Monetary policy in times of geopolitical fragmentation

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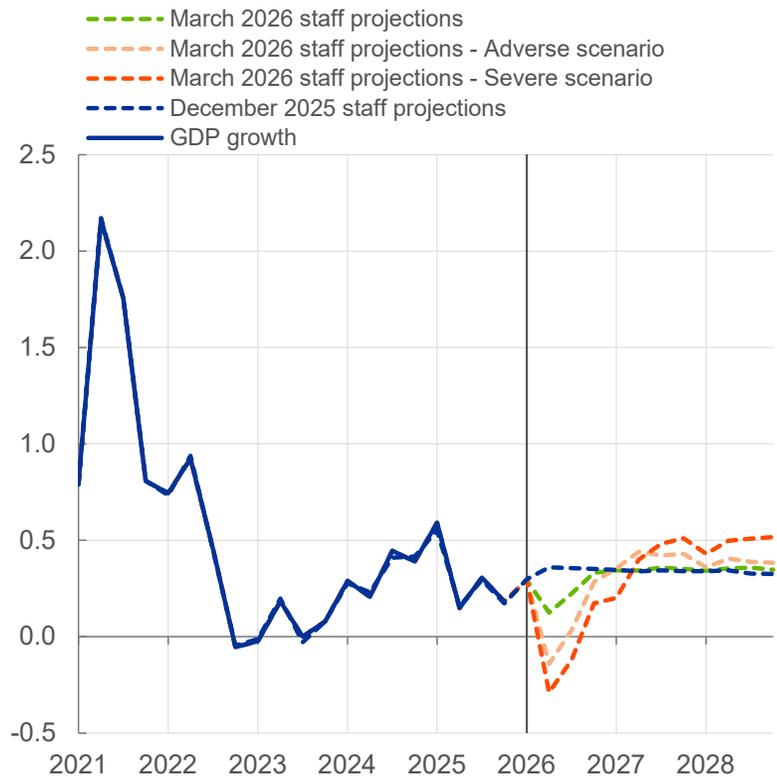
University of Zurich
27 March 2026

Staff projections see lower growth and higher inflation due to Iran war
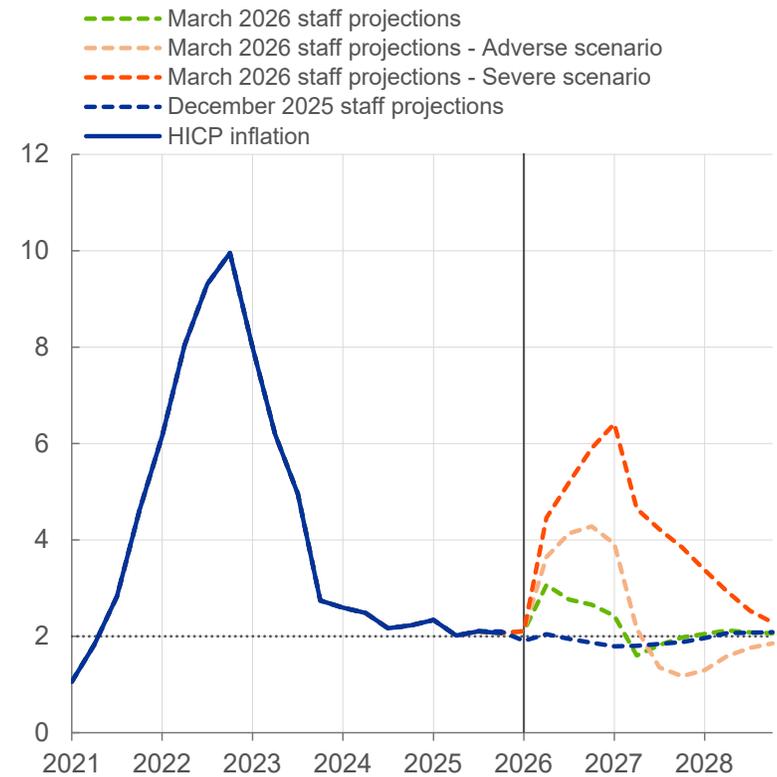
Real GDP growth in the euro area
(quarter-on-quarter percentage changes)

- - - - March 2026 staff projections
- - - - March 2026 staff projections - Adverse scenario
- - - - March 2026 staff projections - Severe scenario
- - - - December 2025 staff projections
—— GDP growth

HICP inflation in the euro area
(annual percentage changes)

- - - - March 2026 staff projections
- - - - March 2026 staff projections - Adverse scenario
- - - - March 2026 staff projections - Severe scenario
- - - - December 2025 staff projections
—— HICP inflation

Sources: Eurostat and Eurosystem staff projections (March 2026).
Notes: The vertical line indicates the start of the March 2026 projection horizon. The solid line indicates published data, while the dashed lines indicate projections.
Latest observation: Q4 2025 (second estimate).

Sources: Eurostat and Eurosystem staff projections (March 2026).
Notes: The vertical line indicates the start of the March 2026 projection horizon. The horizontal dotted line indicates the 2% medium-term inflation target. The solid line indicates published data, while the dashed lines indicate projections.
Latest observation: Q4 2025 (second estimate).
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Global economy is shifting from globalisation to fragmentation

Trade policy uncertainty
(index)
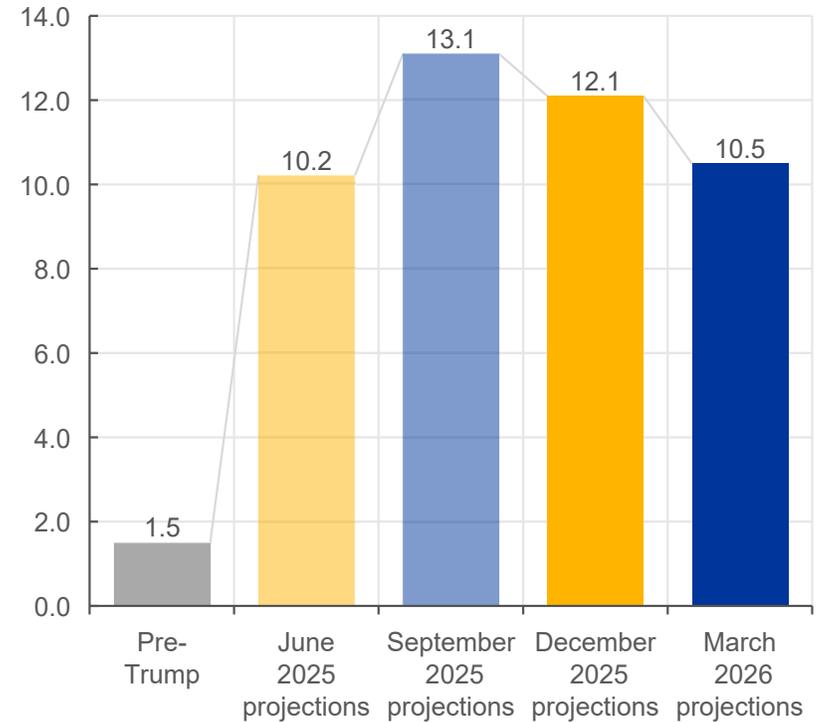

April tariffs

Supreme court ruling

Iran war
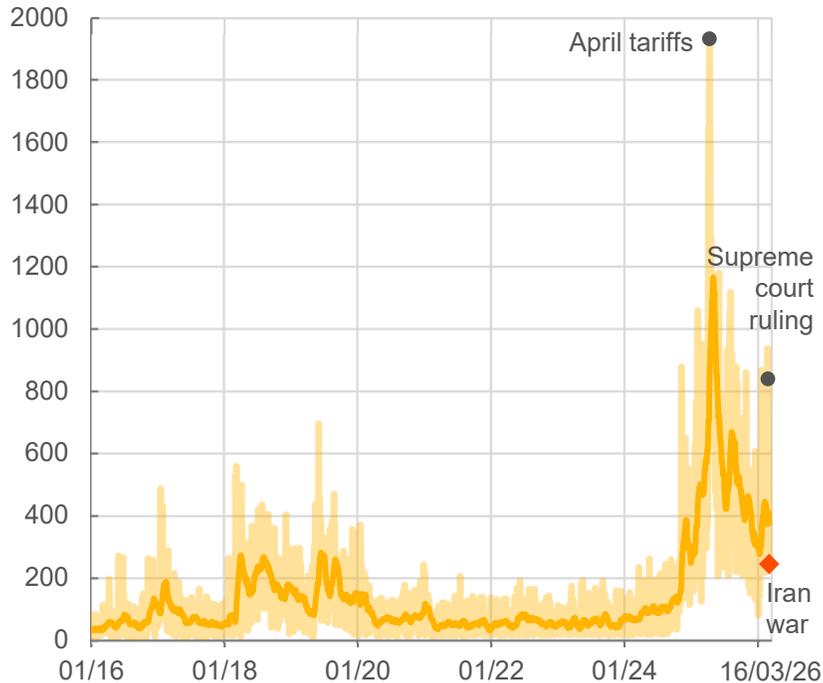
Sources: Bloomberg and ECB staff calculations.
Notes: Dark yellow line denotes the 30-day moving average of the trade policy uncertainty index, whereas the light blue line represents the daily series.
Latest observation: 16 March 2026 (reporting lag).

Euro area–US bilateral effective tariff rate
(percent)

|	Pre-Trump	June 2025 projections	September 2025 projections	December 2025 projections	March 2026 projections
	1.5	10.2	13.1	12.1	10.5

Sources: Trade Data Monitor, White House, WITS and ECB staff calculations.
Notes: The effective tariff rate is calculated by weighting on 2024 US-reported import values at the HS6 product level.

Real GDP and components
(year-on-year percentage changes; percentage point contributions)

Legend:
- Domestic demand (incl. inventories)
- Net exports
- Real GDP growth
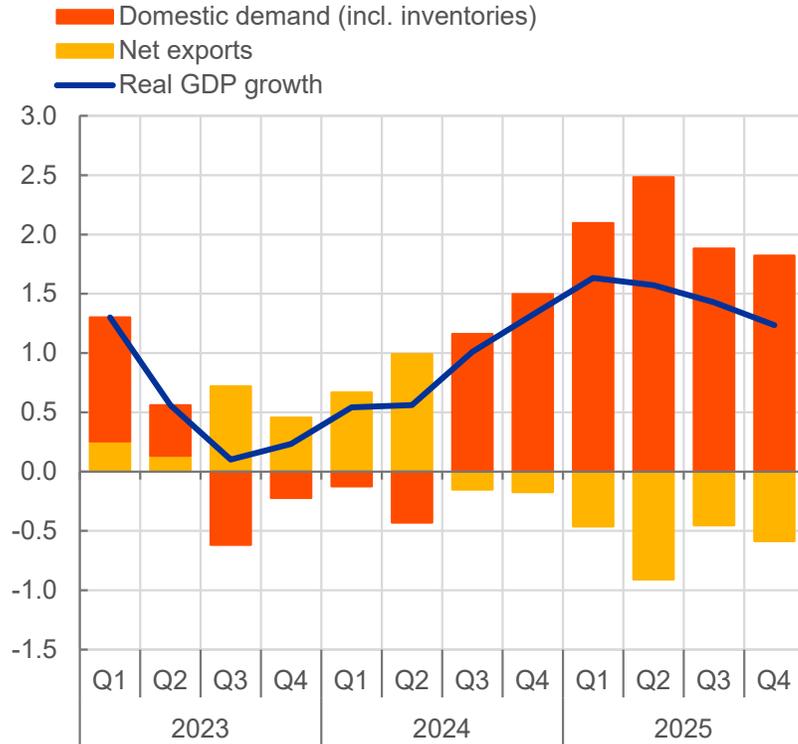
Source: Eurostat.
Latest observation: 2025 Q4.

Unemployment rate and employment
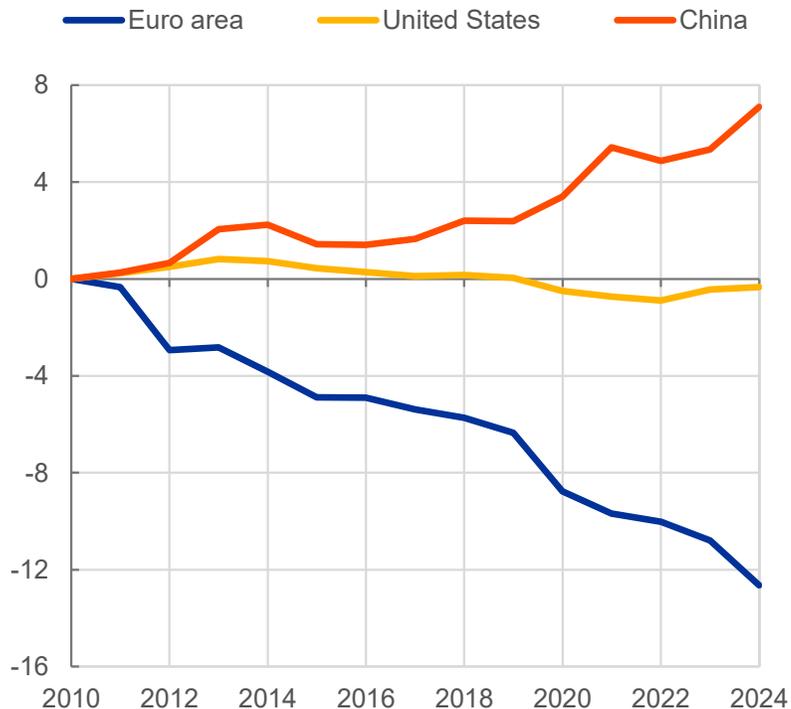### (lhs: percentages; rhs: millions of persons)

Legend:
- Unemployment rate
- Employment (rhs)
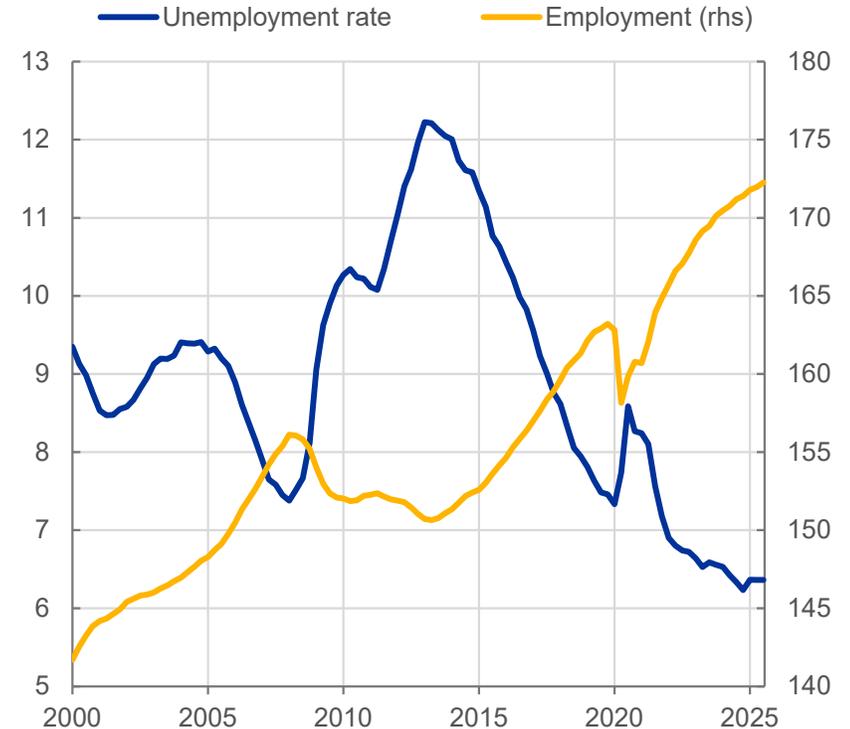
Sources: Eurostat and ECB staff calculations.
Last observation: 2025 Q4.

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Chinese competition is weighing on euro area's export performance

Global export market shares of non-energy goods volumes
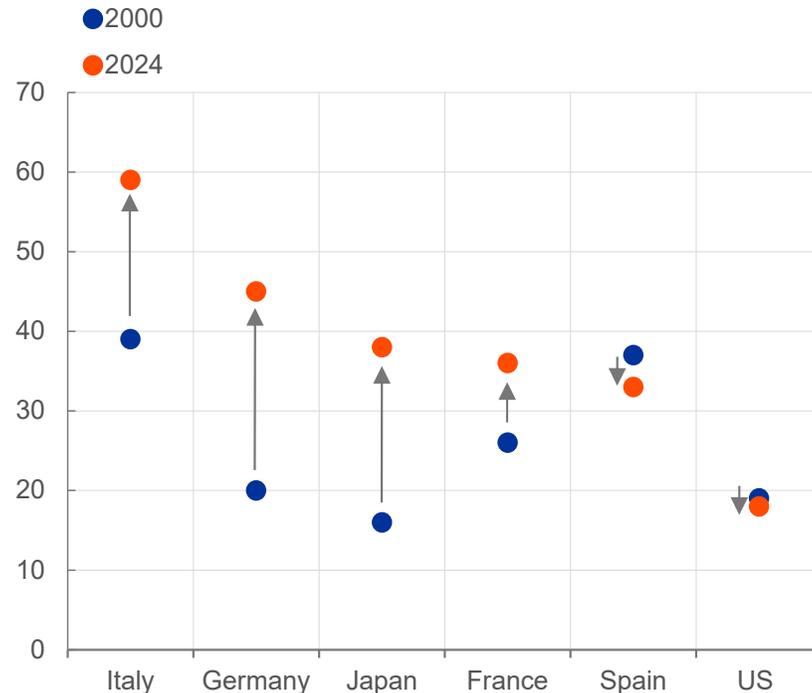### (percentage point change since 2010)

Legend: Euro area — United States — China

Number of product categories with comparative advantage of both China and other countries

Legend: 2000, 2024

Sources: CPB, TDM and ECB staff calculations.
Notes: Long-run trends in export market shares in volume terms should be interpreted with caution. Euro area export volumes and world import volumes are not fully consistent, as each statistical office employs specific methodologies for deflating and outlier cleaning. These methodologies may differ in terms of outlier detection and replacement and quality adjustment. Based on this, the volumes (excluding energy) series used to compute the export market shares shown in the chart are calculated by taking CPB (CPB Netherlands Bureau for Economic Policy Analysis) volumes (in 2005 chain linked billion euros) and subtracting the share of energy exports. This share of energy exports is based on TDM (Trade Data Monitor) values and includes HS2 sectors 25, 26, 27, 97, 98, 99.
Latest observation: 2024.

Sources: UNCTAD and ECB staff calculations.
Notes: The chart shows comparative advantage, referring to the revealed comparative advantage indicator, measuring the ratio between the share of country's exports in a particular product category in its total exports, and the same share for the world as a whole. A country has comparative advantage if the value of this ratio is above 1.
Latest observation: 2024.

Share of within-bloc trade
(share of world trade)

## EU free trade agreements and their potential
(percent)
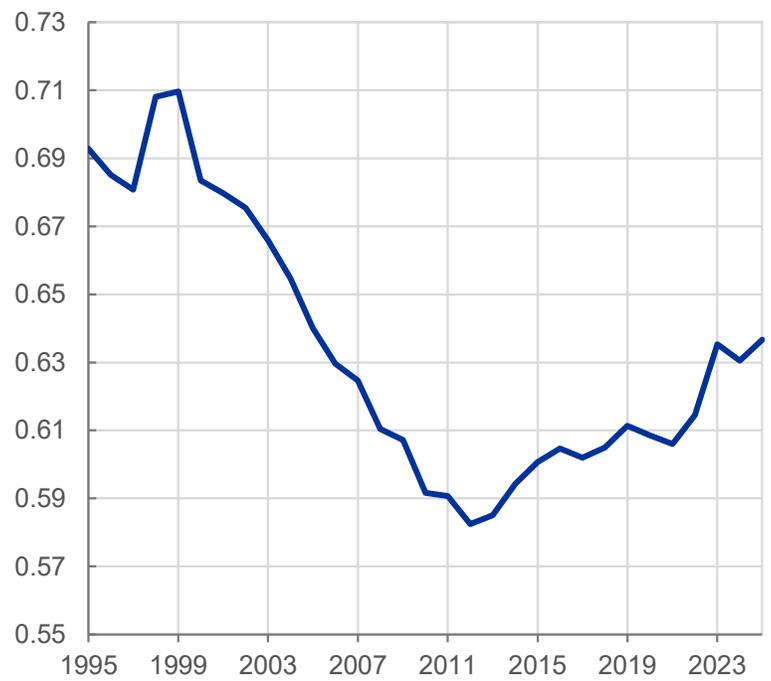
Source: CEPII BACI.
Notes: Bloc definition based on countries' ideal point distance in UN voting (Bailey et al., 2017) relative to China and USA. The chart shows the share of world trade that involves two countries that are in the same geopolitical bloc. There are two geopolitical blocks, which may be called Western and non-Western bloc.
Latest observation: 2025.
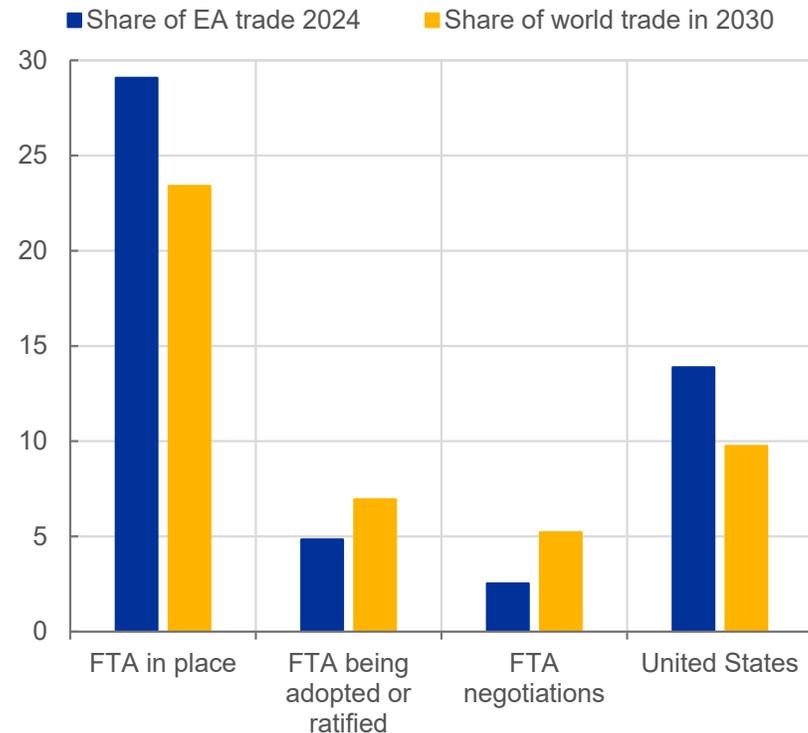
Sources: European Commission , IMF WEO and Trade Data Monitor.
Notes: Trade includes exports and imports of goods. "FTA in place" includes Albania, Andorra, Bosnia and Herzegovina, Canada, Switzerland, Chile, Colombia, Costa Rica, Ecuador, United Kingdom, Georgia, Guatemala, Honduras, Iceland, Japan, South Korea, Moldova, Mexico, North Macedonia, Montenegro, Nicaragua, Norway, New Zealand, Panama, Peru, Singapore, El Salvador, Serbia, Turkey, Ukraine, Vietnam and Kosovo. "FTA being adopted" includes Australia, MERCOSUR, India and Indonesia. "FTA being negotiated" includes Malaysia, Philippines, Thailand and the UAE.

Geopolitical shocks push up energy prices, worsening the euro area's terms of trade

Geopolitical risk
(index)

Citigroup Commodities Terms-of-Trade index
(index)
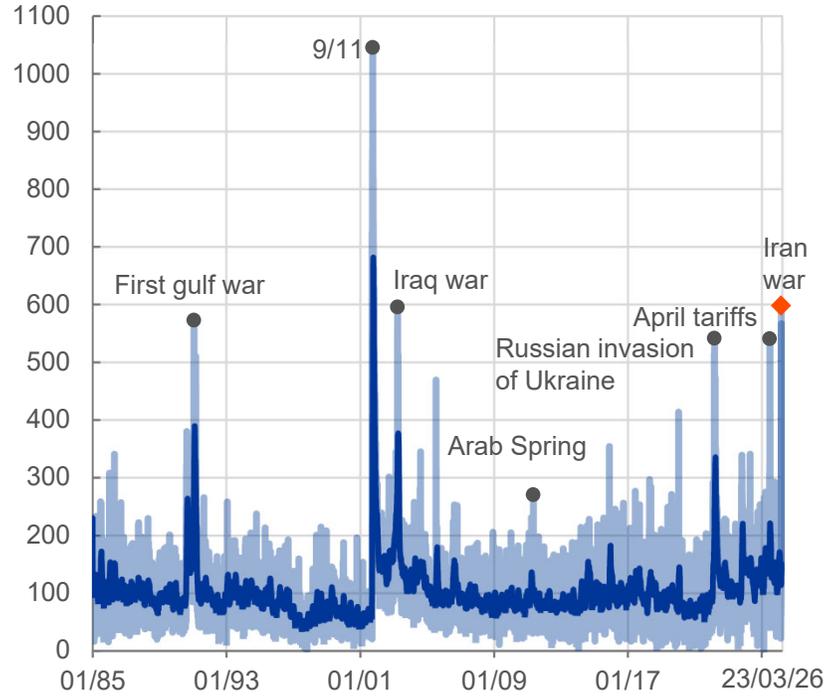
Sources: LSEG, Bloomberg and ECB staff calculations.
Notes: Dark blue line denotes the 30-day moving average of the geopolitical risk index, whereas the light blue line represents the daily series.
Latest observation: 23 March 2026 (reporting lag).
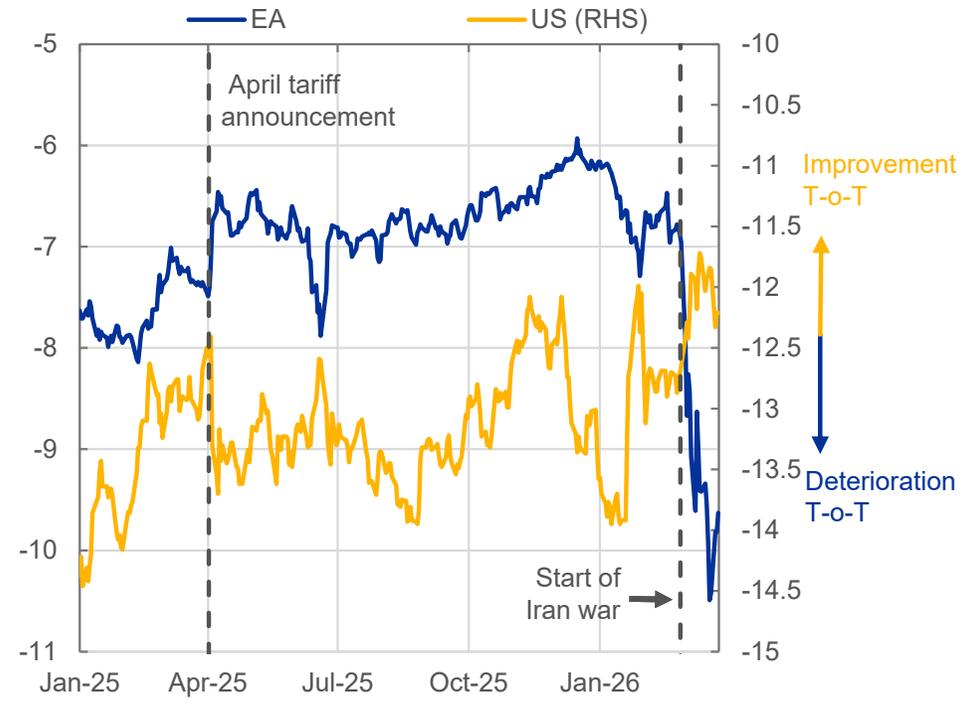
Source: Bloomberg.
Latest observation: 25 March 2026.

Oil price: Brent spot and futures curve
(USD per barrel)

Legend: Spot — Futures (latest) — Futures (before Iran war)
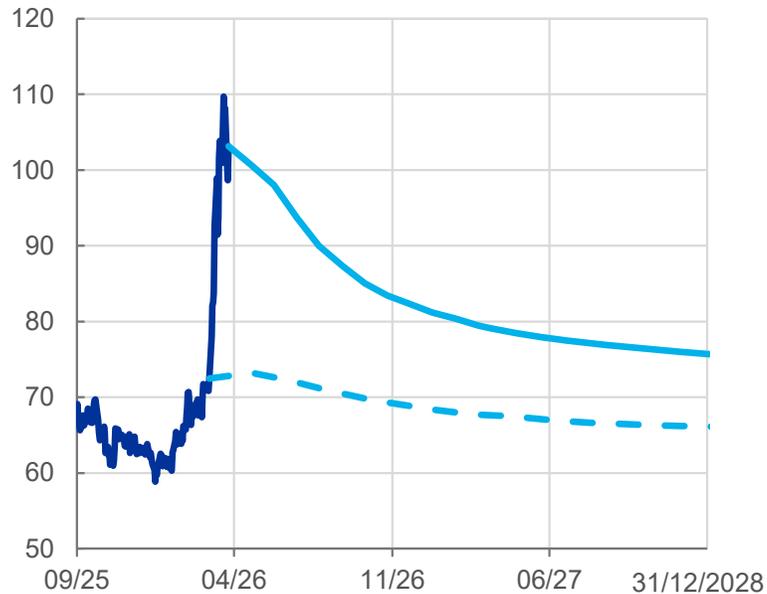
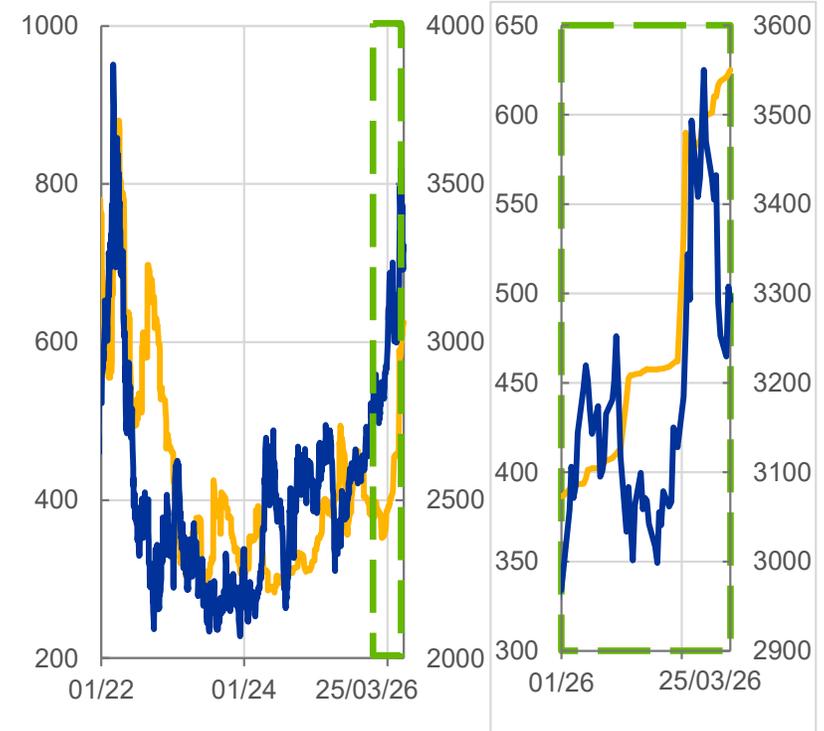Sources: Refinitiv and ECB staff calculations.
Notes: The chart shows the Brent oil spot price together with futures curves for before the Iran war (cutoff 27 February 2026) and the latest observation.
Latest observation: 25 March 2026.

Fertiliser and aluminium prices
### (lhs: USD/t; rhs: USD/mt)

Legend: Urea US Gulf futures (lhs) — Aluminium price (rhs)

Sources: Bloomberg and LSEG.
Notes: Urea (Granular) free on board (FOB) US Gulf Futures (left-hand side). London Metal Exchange (LME) aluminium 99.7% cash price (right-hand scale).
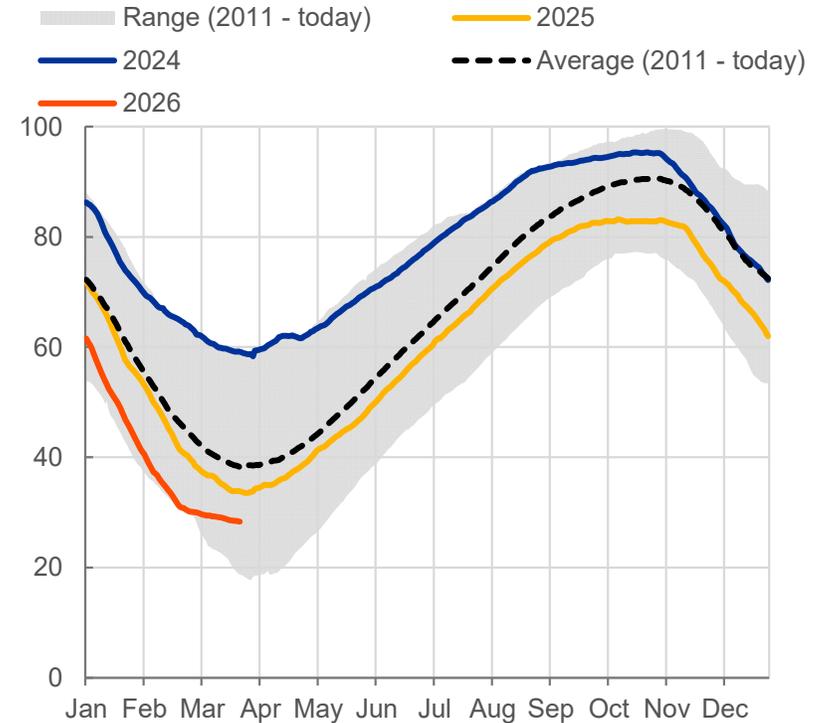Latest observation: 25 March 2026.

Rising gas prices pose particular challenges to the euro area amid low gas storages

Gas price: spot and futures curve
(EUR/MWh)
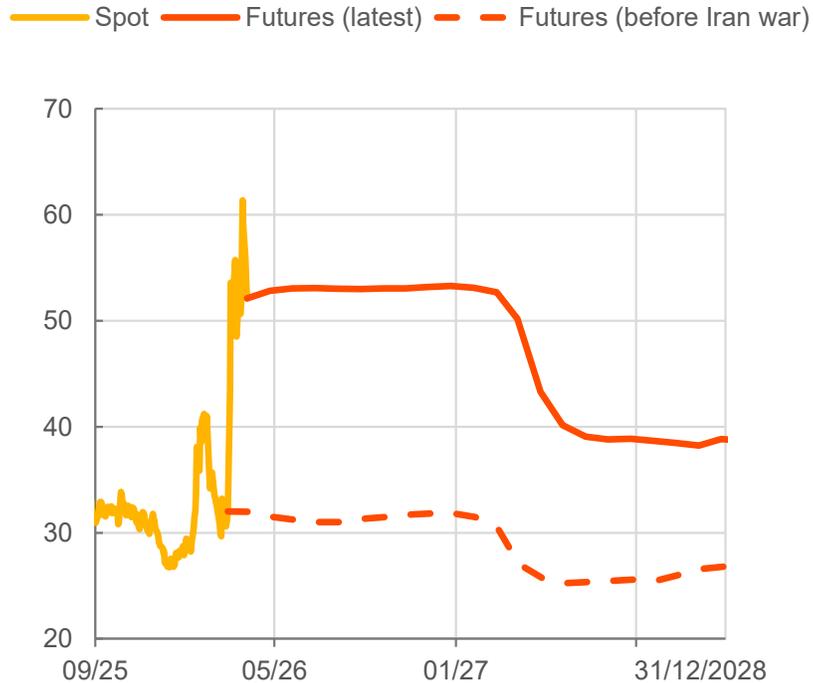
Sources: Refinitiv and ECB staff calculations.
Notes: The chart shows the TTF spot price together with futures curves for before the Iran war (cutoff 27 February 2026) and the latest observation.
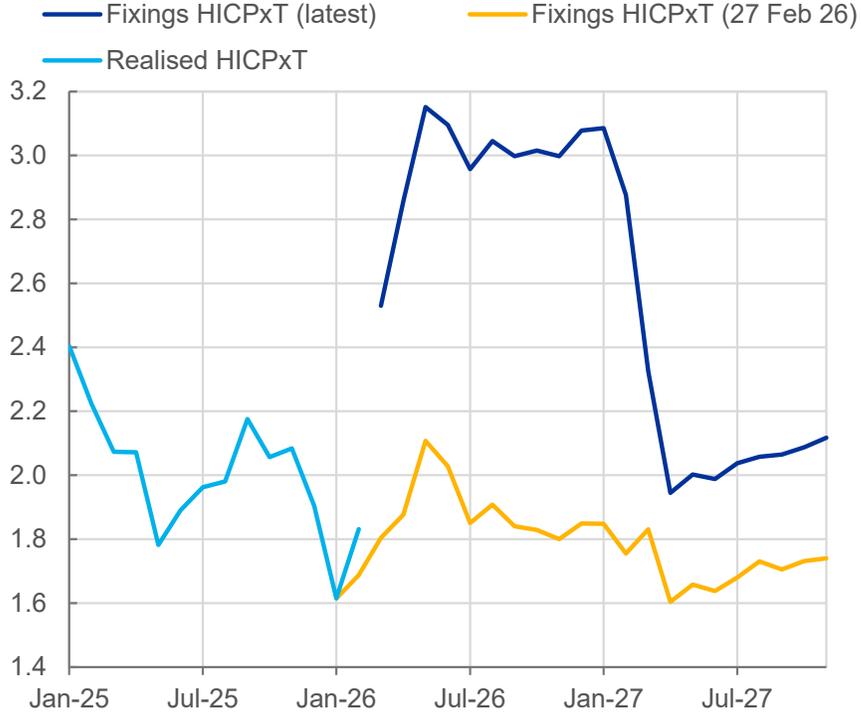Latest observation: 25 March 2026.

Gas storage utilisation rate
(percent of total capacity)

Sources: Gas Infrastructure Europe and ECB staff calculations.
Latest observation: 25 March 2026 (1 day reporting lag).

Sharp upward revision in inflation expectations with medium-term risks tilted to upside

HICP inflation fixings (ex tobacco)
(percentages per annum)

Legend: Fixings HICPxT (latest) — Fixings HICPxT (27 Feb 26) — Realised HICPxT
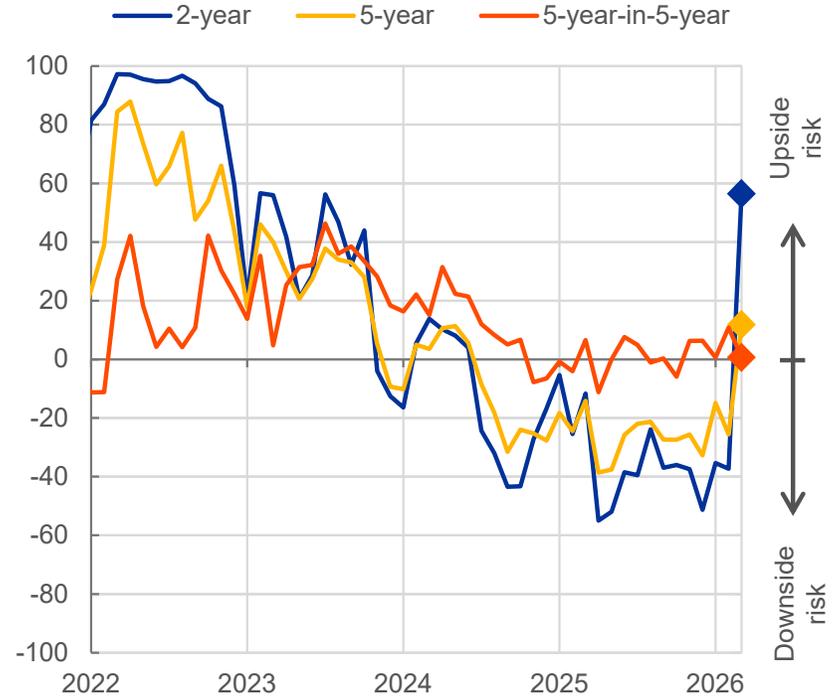
Sources: Bloomberg, Eurostat and ECB calculations.
Notes: Monthly inflation paths refer to inflation fixings, tied to HICP ex tobacco.
Latest observation: 25 March 2026.

Balance of risks to euro area inflation
(percentage points)

Legend: 2-year — 5-year — 5-year-in-5-year

Sources: Bloomberg, LSEG and ECB calculations.
Notes: As a synthetic market indicator of perceived risks to price stability, the balance of risks is defined as the difference between the risk-neutral probability assigned to average inflation being above and below 2% (see Garcia et al. 2024).
Latest observation: 25 March 2026.

ECB's expected policy rate path has shifted up and has become much more uncertain

Realised and implied ECB deposit facility rate
(percentages)
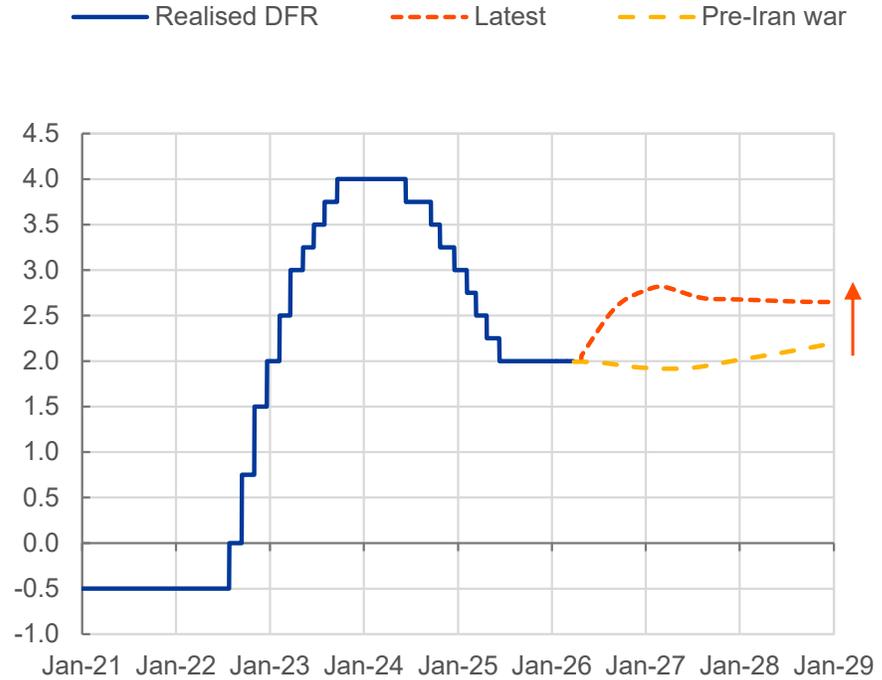
Sources: Bloomberg and ECB calculations.
Notes: Pre-Iran refers to 27 February 2026.
Latest observation: 25 March 2026.

Euribor-implied probability densities six months ahead
### (percentages)
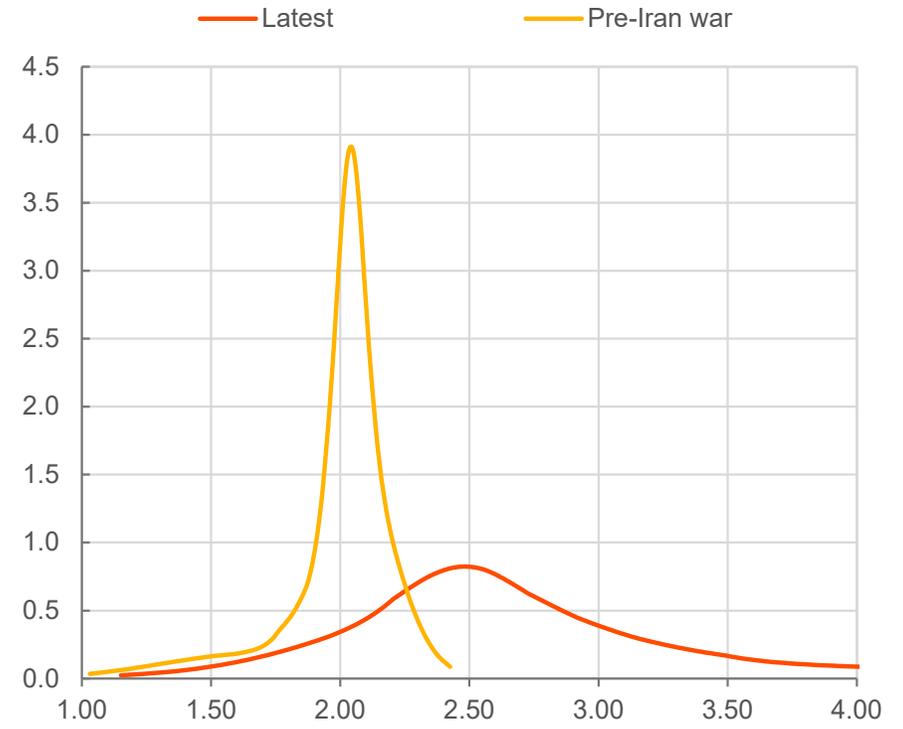
Sources: Bloomberg and ECB calculations.
Notes: Market-implied expectations are inferred from pricing of meeting dated OIS contracts. Implied density of 3-month EURIBOR in 6 months' time on selected dates. Pre-Iran war corresponds to 27 February 2026.
Latest observation: 25 March 2026.

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Potential GDP growth in the euro area
(annual percentage changes and percentage point contributions)

Legend:
- Labour contribution
- Capital contribution
- TFP contribution
- Potential growth
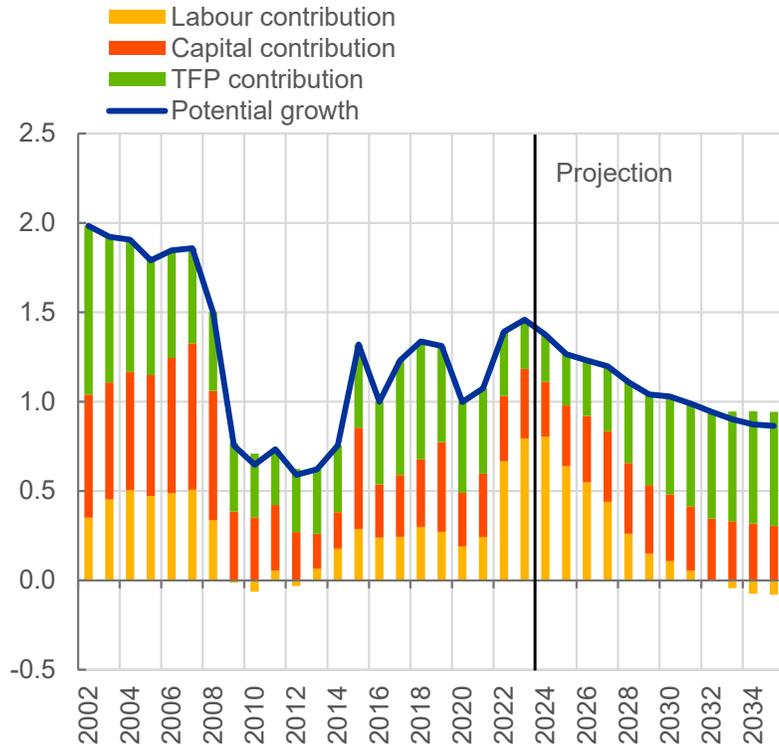
Source: European Commission Autumn 2025 Forecast.

Global GDP losses due to climate change: current policies vs net zero 2050 scenario
(% of annual global GDP)

Legend:
- Current Policies
- Net Zero 2050
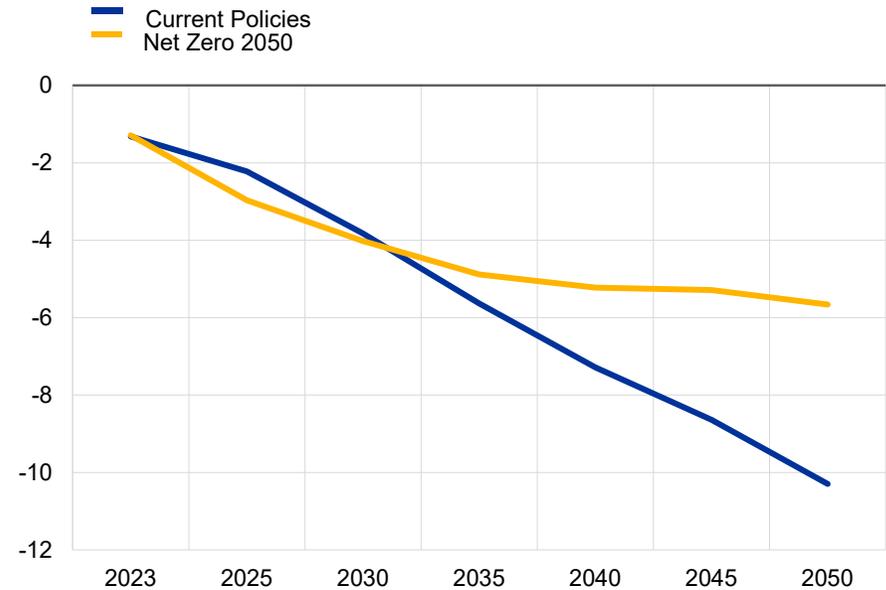
Sources: IIASA NGFS Climate Scenarios Database, NiGEM model with REMIND inputs (Phase V publication).
Notes: The chart shows NGFS long-term scenarios. The euro area is most likely to be hit less severely than the global average, which is mainly since its national climate action plans are slightly more ambitious than most of the other countries, thus the additional transition risk weighs less strongly.

Given higher spending needs, fiscal sustainability requires higher potential growth

Defence spending
(share of GDP)
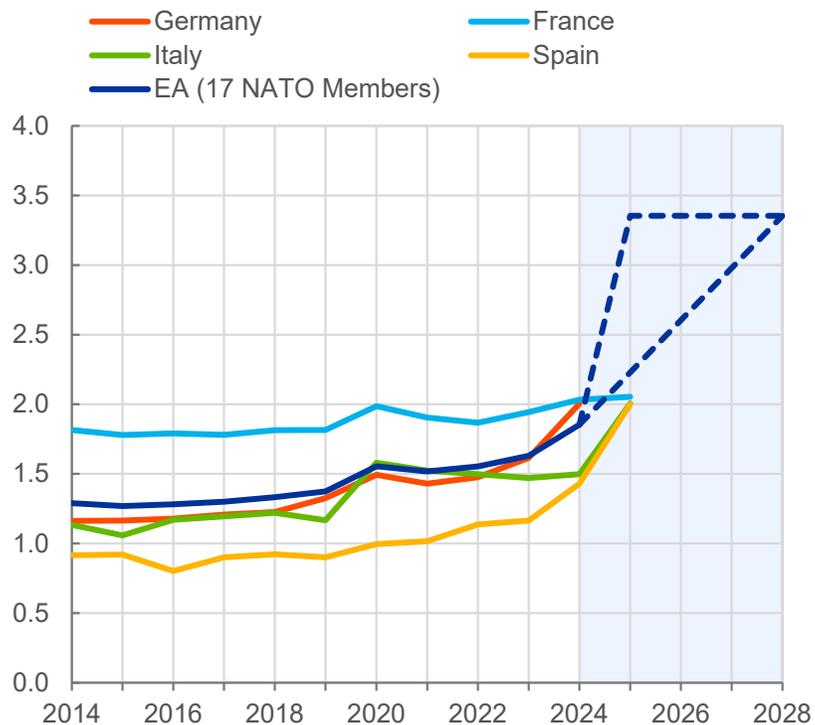
Source: NATO.
Notes: 2025-2028 shows the flexibility under an activated national escape clause, which is 1.5% of GDP; if a Member State requests activation, the time profile of the increase of up to 1.5% of GDP is flexible over the four years. EA aggregate does not include the four non-NATO euro area Member States AT, CY, IE and MT.
Latest observation: preliminary 2025 data for France, Italy and Spain, 2024 for the rest.

Government interest expenditures
(percent of GDP)
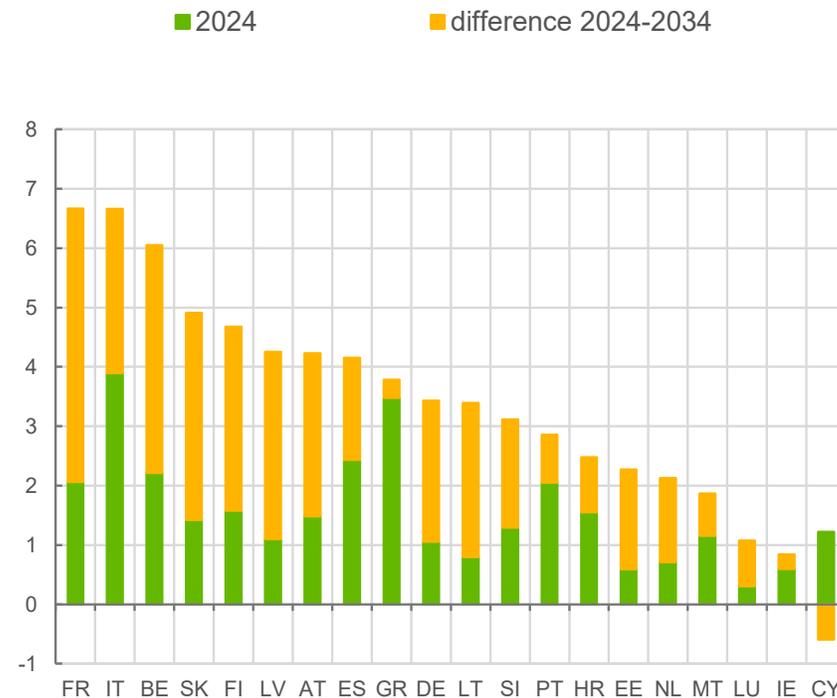
Source: ESCB DSA based on Autumn 2025 European Commission's forecasts.
Notes: The figures refer to a hypothetical *no fiscal policy change* scenario, where the structural primary fiscal balance (i.e. excluding the cyclical impact of macroeconomic developments) remains constant at 2024 level except for the expected change in ageing cost.

Reducing internal trade barriers would help exploit benefits from single market
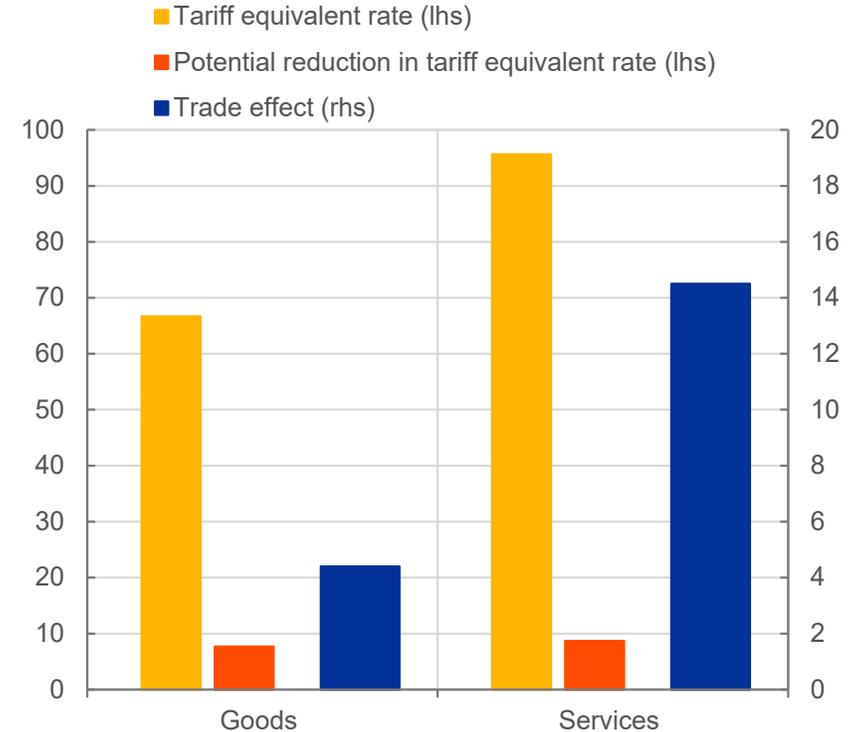
Intra-EU and extra-EU trade
(percentage of nominal GDP;
left panel: goods market, right panel: services market)

— EU-27   — Extra-EU
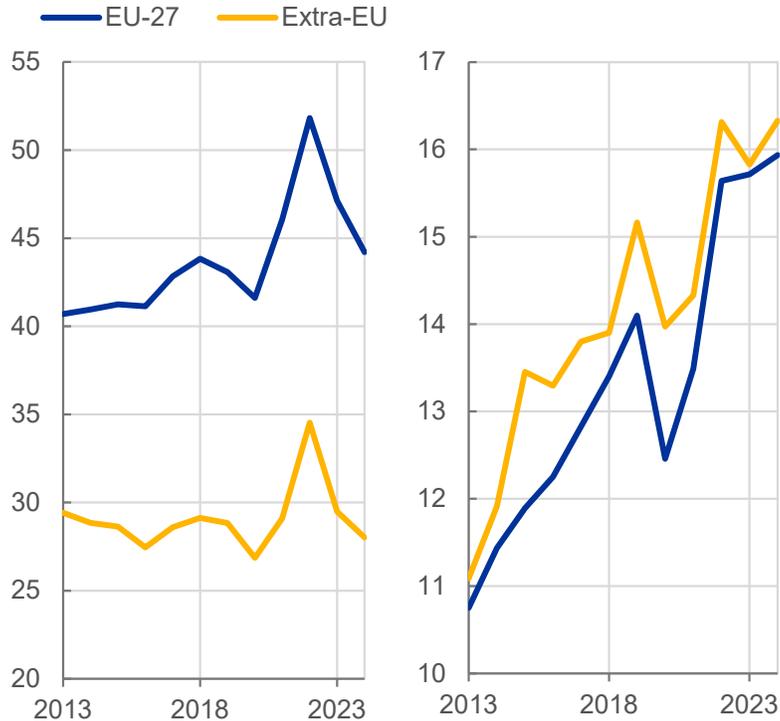
Source: Eurostat
Latest observation: 2024.
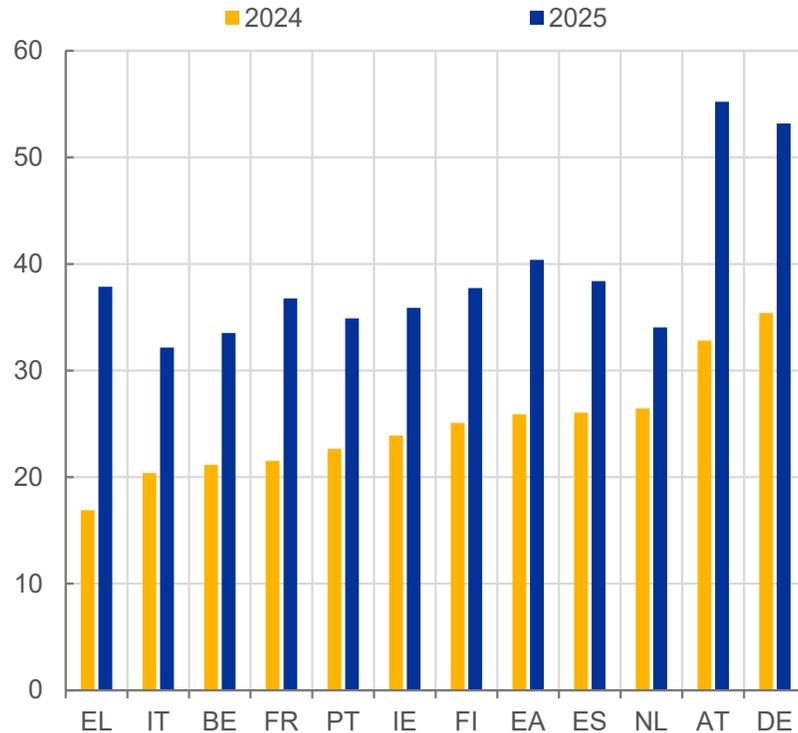
Trade barriers and benefits from lowering them
(lhs: percentage points; rhs: percentage change in barriers and intra-EU trade)

■ Tariff equivalent rate (lhs)
■ Potential reduction in tariff equivalent rate (lhs)
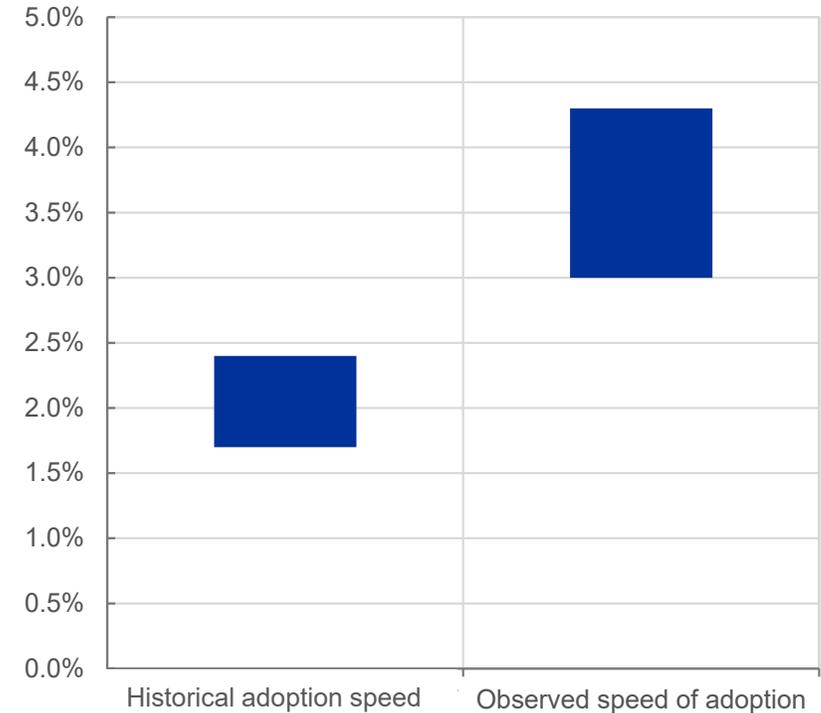■ Trade effect (rhs)

Sources: OECD TiVA 2025, Antràs and Chor (2018), ECB Economic Bulletin 8/2025 and ECB calculations.
Notes: The tariff equivalent rates (yellow bars) are based on a gravity estimation and shows the ad-valorem tariff equivalent of intra-EU trade barriers. The potential reduction in tariff equivalent rates (red bars) reports the difference in estimated trade costs in the Single Market between the rest of the EU and the Netherlands (the country displaying the highest integration within the EU). Trade effect (blue bar) represents the percentage change effect of decreasing the trade costs/barriers by the amount in the red bars.

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Diffusion and adoption of AI offers opportunities to significantly raise TFP

AI adoption rates of workers
(% of all workers)

Legend: ■ 2024 ■ 2025

Range of estimated TFP impact of AI under different scenarios
(% increase over 10 years)

Historical adoption speed · Observed speed of adoption

Higher R&D in defence spending could significantly enhance impact on GDP growth

Historical composition of defence spending (2015-2023)
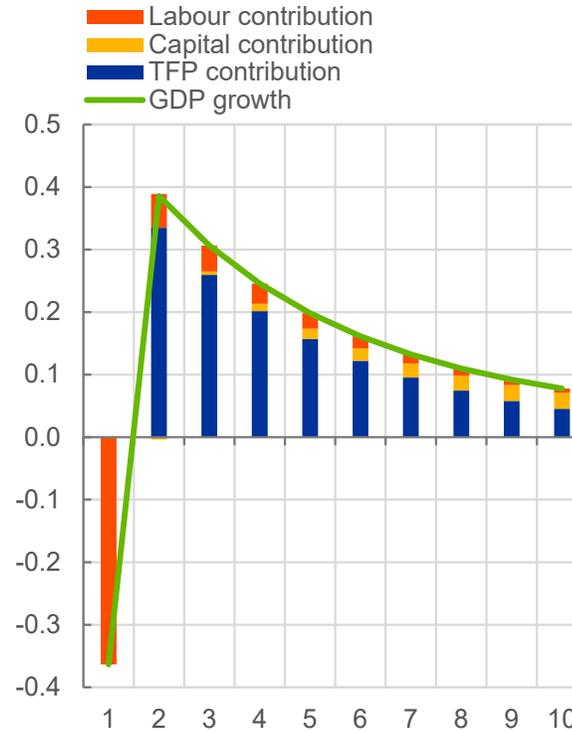(% of total military spending)

- ■ Procurement
- ■ Research and development
- ■ Operations and maintenance
- ■ Military personnel
- ■ Other

GDP growth impact of crowding-in of private R&D
y-axis: percentage deviations from steady state; x-axis: years)

- ■ Labour contribution
- ■ Capital contribution
- ■ TFP contribution
- — GDP growth

Cumulative public R&D multipliers
(y-axis: EUR of GDP increase per EUR of public R&D invested; x-axis: years)

Sources: JANES and ECB staff calculations.
Notes: The euro area figure is based on 18 countries, with no data available for Cyprus and Malta.

Source: Eurosystem estimates.
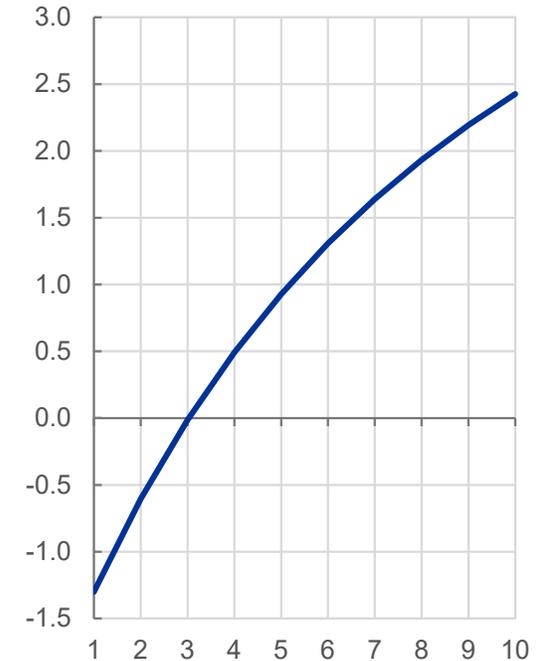
Source: Eurosystem estimates.
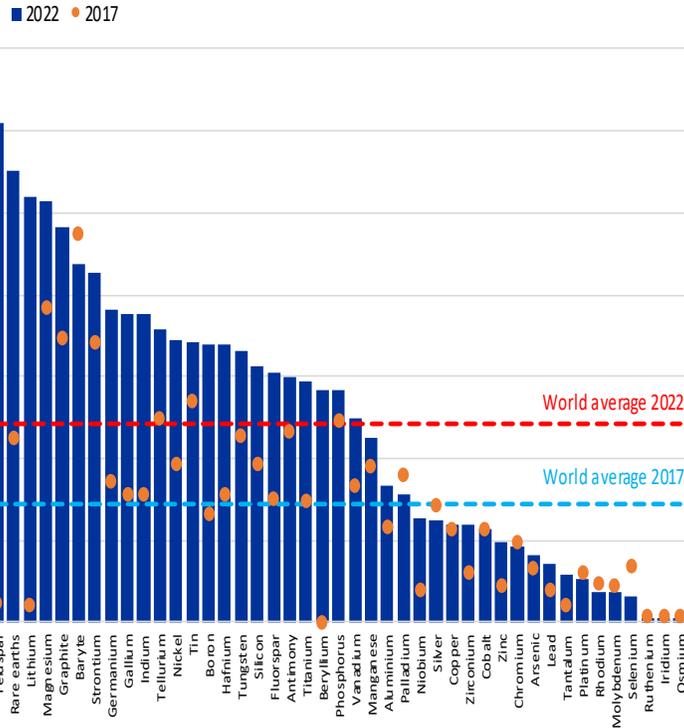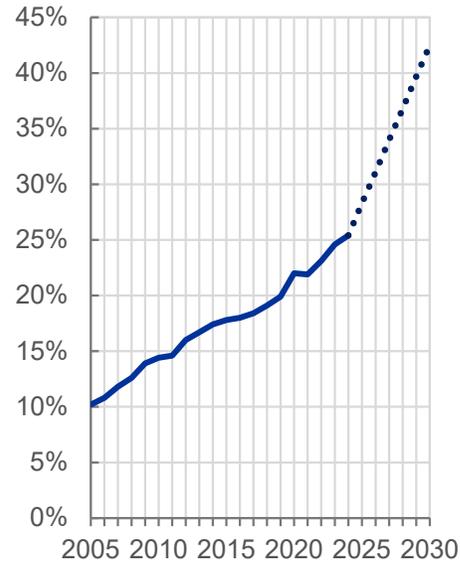
Critical raw materials subject to export restrictions
(% of exports)

■ 2022 ● 2017

World average 2022
World average 2017

Source: EBRD Transition Report 2023-24.

Share of energy consumption from renewables in EU
(percent)

Source: European Environment Agency.
Notes: The dotted line presents a linear trajectory to the minimum EU target for renewable sources of 42.5% by 2030. Latest observation: 2024

Role of international card schemes in card transactions
(percent)

32%
68%

■ International card schemes
■ National card schemes
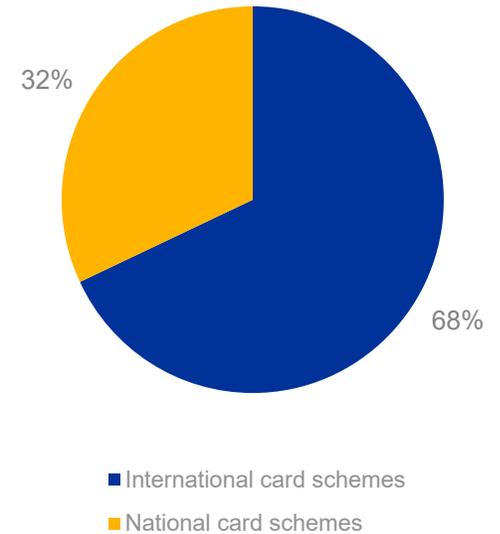
Source: ECB.
Notes: Share of international card schemes by volume in total electronically initiated card payments with cards issued in the euro area and transactions acquired worldwide, i.e. in any non-euro area country.
Latest observation: 2024.

Thank you very much for your attention!