EUROPEAN CENTRAL BANK
EUROSYSTEM

Combined monetary policy decisions and statement

18 December 2025

Monetary policy decisions

The Governing Council today decided to keep the three key ECB interest rates unchanged. Its updated assessment reconfirms that inflation should stabilise at the 2% target in the medium term.

The new Eurosystem staff projections show headline inflation averaging 2.1% in 2025, 1.9% in 2026, 1.8% in 2027 and 2.0% in 2028. For inflation excluding energy and food, staff project an average of 2.4% in 2025, 2.2% in 2026, 1.9% in 2027 and 2.0% in 2028. Inflation has been revised up for 2026, mainly because staff now expect services inflation to decline more slowly. Economic growth is expected to be stronger than in the September projections, driven especially by domestic demand. Growth has been revised up to 1.4% in 2025, 1.2% in 2026 and 1.4% in 2027 and is expected to remain at 1.4% in 2028.

The Governing Council is determined to ensure that inflation stabilises at its 2% target in the medium term. It will follow a data-dependent and meeting-by-meeting approach to determining the appropriate monetary policy stance. In particular, the Governing Council's interest rate decisions will be based on its assessment of the inflation outlook and the risks surrounding it, in light of the incoming economic and financial data, as well as the dynamics of underlying inflation and the strength of monetary policy transmission. The Governing Council is not pre-committing to a particular rate path.

Key ECB interest rates

The interest rates on the deposit facility, the main refinancing operations and the marginal lending facility will remain unchanged at 2.00%, 2.15% and 2.40% respectively.

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

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

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

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

Monetary policy statement

Press conference

Christine Lagarde, President of the ECB,
Luis de Guindos, Vice-President of the ECB

Good afternoon, the Vice-President and I welcome you to our press conference.

The Governing Council today decided to keep the three key ECB interest rates unchanged. Our updated assessment reconfirms that inflation should stabilise at our two per cent target in the medium term.

The new Eurosystem staff projections show headline inflation averaging 2.1 per cent in 2025, 1.9 per cent in 2026, 1.8 per cent in 2027 and 2.0 per cent in 2028. For inflation excluding energy and food, staff project an average of 2.4 per cent in 2025, 2.2 per cent in 2026, 1.9 per cent in 2027 and 2.0 per cent in 2028. Inflation has been revised up for 2026, mainly because staff now expect services inflation to decline more slowly. Economic growth is expected to be stronger than in the September projections, driven especially by domestic demand. Growth has been revised up to 1.4 per cent in 2025, 1.2 per cent in 2026 and 1.4 per cent in 2027 and is expected to remain at 1.4 per cent in 2028.

We are determined to ensure that inflation stabilises at our two per cent target in the medium term. We will follow a data-dependent and meeting-by-meeting approach to determining the appropriate monetary policy stance. In particular, our interest rate decisions will be based on our assessment of the inflation outlook and the risks surrounding it, in light of the incoming economic and financial data, as well as the dynamics of underlying inflation and the strength of monetary policy transmission. We are not pre-committing to a particular rate path.

The decisions taken today are set out in a press release available on our website.

I will now outline in more detail how we see the economy and inflation developing and will then explain our assessment of financial and monetary conditions.

Economic activity

The economy has been resilient. It grew by 0.3 per cent in the third quarter, mainly reflecting stronger consumption and investment. Exports also increased, with a significant contribution from chemicals. The sectoral composition of growth was dominated by services, especially in the information and communication sector, while activity in industry and construction remained flat. This pattern of services-led growth is likely to continue in the near term.

The economy is benefiting from a robust labour market. Unemployment, at 6.4 per cent in October, is close to its historical low, and employment grew by 0.2 per cent in the third quarter. At the same time, labour demand cooled further, with the job vacancy rate at its lowest level since the pandemic.

The staff projections see domestic demand as the main engine of growth in the years ahead. Real incomes are set to rise further and the saving rate should gradually come down from its still high level, supporting consumption. Business investment and substantial government spending on infrastructure and defence should increasingly underpin the economy. However, the challenging environment for global trade is likely to remain a drag on growth in the euro area this year and next.

The Governing Council stresses the urgent need to strengthen the euro area and its economy in the present geopolitical context. We welcome the European Commission’s call for governments to prioritise sustainable public finances, strategic investment and growth-enhancing structural reforms. Unlocking the full potential of the Single Market is crucial. It is also vital to foster further capital market integration by completing the savings and investments union and the banking union to an ambitious timetable, and to rapidly adopt the Regulation on the establishment of the digital euro.

Inflation

Annual inflation has been in a narrow range since the spring and remained at 2.1 per cent in November. Energy prices were 0.5 per cent lower than a year ago, after a larger decline in October. Food price inflation was 2.4 per cent, after 2.5 per cent in October and 3.0 per cent in September. Inflation excluding energy and food was steady at 2.4 per cent, as goods and services inflation moved in opposite directions. Goods inflation declined to 0.5 in November, from 0.6 per cent in October and 0.8 per cent in September. Services inflation rose to 3.4 per cent in October and 3.5 per cent in November, from 3.2 per cent in September.

Indicators of underlying inflation have changed little over recent months and remain consistent with our two per cent medium-term target. While growth in unit profits was unchanged in the third quarter, unit labour costs grew at a slightly higher rate than in the second quarter. Compensation per employee rose at an annual rate of 4.0 per cent. This was more than expected in the September staff projections, and was due to payments over and above negotiated wages. Forward-looking indicators, such as the ECB’s wage tracker and surveys on wage expectations, suggest that wage growth will ease in the coming quarters, before stabilising somewhat below 3 per cent towards the end of 2026.

Inflation should decline in the near term, mostly because past energy price rises will drop out of the annual rates. Staff expect it to stay below 2 per cent on average in 2026 and 2027, with energy inflation negative over most of this period and inflation excluding energy gradually declining. Inflation should then return to target in 2028, amid a strong rise in energy inflation. This in part reflects the upward effect on inflation of the EU Emissions Trading System 2, which is now expected to start in 2028, a year later than assumed in the September staff projections. Inflation excluding energy is projected to stabilise at around 2 per cent in the final years of the projection horizon.

Most measures of longer-term inflation expectations continue to stand at around 2 per cent, supporting the stabilisation of inflation around our target.

Risk assessment

While trade tensions have eased, the still volatile international environment could disrupt supply chains, dampen exports, and weigh on consumption and investment. A deterioration in global financial market sentiment could lead to tighter financing conditions, greater risk aversion and weaker growth. Geopolitical tensions, in particular Russia's unjustified war against Ukraine, remain a major source of uncertainty. By contrast, planned defence and infrastructure spending, together with productivity-enhancing reforms, may drive up growth by more than expected. An improvement in confidence could stimulate private spending.

The outlook for inflation continues to be more uncertain than usual on account of the still volatile international environment. Inflation could turn out to be lower if the rise in US tariffs reduces demand for euro area exports and if countries with overcapacity increase their exports to the euro area. Moreover, a stronger euro could bring inflation down further than expected. An increase in volatility and risk aversion in financial markets could weigh on demand and thereby also lower inflation. By contrast, inflation could turn out to be higher if more fragmented global supply chains pushed up import prices, curtailed the supply of critical raw materials and added to capacity constraints in the euro area economy. A slower reduction in wage pressures could delay the decline in services inflation. A boost in defence and infrastructure spending could also raise inflation over the medium term. Extreme weather events, and the unfolding climate and nature crises more broadly, could drive up food prices by more than expected.

Financial and monetary conditions

Market rates have increased since our last meeting. Bank lending rates for firms have been broadly stable since the summer, after falling in response to our policy rate cuts over the previous year. In

October they stood at 3.5 per cent, unchanged from September. The cost of issuing market-based debt was 3.4 per cent, also close to its September level. The average interest rate on new mortgages again held steady, at 3.3 per cent in October.

Bank lending to firms grew by 2.9 per cent on a yearly basis in October, unchanged from September. Corporate bond issuance rose by 3.2 per cent, broadly unchanged as well. Mortgage lending strengthened, growing by 2.8 per cent after 2.6 per cent in September.

In line with our monetary policy strategy, the Governing Council thoroughly assessed the links between monetary policy and financial stability. Euro area banks are resilient, supported by strong capital and liquidity ratios, solid asset quality and robust profitability. But geopolitical uncertainty and the possibility of a sudden repricing in global financial markets pose risks to financial stability in the euro area. Macroprudential policy remains the first line of defence against the build-up of financial vulnerabilities, enhancing resilience and preserving macroprudential space.

Conclusion

The Governing Council today decided to keep the three key ECB interest rates unchanged. We are determined to ensure that inflation stabilises at our two per cent target in the medium term. We will follow a data-dependent and meeting-by-meeting approach to determining the appropriate monetary policy stance. Our interest rate decisions will be based on our assessment of the inflation outlook and the risks surrounding it, in light of the incoming economic and financial data, as well as the dynamics of underlying inflation and the strength of monetary policy transmission. We are not pre-committing to a particular rate path.

In any case, we stand ready to adjust all of our instruments within our mandate to ensure that inflation stabilises sustainably at our medium-term target and to preserve the smooth functioning of monetary policy transmission.

We are now ready to take your questions.