
Source: ECB/Eurosystem staff macroeconomic projections.

Note: The vertical solid line indicates the start of the September 2026 projection horizon, the vertical dashed line indicates the start of the December 2025 projection horizon.

Rising inflation expectations could heighten risk of second-round effects

Consumer inflation expectation in the euro area (percent)

Three years ahead

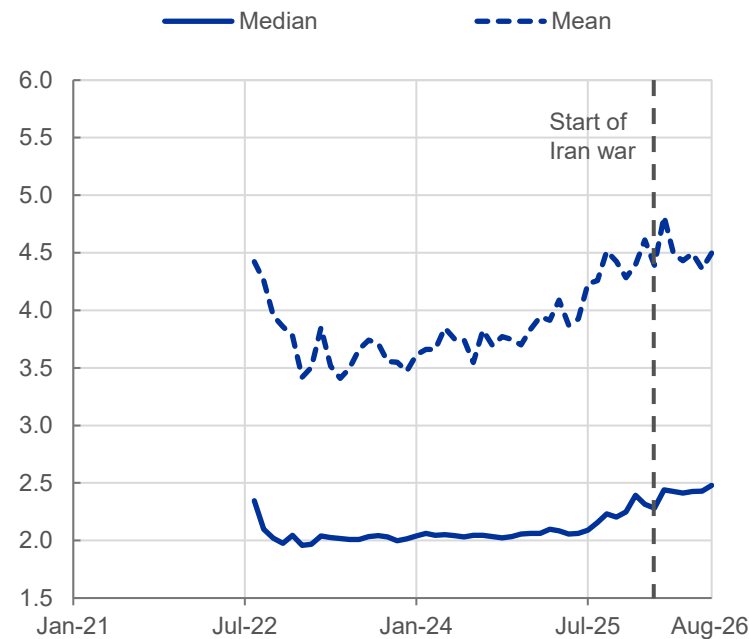


Sources: Eurostat and ECB Consumer Expectations Survey (CES).

Notes: The dashed line indicates the winsorised mean, while the solid line represents the median.

Latest observation: August 2026.

Five years ahead



Sources: Eurostat and ECB Consumer Expectations Survey (CES).

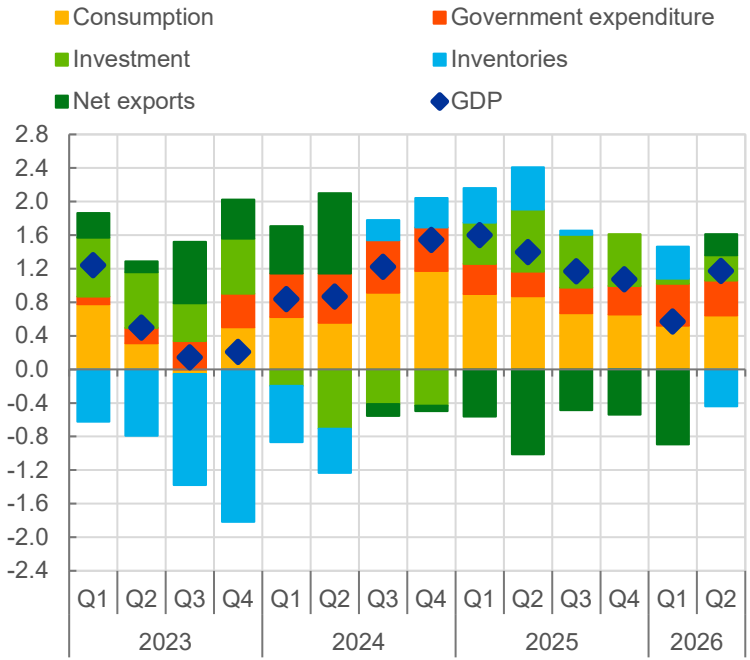
Notes: The dashed line indicates the winsorised mean, while the solid line represents the median.

Latest observation: August 2026.

Resilience of demand shapes pass-through to consumer prices

Real GDP growth and components

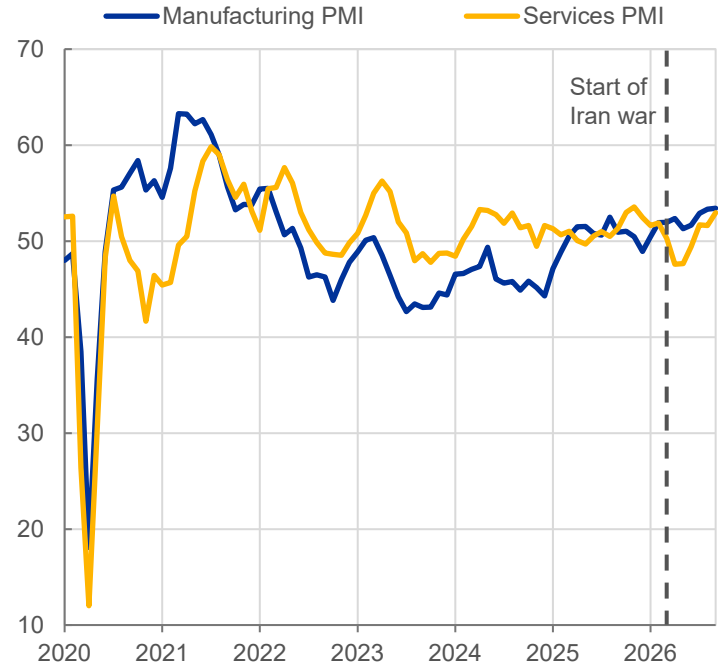
(year-on-year change in percent, percentage point contributions)



Sources: Eurostat and ECB staff calculations.
Latest observation: 2026 Q2.

Purchasing Managers' Indices (PMIs)

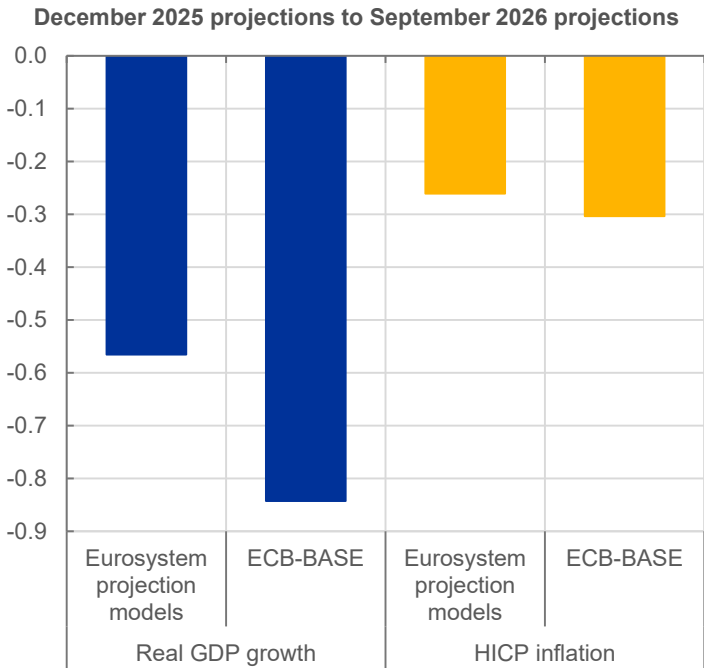
(diffusion indices)



Source: S&P Global.
Latest observation: September 2026.

Cumulative impact of change in short and long-term interest rates 2026-2028

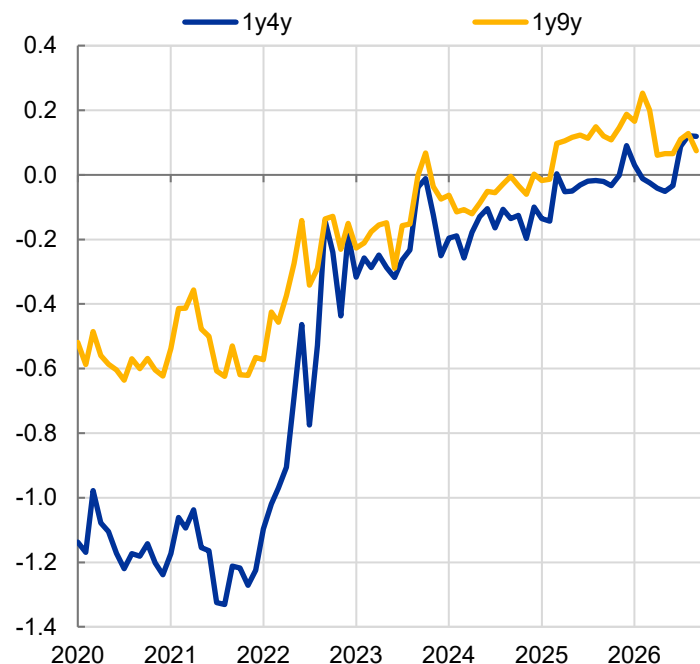
(percentage point impact on annual growth rates)



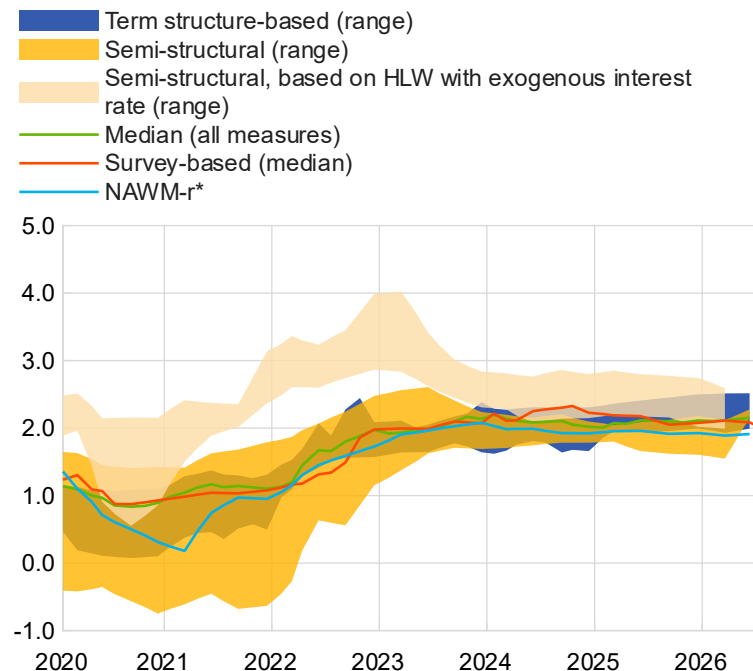
Sources: ECB and Eurosystem staff calculations
Notes: The chart shows the 2026-2028 cumulative impacts of successive revisions to market-based expectations of short-term rates and ten-year government bond yields between the cut-off dates for the December 2025 and September 2026 staff projections according to elasticities from Eurosystem staff projection models and the ECB-BASE model. Impacts include the endogenous response of the exchange rate to changes in interest rates according to the ECB-BASE model.

Natural rate of interest r^* may rise as investment demand strengthens

Term premia-adjusted real forward rates (percent per annum)



Nominal equilibrium rates in the euro area (percent per annum)



Sources: LSEG, Bloomberg and ECB calculations.

Notes: The chart shows euro area term-premia adjusted forward real rates computed as the difference between term-premia adjusted OIS rates (average of two variations of Joslin, Singleton and Zhu (2011) and Geiger and Schupp (2018)) and premia adjusted ILS rates (based on Joslin, Singleton and Zhu (2011)).

Latest observation: 21 September 2026 (monthly data).

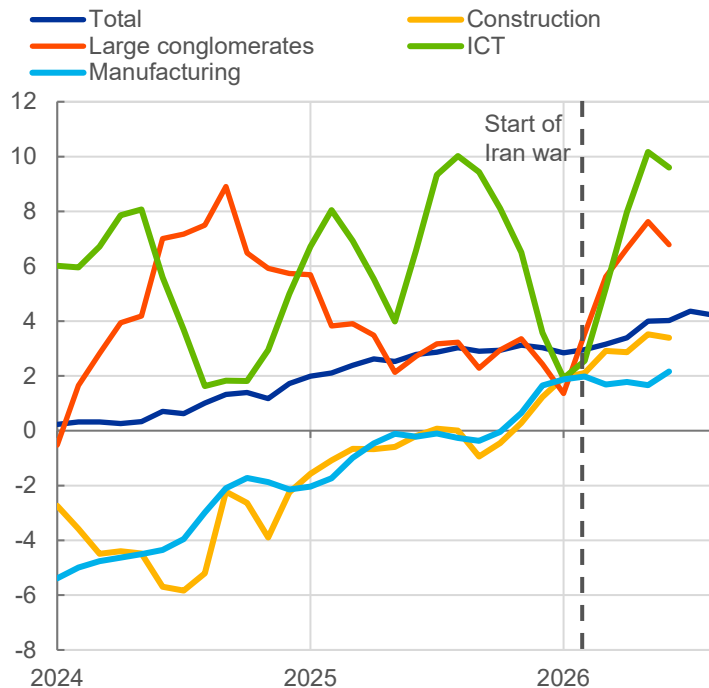
Sources: Eurosystem estimates and ECB calculations.

Notes: The latest observations for survey-based estimates are for Q2 2026 for Consensus and Q3 2026 for SMA; for semi-structural models, Q1 2026 for HLW, HLW-2y, HLW-5y and BMA, and Q2 2026 for Proxy and BM; for term structure-based estimates, Q2 2026 for Ajevskis, BGL, GI, TSM-CMT and GS; and for NAWM- r^* , Q2 2026.

Credit growth has remained robust despite higher interest rates

Bank lending to firms by selected sectors

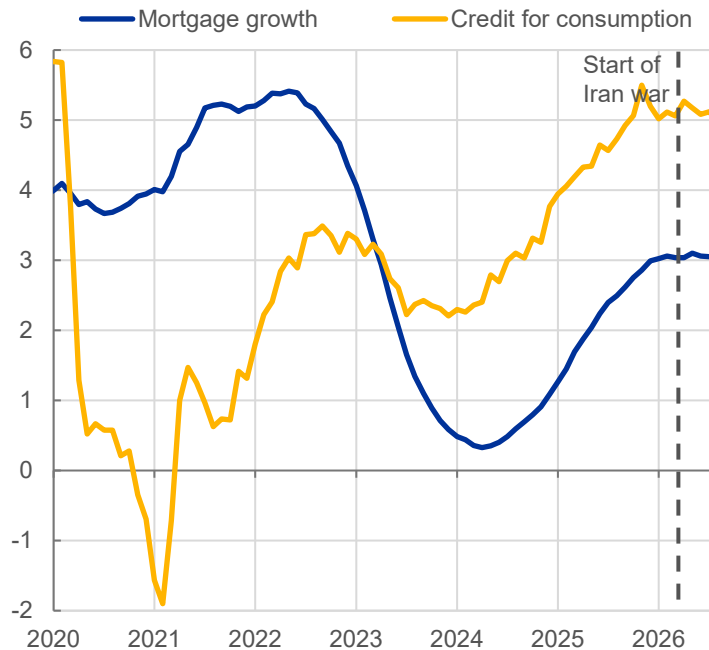
(percent per annum)



Sources: ECB (BSI, AnaCredit) and ECB calculations.
Latest observation: June 2026 for AnaCredit and August 2026 for BSI.

Mortgages and consumer credit loans

(percent per annum)



Sources: ECB (BSI) and ECB calculations.
Latest observation: August 2026.

Thank you very much for your attention!