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NORD/LB Floor Research

05 June 2026

Marketing communication (see disclaimer on the last pages)

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ECB preview: To hike or not to hike?

Authors: Dr Norman Rudschuck, CIIA // Lukas-Finn Frese // Tobias Cordes, CIIA

Monetary Policy Meeting on 11 June: The ECB faces a difficult balancing act

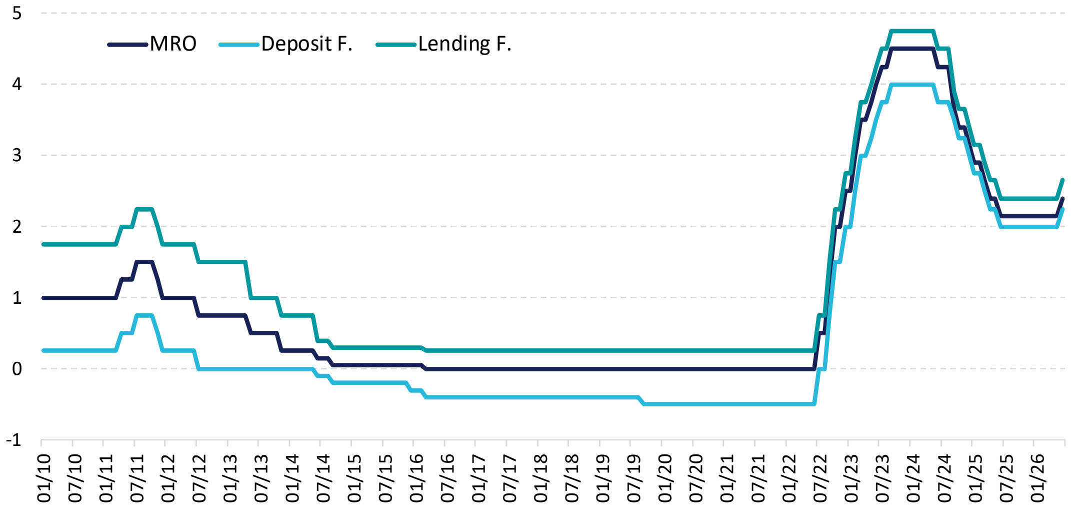
The monetary policymakers continue to face a complex task at their upcoming meeting on 11 June: since the previous meeting in April, volatility in financial markets – mainly driven by temporary hopes of an imminent resolution of the Iran conflict – has eased overall and largely normalised. Nevertheless, in light of recent escalations, there still appears to be no prospect of a timely end in sight. Meanwhile, oil and gas prices, which are relevant for inflation developments, remain at elevated levels and are increasingly feeding through into inflation: according to recent Eurostat data, goods and services became on average 3.2% more expensive year-on-year in May. This pushed the inflation rate to its highest level since September 2023. For the ECB, however, the primary focus will be to assess the medium-term implications of high oil and gas prices for the inflation outlook. In the context of a weakening economy and further deteriorating sentiment indicators, it nevertheless faces a dilemma and a correspondingly difficult balancing act. At the upcoming meeting, policymakers' attention will therefore be directed even more strongly towards the latest *staff projections*. Increasingly, however, questions of credibility are also moving to the centre of discussions, as this is, as ECB President Christine Lagarde has said, especially important when "monetary policy decisions are politically fraught and economically costly."

The roadmap for 2026

The ECB is expected to meet this year on the following dates:

- 11 June – incl. new *staff projections*
- 23 July
- 10 September – incl. new *staff projections* (host: Bundesbank)
- 29 October
- 17 December – incl. new *staff projections*, then for the first time for 2029

ECB key interest rates (in %; incl. interest rate hike expected by us)



Source: ECB, Bloomberg, NORD/LB Floor Research

Opinions from the ECB's environment

The latest comments from ECB officials remain heavily influenced by the still volatile geopolitical situation in the Persian Gulf and its monetary policy implications. Isabel Schnabel, known to be among the "hawks" on the ECB's Executive Board, emphasised that, given the scale and persistence of the current disruptions, the ECB could "no longer look through this shock" and that the risk of inflation expectations becoming unanchored was increasing. In doing so, she reaffirmed her remarks from last week, when she said that "a hike in June will be needed" even if the conflict is resolved immediately. A similar stance is taken by Álvaro Santos Pereira, ECB member and Governor of the Banco de Portugal. He argued that it is "better to act sooner rather than later so that we do not have much greater second-order effects later on" and called for timely, data-dependent intervention: "When there are potential inflationary spirals, I prefer that we act more quickly and decisively." Dimitar Radev, Governor of the Bulgarian National Bank, supports this view, pointing out that the costs of acting too late could exceed those of acting earlier. Despite the increase in inflation risks, Olli Rehn, member of the ECB Governing Council and Governor of the Bank of Finland, considers that "a rate increase in June would be an insurance one, but not due to entrenched inflationary pressures." Meanwhile, Gediminas Šimkus, a member of the ECB Governing Council from Lithuania, has moved a step ahead by already signalling the possibility of a further rate hike at a subsequent meeting, while refraining from specifying the timing: "A second hike is more likely than not. But I do not think we are now in a position to say whether it would be July, September or October."

Minutes of the April meeting

On 28 May, the ECB published the minutes of its policy meeting of 29/30 April. These show not only that the tone among decision-makers on the Governing Council has turned more hawkish again, but also that discussions about a possible interest rate hike have taken place. Although the decision to pause rates appears to have been closer than previously assumed, policymakers ultimately remained convinced that they were well positioned to navigate the existing uncertainties. This view was underpinned in particular by the fact that the recent increase in inflation expectations was largely short-term in nature, whereas most indicators of longer-term expectations remained around 2%, with only limited signs of second-order effects. However, the situation has changed significantly since the March meeting, and there was agreement that both the upside risks to inflation and the downside risks to economic growth had increased markedly. It had also become clearer that the conflict in the Near and Middle East might last longer and that the associated energy price shock could be more persistent than initially assumed. The minutes further indicated that a *number of members* would not have objected to a rate hike had it been formally on the table. In this context, they emphasised in particular the signalling effect of such a decision in terms of bringing inflation back to target in a timely manner. Moreover, the advantages of a wait-and-see approach had diminished over time. Despite some concerns, all members ultimately endorsed the decision to keep rates on hold once again. Nevertheless, it became evident that, for several members, the key question is no longer whether rates should be raised, but when. In light of still limited signs of second-round effects and largely well-anchored inflation expectations, members underlined that the Governing Council can take the time necessary to gather further information before deciding to act.

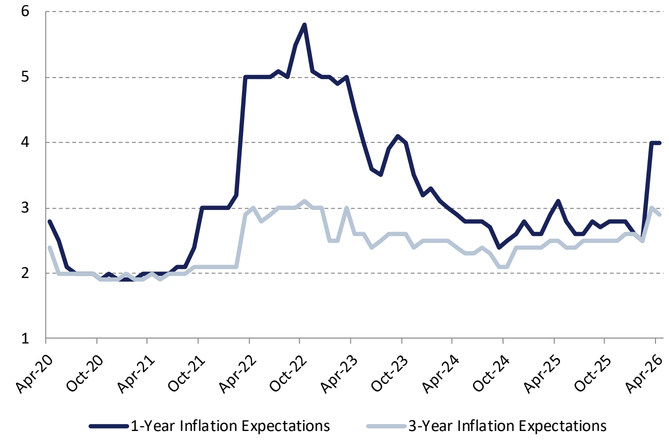
Case analysis "Contra": Why a +25bp hike would be wrong now

A +25bp increase in ECB policy rates at this stage could be seen less as a sign of determination and more as policy overreach. A substantial part of the recent inflation in the euro area stems from geopolitically driven energy prices and other external shocks – factors that monetary policy can influence only to a limited degree. Raising interest rates will neither bring down oil prices nor resolve supply chain disruptions (see ECB preview dated 24 April). In addition, monetary policy works with considerable lags, transmitting its effects only gradually over several months via credit costs, investment activity, property markets and consumption. Monetary policy operates with a long transmission lag, and there are strong indications that a significant portion of earlier rate cuts has yet to reach the real economy. Against this backdrop, an increase could amount to a procyclical overreaction, with the ECB tightening policy even as economic momentum is already fading. Evidence from the credit channel supports this view: borrowing costs have risen, lending standards have been tightened, and investment plans postponed. Industry and construction in particular are under pressure from subdued demand and high financing costs. In a structurally weak growth environment, a rate hike risks deepening economic weakness and holding back investment in key areas such as transformation, digitalisation and security. The ECB's own policy framework also cautions against acting too quickly. It underscores a strictly data-driven approach and decisions taken on a meeting-by-meeting basis. In the face of mixed signals, waiting would reflect careful judgement rather than indecision. Credibility arises not from automatic reactions to inflation shocks, but from a rigorous evaluation of their underlying causes and persistence. Ultimately, the issue is one of risk management: if inflation proves persistent, the ECB can act later. If a rate hike turns out to be unnecessary and deepening the slowdown, the consequences would be harder to correct. The greater danger, therefore, may lie not in insufficient determination, but in tightening by one quarter point too much.

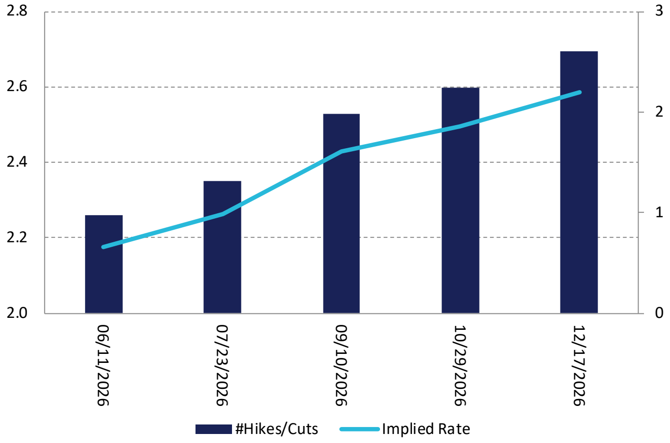
Case analysis "Pro": Why a +25bp hike would actually be appropriate

The counterview: An ECB rate increase of +25bp would be less an expression of monetary policy toughness than a signal of controlled prudence. The recent rise in inflation in the euro area remains driven by high energy prices and geopolitical factors – but this is where the risk lies: external shocks become problematic when they feed through into the domestic economy via wages, services and expectations. The ECB cannot control energy prices, but it can prevent a temporary cost shock from turning into a persistently higher inflation regime. Historically, it is precisely such second-round effects that tend to make inflation persistent. Moreover, there is the question of credibility. Monetary policy shapes expectations – not just current financing conditions. Companies, employees and markets closely observe how consistently the ECB responds to emerging inflation signals. Inaction despite rising prices and robust wage dynamics could cast doubt on the primacy of price stability. A modest rate increase would be less a matter of symbolism than a preventive safeguard against a potential de-anchoring of inflation expectations. Amid weak growth in particular, there are strong arguments against large, abrupt moves – but not against small ones. An increase of +25bp would not constitute aggressive tightening, but rather a targeted fine-tuning: a limited adjustment that signals readiness to act without over-burdening the economy. The argument of delayed effects is also mitigated: monetary policy operates cumulatively. Waiting too long risks necessitating much larger and more painful interventions later on. From this perspective, a timely and moderate step is part of a precautionary stabilisation strategy. In the end, the issue is one of risk management: The costs of a small, early rate hike are likely to be limited, whereas the harms of a renewed entrenchment of inflation would be substantial – both economically and politically.

Development of inflation expectations (in %)



Implied Overnight Rate (05 June 2026[1])



Source: ECB, Bloomberg, NORD/LB Floor Research

[1] Data last retrieved on 05 June 2026 (13:32)

Inflation expectations remain anchored in the long term

Consumer expectations in the Eurozone regarding the inflation rate in three years fell slightly in April compared to the previous month, as shown by the latest results of the Consumer Expectations Survey (CES) conducted by the ECB. According to the report, the respondents expect inflation to be at a level of 2.9% in three years, after they had assumed a value of 3.0% last March. The projection thus remains slightly below the peak level of October 2022, when consumers expected a median 3-year inflation rate of 3.1%. In contrast, the 12-month inflation outlook remains unchanged at 4%, with participants from weaker income categories anticipating slightly higher inflation rates than respondents with higher incomes. The latest inflation figures for May 2026, published by Eurostat last Tuesday, speak for themselves. In the past month, consumer prices rose by +3.2% Y/Y, after growing by +3.0% Y/Y in April 2026. In terms of individual components, energy prices are unsurprisingly the main driver behind the increase (+10.9% Y/Y). Core inflation, on the other hand, was most recently +2.5% Y/Y (04/2026: +2.2% Y/Y).

ECB interest rate decision: Our forecast for 11 June

Against the background of the current data situation, we assume that the first interest rate hike since September 2023 is likely to be on the horizon next Thursday. We consider anything other than a hike beyond +25bp to be exaggerated. Thus, the deposit facility rate is expected to rise to 2.25%. The rate of main refinancing operations would then be 2.4%, while the rate of the marginal lending facility would be 2.65%. A tightening of the refinancing conditions on 11 June is also almost completely anticipated by all market participants. For the future, a pause in July and a further interest rate hike in September – when new *staff projections* are presented again – are currently being priced in by interest rate derivative traders. Market participants then expect a third increase in key interest rates by the end of the year, but we expressly doubt this. In our opinion, the ECB should not be guided by exaggerated (market) opinions. Longer-term inflation expectations do not currently point to a sustained and significant “de-anchoring”, and the reference to the delayed transmission of monetary policy measures should give the monetary authorities sufficient time to continue to objectively assess the data situation from meeting to meeting.

Financial Stability Review – Fixed income markets still robust despite turbulence

Last week, the ECB once again outlined the current challenges and their impact on the financial stability in the Eurozone as part of its Financial Stability Review. As the report shows, the ECB sees three closely intertwined risks that will determine future developments in the euro area: I) a further escalation in the Persian Gulf and increasing concerns about the debt sustainability of the public sector could trigger an abrupt sell-off in the market, exposing the vulnerabilities of sovereigns, II) the increasing implementation of leveraged investment strategies by the non-bank financial intermediation (NBFI) sector such as hedge funds could lead to spillover effects on other financial and economic sectors in times of stress, and III) bank exposures to the NBFI sector, together with the effects of geopolitical tensions on the debt servicing capacity of borrowers, could expose credit, liquidity and funding vulnerabilities that possibly amplify each other. In terms of fixed income market conditions, EGBs continue to be under pressure from rising yields, a changing investor base and needs for fiscal spending. Against the backdrop of higher term premiums and increased inflation concerns, refinancing costs have already risen noticeably. At the same time, many sovereigns are still confronted with necessary spending on digitalisation, climate protection, defence and economic growth, which is likely to further limit the scarce fiscal space available. Furthermore, the ECB warns that the increased presence of more price-sensitive investors such as hedge funds could amplify any abrupt repricing of sovereign risk. This also carries the risk of spillover effects on the funding costs of banks and corporates. Nevertheless, the central bankers attest that the European bond markets have continued to function in an orderly manner and that risk premiums remain at narrow levels.

Covered bonds and SSA remain resilient

In our opinion, the resilience of the European bond markets described by the ECB can also be transferred to our relevant sub-segments of covered bonds and SSA/Public Issuers. For example, we recently reported in our weekly publication dated 27 May that spreads for various sub-sovereigns are currently (again) trading near levels seen at the beginning of the year. Clear positive outliers were Spanish regions, whose risk premiums have fallen significantly since the end of 2024. Fittingly, in the last two trading weeks, three autonomous communities appeared on our screens with fresh ESG benchmarks in the form of Madrid (ticker: MADRID), Andalusia (ticker: ANDAL) and Castilla y León (ticker: CASTIL). In addition, the Basque Country (ticker: BASQUE) is also preparing a timely return to the primary market. The Spaniards have thus joined a veritable flood of new issues in recent weeks, which has increased the volume of new issues in our SSA coverage for 2026 to around EUR 212bn. With our full-year forecast of EUR 310-320bn in fresh EUR benchmarks, we continue to feel comfortable given the high rate of action on the primary market. A similar picture emerges for the covered bond segment, where the volume of new issues has now exceeded the EUR 100bn mark since the beginning of the year. Especially at the beginning of this week, numerous issuers took advantage of the positive market sentiment and approached investors with fresh bonds. In some cases, we were also able to register positive new issue premiums, such as for the deal of Deutsche Pfandbriefbank (ticker: PBBGR), which paid a NIP of +2bp for its transaction. Since the market has been expecting an interest rate hike for some time and the short end in particular has already repriced, we do not expect the sentiment for our relevant fixed income segments to change substantially on 11 June.

Conclusion and outlook

Today we conducted an experiment and let our brain hemispheres communicate with each other, so to speak: One side had to take the position for an interest rate hike, the other had to provide the counterarguments. Ultimately, we try to prepare the pros and cons of both sides and present them in a way that is understandable to you in order to decide how the ECB is most likely to proceed. We deliberately decided on this type of distinction because it was proposed to us in investor talks in April that the ECB would not do anything in June under any circumstances. This made us think. What have we overlooked? Where have we gone astray? For us, taking the pros and cons into account, there is still more to be said for an interest rate hike on 11 June by the ECB than for leaving the current key interest rates in place. The last minutes of the ECB meeting at the end of April and the current voices from the ECB environment round off our perspective. The majority of market participants within our coverage have also positioned themselves in this way. Therefore, we assume that the current sentiment for covered bonds and SSA/Public Issuers is unlikely to shift much next Thursday.

Appendix
Publication overview

Covered Bonds:

Issuer Guide – Covered Bonds 2025

Risk weights and LCR levels of covered bonds (updated semi-annually)

Transparency requirements §28 PfandBG Q3/2025 (quarterly update)

Transparency requirements §28 PfandBG Q3/2025 Sparkassen (quarterly update)

Covered bonds as eligible collateral for central banks

EBA report on the review of the EU covered bond framework

SSA/Public Issuers:

Issuer Guide – German Laender 2025

Beyond Bundeslaender: Canadian Provinces

Beyond Bundeslaender: Belgium

Beyond Bundeslaender: Greater Paris (IDF/VDP)

Beyond Bundeslaender: Spanish regions

Issuer Guide – European Supranationals 2025

Issuer Guide – Non-European Supranationals (MDBs) 2025

Issuer Guide – German Agencies 2025

Issuer Guide – French Agencies 2025

Issuer Guide – Nordic Agencies 2026

Issuer Guide – Dutch Agencies 2025

Issuer Guide – Austrian Agencies 2025

Issuer Guide – Spanish Agencies 2025

Issuer Guide – Other European Agencies 2026

Fixed Income Specials:

ESG-Update 2025

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Floor Research	Covered Bond Research	SSA/Public Issuers Research	Specials: DS NDB <GO>

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