

Yannis Stournaras: Monetary and broader policy considerations for the euro area under the present energy price shock

Speech by Mr Yannis Stournaras, Governor of the Bank of Greece, at the Economist Romania Government Roundtable "Monetary and broader policy considerations for the euro area under the present energy price shock", Bucharest, 30 March 2026.

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I am delighted to speak to you today on a matter of pressing importance: the macroeconomic and monetary policy implications of the present energy price shock. I will start by outlining the key monetary policy considerations for the euro area and then turn to the broader EU-wide economic policy agenda, one that, as I will argue, has a direct bearing on the efficiency of monetary policy.

1. Monetary policy considerations for the Eurosystem

The war in the Middle East has triggered a new adverse external supply shock for Europe through several channels, including mainly its impact on energy markets. Being a net energy importer, the euro area faces, once more, a negative terms-of-trade effect, while presenting policy makers with new dilemmas and challenges.

The present energy price shock is stagflationary in nature. As shown in the ECB staff baseline projections, published in March, the shock is expected to push headline inflation higher in the near term, while weighing on growth through elevated energy costs, weaker real incomes, increased uncertainty and lower confidence. The projections show that the short-term inflation outlook has deteriorated markedly, with headline inflation projected to reach 3.1 per cent in the second quarter of this year and 2.8 per cent in the third quarter. However, the medium-term inflation outlook has not shifted materially away from our 2 per cent objective. Real GDP growth is projected to be 0.9 per cent this year, a slight dip from the previous projections. But this outlook is subject to high uncertainty depending on the unfolding war. Monetary policy will have to navigate through this uncertainty. Should the war continue for a protracted period, the euro area would face a more adverse macroeconomic environment than the one emerging from the ECB baseline projections, with weaker growth, and higher and more persistent inflation.

In such an environment, the challenge for central bankers is clear: how to respond to inflation driven largely by supply factors, without deepening the economic slowdown. The ECB successfully navigated a similar episode in the recent past and managed to tame inflation, while achieving a soft landing of the economy – that is, without negative output growth. To shed some light on the challenges that monetary policy faces, let me briefly recall the challenges the ECB Governing Council faced in the early-2020s, when the euro area was hit by a series of shocks, inducing Covid-19 and Russia's invasion of Ukraine.

The inflation surge of 2021-2022

During the 2021-2022 inflation spike, inflation expectations remained contained -- the euro area 5-year/5-year forward inflation-linked swap rate stayed below 3 per cent throughout that episode, despite the fact that actual inflation reached double-digit levels.

Reflecting the well-anchored inflation expectations, nominal wage growth was initially relatively subdued, while real wages declined sharply before gradually recovering, as workers sought to recoup the purchasing power eroded by the inflation surge. Crucially, there was no wage-price spiral. That pattern of contained nominal wage growth may be more difficult to achieve this time around, if the war in the Middle East continues, for two main reasons.

First, in the 2021-2022 inflation episode, economic agents had no recent memory of high inflation. Their expectations were based on decades of very low -- even negative -- inflation. Thus, they had no reason to expect that inflation would rise above 10 per cent, as in fact, happened. This time around, the memory of double-digit inflation is recent, and so producers and wage earners are not likely to be as slow to react as they were in that earlier episode. They have become far more acquainted with higher inflation.

Second, in 2021-2022 monetary policy was seen as the main anchor of medium-term inflation expectations, underpinned by high central bank credibility. But now, with the Iran-war shock coming quickly after the post-pandemic inflationary shock, the invasion in Ukraine, and on the heels of the June 2025 attacks on Iran, economic actors may be less inclined to view central banks as the only game in town. People may come to increasingly view inflation as determined, at least in part, by recurring supply-side disturbances in the global economy, against which central banks cannot fully insulate the economy.

The policy implication is clear. If signs were to emerge that second-round effects are gaining traction, or that inflation expectations are beginning to drift, the ECB will have to respond quickly to help ensure that inflationary pressures do not become entrenched in expectations.

Monetary policy going forward

While the above considerations suggest that the current episode may prove more difficult to manage in some respects, there is also an important difference compared with the 2021-2022 episode: we are entering this period from a stronger starting position. I will explain why:

Until just a few weeks ago, ECB characterised the appropriateness of its policy stance with the words: "we are in a good place". We are now in a less good place because we have been exposed to elevated risks. Having said that, it is important to point out that we begin from a solid footing and remain well positioned to navigate the uncertainty that lies ahead:

- Inflation in the euro area has been around the 2% target for almost a year and, in fact, has slightly undershot our symmetric target in the first two months of this year. This

provides some slack for future rate tightening. Moreover, euro area growth has proven to be resilient. In contrast, when the ECB began its tightening cycle in July 2022, the inflation rate in June 2022, which was the latest available reading, stood at 8.6 per cent.

- The Governing Council had raised the policy rate, the Deposit Facility Rate (DFR), from minus 50 basis points to 0 per cent. The present monetary policy stance is very different: the DFR, now at 2.0 per cent, is in neutral territory.

- Moreover, in mid-2022 the balance sheet was providing substantial monetary accommodation as asset purchases had only just come to an end, while reinvestments were ongoing. Today, balance-sheet normalisation is well under way.

The Governing Council is also better equipped this time. Over the past four years, we have improved our analytical tools, reassessed our strategy and become more attentive to risks around the outlook, including through the use of scenarios and sensitivity analyses. This helps ensure that we are well informed in assessing the situation and that we have a better understanding of the transmission dynamics to indirect and second-round effects.

Before turning to the broader policy landscape, let me conclude my assessment with the observation that monetary policy succeeded, against considerable odds, in delivering price stability. It achieved its inflation target without triggering a recession or generating financial stability problems. The ECB is among the relatively small number of central banks that succeeded in bringing inflation back to target, while also achieving a "soft landing".

2. Broader EU-wide policy considerations

The positive performance of the ECB's monetary policy is even more striking when viewed in the context of the persistent fragmentation within the euro area and its remaining architectural deficiencies. Financial, fiscal, and capital market segmentation can weaken and unevenly distribute the transmission of monetary policy across member states, complicating the task of maintaining price stability for the union as a whole.

A more integrated euro-area economy would enhance the effectiveness of monetary policy and strengthen its smooth transmission across jurisdictions. In turn, this would help central banks to navigate a delicate balance between containing inflation pressures, while preventing an undue weakening of economic growth; a challenge that tends to become especially pronounced in the presence of adverse supply-side shocks.

Completing the banking union - especially through the establishment of a European Deposit Insurance Scheme – and advancing towards a genuine Savings and Investments Union would significantly reduce financial fragmentation across member states and strengthen the foundations on which monetary policy operates.

To achieve deeper integration, a coherent, European-wide strategic response is no longer an option – it is mandatory. This circumstance is reflected in the Letta report on deepening the Single Market and eliminating the remaining substantial internal barriers to trade in goods and services, as well as in the Draghi report on Europe's investment

needs, productivity and competitiveness. Only through coordinated joint action can the EU close its productivity and innovation gaps, reinforce resilience and preserve its strategic autonomy. Achieving this set of objectives will also strengthen the implementation, transmission and efficiency of monetary policy in safeguarding price stability and supporting financial stability.

Recent EU initiatives such as the European Defence - Readiness 2030, as well as the European Commission's Competitiveness Compass and Clean Industry Pact, signal a major policy shift towards a stronger, forward-looking industrial strategy that seeks to incentivise innovation and investment in new technologies. These initiatives support deeper market integration and stimulate large-scale investment in critical technologies and infrastructure, thereby increasing Europe's resilience to external shocks.

On joint debt and a European safe asset

The issuance of more joint European debt, to pursue well-defined, high-priority common European purposes, such as enhancing defence, green energy, and strategic investment, would send an unambiguous signal that Europe is moving toward greater integration and shared responsibility.

In this regard, the experience of Next Generation EU (NGEU) is instructive. Large-scale joint bond issuance demonstrated that the EU can borrow collectively at scale, build a liquid yield curve and attract strong global demand – without undermining fiscal responsibility at the national level. Crucially, NGEU financing was linked to clearly defined European objectives, time-bound commitments and reform conditionality. This architecture helped alleviate moral hazard, while enhancing market credibility.

Demand for high-quality European sovereign bonds remains strong, both domestically and internationally. This partly reflects the euro area's structural savings surplus. However, a significant share of our savings currently is being invested abroad due to the limited supply of domestic high-quality securities. A well-designed European safe asset, issued in sufficient volumes, would help absorb this demand, support market functioning and financial stability, while boosting the international role of the euro.

Translating momentum into action

The energy crisis confronting the euro area today is not an isolated event. It is the latest in a series of disruptions that should act as another powerful wake-up call, highlighting the urgent need for institutional change. Translating this momentum into concrete action will require careful preparation, coordinated action and sustained agreement among Member States. The present geopolitical environment offers a clear opportunity to move forward more quickly. We need to act on this opportunity, before it passes us by.

There is now broad recognition across Europe that the continent's strategic direction must change fundamentally. What is required is the collective determination to act - and to deliver the reforms that will strengthen Europe's resilience and competitiveness. Higher integration, a genuine capital markets union, a European safe asset and a coordinated investment strategy are not abstract aspirations. They are essential conditions for a Europe more resilient to shocks.

This agenda is closely linked to monetary policy. Progress towards a deeper capital markets union would help mitigate financial fragmentation and safeguard the smooth transmission of monetary policy to all jurisdictions. A more integrated and diversified financial system would also reinforce resilience, improving the environment in which monetary policy can operate with greater effectiveness.

Sound and credible fiscal frameworks are also important. Fiscal policy that is consistent with price stability, avoiding procyclical impulses, supports the effective transmission of monetary policy. Any fiscal responses to the energy price shock should be temporary, targeted and tailored. Sustainable public finances remain a prerequisite for long-term economic resilience.

Peter Drucker, the inventor of modern management, once warned that "the greatest danger in times of turbulence is not the turbulence itself, but to act with yesterday's logic." That warning speaks directly to this moment. The institutional responses of the past are no longer sufficient for the challenges ahead. A window of political opportunity is open - one that the current crisis has forced open. It will not remain so indefinitely. The task before us is clear: to act with the ambition, readiness, and collective resolve that such a moment demands.