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## **MONETARY AFFAIRS**

**REVIEW: ECB on Hold in April,  
But A Rate Hike Is Getting Closer**

**By**

**Brunello Rosa and Nato Balavadze**



**30 April 2026**

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**Executive Summary**

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- **Decision Made:** *The European Central Bank (ECB) remained on hold*, and kept its *i)* interest rate on the ‘main refinancing operations’ at 2.15%; *ii)* interest rate on the ‘marginal lending facility’ at 2.40%; and the key *iii)* ‘deposit facility’ at 2.00%. Future decisions will be taken meeting-by-meeting, following its usual three-pronged approach about its reaction function confirmed. It said the economy is well positioned, with inflation near 2% and expectations anchored, but will rely on incoming data to assess the war’s impact and adjust policy accordingly. The ECB signalled growing concern over rising inflation, reinforcing expectations that it is ready to raise rates this year, with an initial move potentially already in June.
- **Policy Discussion:** *The Governing Council debated a rate hike but ultimately held rates unanimously, signalling a clear shift toward a more hawkish stance and increasing the likelihood of tightening at the June meeting.* The ECB reaffirmed its reaction function based on a 2% medium-term inflation target, symmetry around that target, and a data-dependent, state-contingent approach.

While the case for an immediate hike was not fully articulated, the discussion itself points to a growing tightening bias within a wait-and-see framework. Lagarde emphasised heightened uncertainty, noting that the economy has moved away from the March baseline and that the next six weeks will be critical in assessing incoming data and geopolitical developments ahead of updated projections in June.

The euro area outlook is increasingly shaped by the energy shock and geopolitical risks, with no clear second-round effects yet but close monitoring underway. Lagarde rejected comparisons to 1970s-style stagflation and instead stressed the need for targeted fiscal support and structural reforms to strengthen resilience and support the energy transition.

**Key Picture: European Central Bank Key Forecasts – 2024-2028**

	Latest reading	2026 <sup>f</sup>		2027 <sup>f</sup>		2028 <sup>f</sup>	
		March Projections	December Projections	March Projections	December Projections	March Projections	December Projections
GDP ( <i>real growth, y-o-y</i> )	0.8	0.9	1.2	1.3	1.4	1.4	1.4
Inflation (% <i>y-o-y</i> )	3.0	2.6	1.9	2.0	1.8	2.1	2.0
Core-inflation (% <i>y-o-y</i> )	2.2	2.3	2.4	2.2	1.9	2.1	2.0
Unemployment (% <i>y-o-y</i> )	6.2	6.3	6.2	6.3	6.1	6.2	5.9

Source: ECB ‘Macroeconomic projections’ March 2026 and December 2025 Note: Latest readings: 1. GDP for Q1 2026; 2. Unemployment for March 2026; 3. Inflation for April 2026. \*Inflation = Harmonized Index of Consumer Prices (HICP).

## Analysis

- ✦ **DECISION MADE:** *On April 30, the ECB remained on hold.* In line with consensus, in an unanimous decision, the European Central Bank (ECB) to keep its main policy rates i.e. its *i)* interest rate on the ‘main refinancing operations’ at 2.15%; *ii)* interest rate on the ‘marginal lending facility’ at 2.40%; and the key *iii)* ‘deposit facility’ at 2.00%. The statement signalled growing concern over rising inflation, reinforcing expectations that it will raise rates several times this year, with an initial move in June.

*In its forward guidance*, the ECB stated that the decisions will be still taken meeting-by-meeting, with its usual three-pronged approach about its reaction function confirmed. According to the statement, the Governing Council is well positioned to navigate current uncertainty. Inflation is around the 2% target, expectations remain well anchored, and the economy has been resilient. Incoming data will help assess how the war affects the inflation outlook and risks. The Council will continue to monitor developments and adjust policy in a data-dependent manner.

In terms of *Balance Sheet policies*, the APP and PEPP portfolios are gradually and predictably shrinking, as the Eurosystem has stopped reinvesting principal payments from maturing securities.

- ✦ **POLICY DISCUSSION:** *The Governing Council debated a rate hike despite ultimately deciding unanimously to hold, signalling a shift toward a more hawkish stance and bringing the ECB closer to tightening at the June meeting.* During the press conference, President reiterated that the ECB’s reaction function remains anchored on three principles: a 2% medium-term inflation target, symmetry around that target, and a state-contingent response depending on the size and persistence of any deviation from target.

The case for a near-term rate hike was not fully articulated, though the discussion itself signals the ECB is moving closer to tightening in June. The meeting points to a further hawkish shift, with a clear tightening bias emerging within a ‘wait-and-see’ framework. While the ECB may be reluctant to tighten aggressively into a supply-driven slowdown, the likelihood of a June rate hike has increased.

Lagarde stressed that the economy has moved away from the March baseline, though she declined to specify its position relative to alternative scenarios, highlighting heightened uncertainty. She indicated that the next six weeks will be critical for assessing incoming data and the evolution of the Middle East conflict, with updated projections and revised scenarios expected at the June meeting. Lagarde characterised the latest decision as ‘informed but based on still incomplete information’, noting that the Governing Council debated both holding and tightening options in depth before reaching a unanimous conclusion.

As discussed below, during the press conference Lagarde said that risks to economic activity are to the downside and to inflation to the upside, with the statement having removed the word “tilted” in both cases, indicating that the risks scenarios are materialising.

The euro area is moving away from the baseline scenario, with the outlook increasingly shaped by the scale and persistence of the energy shock. While the economy showed some momentum prior to the conflict, domestic demand supported by a resilient labour market, the outlook has become highly uncertain and remains contingent on the evolution of the Middle East war and its impact on energy markets and global supply chains. According to the Bank, while direct and some indirect effects from the energy shock are evident, there is no clear evidence of second-round effects so far, though the ECB remains highly attentive to their potential emergence. Lagarde rejected comparisons with 1970s-style stagflation, arguing that current conditions differ materially in terms of inflation dynamics, labour markets, and policy frameworks. She stressed that the term is not an appropriate characterisation of the euro area’s present economic environment.

Against this backdrop, Lagarde emphasised the need for targeted and temporary fiscal support, alongside structural reforms to boost growth and accelerate the energy transition. Reducing reliance on fossil fuels

and strengthening the euro area's economic resilience remain key priorities as policymakers navigate elevated uncertainty.

✦ **ECONOMIC ASSESSMENT:** *Data broadly confirm the outlook, but inflation risks have risen and growth risks have worsened.* The euro area showed modest momentum before the shock, with GDP up 0.1% in Q1, supported by domestic demand and a resilient labour market. However, the Middle East conflict has increased uncertainty, with surveys pointing to weaker growth, declining confidence, and rising supply chain pressures. Looking ahead, high energy prices are expected to weigh on real incomes and curb consumption and investment. While unemployment remains low at 6.2%, labour demand is softening. Still, strong household balance sheets and increased public and private investment, particularly in defence, infrastructure, and digitalisation, should provide some resilience.

Inflation rose to 3.0% in April, driven by a surge in energy prices, while core inflation eased slightly. Underlying pressures remain broadly stable, with wage growth expected to moderate, though cost and price expectations have increased. Inflation is likely to stay above target in the near term, with risks of stronger second-round effects if energy prices remain elevated.

Risks to growth are skewed to the downside, primarily due to the Middle East conflict and broader geopolitical uncertainty. Prolonged energy supply disruptions could push prices higher for longer, eroding real incomes and weighing on consumption and investment. Additional risks stem from supply chain disruptions, including potential shipping bottlenecks, tighter financial conditions, and rising trade frictions, all of which could dampen demand and output. Upside risks include a faster resolution of the conflict or greater economic resilience to the shock. Increased defence and infrastructure spending, structural reforms, technological adoption, and deeper trade integration could also support stronger-than-expected growth.

Risks to inflation are to the upside. Higher and more persistent energy prices could feed through more strongly to wages and prices, particularly if inflation expectations rise or supply chains face further disruption. Trade fragmentation could also intensify cost pressures. On the downside, inflation could ease more quickly if the shock proves temporary, second-round effects remain contained, or weaker demand, driven by more volatile financial markets, dampens price pressures.

✦ **OUR TAKE:** *The ECB Is Set to Increase Rates in June.* At the Watchers Conference, Lagarde said that – faced with a severely negative supply shock such as the current one – the ECB does not need to decide between a large adjustment and doing nothing, it could also choose to make a small adjustment to make sure that inflation expectations remain anchored. This is what the ECB seems ready to do in coming months. A rate hike in June is very much on the cards at this stage.

✦ **MARKET REACTION AND IMPLICATIONS:** Given the fact that a rate hike was already discussed this month, *money markets are fully pricing in at least two ECB rate hikes by year-end, with a third move seen as likely but not certain.* *In the bond market,* the Two-year bond yields across the euro area declined, with German yields down 6 basis points to 2.65%. Germany's 10-year bond yield, the region's benchmark, also fell to around 3.03% at the time of writing. *In the currency space,* the euro was last \$1.171, little changed from where it stood before the ECB statement. *In the equity space,* European equities moved higher on Thursday as investors absorbed policy decisions from the ECB and BoE with Germany's DAX by up 0.9%, while France's CAC 40 up by 0.1%.



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