

Energy shock shifts the outlook for ECB monetary policy

In the last two years, after an unprecedented cycle of policy rate increases, the European Central Bank (ECB) has been successful in stabilizing inflation near its target. The most aggressive tightening sequence in the history of the ECB had taken the benchmark deposit interest rate to 4%, as a response to the major post-Covid inflationary shock and the Russia-Ukraine war that boosted commodity prices.

Interest rate cuts finally began in June 2024 at a cautious pace, as ECB officials gained confidence in diminishing price pressures. This brought the deposit rate to 2%, a level in the “neutral range” that implies that monetary policy is neither stimulating nor restraining economic activity. At the beginning of this year, with inflation fluctuating narrowly around the 2% target mark, the outlook pointed to a stable monetary stance for 2026, and economic growth recovering, with real GDP expanding 1.5% this year.

However, a new major energy shock linked to the ongoing conflict in the Middle East is reshaping the macroeconomic outlook since the beginning of March 2026. As the conflict intensified, severe supply disruptions and constrained shipping routes led to sharp surges in oil and gas prices. Brent crude prices exceeded USD 120 per barrel and afterwards moved close to USD 115 per barrel.

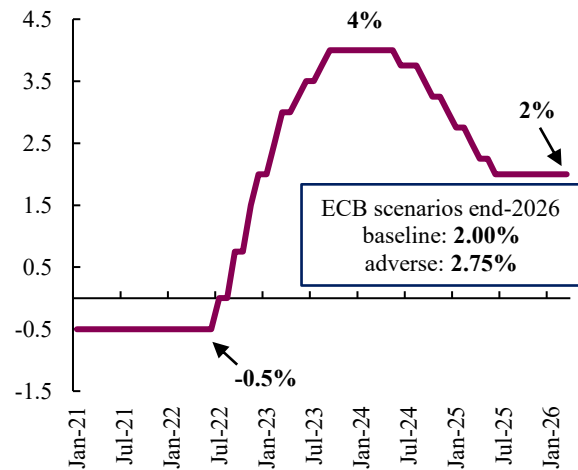
The Euro Area is particularly sensitive to natural gas prices, as gas not only constitutes a major share of energy imports, but also acts as a key price-setting fuel in electricity markets. Thus, higher and more persistent energy prices are set to lift inflation, forcing the ECB to reassess its policy path.

The ECB operates under a clear and singular mandate of maintaining price stability. This contrasts with the US Federal Reserve, which follows a dual mandate of price stability and maximum employment. As a result, the ECB is expected to react more decisively when inflation deviates from target, even if growth conditions weaken. In this context, the balance of risks has shifted towards ECB tightening in the near term.

Going forward, the high degree of geopolitical uncertainty makes it impractical to provide a single-scenario forecast. In our view, there are two likely scenarios, baseline and adverse, with largely

different economic and monetary policy implications.

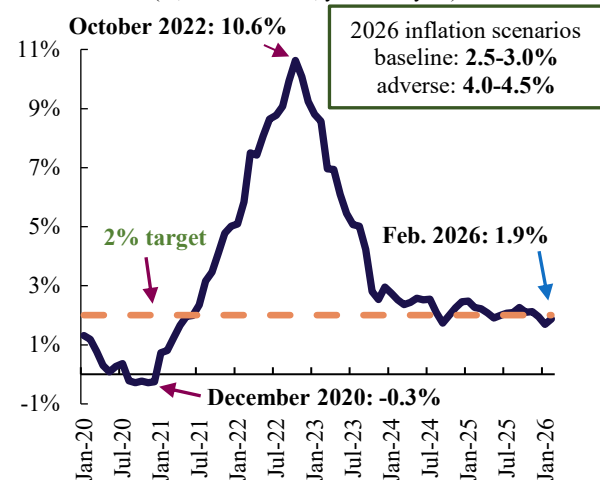
European Central Bank Policy Interest Rate
 (% , ECB deposit rate)



Source: European Central Bank, QNB Economics

In the relatively more benign baseline scenario, the geopolitical situation stabilises within a month or evolves into a lower-intensity conflict with a reopening of the Strait of Hormuz. In this scenario, energy prices would partially retrace, and Brent crude could fall back to USD 80 per barrel, which still includes a sizable risk premium compared to the pre-conflict situation and a reduced global oil supply capacity caused by the damaged energy infrastructure.

Euro Area Consumer Price Inflation
 (% , headline series, year-over-year)



Source: Eurostat, QNB Economics

Under these conditions, the pressure on prices would prove temporary, with inflation reaching 2.5% to 3%, mainly impacting energy related prices, while the effect on other goods and services would remain limited. This would allow the ECB to follow a less aggressive stance. With the growth outlook already subdued, the ECB could even refrain from tightening and keep rates on hold. The energy shock would be interpreted as transitory, with limited implications for the medium-term inflation outlook.

In a more adverse scenario, where the crisis persists for several months and energy prices remain elevated for an extended period, inflationary pressures would become persistent and also influence production costs. Higher energy costs would first feed directly into inflation, where energy accounts for over 9% of the consumer price basket. Additionally, costs would gradually pass-through and impact other non-energy goods and services, increasing the risk of “second-round” effects.

Under this scenario, inflation could reach 4.5% and remain above target for over a year, forcing the ECB to react. Given its primary mandate, the ECB would likely prioritise the stabilization of inflation expectations, even in the face of weaker growth, taking the benchmark deposit rate to 2.75% by the end of this year, a level that is considered “restrictive” for economic activity.

All in all, the ECB faces a challenging policy dilemma driven by an external energy shock that is pushing inflation higher while weighing on growth. A prolonged period of elevated energy prices would likely trigger a tightening cycle, while a more rapid normalization would allow the ECB to remain on hold. The next four to six weeks will be critical in determining which scenario materializes, as incoming data on energy markets and inflation dynamics will provide clearer signals on the macroeconomic outlook.

QNB Economics Team:**[Bernabe Lopez-Martin*](#)**Assistant Vice President - Economics
+974-4453-4643**[Aisha Khalid Al-Thani](#)**Senior Associate - Economics
+974-4453-4647

* Corresponding author

DISCLAIMER: *The information in this publication (“Information”) has been prepared by Qatar National Bank (Q.P.S.C.) (“QNB”) which term includes its branches and affiliated companies. The Information is believed to be, and has been obtained from, sources deemed to be reliable; however, QNB makes no guarantee, representation or warranty of any kind, express or implied, as to the Information’s accuracy, completeness or reliability and shall not be held responsible in any way (including in respect of negligence) for any errors in, or omissions from, the Information. QNB expressly disclaims all warranties or merchantability or fitness for a particular purpose with respect to the Information. Any hyperlinks to third party websites are provided for reader convenience only and QNB does not endorse the content of, is not responsible for, nor does it offer the reader any reliance with respect to the accuracy or security controls of these websites. QNB is not acting as a financial adviser, consultant or fiduciary with respect to the Information and is not providing investment, legal, tax or accounting advice. The Information presented is general in nature: it is not advice, an offer, promotion, solicitation or recommendation in respect of any information or products presented in this publication. This publication is provided solely on the basis that the recipient will make an independent evaluation of the Information at the recipient’s sole risk and responsibility. It may not be relied upon to make any investment decision. QNB recommends that the recipient obtains investment, legal, tax or accounting advice from independent professional advisors before making any investment decision. Any opinions expressed in this publication are the opinions of the author as at the date of publication. They do not necessarily reflect the opinions of QNB who reserves the right to amend any Information at any time without notice. QNB, its directors, officers, employees, representatives or agents do not assume any liability for any loss, injury, damages or expenses that may result from or be related in any way to the reliance by any person upon the Information. The publication is distributed on a complementary basis and may not be distributed, modified, published, re-posted, reused, sold, transmitted or reproduced in whole or in part without the permission of QNB. The Information has not, to the best of QNB’s knowledge, been reviewed by Qatar Central Bank, the Qatar Financial Markets Authority, nor any governmental, quasi-governmental, regulatory or advisory authority either in or outside Qatar and no approval has been either solicited or received by QNB in respect of the Information.*