

EcoInsight

War in the Middle East: Shockwaves are spreading

The conflict in the Gulf has escalated in recent days, with an increase in strikes targeting oil and gas facilities (on both sides). The impact on energy prices has therefore intensified. A relatively rapid de-escalation of the conflict is unlikely, whilst there is a growing prospect of the conflict worsening along with its macroeconomic effects (higher inflation, lower growth). Central banks have taken note of this this week, but are waiting for greater clarity on how events will unfold before deciding how to respond. The markets, too, are taking a more cautious stance and anticipate that central bank will adopt more restrictive policies than previously expected for over the rest of the year. So do we.

New scenarios

Since our EcoInsight of 6 March ("[War in the Middle East: initial assessment of macroeconomic damage](#)"), we have updated our scenarios. They reflect events to date and possible future developments of the conflict, in order to assess their consequences for growth and inflation compared with our pre-war macroeconomic scenario:

Scenario 1: De-escalation and swift resolution of the conflict.

Scenario 2: Rapid resumption of hydrocarbon flows against a backdrop of persistent instability.

Scenario 3: Partial resumption of hydrocarbon flows amid gradually easing tensions in the coming quarter. Oil prices would fall more slowly in 2026 than in the more favorable scenarios 1 and 2 and would remain at higher levels in 2027 (between USD 10 and USD 15 higher).

Scenario 4: Persistence of very severe constraints on traffic through the Strait of Hormuz, keeping hydrocarbon prices at very high levels until Q3 2026. This would be followed by a very gradual decline in prices until spring 2027, after which they would reach levels similar to those in scenario No. 3.

Since 17 March, attacks on strategic gas facilities in Iran and Qatar have signalled a new phase in the intensity and duration of disruptions in energy markets. The scenario of a resumption of traffic through the Strait of Hormuz is unlikely in the short term, even as international mobilization to enable the resumption of traffic is gaining momentum. The ongoing blockade of the Strait and the physical destruction of strategic oil and gas facilities are now disrupting not only flows but also production and supply available on markets. Against this backdrop, oil and gas prices are likely to stay elevated for several months.

In our scenario 3, Brent prices (averaging USD 68 per barrel in 2025) would rise to just over USD80 per barrel on average in 2026 and remain close to that level in 2027. Under the most unfavourable scenario (scenario 4), Brent prices would reach an average of USD100/b in 2026 before falling back to around USD80/b in 2027. Gas prices on the European market (TTF benchmark averaging EUR35.3/MWh in 2025) would average around EUR49/MWh in 2026 and 2027 under scenario 3. Scenario 4 would imply persistent strains on European gas supplies, particularly during the pre-winter stock-building period; prices would reach around 70 EUR/MWh on average in 2026 and 61 EUR/MWh in 2027.

The effects on inflation will extend beyond the mere acceleration already observed in fuel prices in March. Second-round effects (a rise in core inflation) are likely and would entail a cost in terms of growth and a probable tightening reaction from central banks. In some countries (particularly in Asia), the negative impact on economic activity will come mainly from disruptions to hydrocarbon supplies (in addition to elevated prices).

Energy prices and spillovers to other prices: where do we stand?

Oil market: supply constraints are tightening despite efforts to ease them

Under normal circumstances, the volume of crude oil passing through the Strait of Hormuz is 15 million barrels per day (20mb/d including refined products). The current blockade of the Strait has led to production stoppages as storage capacity has gradually become saturated. Since the start of the conflict, the reduction in crude oil production is estimated to amount 8 mb/d.

Alternative transit routes exist, but they only partially circumvent the problem. The Saudi "East-West" pipeline has a capacity of 7 mb/d, but that of the Yanbu terminal on the Red Sea is only 4.5 mb/d. Another alternative route has been opened: the Baku-Ceyhan pipeline, but its capacity is limited (around 0.25 mb/d). On 12 March, sanctions on Russian crude oil were lifted by the United States for one month, but this applies only to floating stocks, or *oil on water*, amounting to around 130 million barrels.

The release of strategic reserves is another source of supply for the oil market. The International Energy Agency (IEA) has announced the release of 400 million barrels of oil from the strategic reserves of its 32 member countries. The United States is

supplying the majority of the oil released onto the market, with 172 million barrels of crude oil. Europe plans to make 107.5 million barrels available, the majority of which is refined oil (68% of the total). This is a historic amount (following Russia's invasion of Ukraine, the IEA had released 182.7 million barrels onto the market). In theory, this reduction in stocks would be sufficient to supply the market for 115 days at a rate of 3.5 million barrels per day. Nevertheless, many uncertainties remain (pace, geography, nature of the products released onto the market).

For the time being, these alternatives are not enough to prevent a rise in oil prices. The price of a barrel of Brent crude reached USD 116 on 19 March, representing a 60% increase since the start of the conflict and a 16% rise over the past week. However, markets continue to bet on a relatively swift resolution to the crisis. Indeed, the futures curve is quite steep, with the February 2027 contract standing at USD 83. Since the start of the conflict, we have also observed a growing spread between the price of a barrel of Brent and that of physical barrels in certain markets. For instance, the price spread between Oman crude and Brent reached USD 55/b on 19 March (the price of Oman crude stood at USD 167/b on 19 March). Tensions in the refined products market are starting to emerge as well, leading to significant price rises. Since the start of the conflict, on the US market, petrol and kerosene prices have risen by more than 50%, diesel by 65%, whilst heating oil has risen by 85%.

Gas market: less tension, but likely to persist

Since the start of the month, Qatar has been unable to honor its LNG exports (around 20% of global production), initially due to the closure of the Strait of Hormuz and, since 2 March, due to the closure of the Ras Laffan site – the world's largest LNG export facility – as a precaution following a drone attack. These disruptions are expected to continue: the damage caused to the Ras Laffan infrastructure following new attacks on 19 March will require 3 to 5 years of repairs before the site production can return to pre-conflict levels, according to QatarEnergy (approximately 17% of Qatar's production capacity has been affected). As Asia is the main destination for Qatari exports, the JKM price (Asian LNG market) has risen by 96% since the start of the conflict.

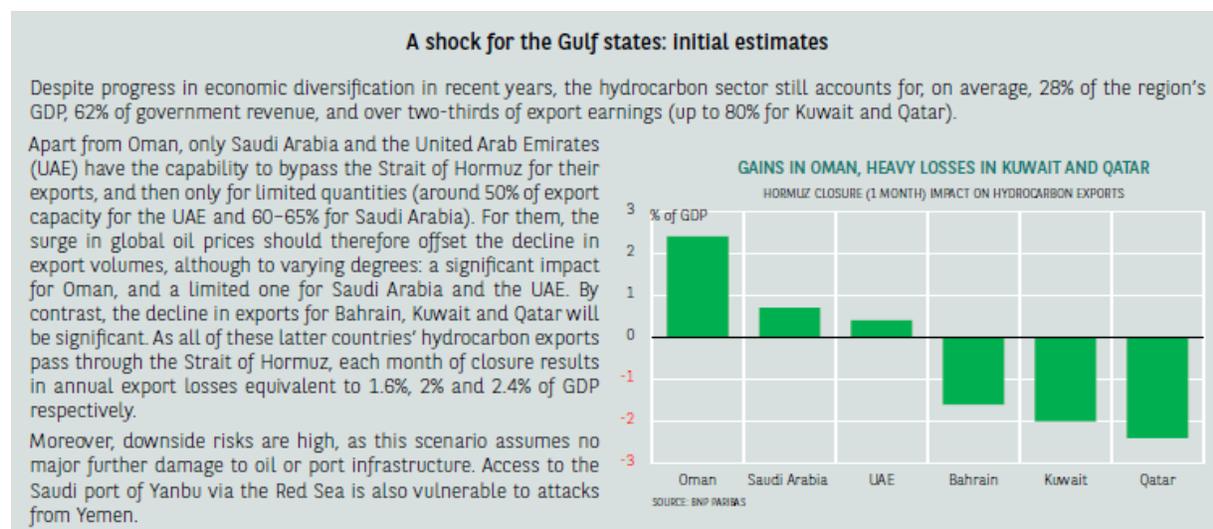
Given the link between the Asian and European markets (arbitrage is possible between the two regions), the price of European gas has also risen sharply. The TTF has risen by 108% since the end of February and by 30% over the past week. Nevertheless, the current TTF price (€66/MWh) remains well below the level reached during the 2022 crisis (the TTF averaged €134/MWh for the year, peaking at €240/MWh in August 2022). However, the start of the European gas stock-building period from the second quarter onwards will support the price rise.

Several factors will, however, help contain this rise in the near term: the end of winter in Europe reduces European countries' gas requirements; the Gulf accounts for less than 10% of European LNG imports. For the time being, supply risks for the European market are therefore limited. The sharp rise in gas prices is also prompting electricity producers to switch to coal where possible (particularly in Asia, and to a lesser extent in Europe). Since the start of the conflict, coal prices have risen by 25%.

Other critical markets: a risk of rapid spillover

Pressure on hydrocarbon prices is already spreading to fertilisers and could soon affect food prices. Natural gas is an essential input for the production of fertilisers (such as ammonia and urea). Moreover, around a third of the global supply of fertilisers passes through the Strait of Hormuz. Supply disruptions, on the one hand, and rising gas prices, on the other, are already feeding through to global fertiliser prices. They could quickly have knock-on effects across the entire agricultural production chain and on food prices. Among the major emerging economies, Thailand, India and the Philippines, as well as Hungary, are the most vulnerable to the combined rise in energy and food prices, which account for over 30% of the consumer basket (of which 8% to 13% is for energy). The knock-on effects of the energy shock on the agricultural sector (rising prices, risk of shortages) could also fuel socio-political risks. India is particularly vulnerable in this regard.

Aluminium and helium are also exposed to a potential supply disruption. The Middle East accounts for 9% of global aluminium production. Qatar supplies 30% of the world's helium. **Helium** is essential to the semiconductor industry and cannot be substituted: disruptions in the electronics sector's supply chains are therefore likely.



Risks of hydrocarbon shortages in emerging countries: Asia and Africa on the front line

Asia is particularly exposed to shortages caused by the interruption of tanker traffic in the Strait of Hormuz and damage to oil and gas facilities in the Gulf:

1/ With the exception of Malaysia, Asian countries are major net importers of oil and gas. Their net imports account for 4% to 6% of GDP for Thailand, South Korea, Taiwan and the poorest countries in South Asia (graph).

2/ These countries are particularly dependent on the Gulf region and the Strait of Hormuz: on average, it is estimated that Gulf countries supply around a third of Asia's oil and a quarter of its natural gas.

As regards gas, India and Pakistan are the Asian countries most vulnerable to supply disruptions (in 2024, 77% of their gas imports came from the Middle East). However, unlike Pakistan, India can substitute coal for gas to generate electricity. For South-East Asian countries, gas supply sources are more diversified: Indonesia imports 68% of its gas from the United States, while the Philippines and Thailand import their gas from other Asian countries or Africa; Vietnam imports gas from the Middle East, Asia and the United States. Indonesia has a major advantage: it produces coal and has the necessary facilities to substitute gas with coal. Finally, South Korea and Taiwan are highly dependent on LNG imports (they do not produce gas and do not import any gas via pipeline), with the Gulf accounting for 20% and 27% of their gas imports respectively. Taiwan's strategic natural gas reserves exceed the legal minimum level, but this threshold represents only eleven days of consumption. South Korea's reserves would last for at least 43 days' consumption. **Should gas shortages occur, they could significantly slow down production in these countries.**

As for oil, Vietnam and Indonesia are among the countries most vulnerable to supply disruptions as their reserves cover less than 30 days of consumption needs. In India (which has reserves covering 45 days of consumption), the impact could be mitigated by purchases of Russian oil. Some countries considered allies by Iran might also manage to get tankers through the Strait of Hormuz (Pakistan, China). South-East Asian countries have already taken steps to reduce fuel consumption (working from home in Thailand, the Philippines and Vietnam).

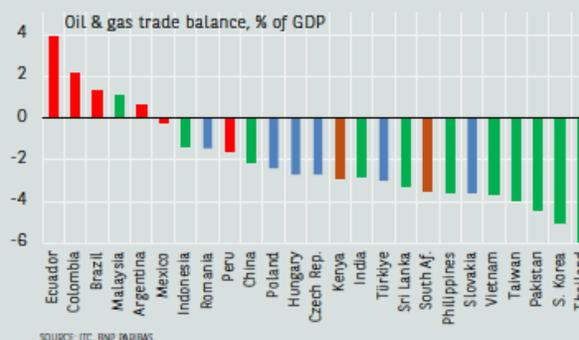
China is heavily dependent on oil and gas imports from the Middle East but has buffers. Iran supplies 11% of its crude oil, 33% of its crude oil requirements are transported through the Strait of Hormuz, and Qatari LNG accounts for around 15% of its gas imports. However, China has increased its strategic reserves in recent years. Its crude oil reserves are estimated at 1.2 billion barrels, equivalent to 3.4 months of imports. Furthermore, China is reported to have suspended exports of refined oil products (around 8% of its domestic production). This measure could disadvantage some of its partner countries (in particular the Philippines and Vietnam, which import 25% and 14% respectively of their refined oil products from China). As for gas, its reserves are thought to cover at least six weeks of consumption, and the country could turn to other sources (imports via pipeline, domestic production). China may also increase its imports of Indonesian coal.

Southern and Eastern Africa is also particularly exposed to the risk of shortage, as the Middle East is their primary supplier of oil and gas. In South Africa, 36% of oil and gas imports come directly from countries affected by the closure of the Strait of Hormuz (54% when including Oman). In Kenya, this figure rises to 60% (70% when including Oman). The risk of shortages is heightened by the fact that sub-Saharan African countries have no strategic oil reserves. South Africa is the sole exception, holding 8 million barrels of crude oil, which is less than three weeks of domestic consumption. In Europe, Türkiye is the most affected by supply disruptions, with Iran supplying 15% of its LNG consumption.

In Central Europe, energy dependence on the Middle East for oil and gas is relatively low, with the exception of Poland. Poland primarily sources its crude oil from Saudi Arabia (50% of crude oil imports, with the remainder coming from Norway (around 30%) and the United States (7%)), and around 10% of its gas imports come from Qatar. Hungary and Slovakia, meanwhile, rely mainly on Russia for their oil and gas imports. Although these two countries have given rise to some concerns, the risks associated with an oil supply shock appear to be diminishing. Ukraine has pledged to repair the section of the Druzhba pipeline that was severely damaged at the end of January, with financial support from the EU. The situation in the region therefore remains under control. Central European countries possess adequate strategic reserves, representing around 90 days' supply (in line with EU recommendations).

In Latin America, vulnerability is even lower: energy supplies from the Gulf account for only a small share of the total: 13% of total oil imports for Argentina and Brazil, 8% for Uruguay and virtually nothing for the region's other economies. Furthermore, several major economies – Argentina, Brazil, Colombia and Ecuador – are net energy exporters. As a result, they stand to gain from the rise in global oil prices (via terms of trade, export and tax revenues).

ASIAN COUNTRIES ARE LARGE NET IMPORTERS OF OIL AND GAS



SOURCE: ITC, BNP PARIBAS

Financial market reactions: negative, but relatively moderate

Advanced economies: Stock markets have so far recorded a relatively moderate downturn. However, the decline has been more pronounced in Asia and Europe, which are more vulnerable to an energy shock, compared to the United States. The Eurostoxx 100 has fallen by 7.4% since the start of the conflict, compared with a 4.4% decline for the S&P 500. The DXY dollar index has risen by around 1.5% over the same period, gaining strength against the main G7 currencies. Ten-year bond yields have risen across the board: by 30 basis points (US, Germany, France) to 40 basis points (Italy, UK), while Japanese yields have risen by 15 basis points.

For advanced economies, although these increases may still seem relatively small, they come on top of the rises seen in 2025. In the Eurozone, these increases have pushed long-term rates above the peaks seen at the end of 2023, following the inflationary shock of 2022–23, returning to levels not seen since 2010 or 2011 (depending on the case) and even 2008 for the UK.

Emerging economies: The conflict has put moderate pressure on domestic interest rates. The countries most affected are South Africa, the Philippines, Pakistan, Central European countries and, above all, Türkiye. In the case of Türkiye, yields on 5-year government bonds have risen by 330 basis points since 27 February, reflecting an inflation premium that appears to be higher than for other emerging markets. Risk premiums have reacted little, with increases generally remaining below 15 bp. Emerging market currencies are also holding up for the time being. Since 27 February, only a few currencies have depreciated by more than 5%, with the Egyptian pound seeing the sharpest fall (-8.1%). The Hungarian forint has depreciated by 3.3% against the euro and by 5.4% against the dollar. In Asia, the currencies that have recorded the sharpest depreciation against the US dollar are the Thai baht, the South Korean won and the Philippine peso, with declines ranging from -5.1% to -3.5%. The Chinese yuan has depreciated by less than 0.5% against the dollar, **putting an end to** the appreciation trend seen since the start of 2026. The Indian and Indonesian

rupees, along with the Malaysian ringgit, have remained strong so far, but pressures on the Indian rupee are mounting. Latin American currencies have held up well.

These differences in market reaction can largely be explained by the varying degrees of vulnerability to the energy shock. Similarly, stock market performance in the Middle East mirrors the extent of countries' vulnerability to the consequences of the conflict: the Dubai market has been hardest hit (-15% since 27 February), while the markets in Saudi Arabia and Oman have held up much better.

Markets overview

	in % change					
	20/03/2026	1-Day	1-Week	1-Month	Year to date	1-Year
S&P500	6506.5	-1.5	-1.9	-5.8	-5.0	+14.9
Nasdaq Composite	21647.6	-2.0	-2.1	-5.4	-6.9	+22.4
Euro STOXX 50	5501.28	-1.9	-3.8	-10.3	-5.0	+0.9
CAC40	7665.62	-2.0	-3.1	-10.0	-5.9	-5.3
Euro STOXX Banks	235.02	-1.8	-2.6	-13.6	-10.7	+21.7
BNP Paribas	82.13	-1.9	-3.3	-13.3	+1.7	+3.9
Nikkei 225*	53372.53	-2.8	-2.0	-7.1	+6.0	+41.4
Hang Seng Index	25277.32	-3.4	-0.7	-4.3	-1.4	+4.4

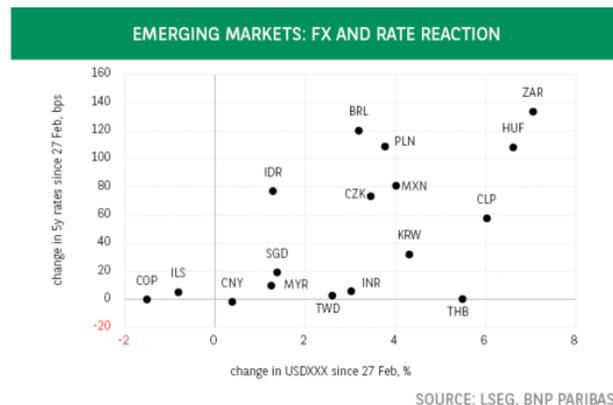
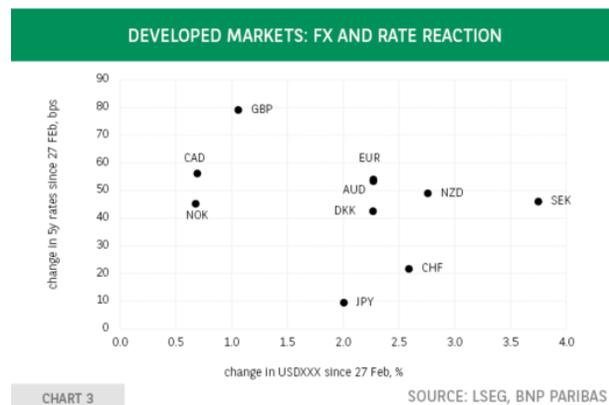
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	in bps					
	20/03/2026	1-Day	1-Week	1-Month	Year to date	1-Year
OAT 10Y (%)	3.76	+11.3	+8.2	+45.5	+19.1	+27.4
Bund 10Y (%)	3.04	+8.1	+6.0	+30.6	+18.8	+26.3
US Tr. 10Y (%)	4.38	+13.0	+10.3	+29.7	+21.3	+14.3
JGB 10Y (%)	2.28	+5.8	+8.9	+12.7	+21.1	+76.1
Gilt 10Y (%)	4.99	+15.1	+17.1	+64.1	+51.5	+34.8

	in % change					
	20/03/2026	1-Day	1-Week	1-Month	Year to date	1-Year
EURUSD	1.16	-0.1	+1.4	-1.8	-1.5	+6.6
DXY Index	99.65	+0.4	-0.7	+1.9	+1.3	-4.0
Brent (\$/bbl)	112.19	+3.3	+8.8	+56.3	+84.4	+55.8
Dutch TTF Price (€/MWh)	59.26	-4.2	+18.2	+85.0	+101.0	+35.6

Source: Bloomberg, BNP Paribas

Market performance since the start of the conflict in Iran



Higher inflation and central banks on alert

United States

The latest developments confirm, even reinforce, an upward trajectory for inflation compared with the initial forecast. The upcoming CPI figures will already reflect the direct and immediate impact of rising retail petrol prices (+31% in 2026 YTD, +25% since the week the intervention in Iran began). The **risks are therefore clearly skewed to the upside**, particularly if scenario 4 materialises, in which case *headline* inflation could exceed +4.0% y/y as early as Q2 2026.

At its latest meeting, the Fed revised its inflation forecasts for 2026 upwards, albeit by a relatively modest margin on the implicit assumption of a temporary shock. Chair Jerome Powell stated it was "too early to tell" what impact the war in Iran would have on US inflation. The median PCE estimate for 2026 was raised to 2.7% from 2.4% in the December projections, whilst the forecast for 2027 was raised by 0.1 percentage points to 2.2%. At this stage, the Fed still expects inflation to return to the 2% target in the fairly near future. The estimate for the long-term policy rate has also been raised slightly (3.1%, +0.1 percentage points). As with the ECB, the Fed is allowing itself time to assess the effects of the war on inflationary dynamics. Both central banks will be more responsive if necessary at their next meeting in April.

At this stage, we still expect the Fed Funds target to remain at 3.5%–3.75% throughout 2026 and 2027. Indeed, whilst the *Summary of Economic Projections* for Q1 2026 maintains the median forecast of a rate cut this year, Jerome Powell has distanced himself somewhat and reiterated that this cut was conditional on a decline in inflation – a decline that is now unlikely to materialise. However, the Fed's reaction function remains skewed in favour of the 'maximum employment' component of its dual mandate, and the statement from the March FOMC meeting retains the reference to potential 'further adjustments' (i.e. beyond the cuts already implemented).

Thus, **in our view, a decision by the Fed to raise its key interest rate would require several conditions to be met.** Not only would it take a rapid and significant pass-through of the energy price shock to core inflation via second-round effects, but growth

would also need to prove sufficiently resilient despite this. Indeed, if risks to employment were to increase, this would hamper tightening.

Eurozone

An increase of nearly 0.6 percentage points in inflation (year-on-year) appears already a foregone conclusion for March given the rise in fuel prices (inflation would thus reach 2.5% y/y, compared with 1.9% in our pre-conflict scenario).

As expected, the ECB kept its key interest rates unchanged in March, but it has already factored into its new macroeconomic projections significant impacts on growth and inflation in 2026 resulting from the rise in energy prices. The new baseline scenario incorporates a limited price shock, which would subside fairly quickly, with energy prices falling rapidly from Q3 onwards. At this stage, the ECB therefore anticipates a return to the 2% target in 2027. However, these scenarios already appear difficult to achieve. The alternative scenarios presented by the ECB, which are not directly comparable to ours, would have more severe and lasting implications for inflation than our scenarios, due to the destruction of energy production capacity in Iran (in this scenario, Brent crude would reach USD 145 per barrel and the TTF EUR 106/MWh in Q2 2026, leading to *headline* inflation in the Eurozone of 4.4% in 2026 and 4.8% in 2027). For the Eurozone, we expect scenarios 1 and 2 to lead to a temporary rebound in inflation (around 4% year-on-year by the end of 2026) but no upward pressure in the longer term, with a gradual convergence towards the 2% target during 2027. By contrast, the most severe scenario would push inflation to a peak of 6% and keep it well above target in 2027.

Against this backdrop, we have revised our ECB rate scenario: we now expect three consecutive 25bp hikes in key interest rates in June, July and September.

United Kingdom

The prospect of inflation returning to target this year looks increasingly unlikely. The economy appears all the more vulnerable to the energy shock as it is starting from an already high level of inflation (3% y/y in January). Whilst a slowdown in the labour market and a negative output gap could limit second-round effects, the impact on oil prices of the damage caused to energy infrastructure has already led the Bank of England (BoE) to raise its short-term inflation forecasts (now expected to be 3% in Q2, up from 2.1% in February, and 3.5% in Q3). Whilst a rate cut was a possibility before the outbreak of war, the BoE kept its base rate at 3.75% in March. This unanimous decision by its nine members reflects a tougher stance aimed at preventing inflation expectations from becoming unanchored. Whilst it is currently adopting a wait-and-see approach to developments, it is not ruling out any scenario regarding the future direction of its monetary policy, including a possible tightening, as keeping inflation under control remains the priority. We therefore see a high probability of rate hikes this year, perhaps as early as April. The markets, for their part, are expecting more than two rate hikes.

Japan

The Bank of Japan's (BoJ) March meeting confirmed the initial outlook, namely that interest rate hikes are likely to continue. The hawkish bias appears to remain intact, but the pace could be even slower than expected because of the risks looming over economic activity. The committee is awaiting further information to reassess the balance of risks. The BoJ's central scenario, which we share, points to a rebound in core inflation later in the year following a dip in H1 2026 (linked to base effects and energy subsidies). The risks surrounding this scenario are mainly on the upside due to the energy shock. According to Kazuo Ueda, the BoJ governor, further rate hikes are possible even if there is downward pressure on economic activity linked to the energy price shock. However, this will depend on whether the shock is temporary or not, and on its impact on core inflation. Kazuo Ueda also mentioned companies' greater ability to pass on cost increases and the need to monitor the USD/JPY exchange rate, two factors pointing to a bullish bias. Market expectations have not changed significantly since the outbreak of war in Iran, remaining at one rate hike by the July meeting and a 70–90% probability of a second hike by the end of 2026. For our part, we anticipate that the next rate hike will take place as early as in the April meeting.

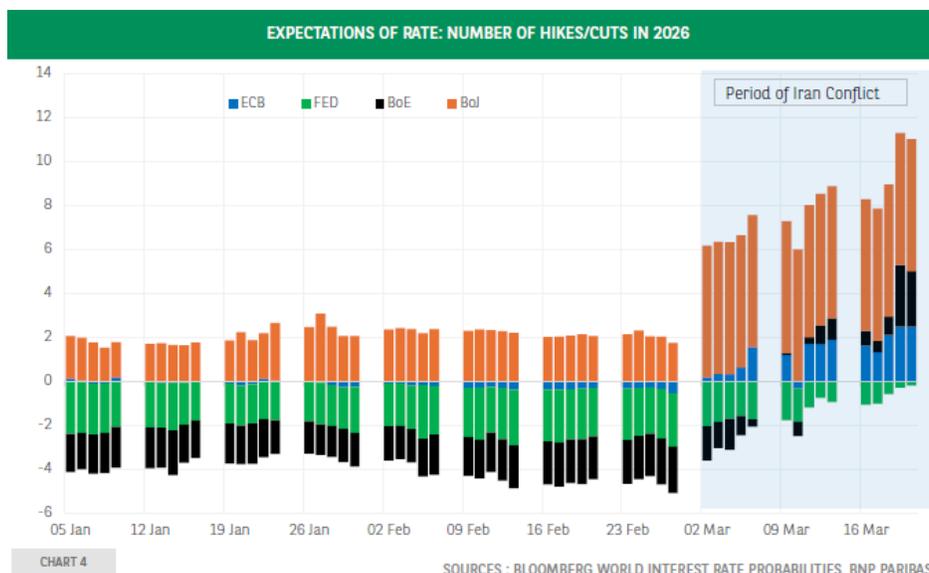
Emerging markets

In emerging markets, higher inflation is expected across all countries, although the extent of the increase will vary. Several factors will exacerbate the inflationary impact: a significant direct impact of rising global energy prices on national price indices (the share of energy in emerging market consumer price indices is generally high, up to 13%) and spillover effects to other commodities (the risks of a spillover to agricultural prices are rising rapidly). Other factors, **conversely**, are limiting the impact on inflation, including limited currency depreciation against the US dollar, the current cyclical position of emerging economies (which are not overheating), and the existence of subsidies and other mechanisms to mitigate the rise in energy prices for households and businesses.

Since the start of the war, EM central banks have not raised interest rates: monetary authorities in Malaysia and Taiwan have left key interest rates unchanged, against a backdrop of low inflation (1.5% and 1.2% year-on-year respectively in the first two months of 2026); the Indonesian central bank has also left its rates unchanged despite mounting inflationary pressures (+4.8% year-on-year in February). In Brazil, the central bank began its cycle of monetary easing, as was expected before the war (with a Selic rate cut that was, however, smaller than expected, at 25 bp). In South Africa, the rate cut expected in March is likely to be postponed. Inflation had begun to rise before the conflict in India (+3.2% y/y in February) and the Philippines (+2.3%), but the central banks of these two countries are not expected to raise their policy rates in the very short term. Similarly, in Chile, Peru and Mexico, they have already concluded their easing cycle, and it is likely that they will opt to keep their rates unchanged at their next meetings.

In Central Europe, the prospects for the moderate easing that was initially anticipated in Poland and Hungary have largely faded. Inflation had returned to the central banks' target in Hungary, Poland and the Czech Republic several months ago. However, a resurgence in inflation is expected as early as March; retail petrol prices are already showing a significant rise (ranging from +1.2% in Slovakia to +12.8% in Poland for petrol). In Romania, the rise is also notable (+11.1%, with prices matching the peak seen in 2022). In Hungary, the cap on petrol prices has not prevented a 6.8% increase for petrol and a 7.1% increase for diesel compared to prices prior to the conflict in the Middle East. Hungary appears to be the country most exposed to inflationary pressures in the

region: on the one hand, the 'food' category accounts for a significant proportion (over 20%) of the household basket, and on the other, the Hungarian forint is experiencing periods of volatility.



Government responses remain limited for the time being

Fiscal responses from advanced economies remain limited at this stage, constrained by high debt levels and long-term interest rates that exceed those of 2022, in a context where inflation is significantly more subdued than it was at that time. Nevertheless, the duration and scale of energy price rises are increasing political pressure.

In Europe, the European Council stressed the need for a coordinated response and asked the Commission to promptly present a set of targeted, temporary measures to tackle the recent spikes in the price of imported fossil fuels. It also called for concrete steps to lower electricity prices and curb excessive short-term volatility, especially for energy-intensive sectors, while taking into account the different situations across Member States. The Council also wants the Commission to work closely with the Member States to design temporary, targeted national measures that ease the significant impact of fuel costs and related cost components on electricity production costs, as well as the impact of all other cost elements. At the same time, it stressed the importance of preserving long-term investment signals, supporting the acceleration of renewable and low-carbon energy production, and ensuring fair competition within the internal market.

The ECB, for its part, has called for any fiscal measures to be “temporary, targeted and tailored”. So far, apart from the release of strategic reserves as part of the IEA initiative, only Italy and Spain have introduced new measures. The Italian government approved a temporary reinstatement, lasting 20 days, of variable excise duties and fuel-price controls. It also plans, in the longer term, to tax the extra profits earned by energy companies. In Spain, the government approved a EUR 5 billion assistance plan containing 80 measures, including a cut in the VAT electricity from 21% to 10% and the removal of other energy taxes. It is also looking to increase LNG imports from Algeria.

Portugal has extended an existing exceptional scheme to reduce fuel taxes. For its part, Germany aims to limit pump-price rises to one per day and to intensify monitoring of those prices. The German government is also considering a levy on the extraordinary profits of oil firms in order to capture part of the gains and fund consumer-aid measures such as high travel allowances. France is considering capping fuel retailers' margins. Greece has announced plans to cap profit margins on fuel and on major consumer goods for a three-month period.

The **UK** is introducing a highly targeted support package (GBP 53 million for vulnerable households), at a negligible fiscal cost and in an order of magnitude lower than in 2022.2022 levels, in line with its consolidation objective. In **the United States**, the measures include lifting restrictions on foreign vessels transporting goods between US ports for ships carrying hydrocarbons and raw materials, and easing economic sanctions on oil (from Russia, Venezuela, and possibly soon Iran). Finally, **Japan** stands out for its more proactive approach, which includes the release of oil reserves, subsidies to stabilise petrol prices and the possibility of intervening in the foreign exchange market in the event of high JPY volatility. Overall, this limited fiscal support is likely to only partially alleviate the negative shock to demand, while also somewhat mitigating the disinflationary effect, which complicates the central banks' ability to respond.

In emerging economies, more governments are taking action by either introducing or expanding subsidies or mechanisms designed to mitigate the impact of the energy crisis on households (such as Hungary, Croatia, Türkiye, Indonesia, Taiwan, South Korea, Vietnam, China). For instance, on 10 March 2026, the Hungarian government implemented a cap on fuel prices (applicable only to vehicles registered in Hungary). The tax on petroleum products has also been reduced, but this represents a shortfall in tax revenue and is expected to exacerbate the budget deficit this year (-5.5% of GDP).

Advanced economies: comparison with 2022

On the inflation front, significant price pressures emerged as early as 2021 due to the post-Covid recovery (a rebound in demand, supply chain disruptions linked, in particular, to the prolonged lockdown in China). This was compounded by a rise in gas prices resulting from the gradual decline in Russian supplies. By January 2022, this had resulted in headline inflation of 5.1% y/y in the Eurozone and 7.6% in the United States, a rise that was further exacerbated by the outbreak of war in Ukraine. Headline harmonised inflation in the Eurozone peaked in October 2022 (10.6% y/y), while core inflation peaked in March 2023 (5.7%). Our four inflation scenarios remain, at this stage, more moderate than in 2022.

On the fiscal front, the governments of the major advanced economies implemented support measures on an unprecedented scale in 2022; the most costly of these was the introduction of direct energy price subsidies, which took the form of price caps or reductions on gas and electricity (the 'energy price guarantee' in the United Kingdom, VAT reductions in Italy and Germany, a tariff shield in France, and the 'Iberian exception' in Spain). Reductions in fuel taxes were also introduced (France, Spain), as well as direct transfers to households (energy vouchers in France, a €300 payment to employees in Germany). In the United States, the main measures focused on supply, notably through the energy component of the Inflation Reduction Act (2022), for long-term investments in the energy transition for households and businesses. The current response is therefore comparatively much more limited (to date, only measures to cap price rises at the pump have been announced in Germany and Japan), while the UK has established a £53 million fund for households that heat their homes with domestic heating oil.

On the monetary front, the central banks' response to the 2022 shock came against a backdrop of already high inflation, which the Fed and the ECB nevertheless described as 'transitory'. Unlike the present situation, key interest rates were at historically low levels following further easing to mitigate the impact of Covid-19. Furthermore, in the case of the United States, demand was strong enough for the Fed to pursue a slowdown in order to rebalance with supply. The sharp acceleration in inflation following the outbreak of war in Ukraine has forced central banks to react decisively. Consequently, the Fed raised its rates by a total of 550 basis points between March 2022 and July 2023, and the ECB by 450 basis points between July 2022 and September 2023. The monetary cycle is now significantly less accommodative overall, giving central banks a better starting position and, consequently, greater control to curb any second-round effects.

Conclusion

The coming weeks will be crucial for assessing the impact of this war.

The key points to watch, beyond developments on the ground and fluctuations in energy prices, will specifically concern:

- The extent of second-round effects and the potential emergence of bottlenecks in other commodity markets
- Changes in businesses' expectations regarding their selling prices, in the face of rising production costs and shrinking margins
- The likelihood of a spillover from a supply shock to a demand shock, which might first become apparent in changes to confidence indicators (household confidence surveys, PMI indices) and, in the medium term, in wage trends
- The knock-on effects of the conflict on other sectors of the economy (public finances, private credit)

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Authors: Advanced Economies team (contact: stephane.colliac@bnpparibas.com), Emerging Economies team (contact: christine.peltier@bnpparibas.com) and Country Risk team (contact: françois.faure@bnpparibas.com)

Charts: Tarik Rharrab