EUROPEAN CENTRAL BANK

EUROSYSTEM

Outlook for the euro area economy and monetary policy

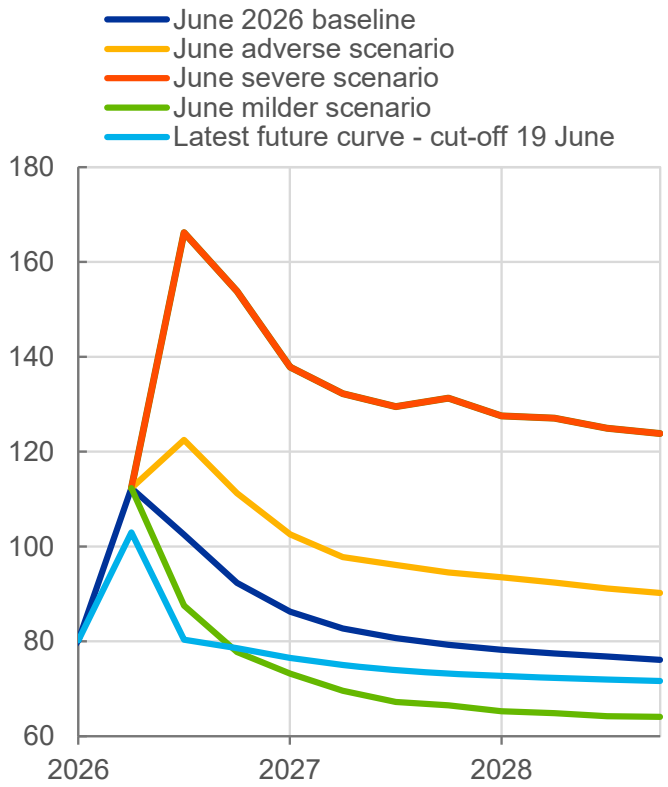
Exchange of views with the Committee on Economic and Monetary Affairs of the European Parliament

Brussels, 23 June 2026

Philip R. Lane
Member of the Executive Board

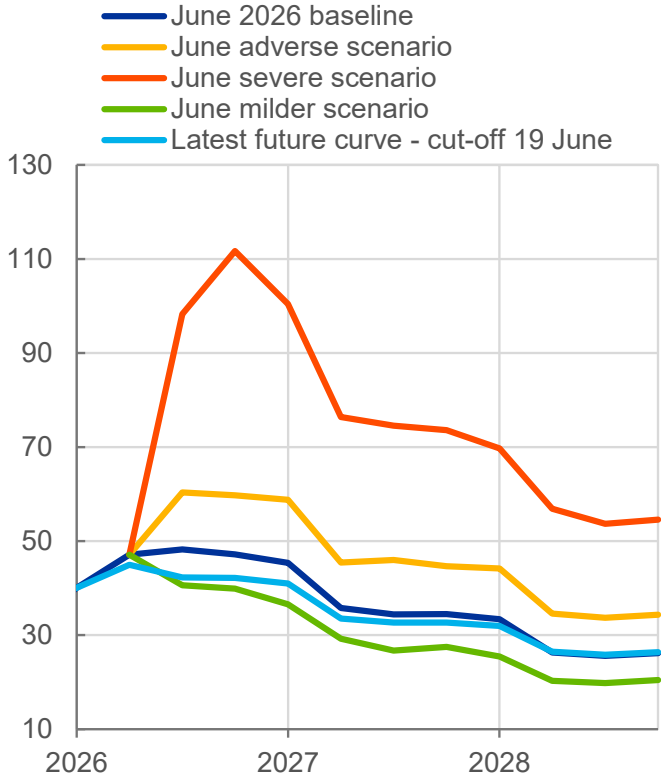
Outlook and scenarios for energy commodity prices

Oil prices
(USD per barrel)



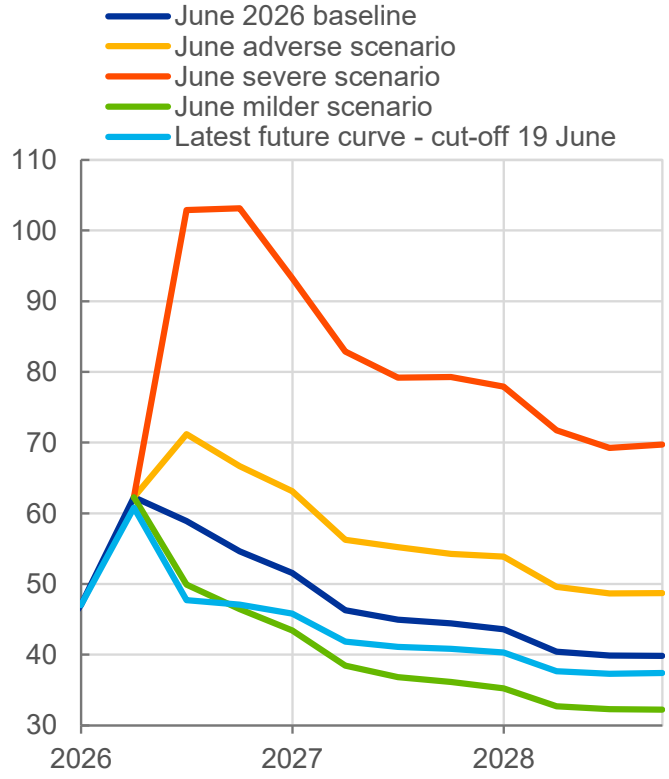
Sources: Refinitiv and ECB staff calculations.
Notes: Projections also entail spot prices. Cut-off for the June 2026 baseline is 21 May 2026. June scenarios are based on percentiles as at 21 May 2026. Latest futures (19 June) curves are calculated as quarterly averages of monthly prices. The current quarter is computed using the average of April and May prices and the latest available physical spot price (19 June). Subsequent quarters are derived from the corresponding futures contracts.

Gas prices
(EUR/MWh)



Sources: Refinitiv and ECB staff calculations.
Notes: Projections also entail spot prices. Cut-off for the June 2026 baseline is 21 May 2026. June scenarios are based on percentiles as at 21 May 2026. Latest futures (19 June) curves are calculated as quarterly averages of monthly prices. The current quarter is calculated using the average of April and May prices and the latest available day-ahead price for June (19 June), while future quarters are based on averages of the corresponding futures contracts.

Synthetic energy commodity price index (SECPI)
(USD index)



Sources: Refinitiv and ECB staff calculations.
Notes: The Synthetic Energy Commodity Price Index (SECPI) is computed as a weighted average on joint draws of oil and gas option-implied probability density functions. Projections also entail spot prices. Cut-off for the June 2026 baseline is 21 May 2026. June scenarios are based on percentiles as at 21 May 2026. The latest observations are for 19 June 2026.

Narrative of alternative Middle East conflict scenarios

	Energy commodity prices	Uncertainty	Indirect and second-round effects on inflation
Severe scenario ***Sensitivity analyses***	**95th percentile** of the market-implied probability distributions at the cut-off date	More persistent increase in VIX of **14 points**	**Stronger calibration than in the adverse scenario** based on 2021-24 inflation dynamics and satellite models *+ Energy supply constraints* *+ Jet fuel shortages*
Adverse scenario	**75th percentile** of the market-implied probability distributions at the cut-off date	Short-lived increase in VIX of **10 points**	**Stronger calibration than in the baseline** based on 2021-24 inflation dynamics and satellite models
Milder scenario	**25th percentile** of the market-implied probability distributions at the cut-off date	**Same as in the baseline**, i.e. in line with observed increase in VIX in weeks following the onset of the conflict before its subsequent reversal up to 21 May 2026	**Same as in the baseline**, i.e. limited upward judgement to account for possibly larger impacts compared with the standard model elasticities due to the size of the energy shock

Notes: In all scenarios monetary and fiscal policies are the same as in the baseline, i.e. the assumption is no policy change. Technical assumptions and market-implied probability distributions have a cut-off date of 21 May 2026.

Euro area baseline and scenarios

Growth and inflation projections for the euro area

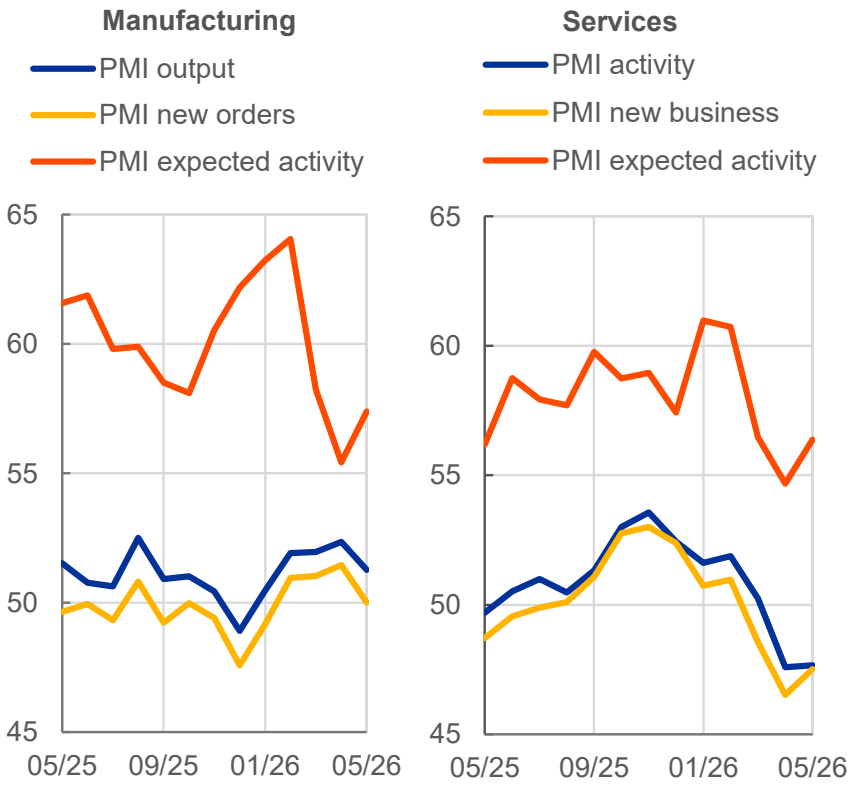
(annual percentage changes; revisions in percentage points)

	Real GDP			HICP inflation			HICP core inflation		
Annual percentage changes	**2026**	**2027**	**2028**	**2026**	**2027**	**2028**	**2026**	**2027**	**2028**
Milder scenario	0.8	1.4	1.6	2.9	1.8	1.8	2.4	2.3	2.1
June 2026 Eurosystem staff macroeconomic projections	0.8	1.2	1.5	3.0	2.3	2.0	2.5	2.5	2.2
Adverse scenario	0.7	0.9	1.5	3.3	3.0	2.3	2.5	2.7	2.3
Severe scenario	0.5	0.4	1.6	4.0	5.3	3.0	2.5	3.8	2.9
Revision since March 2026	**2026**	**2027**	**2028**	**2026**	**2027**	**2028**	**2026**	**2027**	**2028**
Baseline	-0.1	-0.1	0.1	0.4	0.3	-0.1	0.2	0.3	0.1
Adverse scenario	0.1	-0.3	-0.1	-0.2	0.9	0.7	0.1	0.0	0.2
Severe scenario	0.1	-0.5	-0.3	-0.4	0.5	0.2	-0.1	-0.1	0.0

Sources: ECB staff calculations based on Eurosystem staff macroeconomic projections and model simulations.
Notes: Revisions shown are based on rounded numbers. The cut-off date for the June 2026 projection is 21 May 2026.

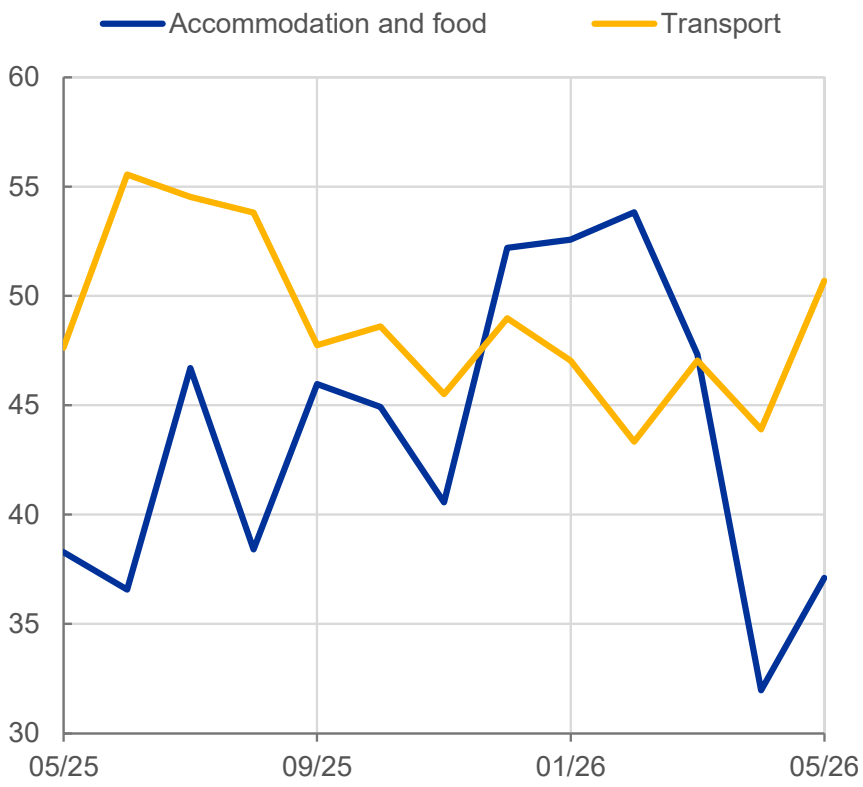
PMIs for activity in the euro area

Surveys for sectoral activity
(diffusion indices)



Source: S&P Global.
Note: The latest observations are for May 2026.

Business activity in consumer services
(diffusion indices)

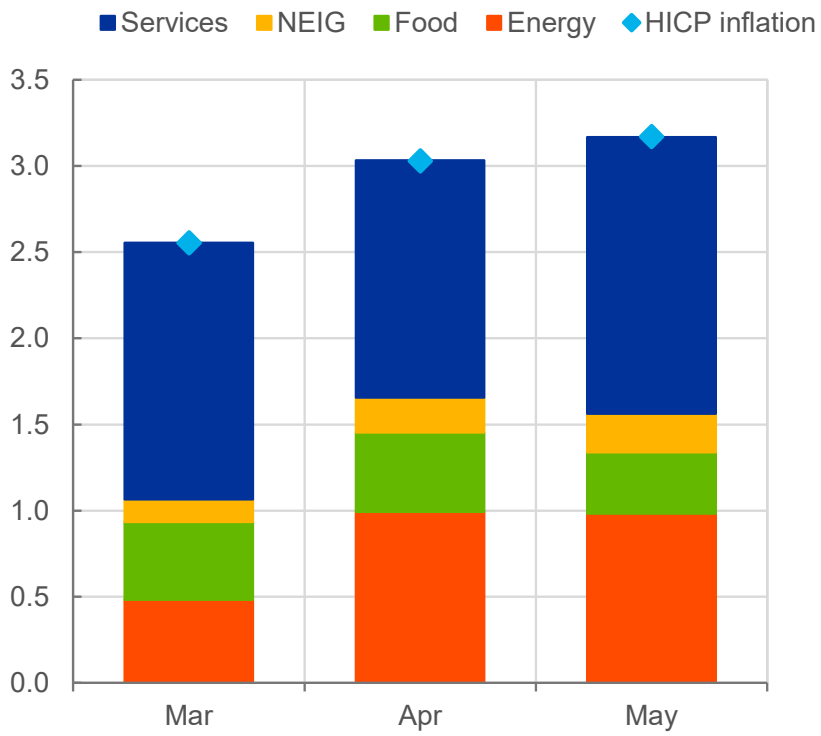


Source: S&P Global.
Note: The latest observations are for May 2026.

Inflation developments and outlook

Headline inflation and its main components

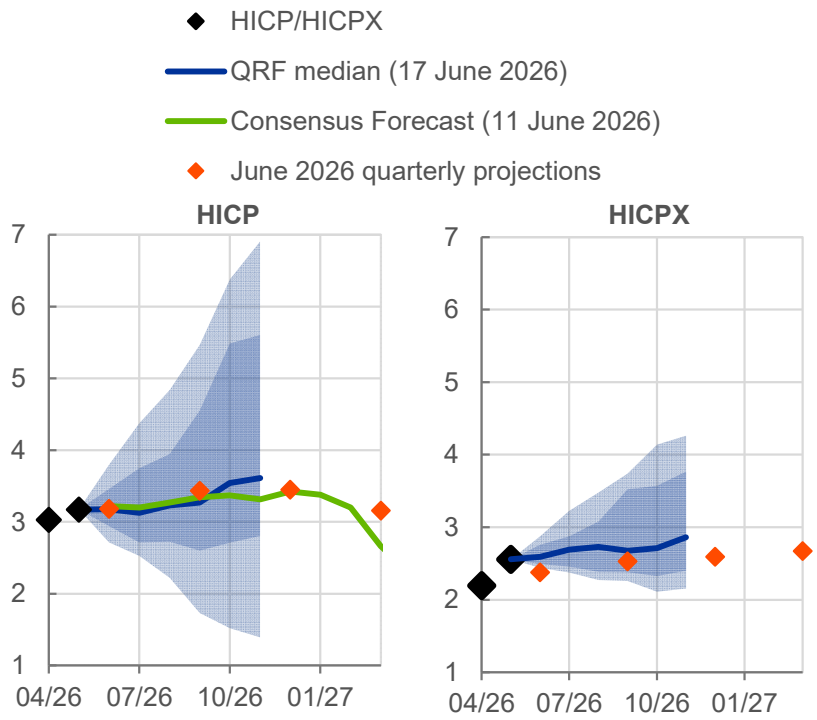
(annual percentage changes and percentage point contributions)



Sources: Eurostat and ECB calculations.
Note: The latest observations are for May 2026.

Short-term forecasts for HICP and HICPX

(annual percentage changes)

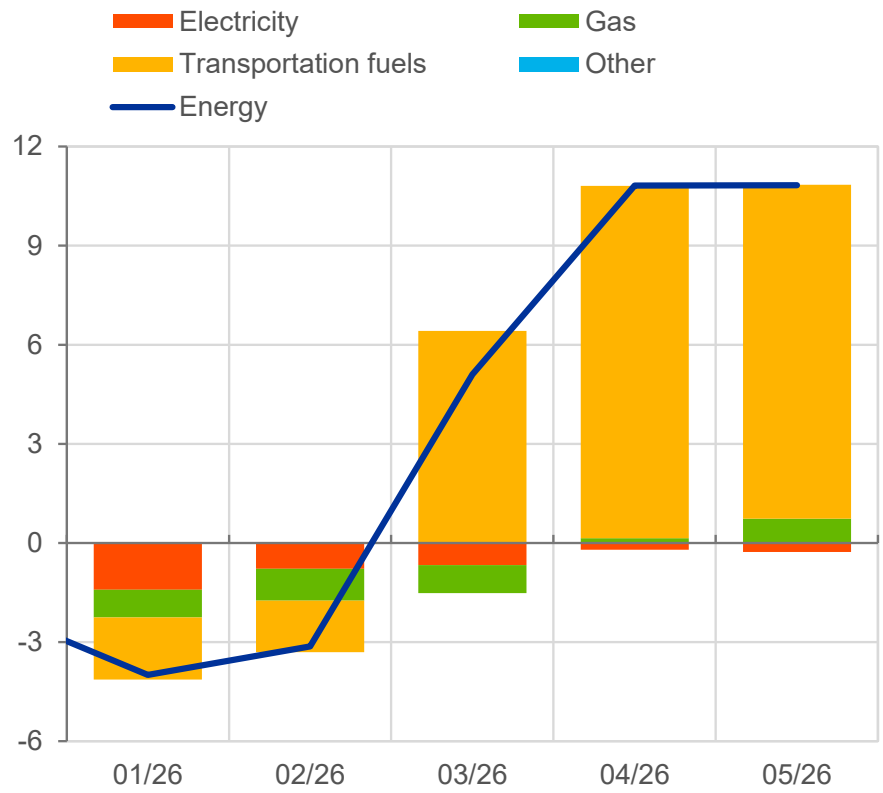


Sources: Eurostat, June 2026 Eurosystem staff macroeconomic projections, Consensus and ECB calculations.
Notes: QRF stands for quantile regression forest. QRF estimates from Lenza, M. et al. (2025), with 73% of May data available (cut-off date 17 June 2026). Light (dark) shaded areas denote the QRF 5-95 (16-84) range. The latest observations are for June 2026 for the Consensus forecast and May 2026 for the remaining measures.

Energy and food inflation

Energy inflation

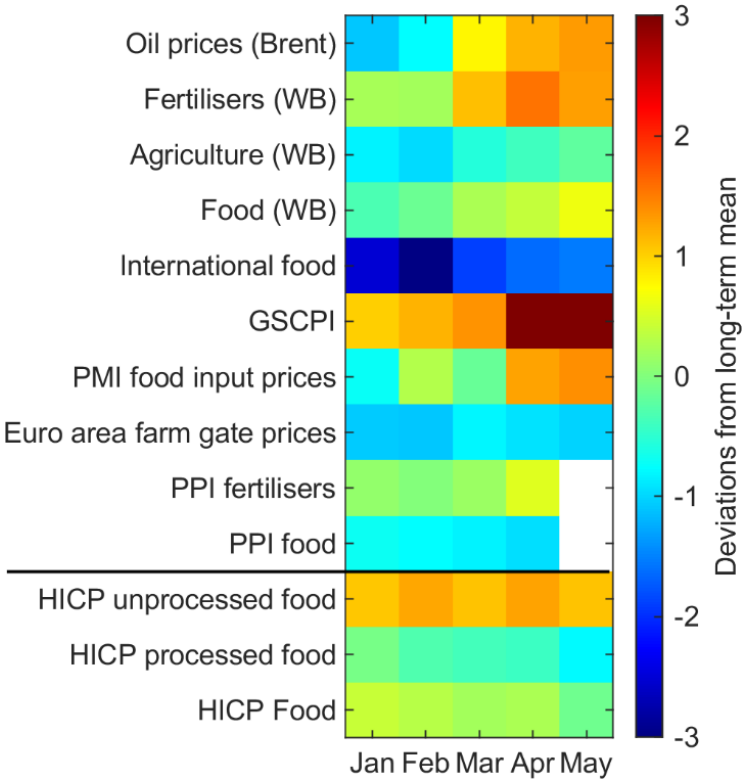
(annual percentage changes, percentage point contributions)



Sources: Eurostat and ECB calculations.
Note: The latest observations are for May 2026.

Heatmap for food inflation and pipeline pressures

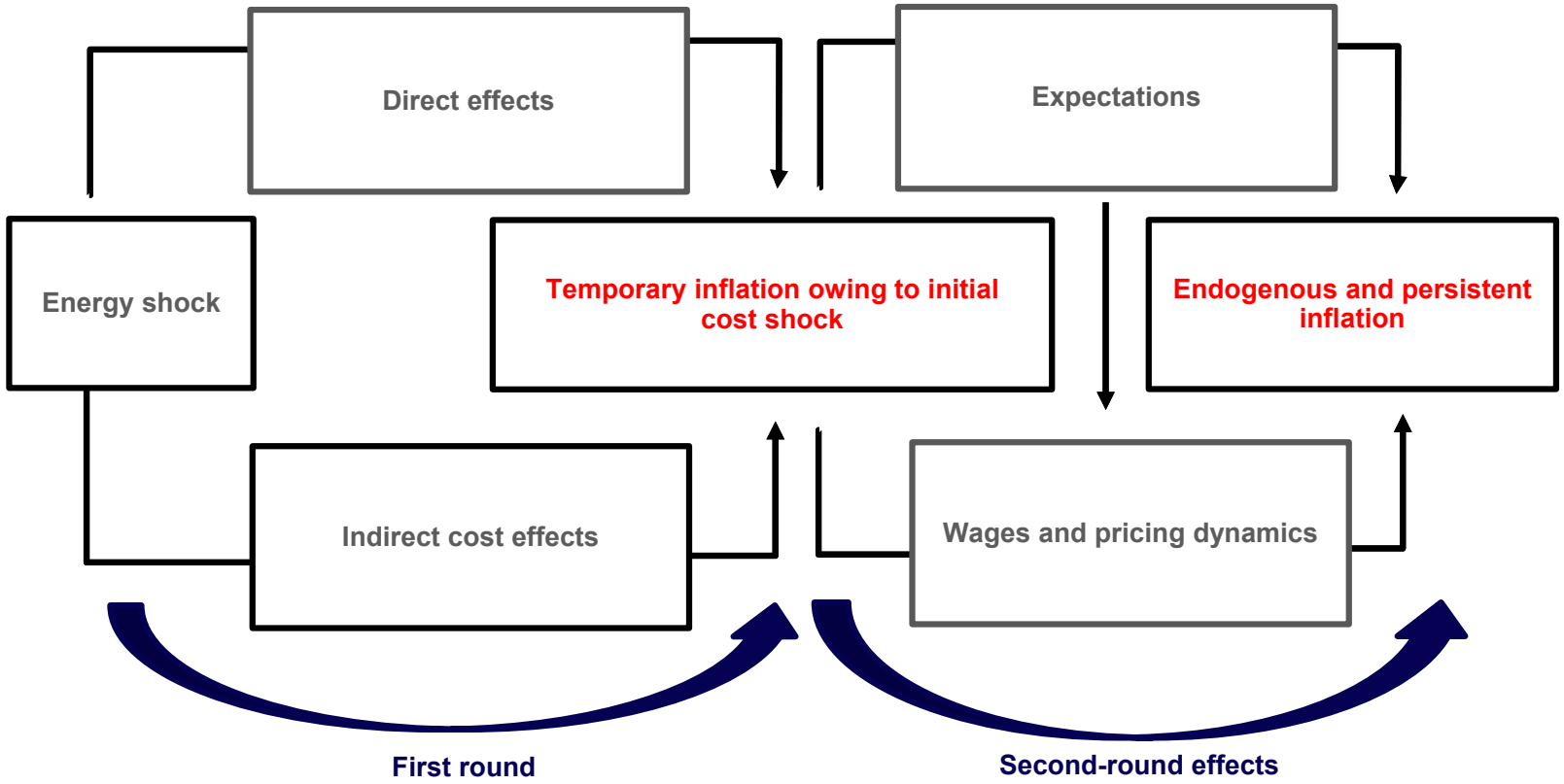
(standard deviations)



Sources: World Bank, Federal Reserve Bank of New York, Eurostat and ECB calculations.
Notes: Monthly food inflation and indicators for pipeline pressures are expressed as deviations from their long-term means, computed using data up to end-2019. Series are transformed to year-on-year growth rates and standardised. Colours denote number of standard deviations above (red) or below (blue) historical average. White areas correspond to missing data. WB stands for World Bank. GSCPI stands for Global Supply Chain Pressure Index. The latest observations are for April 2026 for PPI fertilisers and PPI food, and May 2026 for the remaining measures.

How energy price shocks feed into broader inflationary pressures

Stylised transmission channels of an energy price shock to consumer prices

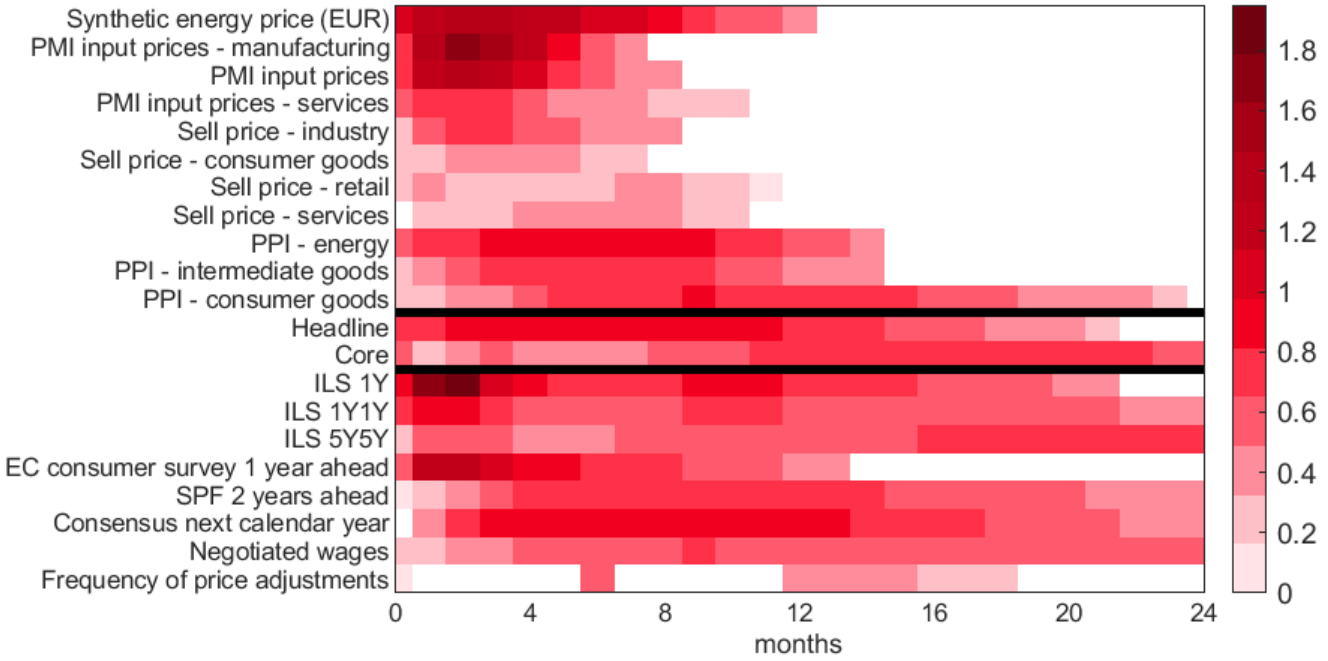


Source: ECB.

Transmission of energy – time profile for indirect and second-round effects

Impulse responses of indicators of indirect and second-round effects to energy price shocks

(standard deviations)

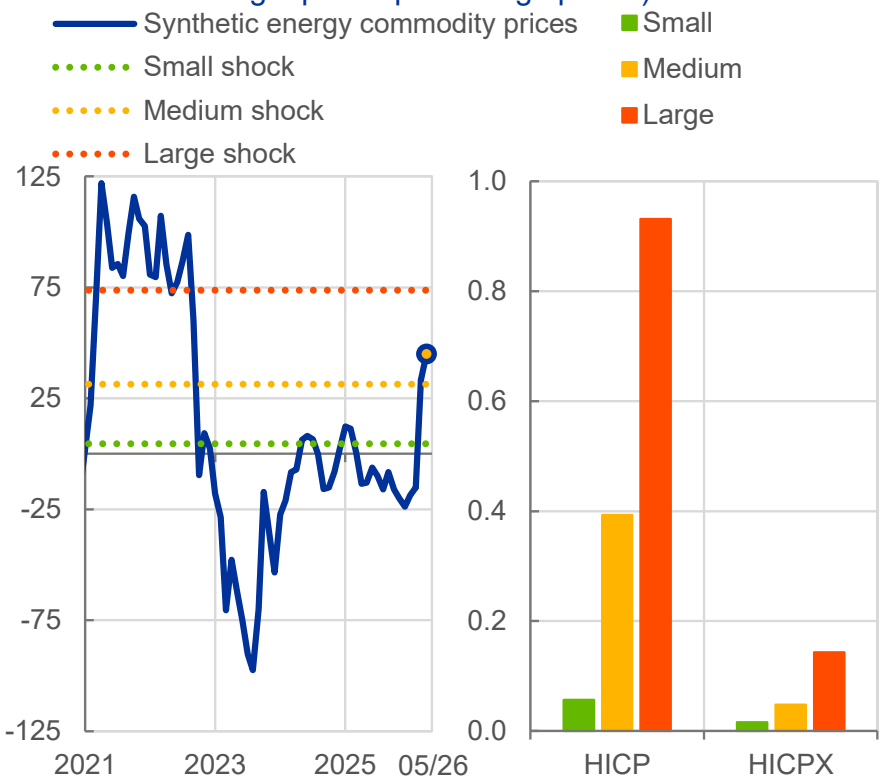


Sources: Eurostat, SDW, Haver and ECB staff calculations.
Notes: Median responses are normalised to an energy price shock that raises energy prices by one standard deviation. Responses are expressed in standard deviations. White segments indicate responses that are not significant based on the 68% credibility bands. The PMI delivery times response is multiplied by -1. The results are based on three BVAR models identified using the energy price shocks from Bańbura, M. et al. (2023) as internal instruments. The expectations block differs across specifications and includes either market-based inflation expectations, consumer inflation expectations together with either ECB Survey of Professional Forecasters (SPF) or Consensus forecasts, or firms' selling price expectations. The model including the frequency of price adjustments is estimated separately. The latest observations are for April 2026 for all models and December 2025 for the "Frequency of price adjustments" model.

Transmission of energy shocks: non-linear effects and granular perspective

Synthetic energy price indicator and non-linear inflationary effects

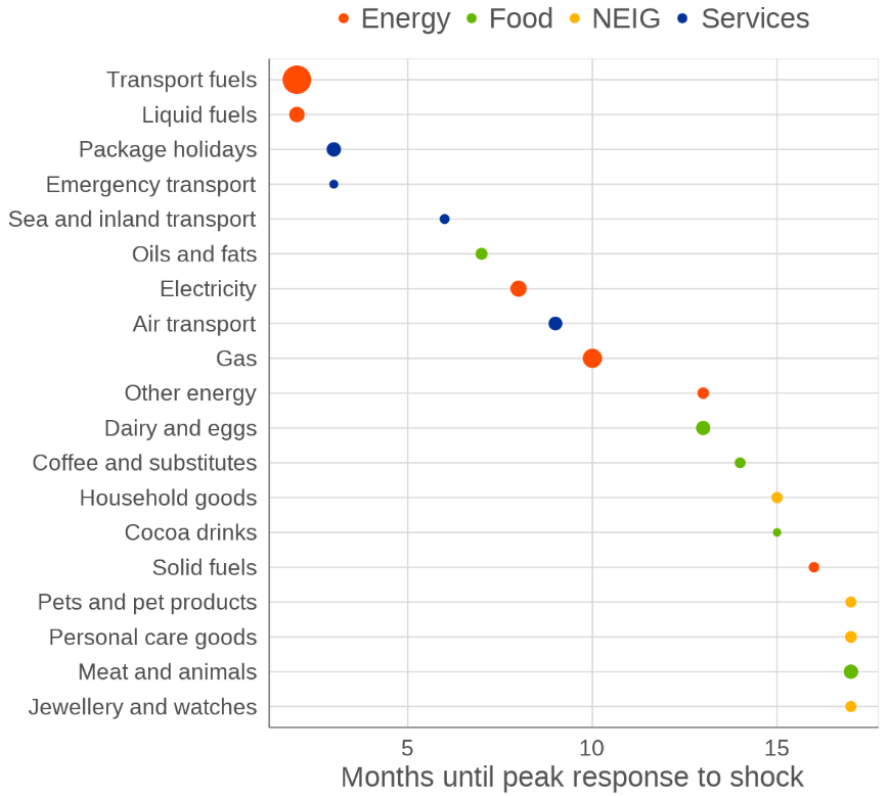
(left panel: annual percentage changes; right panel: percentage points)



Sources: ECB staff calculations and Bobeica, E. et al. (2025).
Notes: Left panel: synthetic indicator of energy prices, combining oil and gas prices using energy import shares of the euro area (in annual log diffs). Red, yellow and green dotted lines mark thresholds for small, medium and large energy shocks. Right panel: non-linear effects of small, medium and large shocks on HICP and HICPX inflation. The latest observations are for May 2026.

Granular transmission of oil shocks to inflation

(bubble size: percentage points peak effect x weight in HICP)

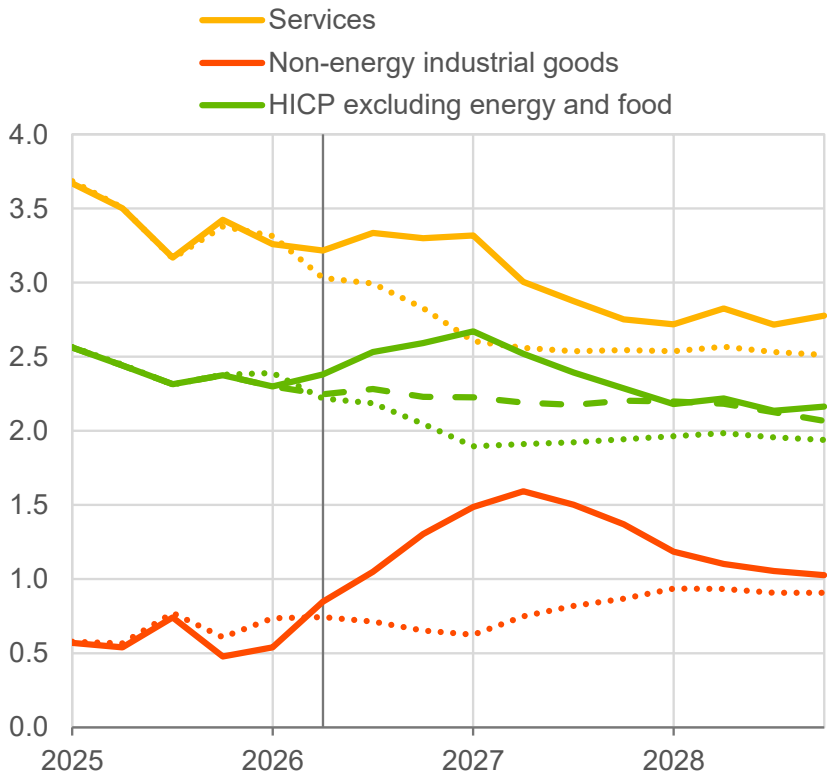


Sources: Eurostat, SDW, ECB staff calculations and Bańbura, M. et al. (2023).
Notes: Items sensitive to energy shocks, selecting the most sensitive within each category. The size of the bubble depicts the magnitude at the peak effect multiplied by its corresponding weight in the 2026 HICP.

Goods and services inflation

HICP inflation excluding energy and food, and its components

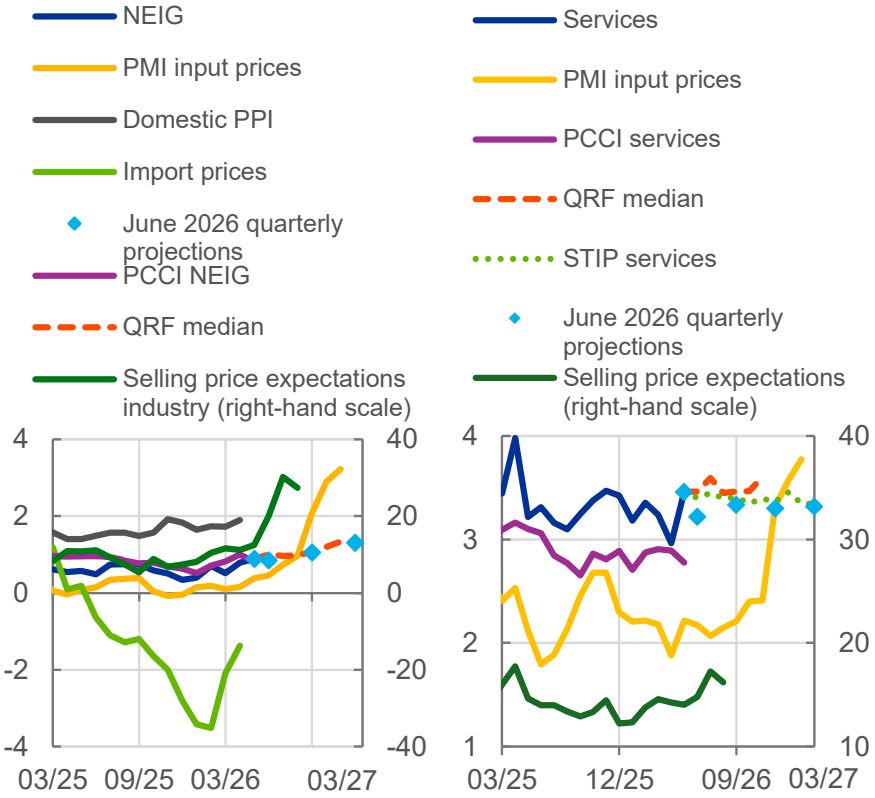
(annual percentage changes)



Sources: Eurosystem and ECB staff projections.
Notes: The vertical line indicates the start of the projection horizon. Solid lines refer to the June 2026 projections, dashed lines to the March 2026 projections and dotted lines to the December 2025 projections. The latest observations are for the first quarter of 2026.

Developments and outlook for non-energy industrial goods (NEIG) and services inflation

(annual percentage changes, percentage balances)

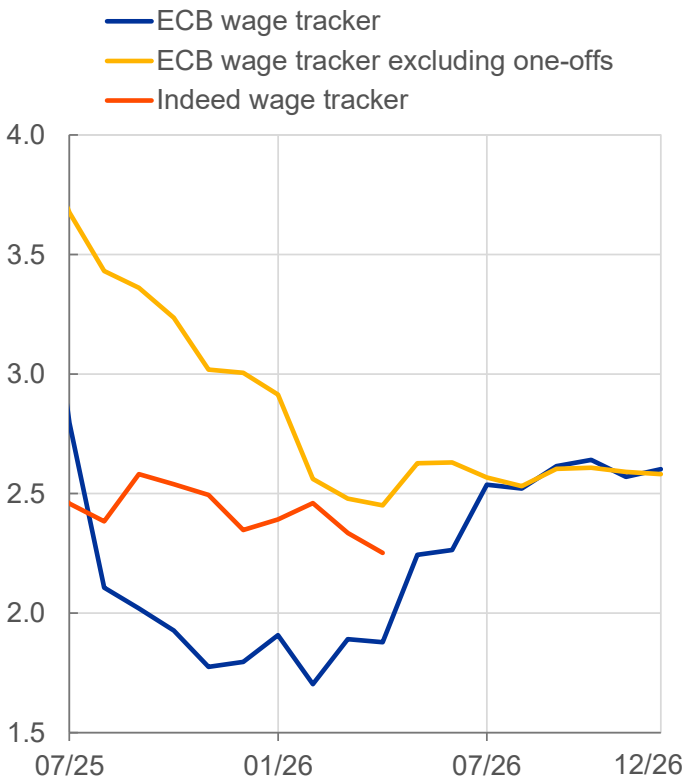


Sources: Eurostat, S&P Global, June 2026 Eurosystem staff projections and ECB calculations.
Notes: QRF stands for quantile regression forest. QRF estimates from Lenza, M. et al.(2025), with 73% of May data available (cut-off date 17 June 2026). PMI input prices rescaled to match mean and standard deviation of NEIG/services inflation. STIP services refers to experimental short-term BVAR inflation forecast (STIP) for services. Selling price expectations are in percentage balances. PMI manufacturing, PMI services and Selling price expectations are shifted by six, nine and three months respectively, to reflect the lead of the indicators. The latest observations are April 2026 for Domestic PPI and Import prices, and May 2026 for NEIG, Services, PCCI NEIG/Services, PMI input prices and Selling price expectations.

Signals from wage trackers

ECB wage tracker and Indeed wage tracker

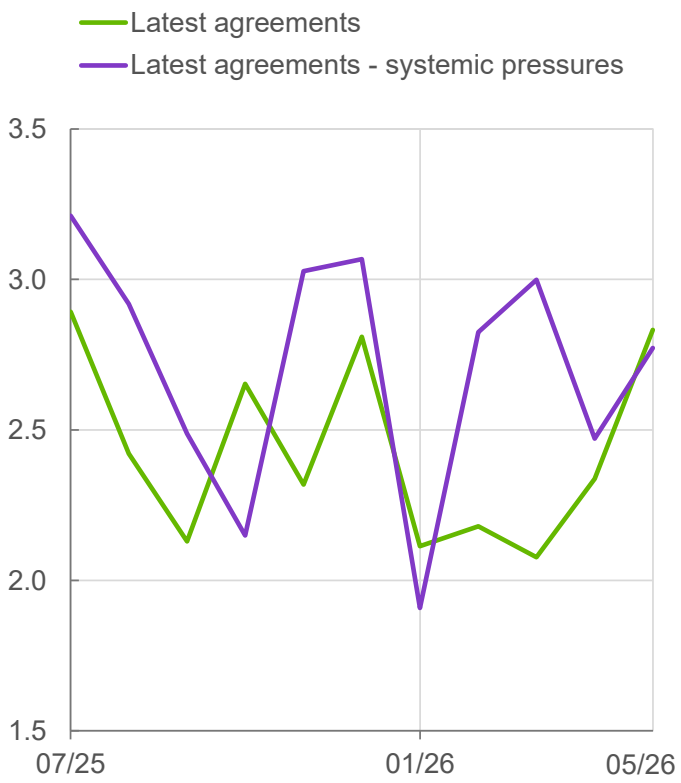
(annual percentage changes)



Sources: Eurostat, ECB wage tracker and Indeed.
Note: The latest observations are for April 2026 for Indeed and December 2026 for the ECB wage tracker indicators.

Indicator of latest agreements and systemic pressures

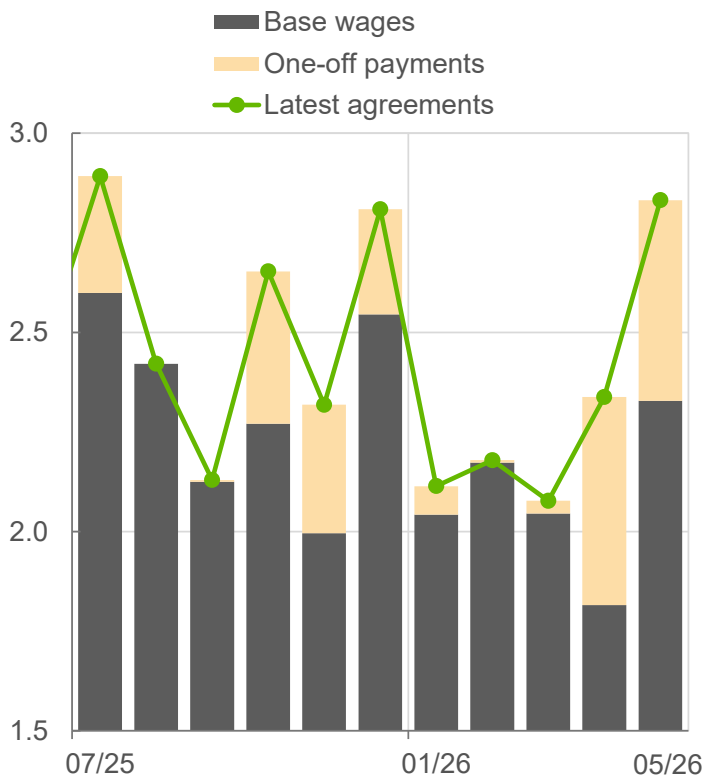
(percentages)



Source: ECB wage tracker.
Notes: The latest agreements indicator captures the increase in negotiated wage compensation under newly signed agreements over their first 12 active months, including one-off payments. The systemic pressures indicator controls for agreement-level heterogeneity across countries and bargaining sectors. The latest observations are for May 2026.

Indicator of latest agreements: role of base wages and one-offs

(percentages)

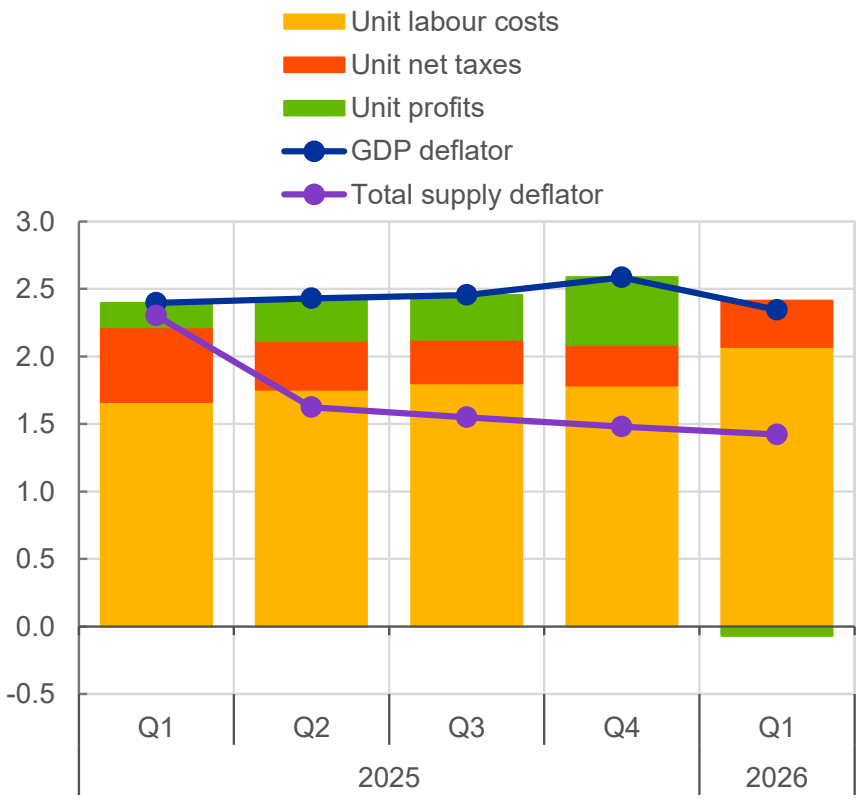


Source: ECB wage tracker.
Notes: The latest agreements indicator measures the strength of the newly signed agreements over the first 12 months in which the agreement is active. It is the increase in the total negotiated wage compensation the worker earns over this period. The latest observations are for May 2026.

GDP deflator and compensation per employee growth

Euro area GDP deflator and its components

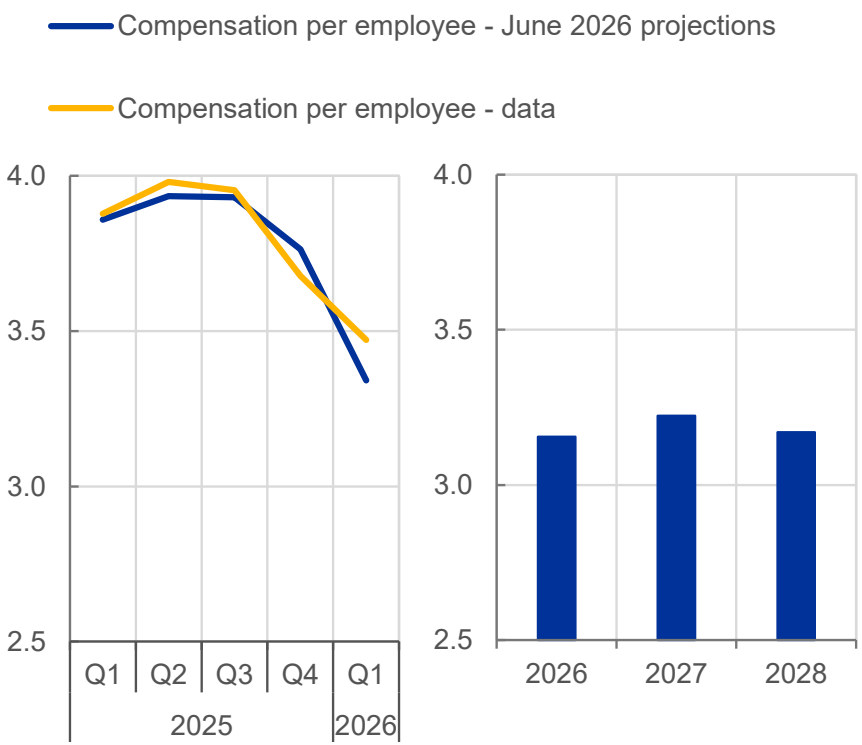
(annual percentage changes, percentage point contributions)



Sources: Eurostat and ECB calculations.
Note: The latest observations are for the first quarter of 2026.

Euro area compensation per employee growth and outlook

(annual percentage changes)

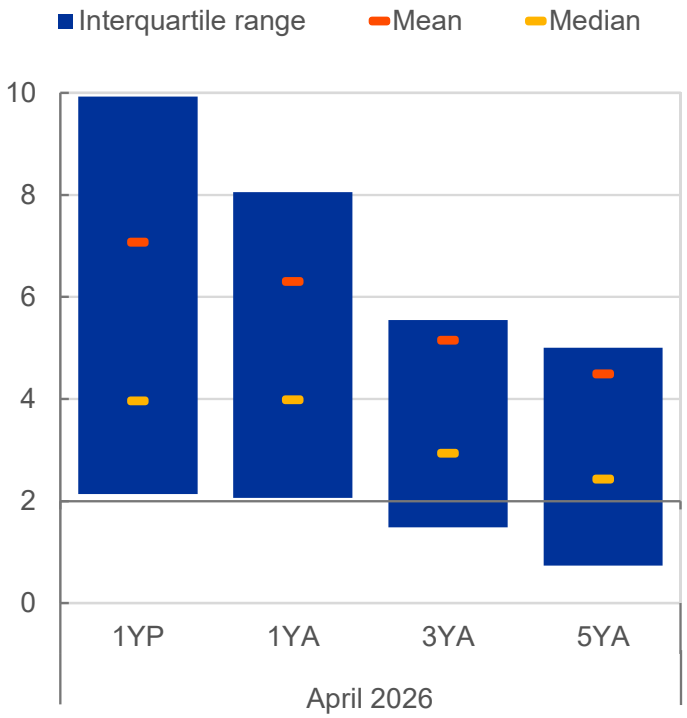


Sources: Eurostat and June 2026 Eurosystem staff projections.
Note: The latest observations are for the first quarter of 2026.

Measures of inflation expectations

Consumer inflation perceptions and expectations from ECB CES

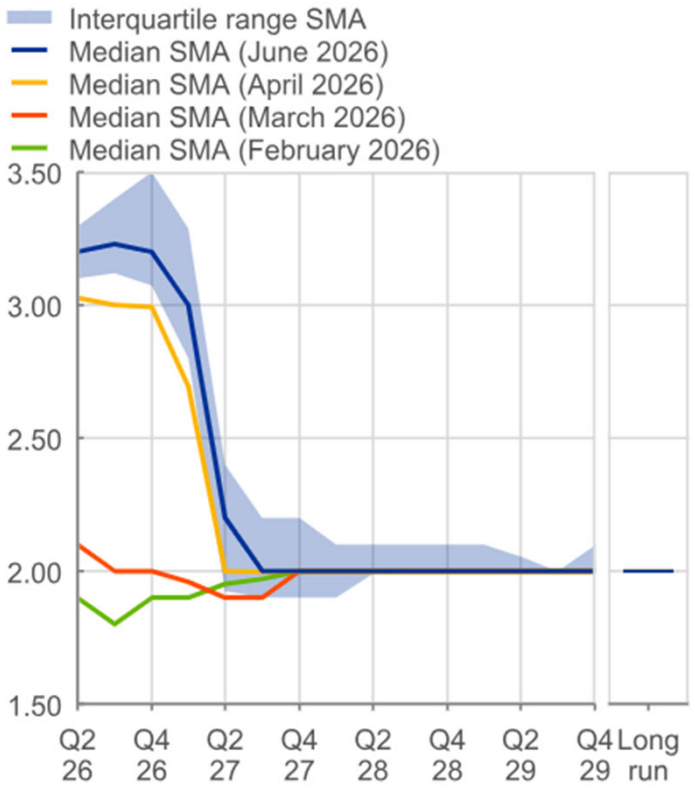
(annual percentage changes)



Sources: ECB Consumer Expectations Survey (CES) and ECB calculations.
Notes: Euro area consumer inflation perceptions (previous 12 months – 1YP) and inflation expectations (over the next 12 months (1YA), three years ahead (3YA) and five years ahead (5YA)) in April 2026. The latest observations are for April 2026.

Survey of Monetary Analysts: HICP inflation

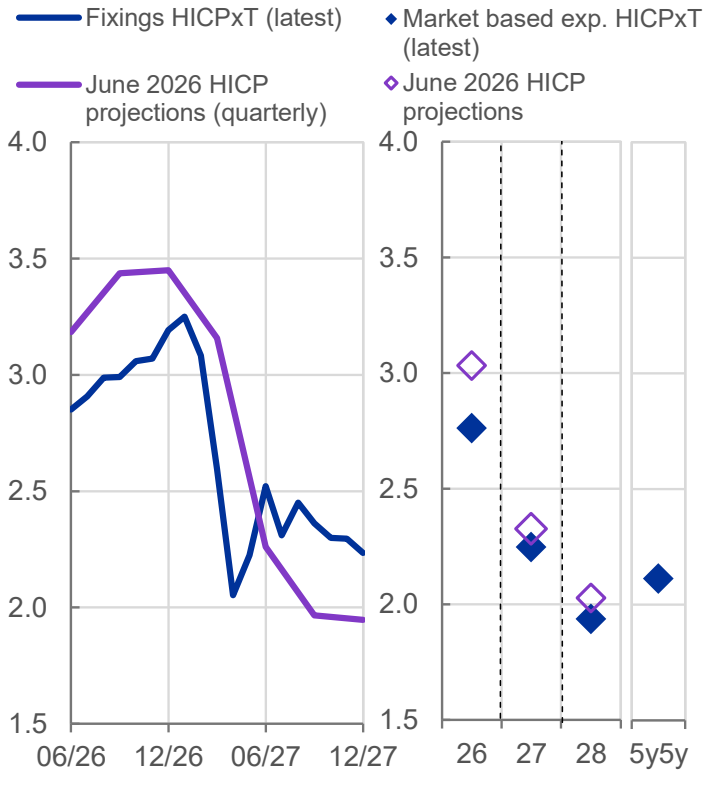
(annual percentage changes)



Sources: Survey of Monetary Analysts (SMA) and ECB calculations.

Euro area inflation path and 5y5y ILS forward rate

(percentages per annum)

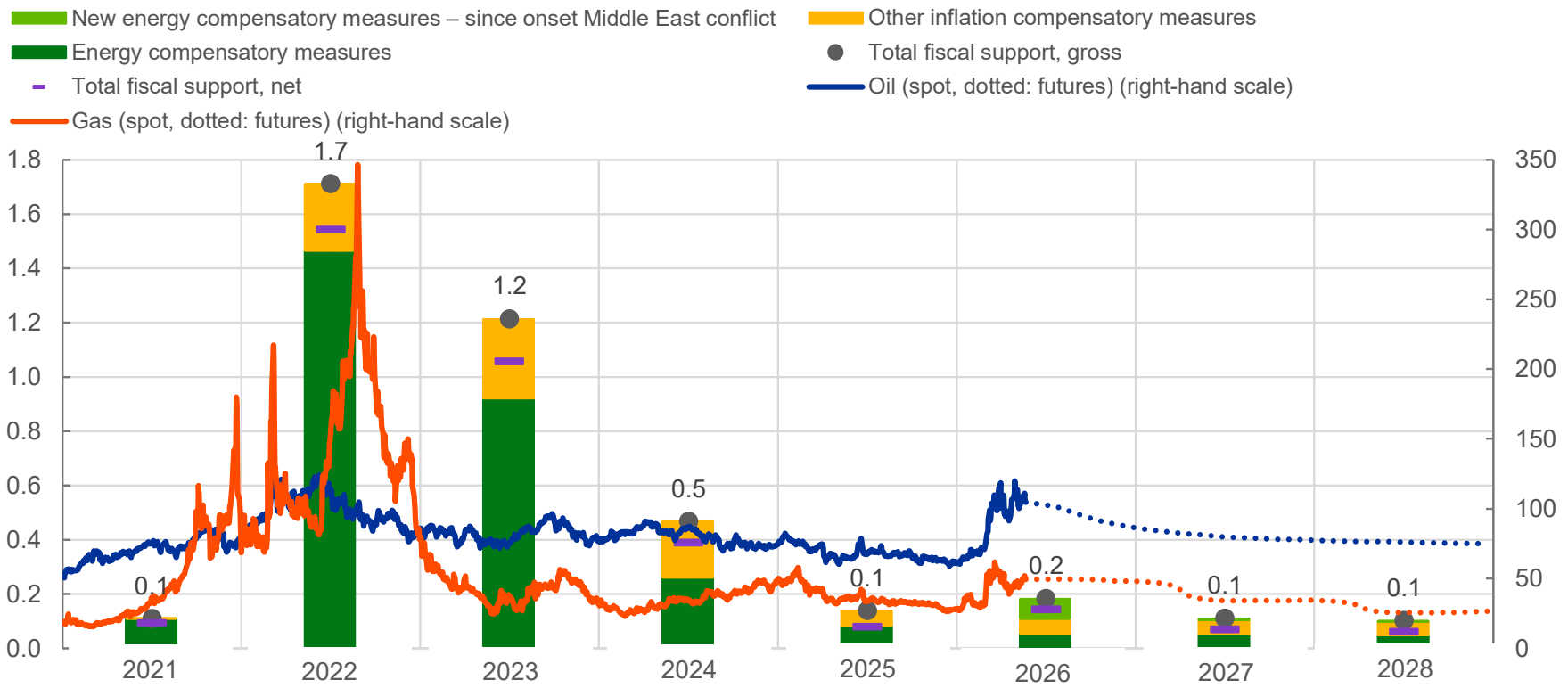


Sources: Bloomberg, LSEG, ECB projections database and ECB calculations.
Notes: Monthly inflation paths from inflation fixing contracts (HICPxT), and quarterly June 2026 Eurosystem staff macroeconomic projections for HICP. Calendar-year forecasts based on June 2026 projections and on the average inflation expectation components from three term structure models. The 5y5y horizon shows plain ILS rates. HICPxT stands for HICP excluding tobacco. The latest observations are for 19 June 2026.

Fiscal measures adopted by euro area Member States in response to inflation shocks

Euro area energy and inflation compensatory measures since 2021

(left-hand scale: percentage of GDP; right-hand scale: energy price)



Sources: June 2026 Eurosystem staff macroeconomic projections, Refinitiv and ECB staff calculations.
Notes: Energy prices (dotted lines denote futures) with cut-off date of 21 May 2026 and projections with cut-off date of 27 May 2026. For the years 2026-28, the bars – with the exception of the new energy compensatory measures since the onset of the war in the Middle East – include permanent effects of the energy and inflation compensatory measures approved in the context of the 2022 energy crisis.

Outlook for fiscal policy

Euro area fiscal projections

(percentage of GDP, revisions in percentage points)

	June 2026 projections (percentage of GDP)				Revisions since December 2025 projections (percentage points)			
	2025	**2026**	**2027**	**2028**	**2025**	**2026**	**2027**	**2028**
Fiscal stance (adjusted for NextGenerationEU)	**0.1**	**-0.5**	**0.4**	**0.2**	**0.0**	**-0.2**	**0.1**	**0.0**
Discretionary fiscal policy measures	0.2	-0.5	0.2	0.0	0.0	-0.3	0.2	-0.1
Non-discretionary factors	-0.1	0.0	0.2	0.2	0.0	0.1	0.0	0.0
Budget balance	**-2.9**	**-3.6**	**-3.7**	**-3.6**	**0.1**	**-0.3**	**-0.2**	**-0.2**
Total revenues	46.8	46.9	46.7	46.7	0.1	0.2	0.2	0.2
Total expenditures	49.8	50.5	50.4	50.3	0.0	0.4	0.4	0.4
Interest expenditure	1.9	2.1	2.2	2.4	0.0	0.1	0.1	0.1
Primary balance	-1.0	-1.5	-1.4	-1.2	0.0	-0.2	-0.1	-0.1
Cyclical component	0.1	0.0	-0.1	0.1	0.1	0.0	-0.1	0.0
Cyclically adjusted primary balance	-1.1	-1.5	-1.4	-1.3	0.0	-0.2	-0.1	-0.1
Gross debt	**87.4**	**88.7**	**89.4**	**90.0**	**0.1**	**0.6**	**0.8**	**0.8**
Interest rate-growth differential	-1.4	-0.7	-1.0	-0.7	-0.1	0.2	-0.1	-0.1
Deficit-debt adjustment	1.1	0.4	0.2	0.1	0.3	0.0	0.1	0.1

Source: June 2026 Eurosystem staff macroeconomic projections.

The 2025 Monetary Policy Strategy Review – including lessons learned

- "*To maintain the symmetry of its inflation target, the Governing Council recognises the **importance** of **appropriately forceful** or **persistent monetary policy action in response to large, sustained deviations of inflation from the target in either direction**, to avoid deviations becoming entrenched through de-anchored inflation expectations.*"

- "*The Governing Council bases its monetary policy decisions, including the evaluation of the proportionality of its decisions and potential side effects, on an **integrated assessment of all relevant factors**. In particular, it takes into account not only the **most likely path for inflation and the economy** but also **surrounding risks and uncertainty**, including through the appropriate use of scenario and sensitivity analyses.*"

- "*The flexibility of the medium-term orientation takes into account that **the appropriate monetary policy response** to a deviation of inflation from the target **is context-specific and depends on the origin, magnitude and persistence of the deviation**.*"

The June monetary policy decision

- "***The Governing Council is committed to setting monetary policy to ensure that inflation stabilises at our two per cent target in the medium term****. In line with this commitment, the Governing Council in June decided to raise the three key ECB interest rates by 25 basis points. The war in the Middle East is generating inflation pressures, and the decision to raise rates is robust across a range of scenarios mapping out how the shock might evolve and affect the medium-term outlook for the euro area.*"

- "The outlook remains uncertain, with upside risks for inflation and downside risks for economic growth. **The full implications of the war for medium-term inflation and growth will depend on the intensity and duration of the energy price shock, as well as the scale of its indirect and second-round effects.** This uncertainty is also reflected in the broad range of outcomes for inflation and growth in the updated illustrative scenarios put together by Eurosystem staff."

- "**With this decision, the Governing Council remains well positioned to navigate the uncertainty caused by the war.** The Governing Council will closely monitor the situation and follow a data-dependent and meeting-by-meeting approach to determining the appropriate monetary policy stance. In particular, the Governing Council's interest rate decisions will be based on the assessment of the inflation outlook and the risks surrounding it, in light of the incoming economic and financial data, as well as the dynamics of underlying inflation and the strength of monetary policy transmission. The Governing Council is not pre-committing to a particular rate path."

Comparing the crises of 2008, 2011 and 2022

2008 and 2011

- **Hikes occurred as crisis unfolded**: 2008 global financial crisis (Bear Stearns, Northern Rock already failing; money market spreads elevated since August 2007) and 2011 euro area sovereign debt crisis (Troika programmes, Greek restructuring talks, high sovereign spreads).
- Energy/food-driven inflation: peaks of 4.1% (2008) and 3.0% (2011), with muted core inflation at 1.7% and 1.6%. *(Today core inflation is at 2.5%).*
- **Balance sheets were weak** across banks, households and firms; fiscal positions were stretched (record deficits in 2011).

2022

- **A genuinely different shock**: severe supply bottlenecks, labour shortages and strong post-pandemic demand drove inflation to 10.6% in October, with core inflation peaking at 5.7% in March 2023 - broad-based, rather than a narrow energy shock (especially in oil).
- Euro area entered the 2022 energy crisis buoyed by large fiscal stimulus and highly accommodative monetary policy.
- Monetary policy had to respond forcefully – initially just to bring the policy stance back to neutral.