

ECB keeps interest rates on hold at 2% after growth surprise

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The unanimous decision was in line with economists' expectations. It came after core inflation, which strips out volatile energy and food prices, fell in January to 2.2 per cent, the lowest level since late 2021.

GDP growth in the fourth quarter of last year was slightly higher than economists predicted, at 0.3 per cent.

“We are in a good place, inflation is in a good place,” ECB president Christine Lagarde said after the decision, repeating a mantra she has used frequently since last summer.

The ECB's governing council stressed in its monetary policy statement that the economy “remains resilient in a challenging global environment”, pointing to low unemployment, increases in public investment and defence spending, and “solid” private sector balance sheets. It also repeated its assessment that inflation “should stabilise” at its 2 per cent target in the medium term. Inflation fell to 1.7 per cent in January from 2 per cent the previous month.

The euro was little changed after the widely expected decision, trading slightly weaker against the dollar by late afternoon at just below \$1.18.

Sylvain Broyer, economist at S&P Global Ratings, said the ECB “can keep the autopilot on this time” as the stronger euro was acting as a “shock absorber” while growth “continues to outperform expectations”.

Last month, the single currency climbed above \$1.20 for the first time since 2021, benefiting from a broad downturn in the US dollar and fuelling concerns it would weigh on Eurozone exporters and hold down inflation in the currency area.

Lagarde said the governing council discussed recent exchange rate movements and noted that the dollar weakness did not start recently but has been happening since March 2025. “We concluded that the impact since last year is incorporated in our baseline,” she said.

She stressed that January's fall in inflation was a single data point. Monetary policy should not be “held hostage” by a single data point, she said. While core inflation decreased faster than expected last month, the ECB was “pleased” that it was coming down towards its own targets, Lagarde added.

“This communication should cement expectations of a high bar for action and a prolonged hold [in rates],” said Sören Radde, economist at Point72, a hedge fund.

Claus Vistesén, economist at advisory firm Pantheon Macroeconomics, said this month's monetary policy statement had "a hawkish slant" as it emphasised positive recent data "while downplaying any near-term downside risk to the December core inflation forecast".

Traders in swaps markets continued to price a slim possibility of a further cut in the benchmark rate this year, ascribing a roughly 25 per cent chance to a quarter-point reduction.