

16/21: A NEAR-UNIVERSAL CENTRAL BANKS STATUS QUO TODAY; WHAT ABOUT TOMORROW?

The week of 16–20 March was particularly busy on the monetary policy front. No fewer than 21 central banks met against the backdrop of a common exogenous factor: the conflict in the Middle East that broke out in late February 2026. Prior to the onset of the conflict, 12 to 15 of these banks were either in an easing cycle or preparing to implement rate cuts. Ultimately, regarding policy rates, sixteen banks maintained the *status quo*, two opted for an increase and three for a cut. We present an overview of the context and the terms of the debate around several questions: 1/ What impact has the war in the Middle East had on these monetary policy decisions (how has the outcome shifted from what was expected before the offensive began to the current situation)?; 2/ How concerned are central banks about current developments and the risk of stagflation (are they prepared to change course, and in what direction)?

It is not surprising that a cautious and wait-and-see approach largely prevailed, with the vast majority of central banks adhering to the decisions that had been anticipated. As for the level of concern among central banks, while most confirmed the expected *status quo*, this was accompanied by a notable and logical shift in tone, marked at the very least by increased vigilance regarding the re-emergence of inflationary risk and, for around half of our sample, by a 'hawkish' bias, i.e. the readiness / willingness to hike if needed to mitigate this risk (see table on page 5).

Let's start with a reminder. At the time of writing, the shockwaves from the war in the Middle East are still intensifying, and many uncertainties persist regarding the course, duration and scale of the conflict. One clear outcome of the conflict is the sudden return of the risk of a stagflationary scenario, characterised by lower growth and higher inflation, which stands in stark contrast to our previous baseline scenario. The extent of this stagflationary shock remains uncertain, but the likelihood of a significantly adverse scenario is growing¹. Additionally, this vulnerability is compounded by the multitude of shocks that have similarly impacted the global economy since the COVID-19 pandemic. Nevertheless, it is occurring within a broadly supportive and healthy macroeconomic environment.

A CAUTIOUS AND OBSERVANT APPROACH AS AN INITIAL MEASURE

In this uncertain context, an immediate reaction from central banks was neither expected nor warranted, whether in the form of a rate cut to mitigate the downside risk to growth, or a rate hike to counter the upside risk to inflation. Caution and a wait-and-see approach were the order of the day and largely prevailed. The vast majority of central banks have not deviated from their planned (or expected) decisions, with only a few making minor adjustments to their previously anticipated course.

This situation is exemplified by the Central Bank of Brazil (BCB), which opted for a 25-basis-point rate cut instead of the 50-basis-point cut initially planned. While the initiation of monetary easing was not called into question, its extent was indeed reduced². A similar scenario may apply to the 25-basis-point rate hike by the CBI (Central Bank of Iceland). Would this hike have taken place without the war in the Middle East? It is conceivable that it would not. Before the outbreak of the conflict, the trade-off between signs of weak growth and rising inflation argued for maintaining the *status quo*. The conflict and the subsequent rise in price pressures likely tipped the balance in favour of tightening.

¹ For further details, see our Ecolnsight '[War in the Middle East: Shockwaves are spreading](#)', 20 March 2026.

² The opposite occurred with the Bank of Ghana (BoG), whose 150-basis-point cut in the policy rate went beyond the expected 100 basis points, reflecting heightened concerns about growth despite upside risks to inflation.

³ Leaving aside the Bank of Japan, which has been on a desynchronised cycle of rate hikes since March 2024.

⁴ For further information on emerging markets' exposure, see François Faure's EcoWeek editorial, '[Emerging and developing countries: how will they weather the energy shock?](#)', 16 March 2026.

The most striking outcome is probably that of the Bank of England (BoE). A rate cut was neither guaranteed nor widely expected, but just a few days before the meeting, we were forecasting a 25bp cut to align with growing signs of disinflation. However, in light of recent events, we revised this forecast in favour of a hold. And the decided *status quo* was 'resounding', with all nine members voting unanimously for the first time since September 2021, thereby reinforcing the hawkishness signal.

Meanwhile, the Reserve Bank of Australia's (RBA) 25bp rate hike is part of a trend that began in February, in response to signs of a resurgence in inflation prior to the current energy shock, which is specific to Australia. The February hike attracted attention as it was the first among the major central banks of developed countries³, raising questions about its potential knock-on effects.

The Bank of Canada (BoC), the US Federal Reserve (Fed), the Bank of Japan (BoJ), the Swedish Riksbank, the Swiss National Bank (SNB), the Bank of England, the European Central Bank and numerous central banks in emerging economies opted for the *status quo*, as expected. For the Fed in particular, this appears to be a forced pause.

However, the nature of this *status quo* has changed in the current context. It is now accompanied by a notable and logical shift in tone, marked at the very least by increased vigilance regarding the re-emergence of inflationary risk and, for roughly half of our sample, by a hawkish bias, i.e. the readiness / willingness to hike if needed to mitigate this risk. The ECB is among them.

UNIFORMITY OF REACTIONS AT PRESENT; DIVERGING REACTIONS TO FOLLOW?

What happens next remains to be seen, but the trajectories of monetary policy could become more varied. Firstly, although the shock is global and spares no one, its impact is likely to vary considerably due to different levels of exposure among countries⁴. Secondly, the starting points differ from one country to another. The task facing central banks in countries where inflation is low (such as Switzerland and Sweden) is therefore less complicated than in countries where inflation was already high and sticky, while also facing upside risks (the United States, to name but one). The starting point in terms of growth naturally matters too, and in this regard, the US is in a more favourable position than the Eurozone.



Policy rates of the nine advanced markets' central banks who held a meeting between the 16th and the 20th March 2026

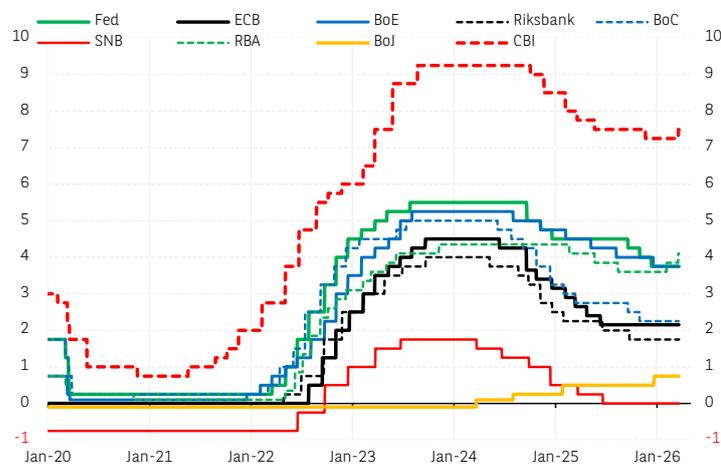


CHART 1

SOURCE: MACROBOND, BNP PARIBAS

Policy rates of the twelve emerging markets' central banks that held a meeting between the 16th and 20th March 2026

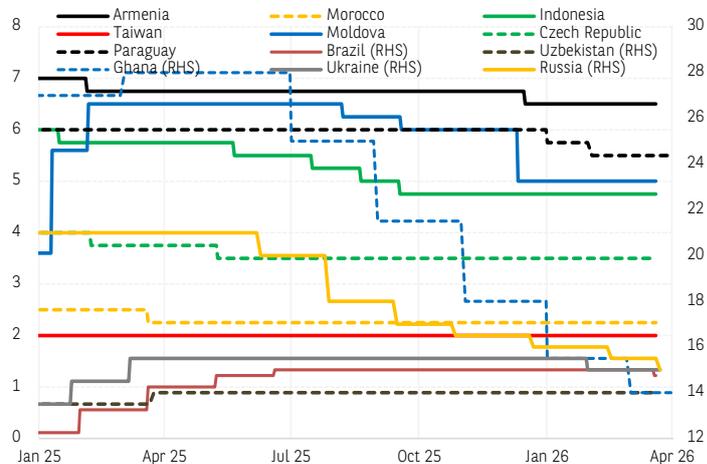


CHART 2

SOURCE: MACROBOND, BNP PARIBAS

The central bank's actions will also depend on the measures taken by governments. On the one hand, fiscal support (which is very limited at present) may help to mitigate the disinflationary effect of the negative demand shock, thereby further complicating the task facing monetary authorities. On the other hand, this same support, if aimed solely at limiting the rise in energy prices rather than directly bolstering demand, would help to reduce observed inflation. This, in turn, would mitigate the risk of inflation expectations becoming unanchored and prevent other second-round effects.

In any case, central banks face the same dilemma to varying degrees: as the conflict constitutes a classic negative supply shock, which simultaneously pushes inflation up and growth down, should they respond by raising interest rates to contain inflation, at the cost of further weakening growth, or should they lower interest rates to stimulate growth, thereby fuelling inflation? The central banks' response will depend not only on their own reaction functions but also on which risk manifests first and with what intensity.

Economic theory posits that the best response to an energy shock affecting an economy in equilibrium is to do nothing. Faced with an exogenous negative supply shock of this kind, central banks can, in fact, only manage the consequences, as they lack the ability to influence the causes. Assuming these consequences remain limited, central banks may simply look through them. However, while doing nothing may seem sensible in theory, it is not necessarily the most suitable response in practice, as highlighted by Jerome Powell. In the current situation, it is difficult to determine the precise scale of the consequences, yet there is little doubt that the risk of inflation has returned. The adjustments in central bank forecasts currently available to us bear this out: inflation forecasts have been revised upwards more than growth forecasts have been revised downwards.

As the future trajectory of inflation is currently a greater cause for concern than that of growth, we should expect interest rate hikes⁵. This is now our scenario for the ECB (three hikes of 25 basis points in June, July and September). For the BoJ, we maintain our expectation of a further 25 bp hike in April. For the BoE, a rate hike as early as April cannot be ruled out, but it is contingent on the severity and duration of the ongoing energy shock. Therefore, our BoE call remains under review. Should the stagflationary shock prove limited, the *status quo* – of a very different nature from what was envisaged hitherto – could be extended to navigate between the two risks. This is the scenario we are currently adopting for the Fed.

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⁵ If the energy shock persists and causes growth to falter significantly, scenarios involving rate cuts could emerge.

21 CENTRAL BANK DECISIONS UNDER THE MICROSCOPE

Country / Central bank	Meeting date	Change in key interest rate (bp)	Key interest rate level	Bias	Change in market expectations (number of cuts/hikes by end-2026)	Latest growth figure (y/y)	Change in central banks' 2026 growth forecasts	Latest inflation figure (y/y)	Change in central banks' 2026 inflation forecast	Exposure to stagflationary shock
Australia / RBA	17/03	+25	4.10%	Hawkish	3 rate hikes as of 23/03 (compared with 1 as of 27/02)	2.6% (Q4 25); 2.0% (2025)	n.a	3.8%	n.a	Moderate
Indonesia / BI	17/03	=	4.75%	Somewhat hawkish		5.2% (2025)	n.a	4.8%	n.a	Low
Armenia / CBA	17/03	=	6.5%	Balanced		6.9% (2025)	n.a	4.3%	n.a	Moderate
Morocco / BAM	17/03	=	2.25%	Balanced		4.0% (Q3 2025)	+0.9pp	-0.6%	-0.5pp	Low
Uzbekistan / CBU	18/03	=	14%	Somewhat hawkish		7.7% (2025)	n.a	7.3%	n.a	Moderate
Iceland / CBI	18/03	+25	7.50%	Hawkish		-0.6% (Q4 25)	n.a	5.2%	n.a	High
Ghana / BoG	18/03	-150	14%	Balanced		+5.8% (Q4 25)	n.a	3.3%	n.a	Average
Canada / BoC	18/03	=	2.25%	Balanced	3 rate hikes as of 23/03 (compared with a 44% probability of 1 cut on 27/02)	0.7% (Q4 25); 2.0% (2025)	n.a	1.8%	n.a	Moderate
United States / Fed	17-18 March	=	3.50-3.75%	Somewhat hawkish	75% probability of 1 rate hike (compared with 2 cuts on 27/02)	2.0% (Q4 25); 2.1% (2025)	+0.1pp	2.4% (CPI - Feb.); 2.8% (PCE - Jan.)	+0.3pp (PCE)	Average
Brazil / BCB	18/03	-25	14.75%	Between neutral and dovish		2.3% (2025)	No change (forecast: 1.8%)	3.8%	+0.4pp (if Petrobras passes on the rise in oil prices)	Moderate
Japan / BoJ	18-19 March	=	0.75%	Hawkish	2 hikes as of 23 March (compared with 1 as on 27/02f 27 February)	0.5% (Q4 25); 1.2% (2025)	n.a	1.5%	n.a	High
Sweden / Riksbank	19/03	=	1.75%	Balanced	2 rate hikes by 23/03 (compared with a 50% probability of 1 rate cut on 27/02)	2.0% (Q4 25); 1.8% (2025)	-0.4pp	0.5% (1.7% for the target measure)	+0.2pp (+0.6pp for the target measure)	High
Switzerland / SNB	19/03	=	0%	Balanced		0.7% (Q4 2025); 1.3% (2025)	No change	0.5%	+0.2pp	Moderate
Taiwan / CBC	19/03	=	2%	Balanced		8.7% (2025)	+3.6 pp (carry-over effect)	1.2%	+0.2pp	Moderate
Ukraine / NBU	19/03	=	15%	Balanced		3.2% (Q4 2025); 1.8% (2025)	n.a	7.6%	n.a	High
Moldova / NBM	19/03	=	5%	Balanced		3.6% (Q4 2025); 2.4% (2025)	n.a	5.1%	n.a	High
United Kingdom / BoE	19/03	=	3.75%	Hawkish	3 rate hikes as of 23/03 (compared with 2 rate cuts as of 27/02)	1.0% (Q4 2025); 1.3% (2025)	n.a	3.0%	+0.9 pp in Q2 and +1.5 pp in Q3	High
Eurozone / ECB	19/03	=	2%	Hawkish	3 rate hikes by 23/03 (compared with a 55% probability of 1 rate cut on 27/02)	1.2% (Q4 25); 1.5% (2025)	-0.3 pp (new baseline); -0.6 percentage points (adverse); -0.8 percentage points (severe)	1.9%	+0.7pp (new baseline); +1.6pp (adverse); +2.5pp (severe)	High
Czech Republic / ČNB	19/03	=	3.50%	Somewhat hawkish		2.6% (Q4 2025); 2.6% (2025)	n.a	1.4%	n.a	Moderate
Russia / CBR	20/03	-50	15%	Close to balance		0.6% (Q3 2025)	n.a	5.9%	n.a	Moderate
Paraguay / BCP	20/03	=	5.50%			6.6% (Q3 2025)	n.a	2.3%	n.a	High