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Rising supply-side shocks amid geopolitical tensions: implications for ECB's monetary policy

This at a glance paper, prepared ahead of the Monetary Dialogue with the ECB President on Monday 22 June 2026, compares three recent external papers commissioned by the European Parliament's Committee on Economic and Monetary Affairs exploring the main features of the current energy shock and its implications for euro-area inflation and ECB's monetary policy.

Background

Recent years have challenged the traditional macroeconomic view that inflation is predominantly demand-driven and that supply shocks are typically localized, driven by idiosyncratic factors, largely transitory, and self-correcting. The COVID-19 pandemic, the Russia's invasion of Ukraine and the renewed geopolitical tensions in the Middle East have exposed the euro area to repeated and persistent supply-side disruptions, particularly in energy markets. These developments suggest that **recent supply shocks are more persistent, more complex, and more tied to structural transformations** in global production and geopolitical dynamics, therefore **complicating the conduct of monetary policy** by simultaneously increasing inflationary pressures and weakening economic activity.

Against this backdrop, the European Parliament's Committee on Economic and Monetary Affairs (ECON) commissioned **three papers of the Monetary Dialogue in June**, by Cinzia Alcidi and Ignazio Angeloni (CEPS), Kerstin Bernoth and Alexander Kriwoluzky (German Institute for Economic Research/Deutsches Institut für Wirtschaftsforschung: DIW), and the paper by Christophe Blot, Jérôme Creel, François Geerolf and Davide Romelli (French Economic Observatory/Observatoire Français des Conjonctures Économiques: OFCE). All three papers analyse how the **nature of supply shocks** may be changing and **what this could imply for the ECB's monetary policy** framework going forward.

Is the euro area facing another 2022-style inflation shock?

The three papers broadly agree that **recent supply shocks differ from those observed during the pre-COVID-19 pandemic period**. They are increasingly less localized, linked to geopolitical tensions, and characterised by stronger spillovers across sectors and countries, making inflation dynamics more difficult to interpret in real time. At the same time, the papers differ in their assessment of the current energy shock

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compared with the 2022-2023 episode. The **DIW paper argues that** the **inflation surge in 2022-2023 was primarily driven by stress in European gas markets**, whereas the current episode is, for now, more concentrated in global oil markets. Since gas prices remain well below the levels observed after Russia's invasion of Ukraine, the paper suggests that the risk of broad-based and persistent inflationary pressures may currently be more limited. By contrast, the **CEPS paper places greater emphasis on the similarities between the two episodes,** warning that even temporary energy shocks may again become embedded in broader inflation dynamics through expectations and second-round effects. The OFCE paper, meanwhile, is more **cautious about drawing firm conclusions from the current episode**. It argues that, because energy shocks simultaneously affect production costs, wages, expectations and fiscal policy, it remains inherently difficult to determine in real time whether the euro area is facing a temporary energy-price shock or the beginning of a more persistent inflationary episode similar to that of 2022–2023.

Can monetary policy effectively respond to supply-driven inflation?

All papers underline that supply shocks create a **difficult dilemma for central banks,** as they raise inflation while simultaneously weakening growth and employment – a "stagflationary" policy dilemma. The **OFCE paper cautions against an excessively mechanical tightening response to such shocks**. It argues that higher interest rates have limited influence on global energy prices and may weaken domestic demand excessively. The paper also warns that tighter monetary policy could slow investment in **renewable energy and green infrastructure** by increasing financing costs. By contrast, the **CEPS paper places greater emphasis on the risks associated with delayed policy responses**. It argues that the ECB initially underestimated the persistence of inflation during the 2022–2023 energy crisis, allowing inflation to become increasingly broad-based before monetary policy tightened significantly. The paper therefore stresses the importance of **reacting before second-round effects become entrenched**. The **DIW paper adopts a more intermediate position**. Although it acknowledges that current evidence does not yet point to a widespread de-anchoring of inflation expectations, it argues that elevated geopolitical uncertainty may increase the **sensitivity of expectations** to further energy-price increases. Against this backdrop, the paper suggests that an increase in the interest rate could help reinforce the ECB's inflation-fighting credibility, although the magnitude of any adjustment should remain data-dependent. Despite these differences, the papers agree that **monetary policy alone cannot eliminate the real economic costs associated with adverse supply shocks**. Instead, the key challenge for the ECB is preventing temporary price increases from feeding into persistent inflation expectations and wage dynamics while avoiding an excessive tightening of demand.

What lessons should the ECB draw from the 2022–2023 energy crisis?

The papers identify **several lessons from the ECB's response to the 2022–2023 inflation surge**. First, all papers point to significant **forecasting difficulties**. Traditional macroeconomic models have struggled to account for structural breaks and geopolitical shocks. The **CEPS paper refers to the growing relevance of "*shifts and breaks*" in the global economy** and argues that this may have reduced the reliability of conventional forecasting frameworks, highlighting the need to place greater emphasis on scenario analysis. Second, the papers emphasise the **importance of inflation expectations and second-round effects**. While the ECB initially looked through the energy shock in 2021-2022, inflation subsequently broadened beyond energy-intensive sectors and became increasingly persistent and broad based. According to the papers, this experience suggests that **monitoring wage developments and inflation expectations** may become increasingly important in future supply-driven inflation episodes. Third, the **papers highlight the interaction between fiscal and monetary policy**. Fiscal support measures introduced during the energy crisis helped cushion households and firms from the sharp rise in energy prices. However, the **CEPS paper argues that broad and untargeted support measures may also have contributed** to sustaining demand and increasing inflation persistence. In general, the papers suggest that future stabilisation efforts may require closer coordination between fiscal and monetary authorities.

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