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# ECB Better Off to Wait Than Rush Into Rate Action, Demarco Says

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## ✦ Takeaways by Bloomberg AI

- The European Central Bank would be better off waiting before raising borrowing costs due to uncertainty over the Iran war, according to Governing Council member Alexander Demarco.
- Demarco said investors' bets for two quarter-point increases over the course of the year appear reasonable, but the next meeting might come too early for such a decision.
- The ECB is weighing its monetary-policy response to the Middle East conflict and accompanying surge in oil and gas prices, with Demarco saying there's no evidence of broader second-round effects yet, but it's still early days.

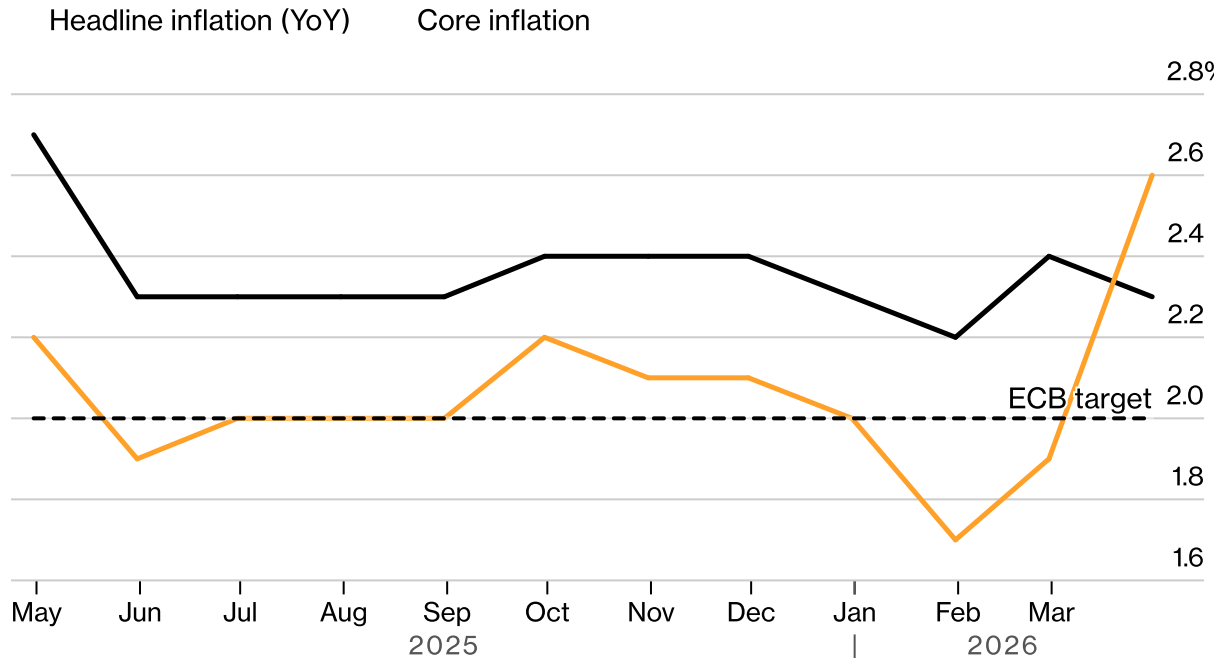
Given still high uncertainty over the Iran war the European Central Bank would be better off waiting a little longer before raising borrowing costs rather than acting too soon, Governing Council member Alexander Demarco said.

“For now, it’s a bigger risk to rush raising rates and do some undue damage to the economy if it turns out that such a step wasn’t necessary compared to the risk of waiting a bit longer and perhaps have to catch up as we currently have credibility on our side to do that,” the Maltese official said in an interview.

Speaking on the sidelines of the IMF’s spring meetings in Washington, Demarco said that investors’ bets for two quarter-point increases over the course of the year appear reasonable, while suggesting that the next meeting in less than two weeks might come too early for such a decision.

Policymakers are still weighing their monetary-policy response to the Middle East conflict and the accompanying surge in oil and gas prices that already pushed inflation in the 21-nation’s region to 2.6% and is weighing an economic activity. They lean toward keeping rates on hold at the April 29-30 meeting.

### Euro-Zone Inflation Was Faster Than Thought in March



Source: Eurostat, Bloomberg

“There’s a lot of uncertainty at the moment,” Demarco said. “The key question is what will happen to underlying inflation, meaning if there will be spillovers from energy prices to other prices of goods and services, and what will happen to inflation expectations.”

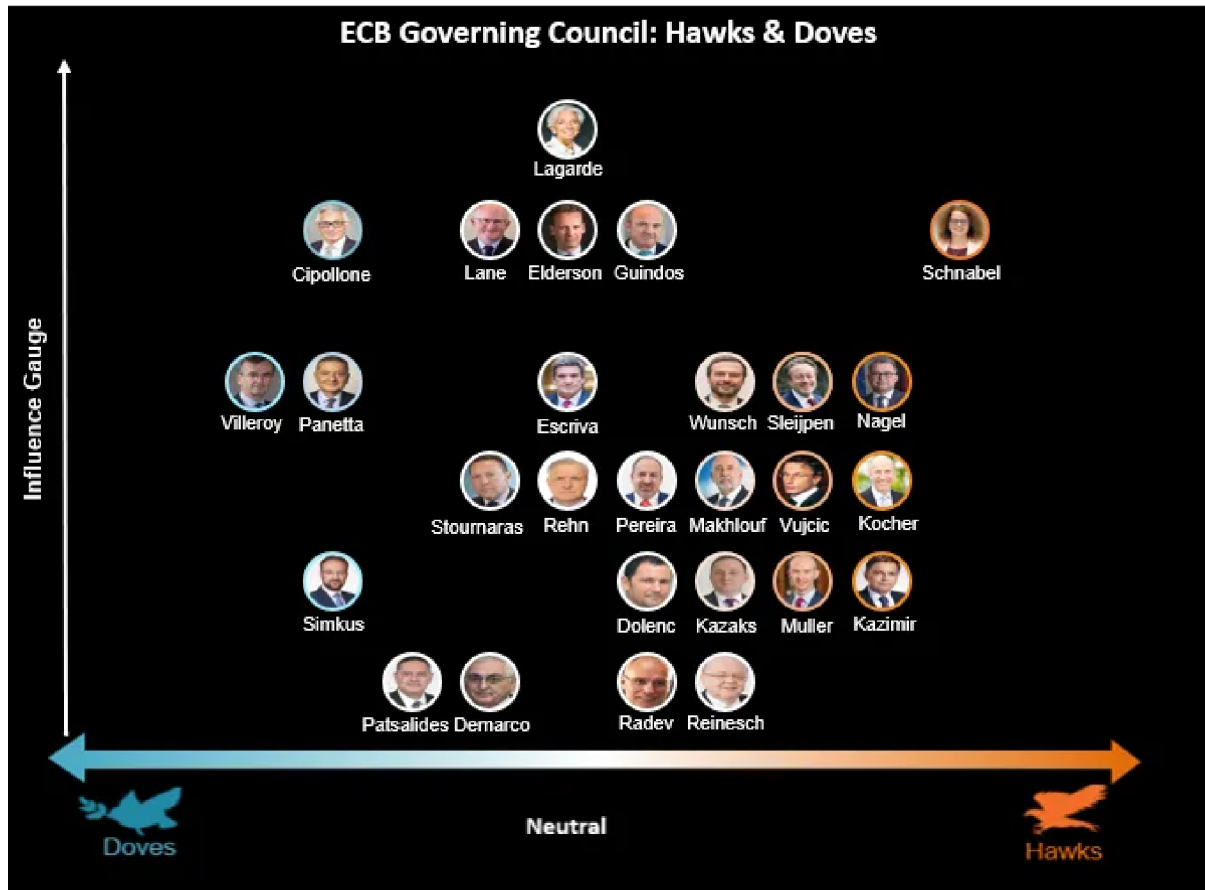
While he stressed that so far there’s “no evidence of broader second-round effects,” he warned that “it’s still early days.” At the same time, expectations remain “well anchored,” he said, also thanks to the ECB’s credibility. “We brought inflation back quite quickly to 2% after the shock of 2022, while managing a soft landing.”

Demarco welcomed Friday’s news about an announced reopening of the Strait of Hormuz, but cautioned how long this will last. On Saturday, there were mixed signals from Iran.

The situation is “still very fragile” and even if there’s a quick solution, damage to energy supply and infrastructure has been done, Demarco said. “So, oil and gas prices will remain elevated for some time.”

He suggested that there won't be enough additional data until the end of the month to already decide on a move in borrowing costs, while more clarity is expected until the June gathering.

"I don't see any necessity for us to take hasty decisions on rates because although we are no longer in a good place, we are however at a good starting point to face this shock," he said. "By June we will have more data and information both about underlying inflation and any signs of indirect effects as well as the evolution of the conflict."



Source: Bloomberg Economics

The better position than in 2022 after Russia's invasion of Ukraine – with price growth at target before the war and neutral monetary-policy settings – also gives the ECB the time to wait and assess all data and information carefully, he said.

"There's no need to rush action," he said. "And we also see some tightening of financial conditions. That also helps."

However, the picture for the April meeting might change if the next ECB's survey among firms that includes companies selling price expectations, were to surprise negatively.

“If, in the corporate telephone survey, producers were to tell us that they’re going to increase prices significantly because their costs are going up a lot, that could change the game,” he said.

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[ECB Officials Are Said to Be Leaning Toward April Rate Hold](#)

[Nagel Says ECB April Hike Not Excluded as Iran Situation Opaque](#)

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One of his biggest concerns is the supply of fuel, he said. “If there are shortages and, for example, rationing for aviation, that could have a big impact on economy activity.”

Demarco said that the euro-zone economy currently is somewhere between the ECB’s baseline and adverse scenario outlined in its [March projections](#), with risks for the inflation outlook “clearly to the upside.”

“Current market expectations of two hikes aren’t an unreasonable scenario,” he said. “The question is more about the timing as we need solid evidence of second-round effects that impact our medium-term inflation objective.”



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