

Snap | 3 March 2026

Eurozone inflation at risk of trending higher over war in Middle East

The February HICP showed a jump in core inflation, indicating that price pressures have not fully eased in the eurozone. Clearly, the energy supply impact of the Middle East war brings upside risk to the inflation outlook, which puts the ECB on high alert



Even before the Middle East conflict began, inflationary pressures had by no means fully eased in the eurozone

Let's look back at February: inflation increased from 1.7% to 1.9%. The negative contribution from energy prices was smaller in February, but most importantly, core inflation jumped from 2.2% to 2.4%. The increase was seen for both services and goods inflation, and shows that, even before the Middle East conflict began, inflationary pressures had far from fully abated.

From here on, things are set to get bumpier again. While we had expected inflation to remain below 2% for most of the year, the risk to the outlook is clearly up due to the war in the Middle East causing energy supply disruptions and soaring energy prices. The eurozone energy supply remains vulnerable as it has become a lot more reliant on LNG, for which global prices have surged since the weekend. The longer the conflict goes on, the more impactful this will be for eurozone inflation and economic growth.

If the conflict continues for a few weeks, expect inflation to rebound to the mid-2% range. But if a

significant disturbance to energy supply lasts longer, the impact is bound to become larger, which means that uncertainty around the inflation outlook is returning after having been comfortably steady around the target for a long time.

The ECB's Chief Economist, Philip Lane, has warned that a renewed spike in inflation is possible on the back of current developments. Given the 2021-22 spike in inflation and with core inflation still above target, expect the ECB to be vigilant about a renewed substantial run-up of inflation. At the same time, though, with inflation still benign now, rates not accommodative but neutral, and the outcome of the Middle East conflict very uncertain, the ECB will not jump at any energy price development either.

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