

## **Christine Lagarde: IMFC statement**

Statement by Ms Christine Lagarde, President of the European Central Bank, at the fifty-third meeting of the International Monetary and Financial Committee, IMF Spring Meetings, Washington DC, 17 April 2026.

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### **Introduction**

The global economy is navigating turbulent waters. Competing forces affecting economic growth are intersecting in a complex and uncertain environment. Global growth has been supported by rising investments related to artificial intelligence and fiscal policy across major economies. At the same time, geopolitical and trade tensions are a headwind and a major source of risks. The adverse effects on the global economy from the war in the Middle East primarily stem from the sharp increase in energy prices. Together with tighter financial conditions and heightened uncertainty, the war is having a negative impact on global growth, while posing upside risks to inflation. Other geopolitical tensions, in particular Russia's unjustified war against Ukraine, remain a major source of uncertainty.

Protectionist policies are also weighing on global trade and fuelling uncertainty, while triggering a reconfiguration of global trade flows. Additional frictions in international trade could disrupt supply chains, reduce exports and weaken consumption and investment. A predictable and open international economic order remains essential to sustain global trade, investment and shared prosperity.

### **Economic activity**

For the euro area, the medium-term implications of the Middle East war will depend on the intensity and duration of the conflict, as well as on how the associated shocks propagate through the economy. Reducing the share of the EU's energy that is imported and accelerating the energy transition are essential to increase energy security, competitiveness and sustainability.

The euro area economy entered this period of heightened uncertainty from a relatively solid position. Economic activity expanded by 1.4% in 2025, supported by rising real incomes, low unemployment and solid domestic demand. Construction and housing renovation strengthened, and firms increased their investment, particularly in digital technologies. Net exports began to stabilise towards the end of the year, despite the challenging global environment marked by volatile global trade policies.

The latest ECB staff projections incorporate this heightened uncertainty and include alternative scenarios alongside the baseline. The baseline foresees real GDP growth of 0.9% this year, rising to 1.3% in 2027 and 1.4% in 2028. These projections rely on technical assumptions that envisaged a relatively contained conflict. At the same time, low unemployment, solid private sector balance sheets and higher spending on defence and infrastructure should continue to underpin growth. Under an adverse scenario, which assumes that energy supply disruptions persist until the third quarter of 2026,

with a rapid adjustment afterwards, real GDP growth would be lower in 2026, before gradually converging to the baseline path thereafter. Under a severe scenario, which assumes a more intense and prolonged disruption continuing until late 2026, growth would be significantly reduced this year and next.

Risks to the growth outlook are tilted to the downside, especially in the near term. The war in the Middle East is a downside risk to the euro area economy, adding to the volatile global policy environment. Additional risks arise from tighter global financial conditions, trade frictions and other geopolitical tensions, including Russia's unjustified war against Ukraine. Conversely, growth could turn out to be stronger if the economic repercussions of these wars prove to be more short-lived than expected or if investment, reforms and new technologies lift productivity by more than expected.

The current economic environment highlights the urgent need to strengthen the euro area economy while maintaining sound public finances. Any fiscal responses to the energy price shock should be temporary, targeted and tailored. The current energy crisis underscores the need to further reduce the economy's dependence on fossil fuels. In this respect, the green and digital transitions would be supported by the completion of the EU's Single Market and the savings and investments union. More generally, progress in those areas is key to funding innovation and will help European firms grow faster.

## **Inflation**

Headline inflation rose to 2.6% in March from 1.9% in February due to an increase in energy inflation. Core inflation, which excludes energy and food, eased slightly to 2.3%. Food inflation also eased slightly to 2.4%. Indicators of underlying inflation remain consistent with our 2% medium-term target. Nominal wage growth slowed to 3.7% in the fourth quarter of 2025, from 4.0% in the third quarter. Negotiated wage growth and forward-looking indicators, such as the ECB's wage tracker and surveys on wage expectations, suggest that labour costs will ease further in the course of 2026.

The March ECB staff projections see headline inflation averaging 2.6% in 2026, 2.0% in 2027 and 2.1% in 2028. Inflation has been revised up compared with the December projections, especially for 2026. This is because energy prices are expected to be higher owing to the war in the Middle East. Core inflation is expected to moderate from 2.3% in 2026 to 2.2% in 2027 and 2.1% in 2028. This is also higher than the path in the December projections and was driven up by energy cost pressures, although easing labour costs, the euro's earlier appreciation, and higher imports from China cushion the impact. The two alternative scenarios in the March projections help gauge a wide range of possible inflation outcomes, given the risk of more persistent or more intense energy market disruptions. Under both scenarios, the analysis suggests that a prolonged disruption in the supply of oil and gas would result in inflation being above the baseline projections. Compared with the baseline, the scenarios incorporate a stronger pass-through to prices and more pronounced second-round effects, reflecting the assumption of a larger and more persistent energy shock. The implications for medium-term inflation depend crucially on the magnitude of these indirect and second-round effects.

The uncertainty surrounding the outlook for euro area inflation has increased significantly following the outbreak of the war in the Middle East. Risks to the outlook

are tilted to the upside, especially in the near term while the medium-term implications will depend on the intensity and duration of the war. Inflation could turn out higher than the baseline, in particular if inflation expectations and wage growth were to rise in response more than expected. By contrast, inflation could turn out to be lower if the economic repercussions of the war in the Middle East fade more quickly, if indirect and second-round effects proved to be weaker than currently expected or if countries with overcapacity increased further their exports to the euro area.

## **Monetary policy**

In March the Governing Council decided to keep the key ECB interest rates unchanged. We are determined to ensure that inflation stabilises at our 2% target in the medium term. The war in the Middle East has made the outlook significantly more uncertain, creating upside risks for inflation and downside risks for economic growth. It will have a material impact on near-term inflation through higher energy prices. Its medium-term implications will depend both on the intensity and duration of the conflict and on how energy prices affect consumer prices and the economy. We are closely monitoring the situation, and the incoming information in the period ahead will help us assess the impact of the war on the inflation outlook and the surrounding risks. 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 the inflation outlook and the risks surrounding it, 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 Governing Council also decided to enhance the Eurosystem repo facility for central banks (EUREP) in February. EUREP provides backstop euro liquidity to non-euro area central banks against high-quality euro-denominated collateral, with appropriate risk mitigants. The updated framework, effective as of the third quarter of 2026, introduces standing access, in principle, for all central banks, unless excluded on the grounds of, in particular, money laundering, terrorist financing or international sanctions. The enhanced EUREP facility will also speed up the provision of liquidity. The decision reflects the more uncertain and potentially more volatile global environment, in which more frequent financial disruptions and possible knock-on effects on euro area financial markets may occur, with the potential to hamper the smooth transmission of monetary policy.

## **Financial stability**

The outlook for euro area financial stability continues to be shaped by elevated geopolitical tensions and global macro-financial uncertainty. The war in the Middle East heightened the risks of energy disruptions, renewed inflationary pressures and financial market volatility. Market functioning has remained broadly orderly so far, but vulnerabilities linked to the euro area's deep integration in global value chains – particularly in energy, critical raw materials and digital services – leave the region's markets exposed to further abrupt repricing and tighter financial conditions.

The banking system has proven resilient to recent geopolitical shocks, supported by strong capital, liquidity and profitability positions. However, rising credit risk among tariff-sensitive and energy-intensive firms and firms within global supply chains could strain

asset quality across banks and non-bank financial intermediaries (NBFIs). NBFIs with concentrated exposures to high valuations and relatively illiquid assets, including private credit, may amplify shocks through forced asset sales and cross-asset contagion. Additionally, private market exposures and cross-border linkages could further exacerbate stress in non-bank financial intermediation. Meanwhile, interlinkages with non-banks might expose banks to market, funding and liquidity risks.

Maintaining resilience and preserving a level playing field are key prerequisites for a strong financial system. Regulatory modernisation initiatives should not result in deregulation. Continued efforts to strengthen the policy framework for NBFIs – including by implementing internationally agreed reforms, improving data availability and sharing, and enhancing international cooperation – remain essential. In an environment of heightened uncertainty, well-capitalised banks help the real economy to mitigate the potential amplifying effects from an economic downturn. Therefore, banking sector resilience and compliance with the international regulatory framework play an important role in safeguarding financial stability.

## **Payment systems**

The Eurosystem has recently published its comprehensive payments strategy, which outlines a holistic and forward-looking approach to wholesale, business-to-business, retail and cross-border payments amid rapid technological change. This new strategy brings together all major Eurosystem initiatives under a comprehensive framework to ensure that central bank money adapts to the digital age while supporting private sector initiatives.

Making central bank money fit for the digital age covers both its use as a settlement asset between financial institutions and its use as a means of payment for European citizens and businesses. The digital euro will provide a digital means of payment that is universally accepted throughout the euro area. It will also support competition and innovation in the payments ecosystem. It is thus essential to swiftly adopt the Regulation on the establishment of the digital euro. The continued coexistence of public and private solutions establishes a mutually beneficial collaboration that will strengthen Europe's strategic autonomy in the retail payments market.

The Eurosystem's Pontes and Appia projects will bring central bank money to wholesale financial markets that are built on distributed ledger technology. By providing a safe, trusted and scalable settlement asset, tokenised central bank money supports the development of a robust, integrated European digital assets ecosystem. It also connects otherwise siloed private tokenisation initiatives, including stablecoins and tokenised deposits. This will enable such initiatives to complement central bank money, provided that they are EU-governed, euro-denominated and properly designed and regulated. Overall, the Pontes and Appia projects support efforts to develop a savings and investments union, while ensuring that the euro remains the trusted anchor of Europe's digital economy.

## **International cooperation**

Amid significant economic and financial challenges, increased uncertainty and downside risks, coming together to share views and find common solutions remains as

crucial as ever. Therefore, we continue to rely on well-functioning multilateral institutions and international fora. We support the International Monetary Fund (IMF) in its key mission to ensure macroeconomic and financial stability. This includes its analytical work on global imbalances and its efforts to improve the methodology for the assessment of external balances. We welcome its ongoing reviews of surveillance and conditionality and the financial sector assessment program. We value the IMF's continuing work in the field of financial innovation and payments, including its support for sound regulatory frameworks across jurisdictions, and on macro-critical risks in surveillance and lending.