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MONETARY POLICY

Monetary Dialogue in February 2026

Summary of parliamentary scrutiny activities

This paper provides a summary of all scrutiny activities of the European Parliament related to euro area monetary policy in occasion of the February 2026 Monetary Dialogue with the European Central Bank (ECB). It covers the topics chosen by the Committee on Economic and Monetary Affairs (ECON) and related expertise papers provided in advance of the Dialogue, the actual topics addressed during the Dialogue, a brief overview of results from the Monetary Policy Expert Panel Survey, the latest written questions made by Members to the ECB President and European Parliament resolution on the ECB Annual Report 2025. The document is published regularly ahead and after each Monetary Dialogue with the ECB.

1. Monetary Dialogue in February 2026

1.1. President Lagarde's introductory remarks

On 26 February 2026, ECB President Christine Lagarde attended **the first Monetary Dialogue (MD) in 2026** with Members of the ECON Committee.

President Lagarde provided an update on the euro area economic outlook. ECB president noted that the euro area economy grew by 0.3% in the fourth quarter of 2025 and by 1.5% in 2025, performing better than previously anticipated by ECB projections. She explained that growth in the euro area was mainly driven by domestic demand, in particular services activity, while manufacturing remained weaker but resilient in the face of higher tariffs and geopolitical uncertainty. Looking ahead, she indicated that economic activity is expected to be supported by rising labour income, a resilient labour market, and increased investment in defence, infrastructure and digital technologies. At the same time, she cautioned that the trade environment remains challenging, reflecting higher tariffs, a stronger euro and a volatile global policy environment.

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Turning to inflation developments, President Lagarde noted that **headline inflation** (as measured by the Harmonised Index of Consumer Prices (HICP), **declined to 1.7% in January 2026, from 2.0% in December 2025, while core inflation** (excluding energy and unprocessed food) **eased to 2.2%.** In this context, she emphasised that inflation has fallen markedly from its peak of 10.6% in October 2022 and has fluctuated around the ECB's 2.0% target in recent months. At the same time, wage growth, while still elevated, is expected to moderate to around 3% in the medium term, with real wages having recovered above levels observed in early 2021. Looking ahead, the ECB expects inflation to stabilise sustainably at its 2.0% target over the medium term.

The Governing Council decided to keep the three key ECB interest rates unchanged at the latest monetary policy meeting, with the key policy rate, deposit facility rate (DFR) remaining at 2.0%. President Lagarde reiterated that the ECB would continue to follow a data-dependent and meeting-by-meeting approach, with interest rate decisions guided by the inflation outlook, underlying inflation dynamics and the strength of monetary policy transmission.

Furthermore, President Lagarde highlighted the divergence between measured and perceived inflation, since according to the ECB's Consumer Expectations Survey (CES), **inflation perceptions have on average exceeded measured inflation by around 1.2 percentage points since 2020.** This gap matters as it influences consumption and wage-setting behaviour, shapes inflation expectations and can affect trust in institutions. She further identified several factors explaining this divergence, including the greater weight of frequently purchased items such as food in consumers' perceptions, psychological biases whereby price increases are more salient than decreases, and differences in individual consumption patterns and financial literacy. She also noted that heightened uncertainty and sustained media attention during the recent inflation surge have amplified these effects.

In the light of these factors, President Lagarde emphasised that ensuring price stability remains the ECB's primary objective. Thus, the importance of clear communication and improving financial literacy was highlighted as essential to aligning inflation perceptions more closely with actual inflation and strengthening trust in institutions, particularly in the ECB.

The introductory statement was accompanied by a two-page document offering an overview of the latest economic and inflation developments and key takeaways on the two topics for the February MD.

1.2. MEP interventions during the Dialogue

During the February Monetary Dialogue, **16 Members of the ECON Committee participated in the Q&A session** with President Lagarde **with 32 interventions in total**[1].

Most interventions focused on **inflation, including divergences between actual and perceived inflation, as well as empirical evidence on their distributional effects**. Members also highlighted the **evolving role of central banks in an increasingly challenging environment**, shaped by multiple shocks and testing their ability to maintain price stability and preserve trust in the euro. Moreover, Members **raised concerns about financial stability related risks linked to the expansion of private credit funds** and the **growing role of non-bank financial intermediaries (NBFIs).** Discussions also touched on the design of the digital euro, the economic outlook, including developments in trade agreements, divergences in growth across euro area Member States, and the forthcoming market integration and supervision package. A full transcript is available here.

[1] The classifications of interventions should be interpreted as indicative as they are subject to interpretations and assumptions of authors.

1.3. Monetary Dialogue papers prepared by the Monetary Expert Panel

The two topics selected by the Coordinators of the ECON Committee for external expertise ahead of the February MD were **"Quarterly assessment of the ECB's monetary policy stance"** and **"The inflation gap: divergence between actual and perceived inflation and possible policy implications".** These topics were discussed at a preparatory meeting with experts (see Section 1.4 below). **Table 1** and **Table 2** list the four papers published on these two topics[2].

Table 1: MD papers on "Quarterly assessment of the ECB's monetary policy stance"

Authors	Title	Abstract
L. Bottazzi, C. Favero, R. Fernandez Fuertes, F. Giavazzi, V. Guerrieri, G. Lorenzoni, T. Monacelli & A. Trigari	Macroeconomic Uncertainty, the ECB Monetary Policy Stance and their Communication	This paper **assesses the ECB's monetary policy stance and communication amid declining inflation, persistent uncertainty, and renewed external risks**. It **documents how trade-policy shocks and global spillovers** affect inflation surprises, highlights **substantial cross-country inflation heterogeneity** within the euro area, and shows that common shocks generate uneven national responses. Using a **novel multi-agent LLM framework, it evaluates ECB communication,** revealing strengths during active policy adjustments but gaps in addressing inflation dispersion and uncertainty communication.
H. Hegemann & V. Wieland	Price Stability & Risks	The **ECB anticipates stable growth and inflation**, while **Europe is faced with geopolitical threats, lack of competitiveness and fiscal challenges**. At such a time, central bankers need to consider the dynamics of risk scenarios that arise from potentially mis-aligned or mis-perceived trends and policy-relevant parameters and prepare for timely policy responses. This **paper focusses on potentially unsustainable fiscal trends, potential growth misperceptions and** their **implications for inflation developments and the policy stance**. It highlights risks for **fiscal inflation in the euro area**.

[2] We remind our readers that from December 2024 each Monetary Dialogue follows a consistent format: there is a recurring topic on the quarterly assessment of the ECB's monetary policy stance and a thematic topic to address timely and specific issues.

Table 2: MD papers on "The inflation gap: divergences between actual and perceived inflation and possible policy implications"

Authors	Title	Abstract
P. Andre, C. Schaffranka & M. Weber	Upward Bias in Inflation Perceptions: Persistence, Drivers, Implications	This **paper examines the persistent upward bias in euro area households' inflation perceptions and expectations**, even when **realized inflation is near the ECB's target**. It discusses **behavioural and informational drivers of this bias**, its implications for consumption, wage setting, and monetary policy transmission, and the challenges it poses for ECB communication and credibility. The study concludes that **improved monitoring and household-oriented communication** are essential.
P. De Grauwe & Y. Ji	Inflation Perceptions and Expectations: Inertia, Biases and Policy Implications	This **paper analyses divergences between actual, perceived and expected inflation** in the euro area over the 2020-25 period. It **identifies substantial inertia in both inflation perceptions and expectations**, leading to cyclical biases over the inflation cycle. The **analysis shows that expectations are more stable and more closely associated with economic decision-relevant beliefs** than perceptions. These dynamics are linked to **wage adjustment patterns and the distributional effects of inflation**, while **trust in the ECB remained broadly stable** throughout the period.

1.4. Monetary Dialogue Preparatory Meeting

On 25 February 2026, Members of the ECON Committee participated in the Monetary Dialogue Preparatory Meeting with members of the Monetary Policy Expert Panel. Peter Andre (*Leibniz Institute for Financial Research SAFE*) first presented his paper on inflation perceptions, focusing on the divergence between actual and perceived inflation and its monetary policy implications. His presentation was complemented by a discussion by Frank Smets (*Bank for International Settlements (BIS)*), who provided an international perspective on household inflation expectations. Lastly, Laura Bottazzi (*University of Bologna*) presented an assessment of recent euro area inflation developments and the ECB's monetary policy communication.

Peter Andre (SAFE) analysed the gap between measured inflation and households' perceptions, noting that, despite inflation returning close to the ECB's 2% target, households continue to report higher perceived and expected inflation. Drawing on the ECB Consumer Expectations Survey, in the paper it was shown that households typically perceived inflation over the previous 12 months at around 3%, even when actual inflation was close to 2%, while their 12-month-ahead expectations also remained slightly below 3%. He argued that this bias is persistent and mainly reflects household-specific factors rather than a de-anchoring of expectations, including behavioural and methodological drivers, such as the salience of frequently purchased goods, limited attention to inflation when it is low, and survey-related measurement issues. While not posing a direct threat to price stability, he cautioned that limited household understanding of inflation may affect central bank credibility. Against this background, Andre recommended that the ECB take households' limited understanding of inflation into account when communicating with the public and continue to analyse household inflation expectations more closely.

Drawing on BIS research, Frank Smets (BIS) provided an international perspective supporting these findings. He highlighted that differences in financial literacy and awareness of central banks play a key role in shaping inflation expectations, with better-informed households reporting perceptions closer to observed inflation. He also noted the increasing relevance of media and social media as information channels. While acknowledging that inflation perceptions can influence consumer sentiment, he underlined that their impact on behaviour remains uncertain and does not appear to undermine the effectiveness of monetary policy.

Laura Bottazzi (University of Bologna) provided an overview of recent inflation developments in the euro area, noting that headline inflation has returned close to the ECB's target, with disinflation process mainly driven by lower energy prices and a gradual easing in services inflation. Bottazzi stressed the role of external factors, particularly developments in China, in contributing to disinflationary pressures through increased imports. Turning to the ECB communication, a methodology based on large language models was presented in the paper to assess policy documents including monetary policy statements, press conference transcripts, economic bulletins and meeting accounts. It was found that communication was clearer during the easing cycle between June 2024 and 2025, when policy rates were reduced, and less clear during periods in which rates remained unchanged. Additionally, Ms Bottazzi suggested that greater transparency during such periods, alongside more explicit discussion of cross-country inflation differences, could improve ECB communication.

In the Q&A session, questions were raised about the drivers of heterogeneity in inflation perceptions, including differences in income, education, and consumption patterns. Experts noted that lower-income households tend to report higher inflation expectations, partly reflecting their greater exposure to food and energy prices. Members also discussed the challenges faced by the ECB in communicating monetary policy decisions within its mandate, particularly in the context of supply-side shocks such as energy price increases.

1.5. Monetary Policy Expert Panel Survey: Q1 2026 edition

Ahead of the October Monetary Dialogue, a survey was conducted among Members of the Monetary Policy Expert Panel (MPEP). The first edition of the survey for 2026 covered key topics, including recent ECB monetary policy decisions, inflation developments, monetary policy transmission and monetary-fiscal policy interactions, and the possible policy implications of the inflation gap: divergences between actual and perceived inflation in the euro area. It also gathered views on the Eurosystem staff macroeconomic projections released in December 2025 for headline inflation, core inflation and real GDP growth across three time horizons (2026, 2027 and 2028).

A total of 37 experts participated, with individual responses weighted by confidence level.

Some findings include:

- **Around 60% of respondents** consider the current level of the ECB's key interest rate (the deposit facility rate) **appropriate**, while roughly **25% view** it as still **slightly restrictive**.
- **More than 80% regard the latest decision to keep the interest rates unchanged as an appropriate decision.** In the current circumstances, about half of the experts believe that the Governing Council **should refrain from providing signals about the future path of interest rates.**
- **More than half of respondents (57%)** consider the current monetary policy stance to be appropriately balanced in **supporting economic growth** in the euro area, while 15% take a different view. By contrast, an **overwhelming majority** consider it consistent with the objective of safeguarding **financial stability.**
- In terms of the latest Eurosystem staff projections from December 2025, **more than half of respondents consider the assessments appropriate** across the three time horizons (2026, 2027 and 2028) for both headline and core inflation. In contrast, for real euro area GDP growth, approximately **40-50% of respondents** view the projections as **slightly overestimated.**

- **Nearly half of the experts (49%)** believe that the **current gap between actual and perceived inflation in the euro area is largely temporary**, while the other half remains uncertain or disagree. Furthermore, **more than 60% view** that **even if actual inflation declines, persistently high inflation perceptions may influence wage-setting behaviour**.
- **Around half of respondents (57%)** agree that the coexistence of elevated perceived inflation and well-anchored inflation expectations **suggests current survey measures may not fully capture households and firms' expectations**, while 23% are uncertain and 16% disagree.

2. Questions for written answer

From 3 December 2025 to 26 February 2026, the period between the two most recent MDs, the ECB replied to five written questions from MEPs in accordance with Rule 140 of the European Parliament Rules of Procedure. These questions were on the topic of institutional matters, climate change and financial stability considerations and economic outlook and monetary policy. During this period, there were two tabled questions pending (see below **Table 3**).

Table 3: Questions for written answer

MEP	Political group	Subject	Date of question	ECB category	Date of response
F. De Masi	NI	Rate of return on French government bonds and transmission of monetary policy as arms spending rises	06/10/2025	Economic outlook and monetary policy	05/12/2025
F. De Masi	NI	Transparency of the ECB's governing bodies with regard to crypto-assets and stablecoins	04/11/2025	Institutional matters	19/12/2025
B. Eickhout	Verts/ALE	European Climate Law implementation and financial stability	25/11/2025	Climate change and financial stability	22/01/2026
F. De Masi	NI	Article in the *Financial Times* on the European Central Bank and Clearstream	09/12/2025	Institutional matters	06/02/2026
F. De Masi, D. Erixon	NI, ECR	Ms Lagarde's income; European Central Bank President's remuneration – transparency gap and comparability with international standard	02/01/2026 09/01/2026	Institutional matters	20/02/2026
F. De Masi	NI	Acquisitions of crypto-assets	05/01/2026	-	-
A. Rouge, C. Bay, P. Pimpie, A. Furet, J-P. Garraud & V. Deloge	PfE	European Union loan to Ukraine	12/02/2026	-	-

3. European Parliament resolution on the ECB Annual Report 2025

On 10 February 2026, the European Parliament adopted its resolution on the ECB Annual Report 2025, following a plenary debate held on 9 February 2026 in the presence of ECB President Christine Lagarde and Commissioner Valdis Dombrovskis. The report was drafted by Johan Van Overtveldt (ECR) on behalf of the ECON Committee. **The resolution was adopted with 443 votes in favour, 71 against and 117 abstentions**. Two amendments on the digital euro and its design (online and offline) were adopted.[3]

Before the final vote, ECB President Christine Lagarde discussed the report and delivered introductory remarks on the ECB's monetary policy outlook, institutional independence and broader challenges facing the euro area economy. She engaged in a debate with MEPs and Commissioner Valdis Dombrovskis. The debate highlighted **broad support for safeguarding the ECB's independence,** while stressing the **need for accountability to the European Parliament**, particularly in the context of increasing global political pressure on central banks.

Diverging views emerged on the interpretation of the ECB's mandate. Several MEPs argued that the ECB should maintain a strict focus on its primary mandate of price stability and avoid expanding its role into areas such as climate policy or broader strategic objectives. By contrast, other Members supported a broader interpretation of the ECB's secondary mandate, arguing that issues such as climate risks, financial stability, competitiveness and European strategic autonomy could have important implications for price stability and should therefore be reflected in the ECB's policy framework. There was also wide agreement on strengthening EU payment sovereignty, with many MEPs calling for progress on the digital euro, although concerns regarding public support and the role of cash were raised as well.

In her intervention, President Lagarde emphasised that **price stability remains the ECB's primary objective** under Article 127 TFEU, and that **secondary objectives can only be pursued once the primary objective has been achieved. In her intervention, President Lagarde reaffirmed that Article 127 TFEU is "[…] for me, the compass that we have to follow. And this article is very simple because it expresses what is our primary objective and what are the secondary objectives, provided that we have complied with the first objective. "[4].** She stressed that the ECB remains committed to acting independently while remaining accountable to the European Parliament, particularly in a context where central bank independence is increasingly challenged internationally. Lagarde also **argued that climate-related considerations could still be incorporated into the ECB's analytical framework** and risk assessment insofar as they affect financial and price stability. Regarding the digital euro, she **reiterated that it is intended to complement rather than replace cash**, while at the same time **strengthening European monetary sovereignty** and reducing dependence on non-European payment providers.

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[3] Amendment 40 underlines, among other things, that "*an online and offline digital euro should contribute to safeguarding universal access to payments and broad acceptance by merchants across the EU, while fully respecting privacy and data protection standards*". Amendment 41"*welcomes the ongoing discussions on the digital euro; underlines that, in a context of heightened geopolitical uncertainty and excessive dependence on non-EU payment infrastructures, the introduction of a digital euro, designed to complement cash and private banking services, is essential to strengthen EU monetary sovereignty, reduce fragmentation in retail payments and support the integrity and resilience of the single market*".

[4] Article 127 TFEU states: "*The primary objective of the European System of Central Banks (hereinafter referred to as 'the ESCB') shall be to maintain price stability. Without prejudice to the objective of price stability, the ESCB shall support the general economic policies in the Union with a view to contributing to the achievement of the objectives of the Union as laid down in Article 3 of the Treaty on European Union.*"