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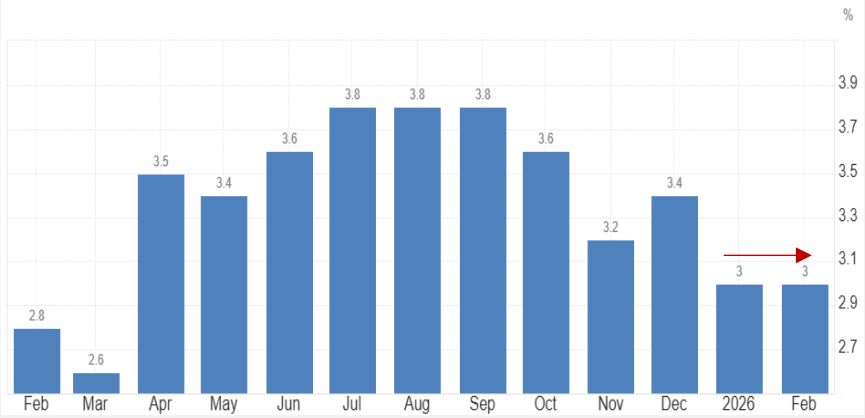
ECB: range of options to combat inflation

ECB ready to respond to the energy crisis

The markets are anticipating three interest rate cuts in 2026

- **Christine Lagarde** said on Wednesday that the euro zone was in a better position than in 2022 to cope with the energy shock. But the ECB will stand ready to act quickly if the threat of widespread inflation becomes clearer.
- **ECB** Christine Lagarde says the ECB has a "graduated range of options" to respond to the energy shock linked to the war in Iran and will only act after assessing its size, duration and spread.
- **Inflation** The priority according to Christine Lagarde is to bring inflation back to 2%: the ECB will abstain if the shock is limited, adjust moderately if the overshoot is temporary, and respond vigorously if the gap becomes significant and persistent.
- **Nagel** ECB could raise rates as early as the April meeting if the price outlook deteriorates due to the war in Iran, with the decision dependent on the data expected by then.
- **Guindos** The ECB is on alert about the repercussions of the war in Iran on inflation and growth: the bank is ready to react and will remain vigilant to second-round effects, even if monetary policy cannot prevent the initial impact.

Evolution of the rate of inflation in the United Kingdom



Source: ONS 26/03/26

Inflation in the UK in February 2026 is in line with forecasts. According to the ONS' monthly report, consumer prices rose 0.4% month-on-month, in line with forecasts, after a 0.5% decline in the previous month. Year-on-year, inflation rose by 3%, in line with the previous month's figure and the consensus.
Core inflation, which excludes the most volatile components such as food and fuel, rose 0.6% month-on-month, compared to +0.5% according to the consensus, after -0.6% in January. The year-on-year change was 3.2%, higher than the previous and expected 3.1%

Figure of the week

3,0 %

This is the inflation rate in the United Kingdom at the end of February

Christine Lagarde

The ECB has a "graduated range of options" to respond to the energy shock linked to the war in Iran, Christine Lagarde said. She assured that the institution will not be "paralyzed by hesitation" without specifying the possible measures.
Policymakers will only act after assessing the magnitude, duration and spread of the shock. The priority remains to bring inflation back to 2%, an "unconditional" commitment, even if a sustained rise in hydrocarbons is a risk. Lagarde outlined three scenarios: abstaining if the shock is limited and short-lived.
A "measured adjustment" of monetary policy would be envisaged in the event of a significant but not too persistent overshoot of inflation. If inflation deviates "significantly and persistently" from 2%, the response will have to be "sufficiently vigorous or sustainable". She recalled that monetary policy cannot lower energy prices, but must prevent widespread inflation.
The situation differs from the beginning of 2022: inflation is close to 2%, the recovery is more moderate and fiscal policies are less accommodative.
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Nagel (ECB): an interest rate hike in April is an option

The ECB could raise interest rates at its next meeting in April if the price outlook continues to deteriorate due to the war in Iran, with sufficient information expected to be available in the coming weeks, Governing Council member Joachim Nagel said. "It is certainly an option, but it is only one option among others," the Bundesbank president said in an interview.

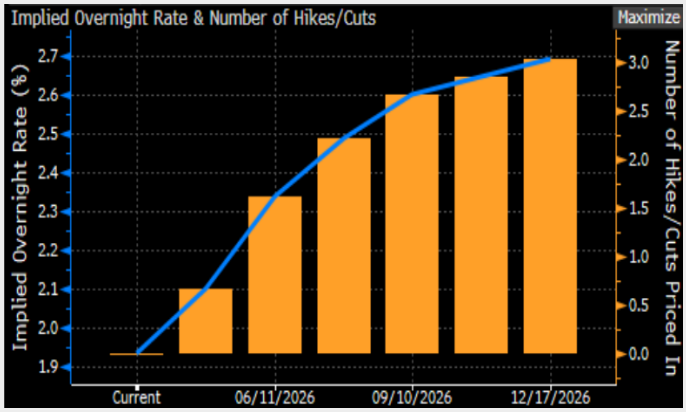
"I think we'll have enough data by April to determine if we need to act or if we can wait and see how the situation develops."

Nagel added: "This is certainly a situation where every day that passes contributes to increasing inflationary risks, especially with regard to what we are most interested in from a monetary policy perspective: the evolution of inflation expectations over the medium term. We should not turn away from it now just because we think it is still too early."

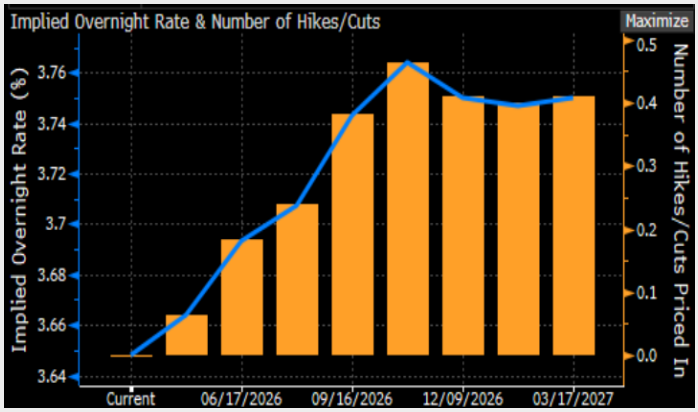
Those comments are in line with what Nagel said last week, when he argued that officials will need to consider raising borrowing costs as early as next month if price pressures intensify further.

> *We will not let ourselves be paralyzed*
>
> *Christine Lagarde (ECB), 25 March 2026*

ECB



FED



Source: Bloomberg 26/03/26

Forecasts regarding interest rate trends in the eurozone continue to point to a rise in the likelihood of further rate hikes by the end of the year, due to geopolitical turmoil in the Middle East and its impact on oil and gas prices.

At present, the markets are expecting three hikes by the end of the year, with the first to be decided at the June meeting.

There remains a 50% probability, supported by statements from certain ECB members, of a first hike as early as the European Central Bank's next meeting on 30 April.

In the US, the consequences of the geopolitical situation are also evident, albeit to a more limited extent.

The US economy remains less exposed to the inflationary consequences seen in Europe.

However, the likelihood of further rate cuts expected in 2026 until a few weeks ago has disappeared, and the trend is now moving towards a slight probability of rate rises, estimated at 40% by the end of the summer.

Luis de Guindos, ECB

ECB WARNS OF SIDE EFFECTS OF WAR IN IRAN

The ECB is on alert for the repercussions of the war in Iran on prices, said its vice-president, Luis de Guindos. "We are ready to react if necessary.

Of course, we are concerned about the situation. Monetary policy cannot prevent the war from having an initial impact on both inflation and growth, but the ECB can monitor the situation and remain vigilant for possible second-round effects. Mr. Guindos stressed that "at the next Board of Governors meeting in April, we will have more data on the conflict, which is the main source of uncertainty, and we will make a decision from there."

Other ECB officials, including Germany's Joachim Nagel and Ireland's Gabriel Makhlouf, said on Friday that the ECB will have to consider raising interest rates at the April 29-30 meeting if price pressures continue to rise. The meeting will be the last for Guindos, whose eight-year term ends at the end of May.

FED: S. Miran advocates patience

Fed Governor Stephen Miran said the central bank should not base its policy on short-term considerations related to the US-Israel conflict in Iran.

The conflict in the Middle East has led to a sharp rise in oil prices, threatening both to put upward pressure on inflation and to weigh on economic growth and the labour market.

The Fed kept its benchmark interest rate unchanged at its meeting last week for the second time in a row, as policymakers acknowledged heightened economic uncertainty due to the war and Fed Chair Jerome Powell stressed the need for policymakers to see more progress in reducing inflation.

Miran opposed the decision, preferring a quarter-point cut. While acknowledging the risk that keeping oil prices high could eventually spill over to other goods and services, Miran said his pre-war forecast of four rate cuts this year remained unchanged.

Stephen Miran (FED)

"We should wait until we have all the information before we actually change our outlook," Miran said Monday in an interview with Bloomberg Surveillance. "And I think it's still too early to get a clear idea of what the situation will look like in twelve months' time."

News

- **United Kingdom** | Manufacturing PMI rises to 50.2 plus expectations and up compared to previous month (50.1)
- **United States** | The manufacturing PMI rises more to expectations at 52.4 vs 51.6 registered at the end of February.

Agenda

- **30 March** I Publication of inflation rates in Germany at the end of March
- **March 31** Inflation rates released for the Eurozone at the end of March

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