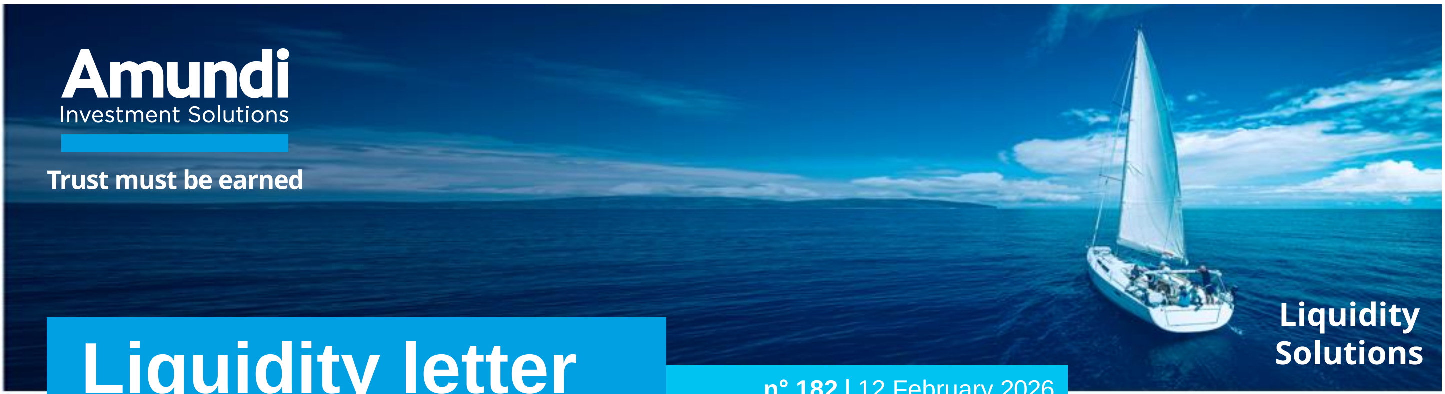


Liquidity letter

n° 182 | 12 February 2026

ECB cautious in the face of uncertainty

ECB and Bundesbank aligned with monetary policy

No immediate need for action for the Bundesbank

- **Christine Lagarde** In the face of geopolitical tensions and political uncertainty, Christine Lagarde defends a data-driven monetary policy decided meeting by meeting. It underlines the attention paid to national price differences in the euro area and reaffirms the objective of maintaining price stability and the credibility of the euro, which is appreciated by around 80% of Europeans.
- **Joachim Nagel** The ECB considers its rates appropriate for the time being and will only intervene if medium-term inflation diverges from the target for a long time, with the recent decline mainly due to energy and not calling into question the underlying indicators.
- **Schmid** believes that the Fed should maintain a restrictive monetary policy as long as growth remains strong and inflation is high. It's too early to rely on productivity (or AI) to bring it back to the right level. Early rate cuts could prolong it.
- **The Bank of England** kept its rate at 3.75% while inflation remains at 3.4% and a stronger-than-expected economic recovery makes it uncertain whether the announced cuts will continue.

Gabriel Makhloof, an Irish member of the ECB's Governing Council, said the next decision by policymakers could be to raise or cut borrowing costs. "I don't rule out further cuts, nor do I rule out the possibility that interest rates could rise as well.
What I mean is that right now, it looks like inflation is on track to get to our target, so we're in a good position.
Inflation itself has reached very high levels, but it is falling and, for now, it is broadly in line with the target.
At the ECB, we are on track to achieve the 2% inflation target over the medium term.

Figure of the week

3,75 %

This is the Bank of England's key rate

Christine Lagarde

"In the current uncertain environment", marked by "heightened geopolitical tensions" and "persistent policy uncertainty, our data-driven approach to monetary policy, decided over the course of meetings, is very useful to us," European Central Bank President **Christine Lagarde** said at a hearing before the European Parliament in Strasbourg.

In a euro area marked by a great heterogeneity in growth and inflation rates between the 21 EU countries that make it up, "we pay very detailed attention to what people are actually paying, and we know that this varies from one member state to another," Lagarde replied at the end of the session. addressing "those who think I have no idea what's going on in the real world, which I don't."

"Our aim is to maintain this price stability and to preserve the credibility of the euro" which "is appreciated by around 80% of our fellow European citizens," she said.

Nagel (ECB): rates are adjusted despite falling inflation

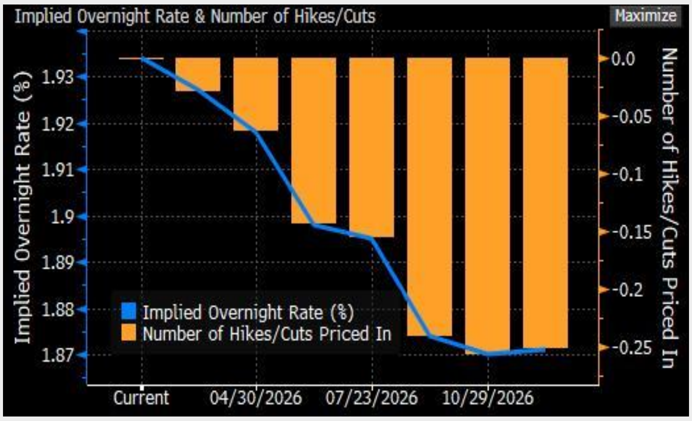
According to Bundesbank President **Joachim Nagel**, the ECB would only intervene if its medium-term inflation forecasts deviated "sustainably and significantly" from the target, but this did not appear to be the case.
"There are many factors that suggest that the current level of interest rates is appropriate," "First, the deficit (of inflation) is short-term and low, and in the medium term, inflation is in line with our objective."
Long-term inflation expectations are "firmly anchored" and measures of core prices, which exclude volatile elements such as energy and food, also confirm this view, as does the update of the ECB's projections for December.

Data released last week showed that the decline in inflation in January was largely due to lower energy costs, although services also saw a moderation in price increases.

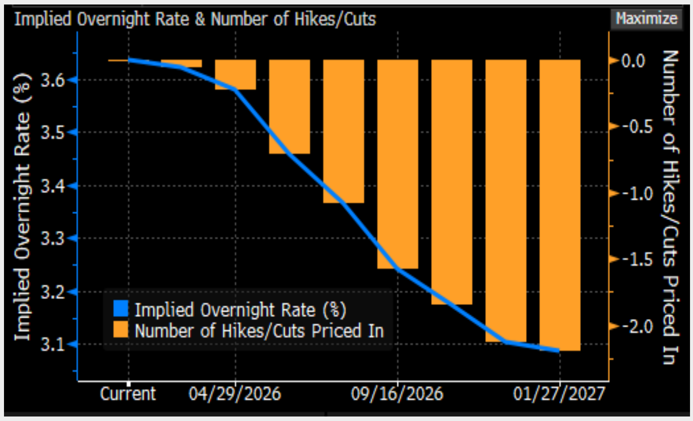
"Slight temporary deviations in more volatile components do not require a change of course if inflation expectations are firmly established."

> *It appears that inflation is on track to meet our target*
>
> *Gabriel Makhloof (ECB), 12 February 2026*

ECB



FED



Source: Bloomberg 12/02/26

Market expectations on the evolution of interest rates have not changed in the euro zone a week after the last meeting of the European Central Bank.

Markets continue to say that this cycle of monetary policy easing by the institution led by Christine Lagarde could be coming to an end.

Indeed, the probability of a further rate cut by the end of 2026 stands at 25%.

Under this scenario, the ECB's terminal rate would be 2%.

On the U.S. side, we are still on track to reach the terminal rate expected by the markets.

Two more rate cuts are planned for the Federal Reserve by the end of 2026.

The first could take place at the meeting next July. The second cut is expected for the last FOMC meeting of the year.

The Federal Reserve's terminal rate is therefore expected to be 3%.

SCHMID (FED): IT'S TOO EARLY TO SEE INFLATION COME DOWN

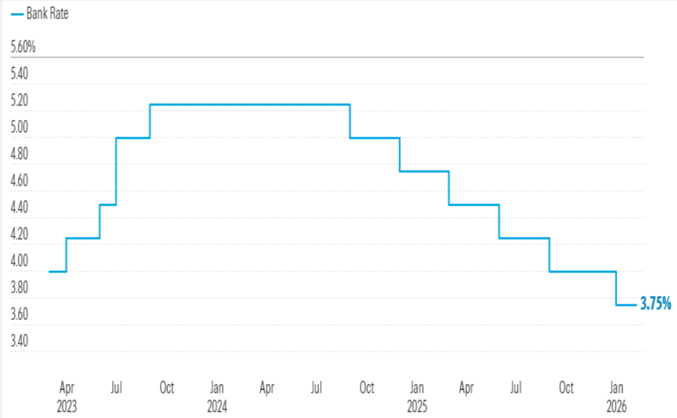
The U.S. central bank must maintain its restrictive monetary policy for now, amid strong economic growth, Kansas City Fed President Jeffrey Schmid said on Wednesday, warning that it was too early to count on rising productivity as a remedy for still-high inflation.
"With inflation still high, it seems that demand is outstripping supply in much of the economy."

While it is possible that increased productivity or the spread of artificial intelligence could boost economic potential and enable a "non-inflationary, supply-driven growth cycle," Schmid said he believed "we are not there yet" and therefore interest rates should be kept high enough to discourage some spending and investment.
"Further rate cuts are likely to allow high inflation to persist even longer," especially at a time when the economy looks set to continue growing above trend.

Rates unchanged in the United Kingdom

The Bank of England left its key interest rate unchanged at 3.75% on Thursday, as inflation remains above target and economic growth shows signs of recovery.
The central bank, which sets interest rates for the whole of the UK, has gradually reduced the cost of money over the past 18 months, often at a rate of one intervention every three months.
The last cut in the policy rate was in December, when it was cut by a quarter of a percentage point, and the institution indicated that further cuts were likely during the year.
Since then, a series of economic indicators have shown that the UK economy has started the year stronger than expected.
This dynamic could put further upward pressure on inflation.
Although it has been declining for about a year, inflation remains at 3.4%, above the Bank of England's 2% target.
"Early data for 2026 suggest stronger demand and more rigid inflation than expected," said Andrew Wishart, chief economist for the United Kingdom.

Interest rate evolution in the UK



Source: Bank of England 6, February 2026

"We now believe that inflation will fall back to around 2% by the spring. This is good news."

Andrew Bailey, Bank of England

News

United States | The unemployment rate falls to at the end of January at 4.3% (vs. 4.4% the month previous)

United Kingdom | Annual GDP at the end of 2025 down to 1.0% vs. 1.2% over the previous period

Agenda

17 February I Publication of the inflation rate in Germany at the end of January

February 18 Interest Rate Decision Royal Bank of New Zealand

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