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MIDDLE EAST CONFLICT: MODERATE IMPACT ON ADVANCED ECONOMIES SO FAR, BUT HIGH UNCERTAINTY REMAINS

The war in the Middle East has caused prices of several commodities to rise, in particular oil which has neared historic highs. Although conflict's trajectory remains highly uncertain, weaker supply and demand constraints compared to 2022 should limit the upward pressure on inflation.

Household consumption and sectors least able to pass on rising production costs to sales prices (primarily consumer goods) are likely to be hit hardest. The ultimate effect on GDP growth will depend on the duration and severity of the damage.

According to our baseline scenario, a recession should be avoided. However, if the conflict were to escalate to the point of causing shortages (of fuel or inputs), its impact on growth and inflation could lead to such a recessionary outcome.

High public debt levels and long-term interest rates limit governments' room for manoeuvre, meaning any support measures are expected to be more limited than in 2022. If the conflict and its inflationary effects were to worsen, this reduced room for manoeuvre means that any additional response would have to be financed by equivalent savings.

With weaker demand dynamics than in 2022, and less fiscal stimulus, central banks may face less pressure to tighten monetary policy to curb inflation. While the next move in interest rates is likely to be a hike in most cases, such action remains premature at this stage.

Oil prices: A significant increase to be put into perspective

The rise in oil prices is the primary channel through which the conflict in Iran is transmitting economic effects to advanced economies. The ultimate impact will depend not only on how the conflict evolves but also on the damage already inflicted.

While the spot price has not yet reached the record highs of 2008 (Chart 1), the picture changes when factoring in the crack spread – the price difference between crude oil and its refined products (specifically petrol and diesel), which includes refining margins and operational costs. Compared to past shocks, the crack spreads which occurred in 2022 and 2026 are significantly higher, pushing the total effective price closer to 2008 levels. However, this line of reasoning must be put into perspective, given that wages and price indices have risen between those two dates. The consumer price index has risen by 42% in the Eurozone. Thus, in real terms, the peak in 2026 is lower than that of 2008.

A closer look at the 2026 shock (Chart 2) reveals that most of the oil price increase affecting consumers stems from the crack spread. However, the common factor between 2022 and 2026 is supply constraints – in 2022, due to Europe's shift away from Russian oil, and, in 2026, because of reduced exports from Gulf countries. As a result, the physical oil price, which reflects immediate supply pressure, diverges from the market price, which relates to deferred delivery.

The impact of such a shock also depends on the length of time during which supply from Gulf producers is reduced, and on the ability of other producers and demand to adjust accordingly. Even if such adaptive capabilities exist, they take time to materialise. In the short term, the oil price will therefore be determined mainly by the evolution of the conflict and the associated geopolitical risk premium.

For our scenario analysis, we have adopted a baseline assumption, which corresponds to the following oil price trajectory (Chart 3). This trend in oil prices aligns with Scenario 3 below. However, several potential outcomes remain possible, as outlined in the following four alternative scenarios (also detailed in our EcoInsight of 20 March, detailed analysis here):

Scenario 1: de-escalation and immediate resolution of the conflict.

Scenario 2: swift resumption of hydrocarbon flows amid lingering instability.

Scenario 3: partial resumption of hydrocarbon flows as tensions gradually ease by the end of Q2 2026. In this scenario, oil prices are expected to decline at a slower rate in 2026 compared to the more favourable scenarios (1 and 2) and are projected to remain elevated in 2027 (between USD 10 and USD 15 higher).

Scenario 4: the continuation of severe restrictions on traffic through the Strait of Hormuz, keeping hydrocarbon prices at very high levels until Q3 2026. Following this period, a gradual decline in prices is anticipated until spring 2027, at which point they would stabilise at levels comparable to those in our intermediate Scenario No. 3.

Including the crack spread to the spot oil price, the total nears 2008 and 2022 peaks

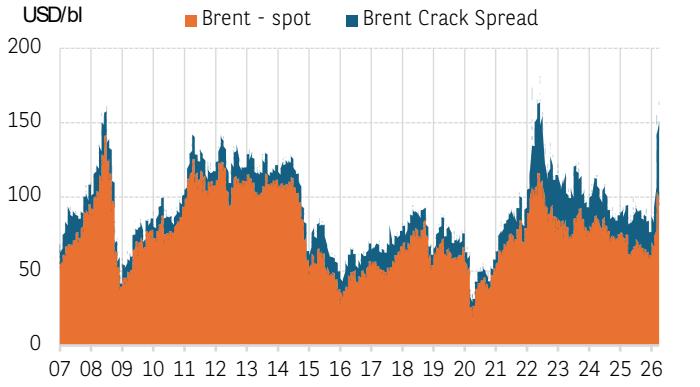


CHART 1 SOURCE: ICE, MACROBOND, BNP PARIBAS

For consumers, in 2026, the increase in oil prices is more driven by the crack spread than by the spot price

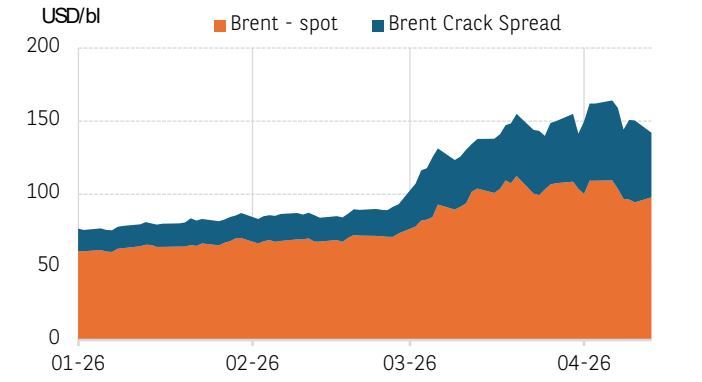


CHART 2 SOURCE: ICE, MACROBOND, BNP PARIBAS

Our central scenario for Brent prices does not foresee any easing of tensions before the end of the second quarter

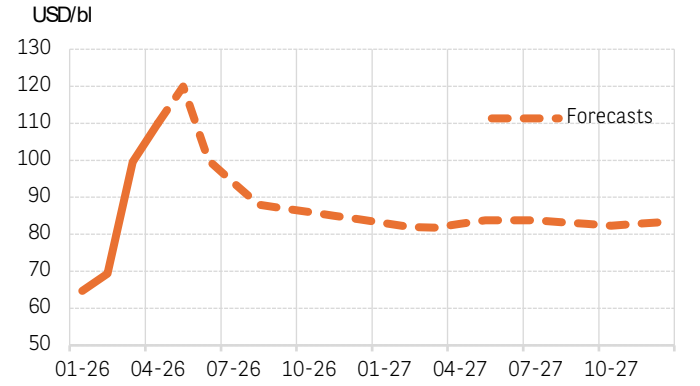
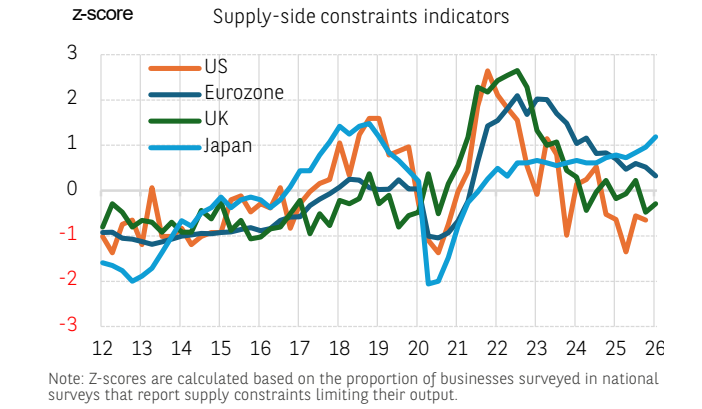


CHART 3 SOURCE: ICE, BNP PARIBAS

Supply constraints are less severe than in 2022



Note: Z-scores are calculated based on the proportion of businesses surveyed in national surveys that report supply constraints limiting their output.

CHART 4 SOURCE: NATIONAL STATISTICS, BNP PARIBAS

Traffic through the Strait of Hormuz remains severely disrupted. Furthermore, the damage inflicted on oil and gas facilities in the region increases the likelihood that hydrocarbon exports will remain disrupted for several months, even if maritime traffic resumes. Scenarios 3 and 4 both assume sustained higher oil prices even after the conflict ends. However, they differ in terms of the duration of the shock and the peak in oil prices, which are more pronounced in Scenario 4. Furthermore, as shown in Chart 1, the crack spread did not return to its pre-conflict level in 2022; a similar pattern is likely in 2026.

The impact of the shock will differ from 2022

Less supply tensions

In 2022, the rise in hydrocarbon prices was preceded by major supply tensions, with numerous shortages (of components and labour) affecting all sectors and spilling over into industrial and food prices.

The current shock caused by the war in Iran, however, arises in a less strained pre-conflict environment. According to survey data, before the outbreak of the conflict in Iran, these supply-side pressures were less severe than the peaks observed before the conflict in Ukraine, with the exception of Japan (Chart 4). In the Eurozone, however, they remained above their pre-Covid levels, a sign of the structural nature of some of these constraints (notably labour shortages).

These supply constraints could, however, intensify in the coming months, as evidenced by the rise in input price indices and delivery times in most countries. Under a more negative scenario (Scenario 4), these tensions could return to their 2022 levels, raising the risk of both a recession and a significantly more pronounced rise in inflation.

Demand is driving inflation to a much lesser extent

In 2022, demand was strong due to the post-Covid economic recovery. As shown in one of our recent analyses (see details), the current situation is quite different. In the Eurozone (and the United Kingdom), a lack of demand is the dominant factor. In the United States, while demand remains relatively robust and is fuelling inflation (accounting for nearly 1 percentage point according to the San Francisco Fed's calculations), its impact is significantly more subdued than in 2022.

This difference is crucial. When demand is weaker, businesses are less inclined to pass on cost increases to final prices, instead opting to absorb some of the pressure by adjusting their profit margins where feasible. Consequently, selling price pressures have, for the time being, remained more constrained, as shown in our recent analysis (Energy shock: 2026 vs. 2022 dashboard).

The decline in fuel consumption remained modest and took time to materialise following the 2022 energy crisis

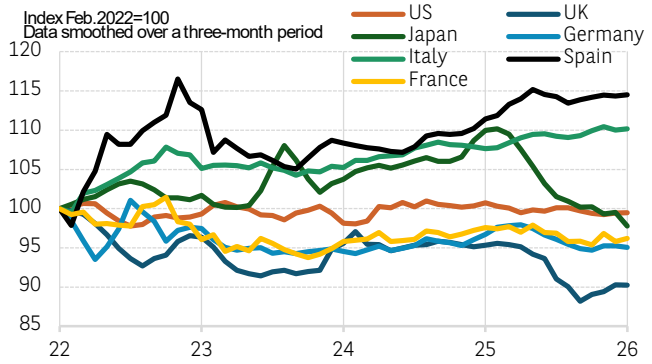


CHART 5 SOURCE: NATIONAL STATISTICS, MACROBOND, BNP PARIBAS

The threat of rising energy prices... and potential shortages?

Every crisis brings with it fears of shortages. The 2022 crisis was confined to Europe and centred on electricity, due to dependence on Russian gas and a decline in French nuclear output linked to maintenance work. This situation contributed to the sharp surge in gas prices, which peaked at nearly EUR 350 per MWh (TTF benchmark), thereby having a tangible impact even though the shortage was ultimately averted.

In 2026, the concern centres around a significant reduction in oil and gas exports from the Gulf states. Despite a partial increase in production in other regions, there was a global shortfall of nearly 13 million barrels of oil per day in March (accounting for almost 12.5% of global oil consumption). In the short term, pre-conflict shipments and strategic stock releases have helped mitigate immediate shortage risk. However, Europe remains particularly vulnerable: its refining capacity has declined in recent years, increasing its reliance on Asian countries for its refined oil (see our analysis).

Against this backdrop, the prospect of limited oil supply for several months coupled with persistently high prices is likely to result in a decrease in hydrocarbon consumption. In 2022, a decline was observed following a sharp rise in prices. However, this decline took time to materialise. For example, in France and Germany, households reduced their fuel consumption by nearly 5%, but only after almost 18 months (Chart 5). The time necessary for this decline in consumption to materialise and its relatively limited scale indicate that advanced economies are vulnerable to the risk of a shortage. Such a shortage would have a nonlinear impact on growth and inflation: it would trigger a recession, coupled with significantly higher inflation.

An impact on inflation, and therefore on consumption and growth

The shock to hydrocarbon prices has an immediate impact on inflation due to a disproportionately high pass-through of higher Brent prices to retail fuel prices (driven by the crack spread, see above). As a result, the year-on-year inflation rate accelerated by 0.6 to 1 percentage point in March (with the exception of Italy, which benefited from the positive spillover effect of the Winter Olympics). In most cases, inflation now exceeds the targets set by central banks.

For now, the 2026 shock remains confined to fuel prices. It is less widespread than in 2022, when core inflation was already rising for reasons predating the energy shock triggered by the outbreak of the war in Ukraine (Chart 6). At this stage, no uptick in core inflation is observed, and it is unlikely to materialise in the next three months at the very least (business surveys on selling prices show no signs of heightened pressure over this time period). Furthermore, wages, another key driver of inflationary spirals, have shown a decelerating trend in recent months, providing a significant mitigating factor.

However, while the inflationary mechanism does not appear to have been triggered, anticipation of it (whether justified or not) could have several effects. The first is, paradoxically, positive: households and businesses may wish to purchase goods before their prices go up, and bolster their inventories of inputs to guard against future shortages. This behaviour, which is particularly noticeable in the case of fuel, as observed in France, has, in our view, helped to underpin growth in the first quarter (see our EcoCharts of 20 April 2026).

Yet this phenomenon carries the risk of a subsequent pullback in the following quarter, which could be exacerbated if spending intentions weaken. Although this is not yet clearly evident in the March household surveys, it could materialise in the coming months.

An impact on growth, primarily through the household consumption channel

Inflationary shocks affect households, prompting them to reduce their consumption when their price expectations rise. Consequently, their perception of their financial wealth deteriorates due to the anticipation of a decline in their purchasing power. This behaviour largely explains the significant impact of an inflationary shock on growth.

Once again, 2022 offers an interesting point of comparison. Our analysis of consumption in the Eurozone and the United States shows that consumption growth slowed significantly post-Covid in the Eurozone, while it largely held up in the United States (due to the wealth effect enjoyed by American households).

Saving behaviour was disrupted by the pandemic (Chart 7). However, the household savings rate in the United States fell below its pre-Covid level. The wealthiest households were able to leverage their financial wealth to take on debt and continue spending. In the Eurozone, by contrast, households have maintained a higher savings rate. This higher level of precautionary savings accounts for the weaker performance of consumption in Europe.

The 2026 inflationary shock could again weigh on household consumption. Before the outbreak of war in Iran, spending intentions in the Eurozone had rebounded (see our analysis), raising the prospect of accelerated consumption growth. However, the current shock now threatens this outlook: our estimates suggest that a more subdued consumption growth could shave roughly a quarter of percentage point off GDP growth in 2026. In the United States, households are also vulnerable to a deterioration in their purchasing power, but two additional factors are likely to be significant: labour market conditions and wealth effect from equity markets. Regarding employment, while the unemployment rate has stabilised, the job market is no longer tight enough to drive strong wage growth, as the number of jobseekers now exceeds vacancies. The wealth effect (albeit unevenly distributed, with the less well-off not benefiting), could once again act as a buffer, provided that the robust performance of the equity markets is sustained. Overall, while U.S. household consumption growth (averaging 2.7% year-on-year between 2023 and 2025) could be affected, it is likely to prove more resilient than in other advanced economies.

Energy inflation has rebounded, but the spillover to other components is not yet visible

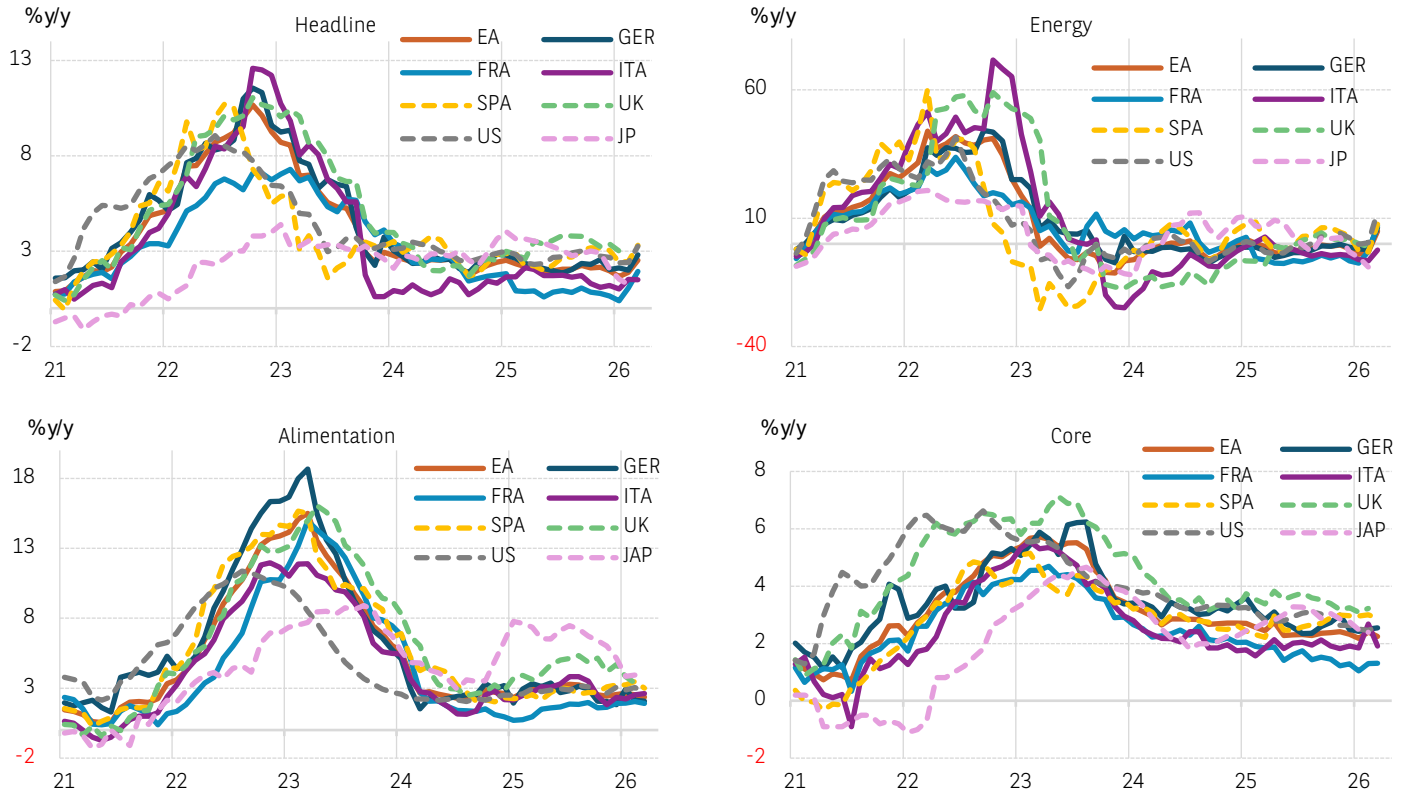


CHART 6

SOURCE: NATIONAL STATISTICS, BNP PARIBAS

The household savings rate is higher than pre-Covid levels in the Eurozone and significantly lower than that level in the United States

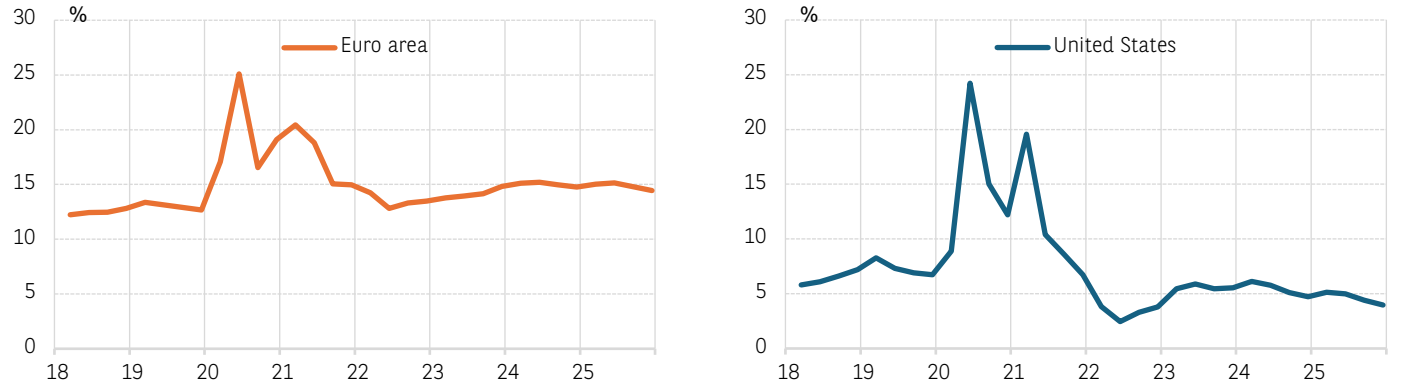


CHART 7

SOURCE: BEA, EUROSTAT, BNP PARIBAS

In Japan, the energy shock is likely to impact household consumption due to the associated loss of purchasing power, further aggravated by the weak yen. However, fiscal policy support and wage growth would help cushion this shock. Consumer confidence had reached a post-Covid high in February 2026, suggesting an acceleration in consumption growth. However, its significant decline in March has significantly diminished these expectations.

A mixed impact on economic sectors and a boost for electrification

Rising production costs are likely to weigh on businesses, particularly in sectors that are heavily dependent on energy, whether in production (primarily industry) and transport (freight, passengers, trade). Therefore, we estimate the following elasticity: a $10/barrel rise in oil prices could reduce the margins of non-financial companies by nearly 0.3 percentage points on average in the Eurozone (the effect would be comparable in France). The impact would be particularly pronounced in the retail sector (a downstream sector that is not always able to pass on cost increases to consumers), as well as in the agrifood sector (-0.7 percentage points) and the rest of industry (-0.4 percentage points). The impact would be more limited in services (excluding transport).

These elasticities should be viewed in context. Indeed, companies have the capacity to adapt and partially absorb the shock. Our country-by-country analyses suggest that wages are likely to increase at a rate lower than inflation, which would support corporate margins. Furthermore, some firms still have the capacity to pass on cost increases to their selling prices, particularly when demand is strong. However, the number of sectors in this position in 2026 is fewer than in 2022, given that overall demand is less dynamic this time around: this applies to certain industrial segments, including electrical and electronic equipment, transport equipment and defense equipment. Conversely, sectors linked to consumer goods seem less capable of increasing their selling prices, as demand is more subdued than in 2022.

For industry, the issue of energy costs is not limited to transport but includes also the energy used in production (primarily electricity and gas). It is of particular concern to energy-intensive sectors (notably chemicals, metallurgy, plastics and construction). In 2022, European industry faced a significant competitive disadvantage as the prices of these two resources increased. Energy producer prices, which reflect these impacts, rose sharply at that time (Chart 8) before falling back. Regarding gas prices, the recent increase has been less pronounced compared to oil and the spike seen in 2022. Furthermore, today's lower reliance on gas for electricity generation is expected to mitigate the upside risk to energy producer prices (except in Italy, where the price of electricity remains determined by the price of gas 90% of the time). However, these risks cannot be entirely ruled out in the event of a more adverse scenario (our Scenario 4), where gas prices could rebound more sharply.

A European 'moment' in favour of electrification

Any sharp rise in fuel prices creates a positive price signal towards the electrification of transport. This opportunity was largely missed in Europe in 2022. Initially, there was a somewhat positive impact on electric vehicle sales, but the momentum stalled. A key factor was the simultaneous rise in electricity costs, which were driven by gas prices due to the pricing system based on the cost of the last unit of energy used (the most expensive), which prevails on the European electricity market. The high price of electric vehicles, uncertainties regarding technological options, battery range, and the lack of charging infrastructure also played a part. The final blow came from the reduction of government funding for the green transition, particularly in Germany and France which were scaled back to facilitate fiscal consolidation.

As a result, the European Union faces the paradox of having some of the most decarbonised electricity in the world (renewables and nuclear power accounted for 71% of generation in 2025), while also having the lowest share of electricity in the energy mix among major economic regions, at nearly 21% in 2024 (see our analysis). This figure is obviously lower than in China, which is ahead in the electrification of its vehicle fleet and in green energy, but also lower than in the United States, despite the current administration not prioritising this issue.

Circumstances may be different today as the stars are aligning. In particular, the European Commission has introduced a strategy aimed at developing mini-nuclear reactors. Furthermore, Member States have made progress in the deployment of renewable energy – particularly in Spain, but also in Germany, which is now less dependent

Energy producer prices stabilised, following the peak in 2022

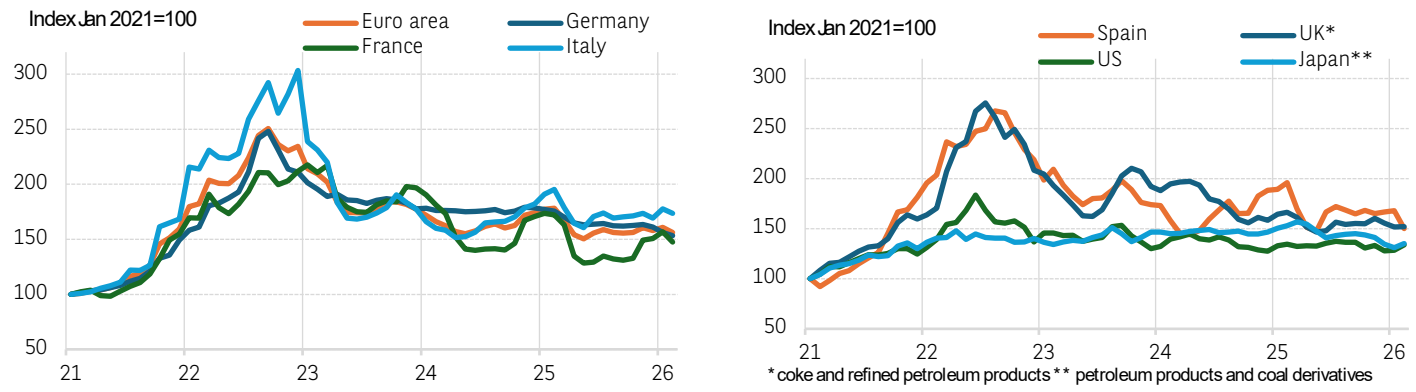


CHART 8

SOURCE:NATIONAL STATISTICS, BNP PARIBAS

The share of electric vehicles in European car registrations is expected to grow

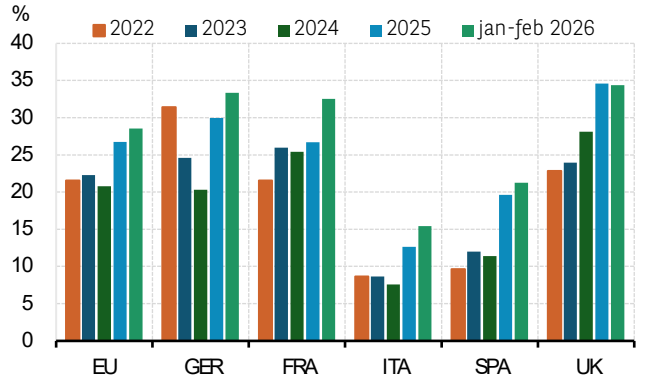


CHART 9

SOURCE: ACEA, BNP PARIBAS

on carbon-based energy for its electricity generation than in 2022. Meanwhile, France has unveiled an electrification strategy, particularly focused on supporting energy renovation of housing (including increased funding for heat pumps) and accelerated electrification of the automotive sector (which households and businesses seem increasingly ready to embrace, see Chart 9).

In this context, rising energy prices could hasten the electrification of end-use sectors and benefit several industries: electrical equipment, green energy (including wind power, of which Europe generates more domestically than solar power, in particular), the automotive sector and building renovation.

A less accommodative fiscal policy than in 2022, owing to the current level of public debt and the rise in interest rates

The fiscal measures implemented by advanced economies' governments to address the energy shock caused by the Iran war remain, at this stage, broadly limited. Indeed, they are constrained by high levels of debt and long-term interest rates that are significantly higher than in 2022, in the context of initially more moderate inflation. However, the rise in energy prices is creating growing pressure for the introduction of public support, without triggering, at this stage, a response comparable to that seen during the 2022 shock. The latter prompted support measures of exceptional magnitude in Europe (2.2% of European GDP, according to the Commission), though these were not limited to Europe.

In Europe, a coordinated but relatively limited response

The European institutions (the Council and the Commission) are calling for coordinated, temporary and targeted measures. These measures should help contain the short-term effects of rising energy prices, while maintaining incentives for investment in the energy transition. This approach is also supported by the ECB, which is keen to limit the second-round effects of rising energy prices.

In practice, the initiatives remain essentially national and of moderate scale. Several countries are prioritising targeted fiscal or regulatory adjustments to fuel and electricity prices:

- Italy has temporarily reactivated (until 1 May) mechanisms to modify fuel excise duties and has extended certain support schemes for the most vulnerable sectors (a 20% tax credit for particularly energy-intensive agricultural businesses). The estimated cost of these measures is EUR 917 million (with the first phase having already mobilised EUR 417 million over three weeks and the second phase set to mobilise EUR 500 million) and is financed by additional VAT revenue and the sale of carbon allowances.

- The Spanish government has approved a more substantial aid package of EUR 5 billion (0.3% of GDP), combining a reduction in energy taxes (including a VAT cut on electricity from 21% to 10%) with sector-specific support measures until the end of June. Similarly to Italy, Spain plans to increase its LNG imports from Algeria.

- Portugal is maintaining the status quo by extending its fuel tax reduction measures.

- France and Germany are adopting a more cautious approach. In France, the newly introduced measures amount to around EUR 400 million. These measures target the most exposed sectors (freight transport, agriculture, fishing) as well as 3 million households through fuel subsidies and loans, all within a budget-neutral strategy that avoids any blanket measures. At the same time, forthcoming measures on electrification, the details of which are yet to be finalised, form part of a broader trend combining public action with a rise in private investment in equipment that is less reliant on fossil fuels (increased purchases of electric vehicles).

- In Germany, the government has approved a EUR 1.6 billion fuel cost relief plan. This includes a two-month reduction in gasoline tax (17 cents per litre) and a tax-free employer's allowance of EUR 1,000 to be paid this year. Additional measures such as a temporary windfall tax on energy companies' profits or stricter antitrust rules to help control price rises are still under consideration. The government has also announced a strengthening of its climate strategy with a programme worth around EUR 8 billion by 2030, to accelerate decarbonisation (notably through the development of renewable energy, support for the electrification of industry, and subsidies for the purchase of electric vehicles).

Against this backdrop, several Member States (Germany, Italy, Spain, Portugal and Austria) are calling for windfall profits made by energy companies to be taxed. This initiative builds on the measures introduced in 2022 and aims to fund fiscal support measures without further deteriorating public finances.

In the UK, targeted support with minimal budget impact

Direct support is limited to a GBP 53 million fund (approximately 0.002% of GDP), for the most vulnerable households dependent on heating oil. This approach contrasts with the one implemented in 2022 in terms of scale, and is accompanied by the maintenance of the regulated energy price cap and the extension of fuel tax cuts until September 2026. At the same time, the government continues to implement structural measures to reduce households' energy dependence, notably through greater energy efficiency and electrification.

In the United States, a response focused on energy supply

The US authorities have eased certain logistical constraints, notably by facilitating the domestic transport of hydrocarbons. They have also adopted a more flexible approach to sanctions against oil-producing countries, while mobilising strategic reserves. Meanwhile, targeted-price measures remain an option, such as a temporary suspension

of federal gasoline taxes, which is estimated to cost around USD 21 billion over a six-month period. Taken together, this approach reflects a preference for cost-effective instruments amid persistent inflationary pressures and limited fiscal leeway.

In Japan: a more interventionist strategy

Japan stands out with a more proactive response combining the release of oil reserves (to a greater extent than in other advanced economies), subsidies aimed at stabilising prices, and potential interventions in the foreign exchange market (in the case of strong Yen volatility).

Everywhere, reduced support due to much tighter fiscal space

The trajectory of public finances is likely to be affected by the macroeconomic and financial repercussions of the shock (including slowing growth, increasing inflation and rising bond yields). The scale of these effects remains highly uncertain, subject to significant risks tied to the unpredictable evolution of the conflict in Iran. Should the conflict escalate and its consequences on inflation worsen, any additional government response would need to be accompanied by austerity measures to avoid worsening the deficit. The room for manoeuvre is thus limited.

At this stage, our estimates suggest indeed a less favourable outlook than in 2022 (when the rapid rise in inflation helped lower the public debt-to-GDP ratio in all countries):

- As inflation is concentrated in the energy sector (which is imported for most countries, with the exception of the United States), nominal GDP is not expected to grow as much as it did in 2022. Back then, the rise in prices was widespread and therefore had a greater positive impact on GDP and tax revenues. In 2026, the price shock stems from imported energy, which acts as a drain on GDP (as imports are deducted from output when calculating GDP). This drain (and its impact on growth) is expected to deteriorate budget balances by approximately 0.3 to 0.5 percentage points of GDP, depending on the country. In some cases (such as France and the United Kingdom), the existence of fiscal leeway (thanks to better than expected 2025 deficits outcomes) could help absorb this impact and keep 2026 deficit targets on track. Conversely, in other cases (Italy and the United States), governments seem willing to tolerate higher deficits.

- For the past four years, all countries have been operating in an environment of elevated interest rates. While rates began to rise in 2022, their immediate impact on debt servicing was muted due to the long average maturity of public debt. Four years later, however, the effective interest rate on public debt has begun to rise, along with debt servicing, which is exerting pressure on the level of public deficits. As a result, the ability of governments to limit these deficits, and thereby stabilise their public debt ratios in the long term, is now more constrained.

Differing exposures across countries

Economies burdened with high debt and already significant deficits see their fiscal manoeuvring room particularly limited, and the impact of the shock is amplified (resulting in a more pronounced effect of rising rates and a risk premium associated with elevated debt levels). This effect is further compounded when a proportion of the debt is inflation-linked and when the average debt maturity is short.

The United States, France and Italy are starting from an already weakened position, characterised by high public debt (97.4%, 115.6% and 137.1% of GDP respectively by the end of 2025) and sizeable deficits (5.8%, 5.1% and 3.1%). This makes them more vulnerable to a rise in interest payments and a slowdown in growth.

Increased exposure of the United States, the United Kingdom, France and Italy to the shock

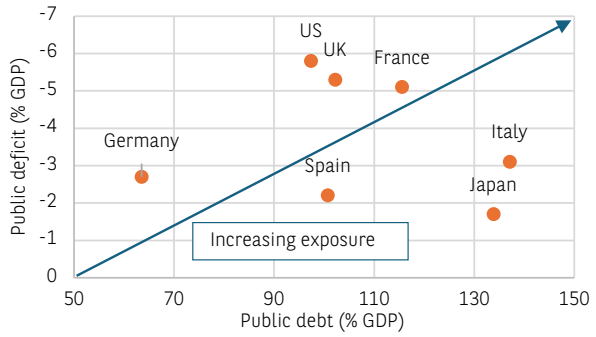


CHART 10 SOURCE: NATIONAL STATISTICS, MACROBOND, BNP PARIBAS

By contrast, Germany enjoys a more comfortable stance, with lower debt (63.5% of GDP by the end of 2025) and a contained deficit (2.7%). In terms of debt structure, the United Kingdom and Japan stand with longer average maturities (14 years and 9.5 years respectively), whereas the United States, France, Germany and Italy have shorter maturities (ranging from roughly 5 to 8 years). The United Kingdom is the most inflation-sensitive, with around 24% of its debt inflation-linked, compared to 8-13% in France, Italy and the United States, and less than 3% in Germany and Japan.

At this stage, public debt forecasts remain largely unchanged. The recent rise in interest rates on the financial markets has simply aligned them more closely with our forecasts. By contrast, the acceleration in inflation is expected to result in higher debt servicing costs (due to inflation-linked bonds) in 2026, and to a lesser extent in 2027, with an additional impact on the debt-to-GDP ratio limited to a range of 0.1 to 0.3 percentage points.

In this context, what role can monetary policy play?

Most central banks are tasked with ensuring medium-term price stability, meaning they are under no obligation to respond to inflation driven by temporary energy price spikes – especially if, as in 2018 such pressures fail to spill over into broader price growth.

Furthermore, monetary policy tends to be less effective at curbing inflation when faced with supply-side pressures compared to situations of excess demand.

- In European economies (the Eurozone and the United Kingdom), demand is considerably weaker than it was in 2022, and governments do not appear as keen to bolster it. If second-round effects were to push inflation above the targets set by the ECB or BoE (which is already the case for the latter), then central banks would still be required to respond, especially if the core component is affected. This is the likely outcome in our two most probable scenarios (scenarios 3 and 4). Therefore, the central banks' next decision is likely to be a rate hike. However, the timing of this decision remains uncertain. In the Eurozone, inflation has so far been limited to energy prices and is not expected to extend into Q2. The BoE could be the first to act, as it had not yet managed to bring inflation back to its target when the conflict in Iran broke out.

- For the BoJ, the logic is different: the current environment only reinforces its upward bias, amidst a still gradual normalisation of its monetary policy. This normalisation could accelerate if the government were to implement its expansionary fiscal plans, which would further support demand and inflation.

- Ultimately, the greatest uncertainty lies with the Fed. The United States remains the economy where demand-driven inflation is most pronounced. However, the Fed's dual mandate – balancing price stability and maximum employment – inherently introduces two-sided risks. Our scenario assumes unchanged rates, but a sharp inflation surprise or labour market deterioration – could quickly force the Fed to abandon neutrality, as it did between September and December 2025 when employment risks intensified. Currently, the Fed is equally concerned about the risks affecting inflation as it is about those impacting employment. This ambiguity and uncertainty are far from neutral in a context where, despite a relative weakening of the dollar, the interest rates set by the world's leading central bank retain the power to drive long-term interest rates in other countries.

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