EUROPEAN CENTRAL BANK

EUROSYSTEM

The outlook for the euro area economy

The ECB and Its Watchers XXVI

Frankfurt

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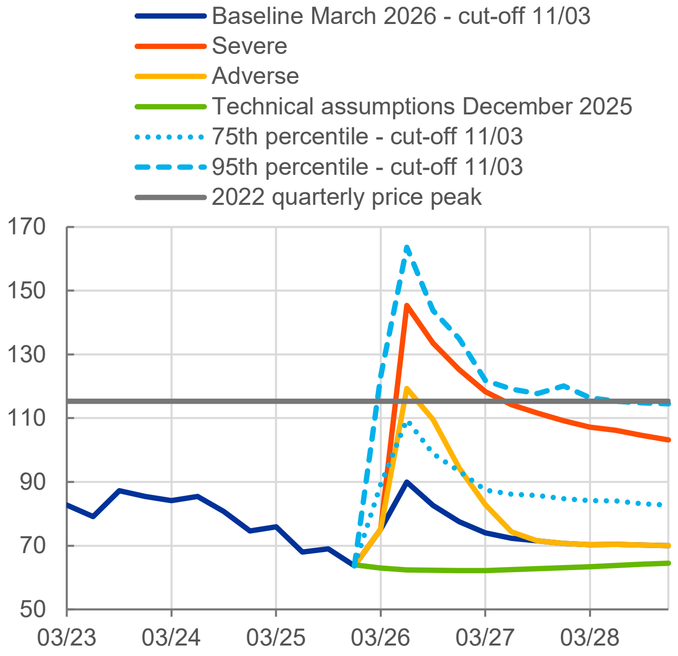
Narrative of the baseline and alternative scenarios

	Persistence of acute energy supply disruptions	Uncertainty	Indirect and second-round effects on inflation	Fiscal and monetary policy reactions
Baseline	**No explicit assumption** on the duration of the conflict or destruction of energy infrastructure Energy prices follow **latest technical assumptions** (cut-off 11 March 2026)	In line with the **observed increase** in the VIX index (4.4 points between 27 February 2026 and the cut-off date of 11 March 2026)	**Limited upward adjustment based on judgement** to account for possible larger impacts compared with the standard model elasticities due to the size of the energy shock	None beyond the policies included in the baseline assumptions on short-term rates + fiscal policy assumptions following usual rules
Adverse scenario	**Acute energy supply disruptions** But no significant further destruction of energy infrastructure	Increase in the VIX index of **10 points with a fast reversal** in Q3 2026 towards the Q4 2025 level	Stronger **impact on other prices (food, goods, services) and wages due to non-linearities (as seen after the 2021-22 episode)**	None beyond the policies included in the baseline
Severe scenario	Even **more acute energy supply disruptions** and **significant further destruction of energy infrastructure**	Increase in the VIX index of **14 points,** remaining **significantly more elevated** compared with the adverse scenario until end-2027	**Stronger non-linearities lead to sizeable indirect and second-round effects**	None beyond the policies included in the baseline

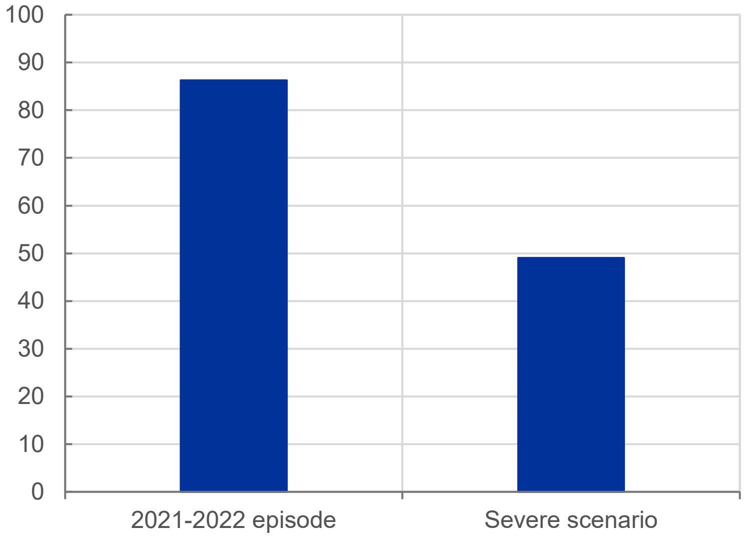
Middle East conflict scenarios: commodity price assumptions

Oil prices
(USD per barrel)



Sources: Refinitiv and ECB staff calculations.
Notes: The 2022 price peak refers to the second quarter of 2022. The latest observations are for 11 March 2026.

Synthetic commodity price index
(maximum percentage deviation)

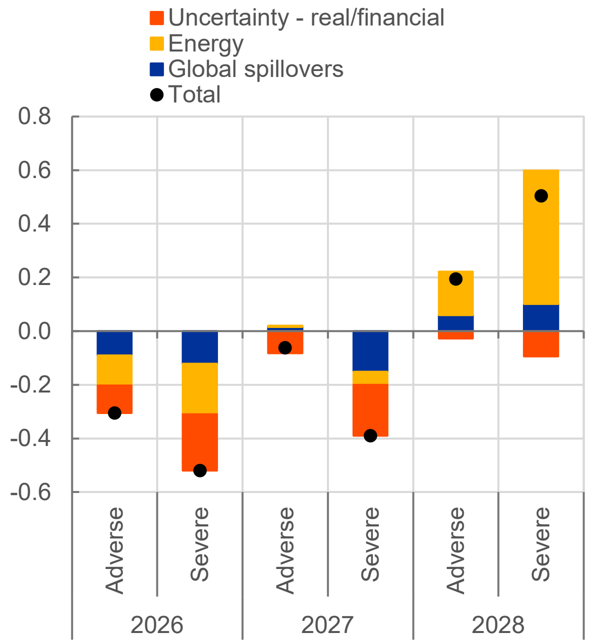


Source: ECB projection database.
Note: The left bar shows the maximum log deviation of the synthetic energy price index, combining oil and gas prices, measured over the 2021–2024 and 2022–2024 periods and reported as the average across the two periods. The right bar is based on the synthetic energy commodity price index but also gives some weight to food and metal commodity price indices.

Adverse and severe scenarios – impact on the euro area

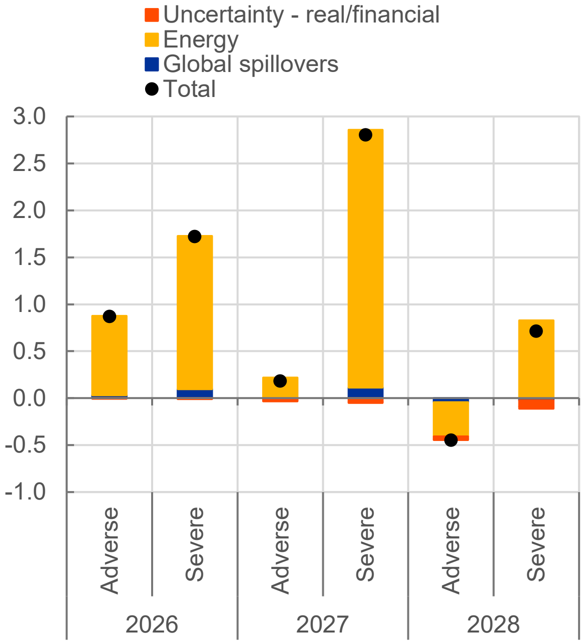
Real GDP growth

(percentage point deviation from baseline annual growth rate)



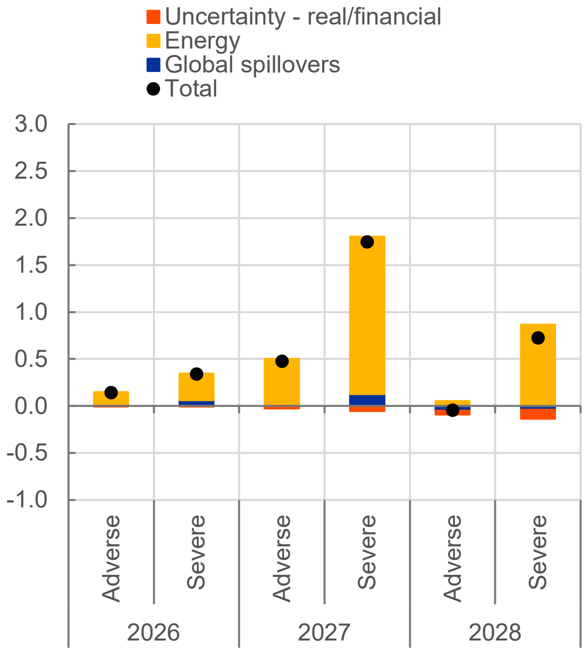
HICP inflation

(percentage point deviation from baseline annual growth rate)



HICP excluding energy and food inflation

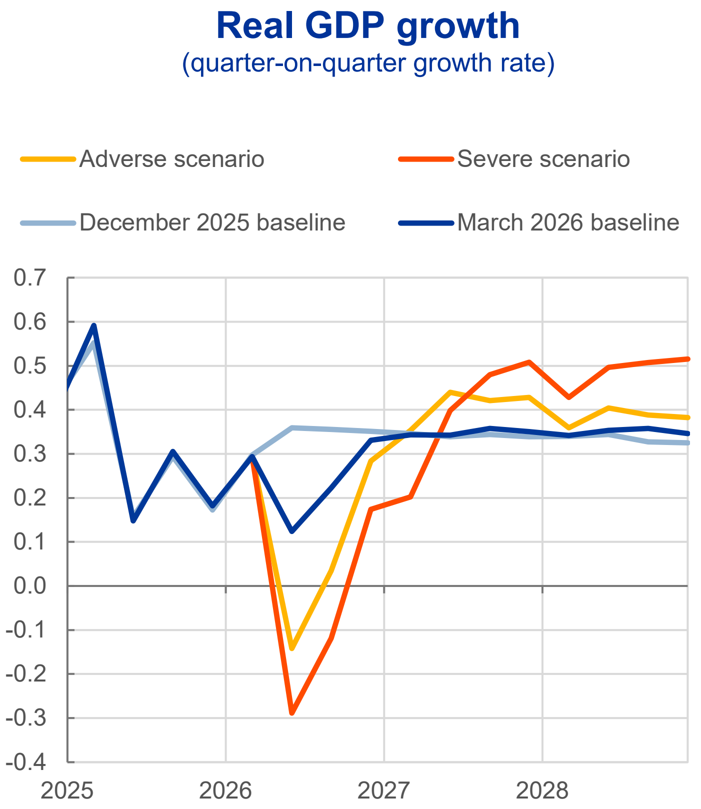
(percentage point deviation from baseline annual growth rate)

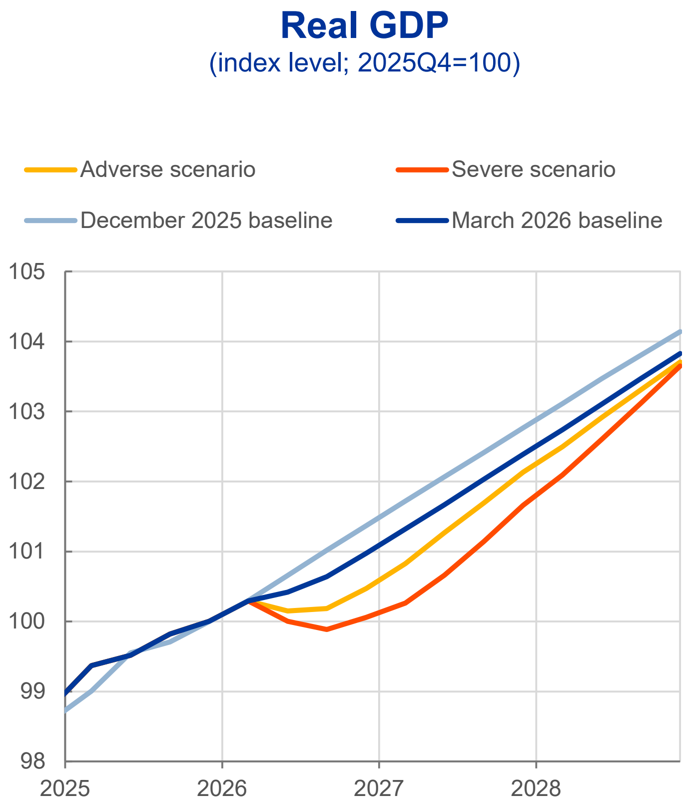


Sources: Simulations using the ECB-BASE model and ECB staff calculations.

Notes: Simulations are conducted with the ECB-BASE model under a forecast setting with backward-looking expectation formation and with exogenous monetary and fiscal policy assuming that the shock starts in the second quarter of 2026. The overall impact on euro area economic growth and inflation includes energy, uncertainty and trade effects (foreign demand, competitors' prices and exchange rates, computed in the ECB-Global model). The impact of the uncertainty shocks on GDP is estimated outside the model using an empirical framework, namely a BVAR model, and performing conditional forecast exercises on different paths for the VIX.

Growth in the baseline and adverse and severe scenarios

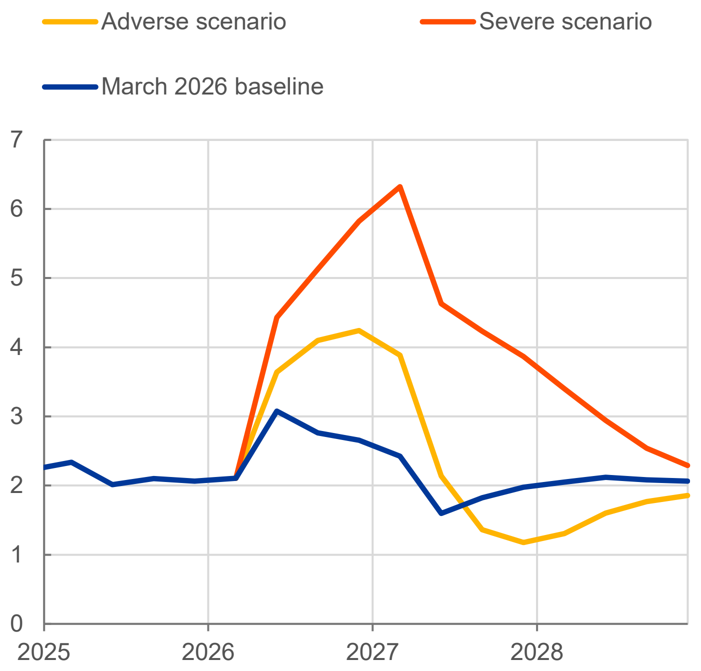




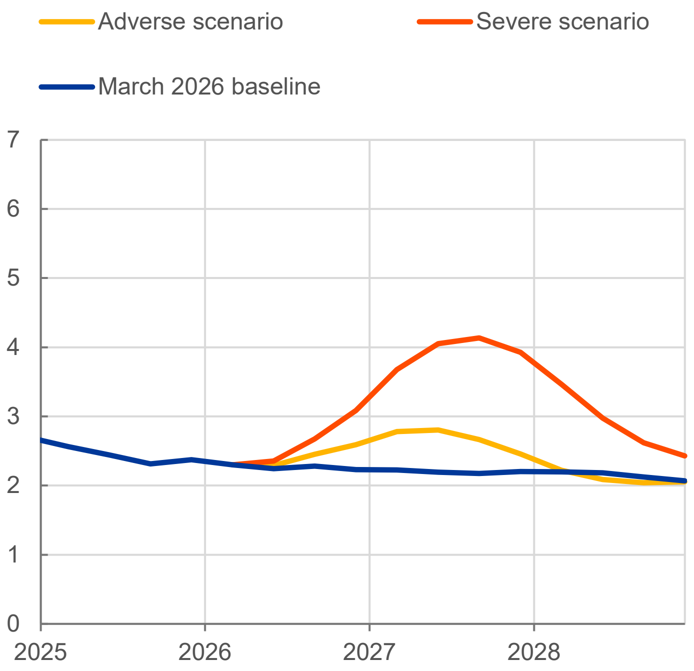
Sources: Simulations using the ECB-BASE model and ECB staff calculations.
Notes: Simulations are conducted with the ECB-BASE model under a forecast setting with backward-looking expectation formation and with exogenous monetary and fiscal policy assuming that the shock starts in the second quarter of 2026. The overall impact on euro area economic growth and inflation includes energy, uncertainty and trade effects (foreign demand, competitors' prices and exchange rates, computed in the ECB-Global model). The impact of the uncertainty shocks on GDP is estimated outside the model using an empirical framework, namely a BVAR model, and performing conditional forecast exercises on different paths for the VIX.

Inflation in the baseline and adverse and severe scenarios

HICP inflation
(annual percentage changes)

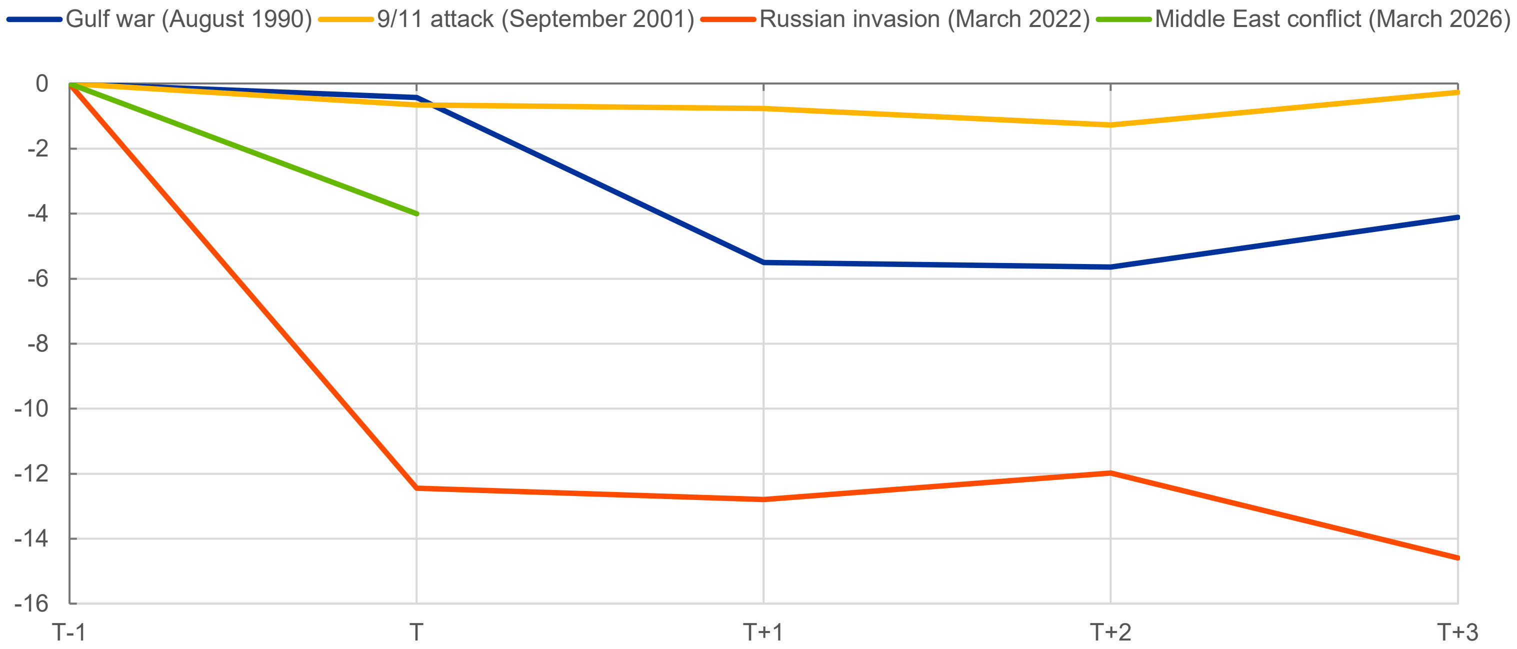


HICP excluding energy and food inflation
(annual percentage changes)



Sources: Simulations using the ECB-BASE model and ECB staff calculations.
Notes: Simulations are conducted with the ECB-BASE model under a forecast setting with backward-looking expectation formation and with exogenous monetary and fiscal policy assuming that the shock starts in the second quarter of 2026. The overall impact on euro area economic growth and inflation includes energy, uncertainty and trade effects (foreign demand, competitors' prices and exchange rates, computed in the ECB-Global model). The impact of the uncertainty shocks on GDP is estimated outside the model using an empirical framework, namely a BVAR model, and performing conditional forecast exercises on different paths for the VIX.

Consumer confidence around geopolitical conflicts
(adjusted percentage balances)

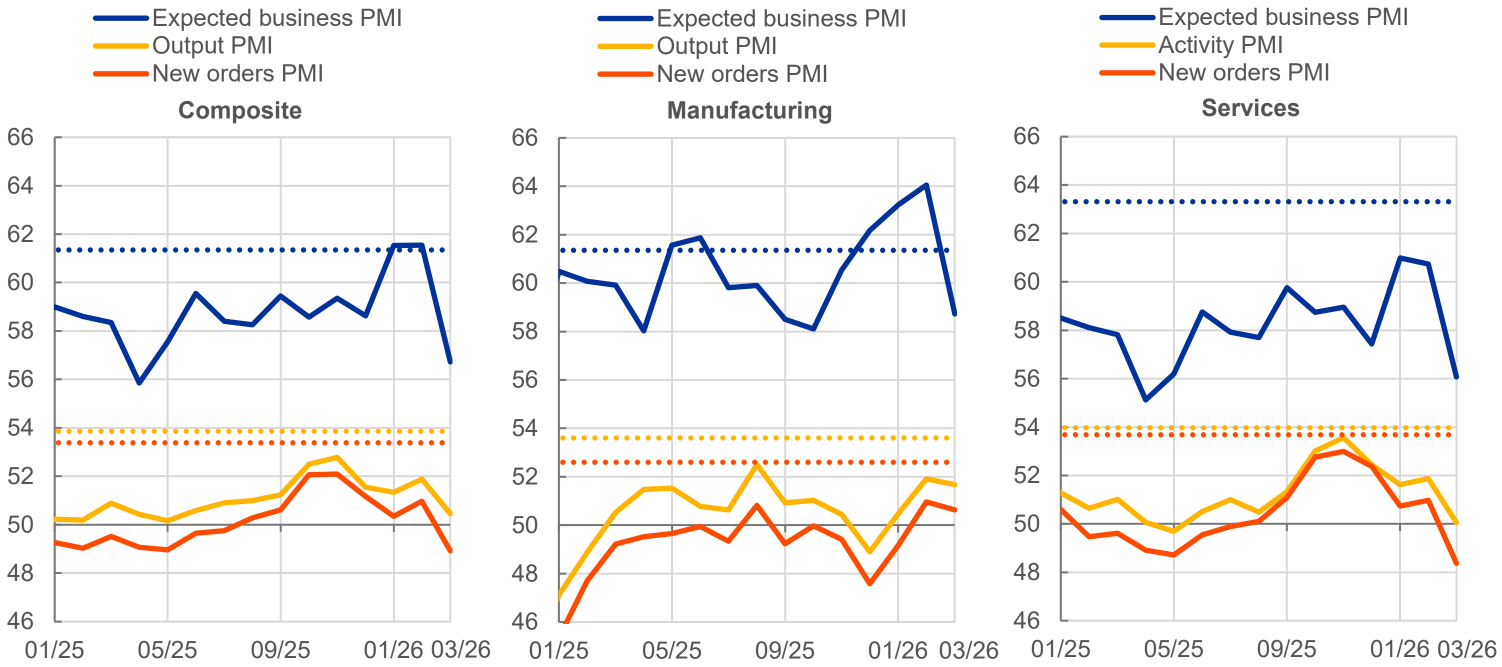


Sources: DG-ECFIN, Eurostat and ECB calculations.
Notes: The consumer confidence flash estimate is published around a week before the full release of the other EC Consumer survey results and only includes information for the euro area, while national data and the breakdown become available with the full release at the end of the month. The correlation between confidence and year on year consumption growth is stronger than the correlation between confidence and quarter on quarter consumption growth. Since the Russian invasion to Ukraine started on 24 February 2022, the relevant reference period is March 2022.

Developments in PMI activity

Purchasing Managers Indices (PMI)

(diffusion indices)

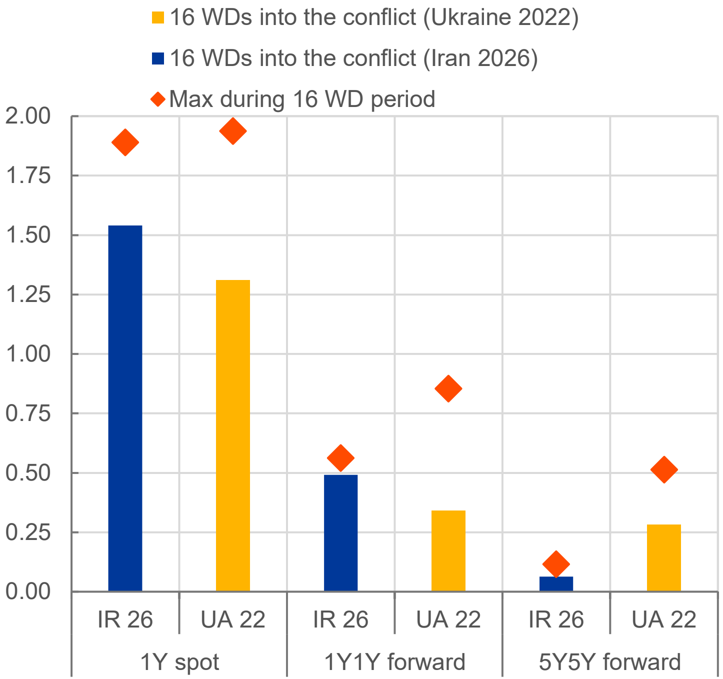


Sources: S&P global and ECB calculations.
Notes: The dotted lines show 2015-2019 averages of the respective variable. The latest observations are for March 2026.

Market based inflation expectations

Change in inflation expectations since conflict start

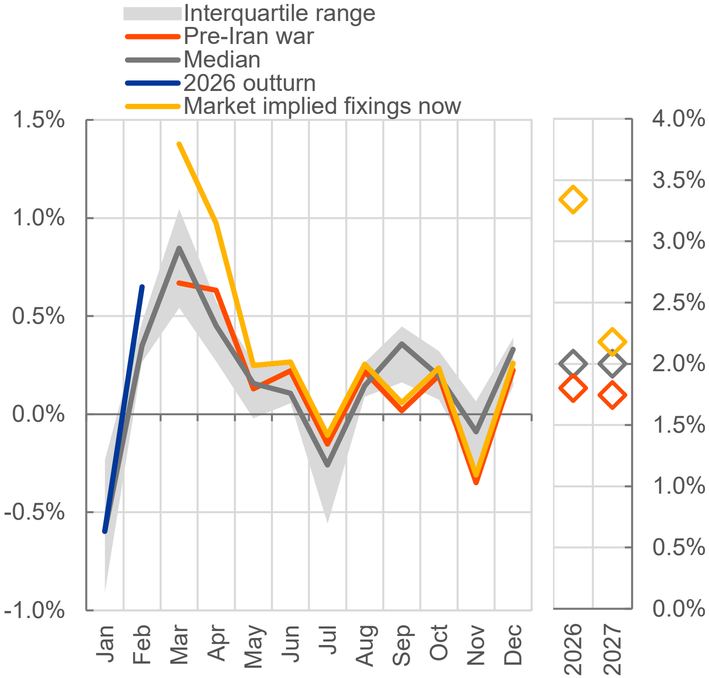
(percentage points)



Sources: Bloomberg and ECB calculations.
Note: WD stands for working days.

Realised and expected HICP excluding Tobacco

(left panel: month-on-month; right panel: year-on-year)



Sources: Bloomberg and ECB calculations.
Notes: The median and interquartile range are based on realised month-on-month changes in HICP inflation (excluding tobacco) since 2000. The other series are based on fixings.

Estimated thresholds for non-linear effects of energy shocks

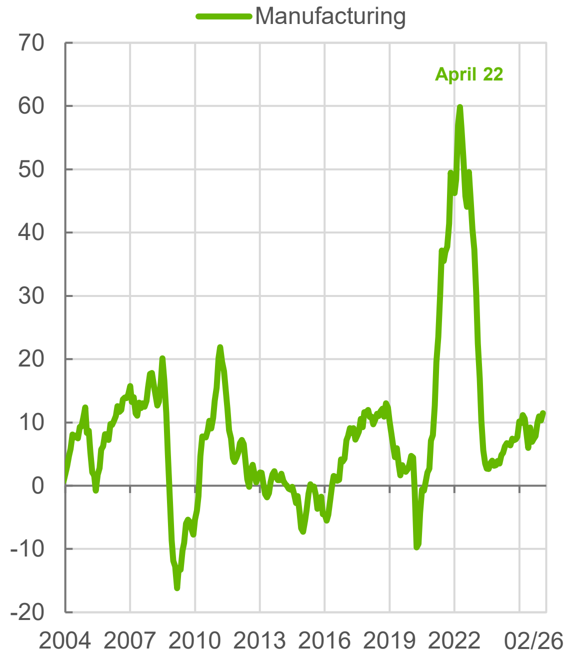
Synthetic indicator of energy commodity prices and thresholds for non-linear effects of energy shocks

(annual percentage change)

Source: ECB staff calculations based on Bobeica, Holton, Huber and Martínez Hernández (2025).
Notes: The chart shows the annual log differences in the synthetic indicator of energy commodity prices which combines oil and gas prices based on the euro area's energy import shares. Red, yellow, and green dotted lines mark thresholds for small, medium, and large energy shocks (1, 2, and 3 standard deviations); non-linearities in the pass-through increase with shock sizes. The latest observation are for March 2026, yellow dot based on the March 2026 ECB staff projections, indicating that energy prices were projected to near the medium-sized energy shock threshold.

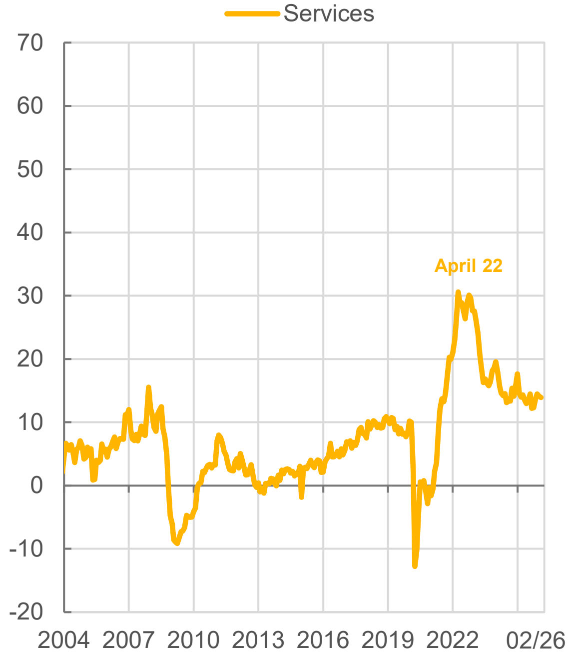
European Commission Firms' Selling Price Expectations

Manufacturing
(net balances)



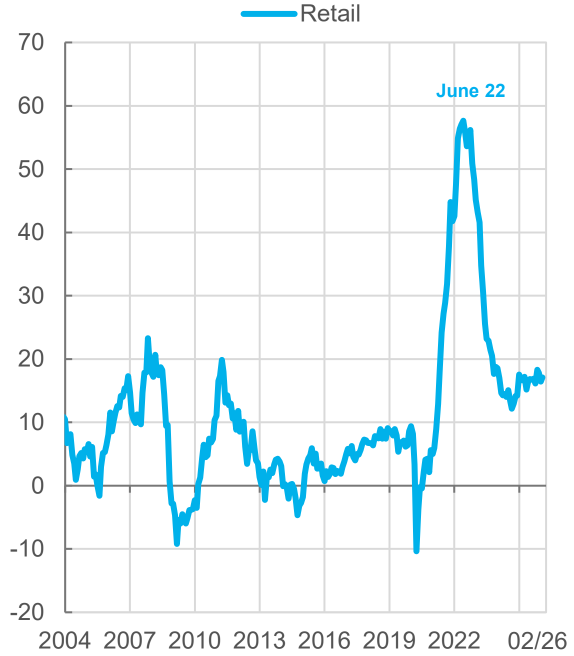
Source: European Commission.
Notes: The net balance represents the difference between the percentage of respondents expecting selling prices to increase and those expecting them to decrease over the three months after the survey. The series reached its peak in April 2022. The latest observations are for February 2026.

Services
(net balances)



Source: European Commission.
Notes: The net balance represents the difference between the percentage of respondents expecting selling prices to increase and those expecting them to decrease over the three months after the survey. The series reached its peak in April 2022. The latest observations are for February 2026.

Retail
(net balances)

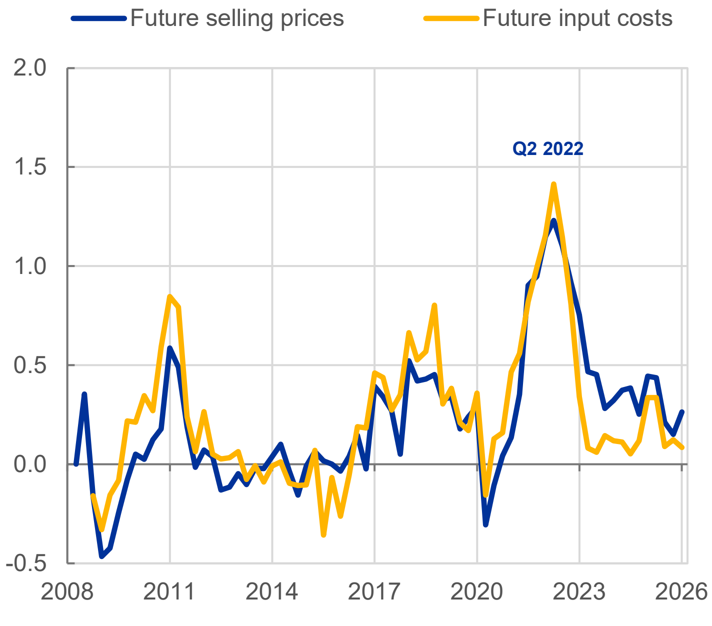


Source: European Commission.
Notes: The net balance represents the difference between the percentage of respondents expecting selling prices to increase and those expecting them to decrease over the three months after the survey. The series reached its peak in June 2022. The latest observations are for February 2026.

Selling prices and input costs: Corporate Telephone Survey and PMI

Corporate Telephone Survey

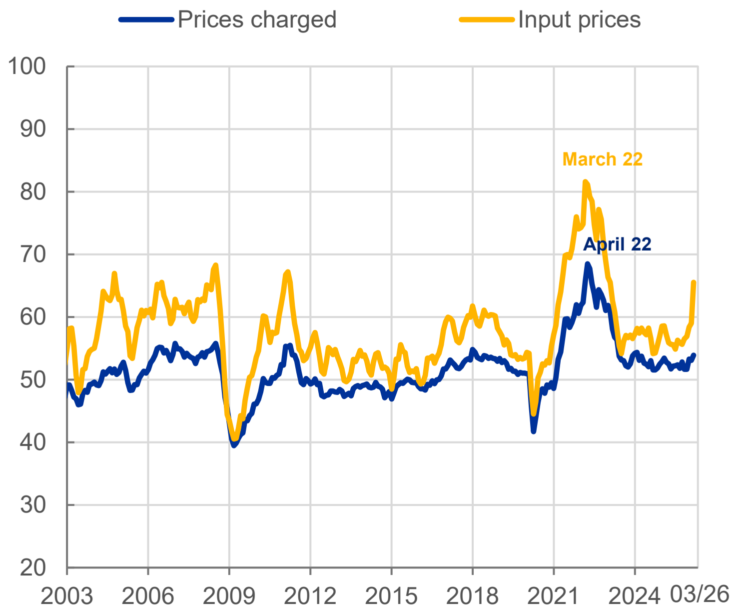
(averages ECB staff scores)



Source: ECB Corporate Telephone Survey.
Notes: Scores are averages of ECB staff scores in their assessment of what contacts said about quarter-on-quarter developments in selling prices and input costs. Scores range from -2 (significant decrease) to +2 (significant increase). A score of 0 would mean no change. Both series peaked in the Q2 2022 CTS - carried out between 20 and 30 March 2022. The latest observations are for the first quarter of 2026.

Composite PMI Prices

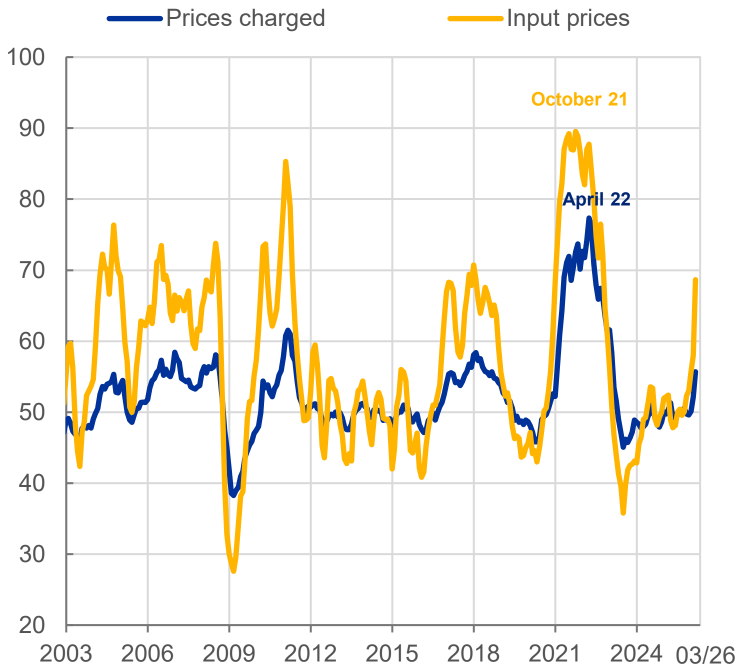
(diffusion index)



Source: S&P Global.
Notes: The prices charged component of the Purchasing Managers' Index (PMI) reflects survey responses on changes in the prices businesses charge for their goods and services. The input prices component captures changes in the costs businesses incur for inputs such as raw materials, energy, and labour. Index values range from 0 to 100, with readings above 50 indicating rising prices and readings below 50 signalling falling prices. A value of 50 suggests no change in prices. The latest observations are for March 2026.

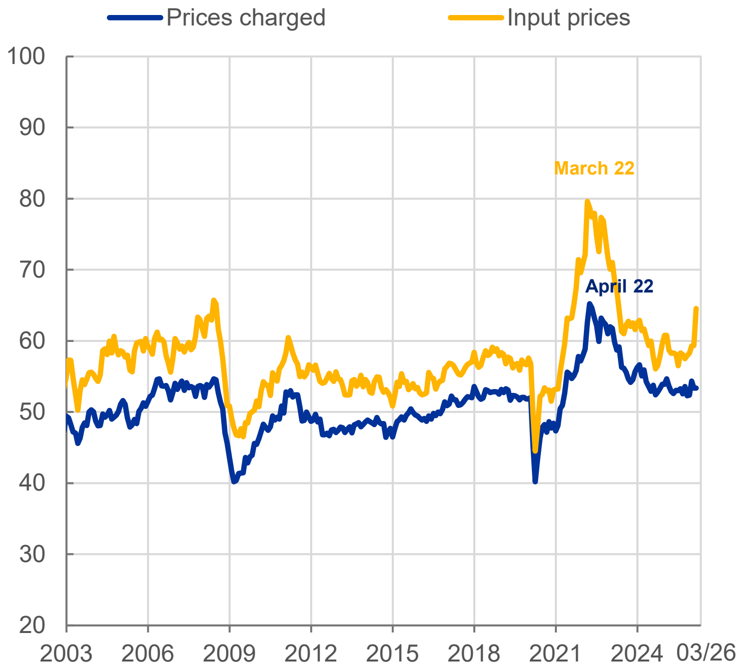
PMI prices in manufacturing and services

Manufacturing PMI Prices
(diffusion index)



Notes: The prices charged component of the Purchasing Managers' Index (PMI) reflects survey responses on changes in the prices businesses charge for their goods and services. The input prices component captures changes in the costs businesses incur for inputs such as raw materials, energy, and labour. Index values range from 0 to 100, with readings above 50 indicating rising prices and readings below 50 signalling falling prices. A value of 50 suggests no change in prices. The latest observations are for March 2026.

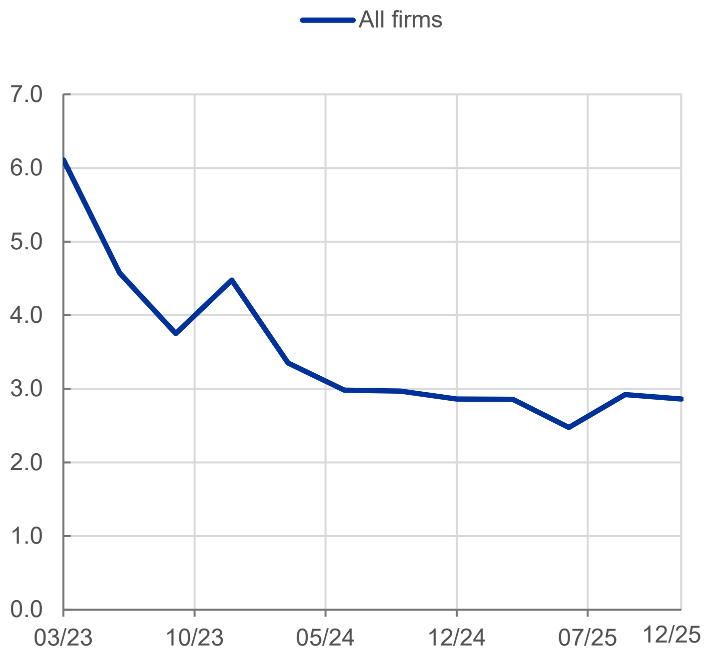
Services PMI Prices
(diffusion index)



Notes: The prices charged component of the Purchasing Managers' Index (PMI) reflects survey responses on changes in the prices businesses charge for their goods and services. The input prices component captures changes in the costs businesses incur for inputs such as raw materials, energy, and labour. Index values range from 0 to 100, with readings above 50 indicating rising prices and readings below 50 signalling falling prices. A value of 50 suggests no change in prices. The latest observations are for March 2026.

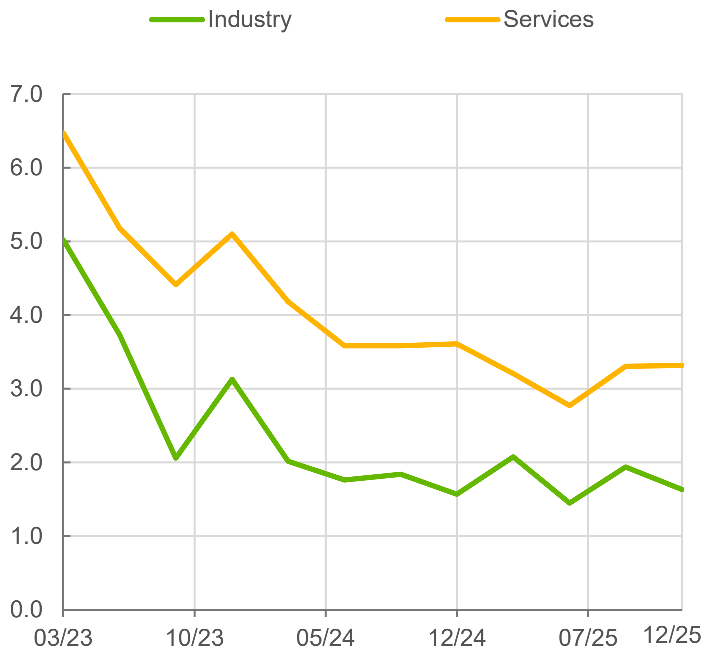
Selling price expectations: ECB SAFE

ECB SAFE Selling price expectations
(annual percentage changes)



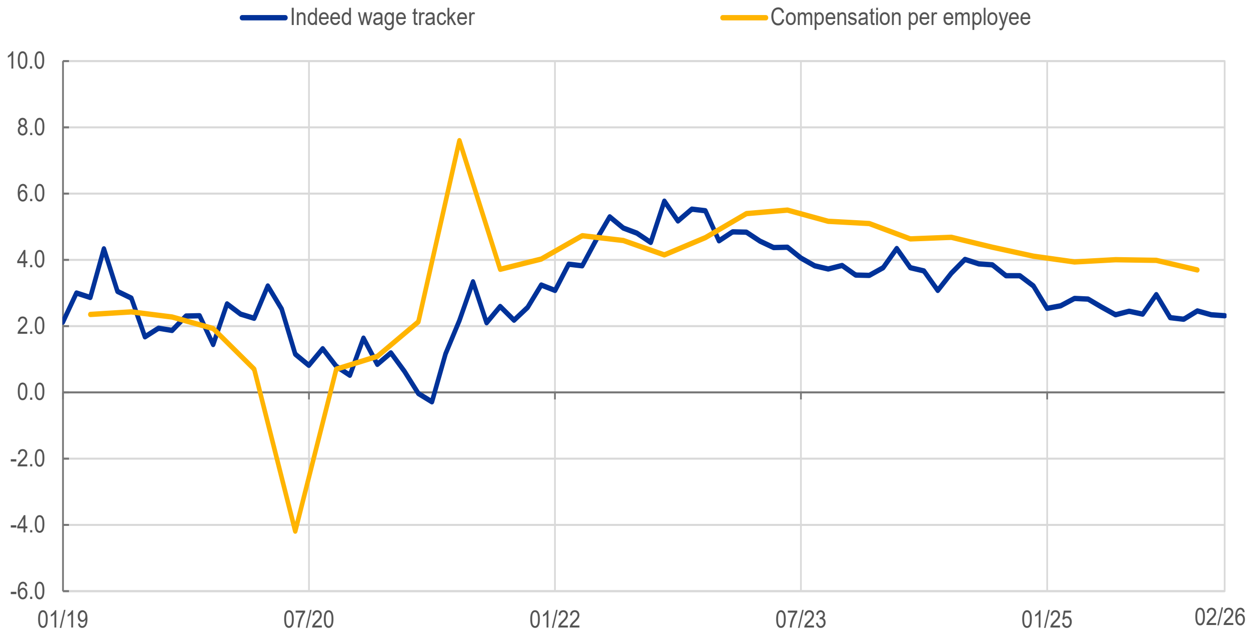
Source: ECB Survey on the Access to Finance of Enterprises.
Notes: Respondents are asked about their selling price expectations over the next 12 months. The first time this question was asked was in March 2023. The latest observations are for December 2025.

ECB SAFE Selling price expectations
(annual percentage changes)



Source: ECB Survey on the Access to Finance of Enterprises.
Notes: Respondents are asked about their selling price expectations over the next 12 months. The first time this question was asked was in March 2023. The latest observations are for December 2025.

Wage growth indicators
(annual percentage changes)



Sources: Indeed, Eurostat, and ECB calculations.
Notes: The Indeed wage tracker tracks the growth in wages of new hires. The latest observations are for February 2026 for the Indeed wage tracker and fourth quarter of 2025 for compensation per employee.

ECB wage tracker and negotiated wages

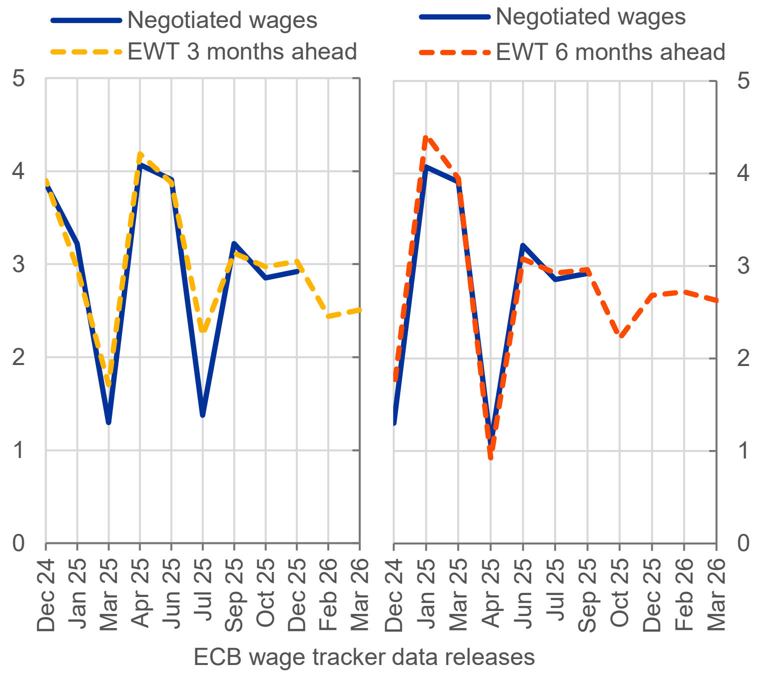
Negotiated wages and ECB wage tracker

(annual percentage changes)

Sources: ECB and ECB calculations. For details on the sources of the ECB wage tracker and negotiated wages see Chart 1 of the ECB Wage tracker press release.
Notes: The ECB wage tracker is with unsmoothed one-off payments and is calculated following the methodology of the indicator of negotiated wages, which excludes one-off payments in Italy. The yellow dashed line reflects the forward-looking information of the wage tracker as available in the January 2025 release. The red line displays the latest vintage of the ECB wage tracker as published in March 2026 and the dashed red line its forward-looking horizon.

Forward-looking ECB wage tracker fit

(annual percentage changes)



Sources: ECB and ECB calculations. For details on the sources of the ECB wage tracker (EWT) and negotiated wages see the sources to Chart 1 of the ECB Wage tracker press release.
Notes: This chart compares the forward-looking information of the different wage tracker vintages over time, for the indicator with unsmoothed one-off payments (adapted to fit the indicator of negotiated wages), with the ex-post realisation for negotiated wages at a fixed time horizon (3-months forward in the left panel and 6-months in the right panel).