

# Inflation is picking up: central bankers ***are in a tough spot***

10.06.2026

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## At a glance

- The ECB will raise interest rates against the backdrop of recently rising inflation rates, after having reacted rather hesitantly in the past.
- Inflation in the eurozone and the U.S. remains elevated, driven in part by energy prices, expansionary fiscal policy, and rising protectionism.
- Central banks face the challenge of combating inflation, even though some of the price pressures lie outside their direct control.

The consensus is clear: Given the recent sharp rise in inflation rates in the eurozone, the ECB will raise interest rates on June 11. The ECB is unlikely to want to face accusations again that it reacted too late and far too hesitantly to rising inflation. A look back shows why: After Russia's invasion of Ukraine in 2022, energy prices skyrocketed. The ECB, however, held off on raising interest rates. As a result, inflation in the eurozone rose to over 10 percent.

Although the situation has calmed down somewhat since then, inflation remains elevated: In April 2026, inflation in the eurozone stood at over 3 percent year-over-year, after already exceeding the ECB's 2 percent target by a wide margin in March at 2.6 percent. The picture is similar in the U.S.: there, inflation currently stands at as high as 3.8 percent. In Switzerland, however, the inflation rate remains well below 1 percent and thus within the SNB's target range.

So: Interest rates up? Monetary policy isn't that simple right now.

After all, central banks are not, in and of themselves, the cause of rising energy prices. Consequently, there is little they can do to counter the resulting inflation without stifling the overall economy.

Added to this is the expansionary fiscal policy in the U.S. and the EU. Government stimulus measures in the form of subsidies, direct government spending, and tax breaks are boosting demand. Normally, rising energy costs would dampen demand, and the inflationary surge would be correspondingly weaker. However, when demand is fueled by the government amid rising energy prices, inflation naturally rises more sharply.

Furthermore, protectionist measures drive up the cost of goods and services. For many years, businesses and consumers benefited from globalization and falling prices for traded goods. Given the current geopolitical situation, this trend is increasingly reversing. Protectionism therefore has an inflationary effect.

The situation looks much better for Switzerland: the government has not adopted any measures to stimulate the economy, nor does Switzerland protect its own market from foreign competition. In addition, the strong Swiss franc ensures that inflation has a less severe impact. Accordingly, inflation

remains within the SNB's target range, meaning that no interest rate hikes are necessary for the time being.

The central bank chiefs of the U.S. and the eurozone are truly not to be envied. They face the daunting task of ensuring price stability while policymakers are fueling inflation. The Federal Reserve's next interest rate decision is scheduled for June 17. It will be the first under new Chairman Kevin Warsh. Monetary policy must now attempt to cushion the effects of political decisions. It will be interesting to see how this impossible task is to be accomplished.

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