ECB Review

SEB

10 September 2026

ECB hikes interest rates to combat higher energy prices

As expected, the ECB today raised its three key interest rates by 25 bp, bringing the deposit rate to 2.50%. The decision to hike was unanimous, with no commitment to future action. Inflation was revised upwards for 2027-2028, while growth is seen as more resilient. No spillovers from higher energy prices are evident, but they are key for the ECB inflation profile from the end of 2026.

Key points

- 25 bp rate hike
- Still data-dependent and following a meeting-by-meeting approach
- Inflation revised upwards for 2027-2028, reflecting more persistent effects from higher energy prices

Key conclusions from the Q&A at the press conference

The decision to raise rates by 25 bp was unanimous

No view on the direction of the next move and no debate on the future rate path

The ECB was surprised by the resilience of the economy, but also by lower-than-expected inflation

The ECB now sees energy pressures keeping inflation above target for an "extended period"

Forecast revisions and alternative scenarios

Compared with June, the baseline projections for both headline and core inflation are unchanged for 2026. However, inflation projections, for both headline and core inflation, have been revised upwards for 2027 and 2028. This likely reflects the greater persistence of the energy-price shock. We also note that the overshoot in 2028 is quite small, but nevertheless symbolic. The baseline projection for GDP growth has been revised upwards for 2026-2027, reflecting the greater-than-expected resilience of the economy. Overall, the new projections can be interpreted as hawkish.

ECB staff projection in Sept (ECB staff projection in June, %)

	2026E	**2027E**	**2028E**
Real GDP	0.9 (0.8)	1.4 (1.2)	1.5 (1.5)
HICP	3.0 (3.0)	2.5 (2.3)	2.1 (2.0)
HICP excl. energy and food	2.5 (2.5)	2.6 (2.5)	2.3 (2.2)

Source: SEB, ECB

Regarding the inflation forecast, the upward revisions are due to higher energy prices. The upward adjustment to the core inflation forecast is not surprising, given that oil and natural gas prices point to an outcome close to the adverse scenario from June. Indeed, the 2027 core inflation forecast lies between the June baseline and the June adverse scenario.

To illustrate the uncertainty surrounding the conflict in the Middle East, the baseline projections are complemented by updated alternative scenarios: a mild, an adverse and a severe scenario. These scenarios differ in terms of the strength of indirect and second-round effects on inflation. Both the adverse and severe scenarios show inflation, both headline and core, remaining above target throughout the forecast period.

No spillovers yet, but key going forward

The ECB acknowledges that no spillovers from high energy prices to broader inflation have been visible so far but believes they will emerge at a later stage. Indeed, a key reason behind the ECB raising its inflation profile already in March/June was the expected spillovers from energy, taking into account the experience from 2021-2024 (i.e. a stronger pass-through than historical relationships in standard models would suggest).

As we read the ECB staff projections, these effects will start to kick in from Q4 2026 and peak in H1 2027. Hence, we will have to wait a few more months before the ECB's inflation profile is truly put to the test. As President Lagarde pointed out, the longer energy prices remain elevated, the more likely spillovers become. Although services inflation remains a key driver, the higher inflation profile to a large extent also reflects higher core goods inflation.

Unless energy prices fall and the situation in the Middle East improves, it is difficult to see the ECB staff making major changes to their projections in the December forecasting round. In that case, the ECB will most likely continue hiking, contrary to our current forecast. However, President Lagarde pointed out that conditions can change quickly, and we will monitor upcoming speeches to get a sense of the current balance within the Governing Council.

Market impact

Despite policy rate expectations having increased sharply over the summer, today's message from the ECB pushed expectations for the next 12 months around 15bp higher. Markets now fully discount three further rate hikes, with the deposit facility rate reaching 3.25% by summer 2027.

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