

## **Christine Lagarde: Hearing of the Committee on Economic and Monetary Affairs of the European Parliament**

Speech by Ms Christine Lagarde, President of the European Central Bank, at the Hearing of the Committee on Economic and Monetary Affairs of the European Parliament, Brussels, 22 June 2026.

\* \* \*

[Charts](#) accompanying the speech

It is a pleasure to return to this Committee for our regular dialogue.

When we last met in February, inflation had remained close to the ECB's 2% target for over a year, and euro area economic activity was showing solid growth momentum.

Only a few days later, war broke out in the Middle East, reminding us how quickly external shocks can reshape the economic outlook.

The topic you have chosen for today's exchange – how monetary policy should be conducted in an environment of heightened geopolitical tensions and frequent supply shocks – is therefore particularly timely.

In my remarks, I will first review what the incoming data tell us about the euro area economy and outline our latest monetary policy decisions. I will then explain in more detail how our monetary policy strategy is guiding us in responding to shocks such as the one we face today.

### **The outlook for the euro area economy**

The euro area economy was gaining some traction when the war in the Middle East broke out. Real GDP rose by 0.3%, quarter on quarter, in the first quarter of 2026, once adjusted for exceptional volatility in Ireland.

However, the war is now weighing on activity, and incoming information points to a slowdown, especially in services. Manufacturing, meanwhile, has held up so far. This partly reflects inventory building in response to supply chain pressures, but also stronger defence spending.

Looking ahead, the June 2026 Eurosystem staff projections see real GDP growth at 0.8% in 2026, 1.2% in 2027 and 1.5% in 2028.

Staff now expect domestic demand to be weaker than they projected in March, as the war has dented confidence and higher energy costs are weighing on real incomes. At the same time, household balance sheets remain solid overall, and consumption should continue to be the main driver of growth. Investment should also be supported by firms spending on new digital technologies and governments spending more on defence and infrastructure.

The war is likewise pushing up inflation, which rose to 3.2% in May, from 3.0% in April. The main driver of inflation since February has been rising energy inflation, which was above 10% in April and May. In May, inflation excluding energy and food also increased to 2.6%, partly reflecting the initial indirect effects of higher energy prices.

Reflecting this energy spike, inflation expectations over shorter horizons have risen well above the levels seen before the outbreak of the war in the Middle East. But the public does not currently expect high inflation to be lasting: most measures of longer-term inflation expectations stand at around 2%, supporting the stabilisation of inflation around target in the medium term.

We are therefore confident that, with appropriate monetary policy action, inflation will return to target. The June Eurosystem staff projections foresee headline inflation at 3.0% in 2026, 2.3% in 2027 and 2.0% in 2028.

However, the outlook remains uncertain, with upside risks for inflation and downside risks for economic growth. The peace agreement in the Middle East is welcome, but the situation remains fragile, with risks of setbacks or re-escalation. The full implications of the war for medium-term inflation and growth will depend on the intensity and duration of the energy price shock, as well as the scale of its indirect and second-round effects.

This uncertainty is reflected in the broad range of outcomes for inflation and growth in the alternative scenarios prepared by staff in the context of their projections and published on our website.

## **The ECB's monetary policy stance**

In line with our commitment to ensuring that inflation stabilises at our 2% target in the medium term, we decided to raise the three key ECB interest rates by 25 basis points at our June meeting.

The decision to raise rates is robust across the scenarios prepared by staff, meaning that in all scenarios a rate hike is warranted. Recent developments have remained within the range of scenarios considered.

With this decision, we remain well positioned to navigate the uncertainty caused by the war. We will closely monitor developments and 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.

## **Navigating supply shocks: the ECB's monetary policy strategy**

Let me now explain in more detail how our monetary policy strategy guides us in an environment shaped by frequent supply shocks – and how it supported us in the decision we took in June.

The latest shock emerged suddenly and developed rapidly, but it did not find us without a compass.

Our 2025 strategy assessment focused precisely on how monetary policy should respond in an environment characterised by higher uncertainty and more frequent supply shocks. Our strategy is designed to ensure that we can continue to deliver price stability under such conditions.<sup>1</sup>

It rests on three principles:<sup>2</sup>

**First, we must carefully assess the nature of the supply shock – its size, persistence and propagation.**

Monetary policy cannot lower energy prices directly. But it must assess the extent to which higher energy costs spill over into other prices – what we call "indirect effects" – and risk triggering second-round effects through wages and price-setting.

Both the size and persistence of the shock are critical. Small and short-lived shocks typically have limited effects beyond the energy component. But as shocks become larger and more persistent, their impact can increase in a non-linear way, with stronger and more widespread effects on prices and wages.<sup>3</sup>

The macroeconomic environment also plays a key role in how the shock propagates. When demand is strong, firms may find it easier to raise prices. When labour markets are tight, workers may be in a better position to bargain for higher wages.<sup>4</sup> These dynamics are more likely to become relevant when inflation is already elevated.<sup>5</sup>

Compared with the previous inflation episode, however, at this stage the current shock appears to be smaller in magnitude and occurring in a different context. During the previous episode, the economy was emerging from the pandemic, which had created significant macroeconomic imbalances, including supply chain disruptions and highly accommodative monetary and fiscal policies to support recovery. In contrast, at the onset of the current shock, inflation was closer to target and monetary and fiscal policy were no longer highly accommodative. This suggests that the pass-through may be more limited thus far – though risks remain if the shock intensifies or persists.<sup>6</sup>

But this does not mean we can be complacent: after the high inflation period of 2022 and 2023, price and wage formation may be more sensitive to new shocks.<sup>7</sup>

**Second, we do not only focus on the baseline – we also focus on the risks around it.**

In an uncertain environment like this one, policy cannot rely solely on the most likely path for the economy.

We therefore place strong emphasis on the risks surrounding the baseline and, where appropriate, we use alternative scenarios to assess how different shock configurations could affect the outlook.

The non-linear effects of supply shocks also make this essential: when they become larger and more persistent, we can see disproportionately greater deviations from our inflation target.

The scenarios that we have been using since March to assess the current shock are a key tool for capturing these risks and guiding policy decisions at a time of high uncertainty.

### **Third, our policy response must be tailored and graduated.**

In line with the medium-term orientation of our strategy, the appropriate response to a deviation of inflation from target is context-specific, taking into account its source, size and persistence.

There are three broad cases we should consider.<sup>8</sup>

If the shock is small and temporary, it can in principle be looked through.

If the shock gives rise to a sizeable but not-too-persistent overshoot of our target, a measured adjustment of policy is warranted.<sup>9]</sup>

If, however, inflation is expected to deviate significantly and persistently from target, our response must be appropriately forceful or persistent to prevent self-reinforcing dynamics arising and the risk of inflation expectations de-anchoring.

This is the framework which guided the decision we took in June. For now, we are in the second case. The shock is too large to look through without jeopardising our target. But we see no evidence yet of de-anchoring of inflation expectations or second-round effects that would warrant a more forceful policy response at this stage.

This graduated approach requires us to remain agile. By proceeding meeting by meeting and staying data-dependent, without pre-committing to a particular rate path, we can adjust our response as the shock evolves and ensure it remains proportionate.

## **Conclusion**

To conclude, supply shocks are becoming more frequent.

The ECB is well equipped to meet this challenge. Our updated strategy provides a clear framework to assess shocks, manage risks and calibrate our response. It allows us to respond proportionately to the shock we face, and to remain anchored to our medium-term objective of price stability.

But monetary policy cannot fully offset the impact of such shocks. Strengthening structural resilience, especially in the energy sector, will be essential to reduce the euro area's vulnerability to external supply shocks.

Finally, before taking your questions, allow me to thank the rapporteur, shadow rapporteurs and this Committee for the progress made on the Single Currency

Package. This is an important milestone in moving the digital euro project forward and anchoring it firmly in the democratic debate.

---

<sup>1</sup> Lagarde, C. (2025), "[Strategy assessment: lessons learned](#)", introductory speech at the opening reception of the ECB Forum on Central Banking, Sintra, 30 June.

<sup>2</sup> Lagarde, C. (2026), "[Navigating energy shocks: risks and policy responses](#)", keynote speech at "The ECB and Its Watchers" conference organised by the Institute for Monetary and Financial Stability at Goethe University Frankfurt, Frankfurt am Main, 25 March.

<sup>3</sup> Bobeica, E., Holton, S., Huber, F. and Martínez Hernández, C. (2025), "[Beware of large shocks! A non-parametric structural inflation model](#)", *Working Paper Series*, No 3052, ECB; Burriel Llombart, P., Odendahl, F. and Párraga Rodríguez, S. (2024), "[Asymmetries in the transmission of energy price increases and decreases to underlying inflation in the euro area and Spain](#)", *Economic Bulletin*, Banco de España, No 2024/Q1.

<sup>4</sup> Adolfsen, J.F. et al. (2024), "Gas price shocks and euro area inflation", *Journal of International Money and Finance*, Vol. 149, November.

<sup>5</sup> Ampudia, M. et al. (2024), "[The wage-price pass-through across sectors: evidence from the euro area](#)", *Working Paper Series*, No 2948, ECB; Bobeica, E., Ciccarelli, M. and Vansteenkiste, I. (2019), "[The link between labor cost and price inflation in the euro area](#)", *Working Paper Series*, No 2235, ECB; updated estimates confirm increased pass-through in the post-pandemic period.

<sup>6</sup> Arce, Ó. et al. (2026), "[A tale of two energy crises – initial conditions matter](#)", *The ECB Blog*, ECB, 3 June.

<sup>7</sup> Malmendier, U. and Nagel, S. (2016), "Learning from Inflation Experiences", *The Quarterly Journal of Economics*, Vol. 131, No 1, pp. 53-87; Salle, I., Gorodnichenko, Y. and Coibion, O. (2023), "[Lifetime Memories of Inflation: Evidence from Surveys and the Lab](#)", *NBER Working Paper Series*, No 31996, National Bureau of Economic Research.

<sup>8</sup> Ibid.

<sup>9</sup> The optimal response to such a deviation is smaller when the cause is an exogenous supply disruption, rather than strong demand, to avoid unnecessary harm to the economy, but it is not necessarily zero. See Workstream 2: Monetary Policy Tools, Strategy and Communication (2025), "[Report on monetary policy tools, strategy and communication](#)", *Occasional Paper Series*, No 372, ECB.