

Christine Lagarde: The energy shock - where we stand and what we need to know

Keynote speech by Ms Christine Lagarde, President of the European Central Bank, at the annual reception of the Association of German Banks on the occasion of their 75th anniversary, Berlin, 20 April 2026.

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It is a pleasure to be here today for the 75th anniversary of the Bundesverband deutscher Banken.

When this association was founded, Europe was emerging from the most devastating period in its modern history – and was about to enter a golden age of peace and economic growth.

Today we face more uncertainty about which direction Europe will take than at any point since then. And much of that uncertainty is coming from beyond our borders.

When historians look back at this period, what will stand out is the sheer relentlessness of it. A once-in-a-generation pandemic, followed by a land war on our continent, followed by the worst energy crisis in 50 years, followed by the most sweeping tariff increases since the 1930s.

And now a military conflict that has shut down the world's most important energy chokepoint, the Strait of Hormuz.

Each of these shocks has torn away something that Europe had come to take for granted. A secure supply of cheap energy. A predictable trading relationship with the United States. The foundations of our post-war military security.

But Hegel observed that *die Eule der Minerva beginnt erst mit der einbrechenden Dämmerung ihren Flug* – the owl of Minerva begins its flight only as dusk falls. Understanding comes after the experience, not before it. And the truth is that these painful years have taught us a great deal.

Some of those lessons are already being acted on. The transformation of defence policy in Germany over the past year would have been unthinkable without the shocks that preceded it.

But there are also lessons on how we navigate the economic consequences of large shocks – and those lessons are directly relevant to the situation we find ourselves in today.

Building on this, today I would like to focus on where the economy stands, what monetary policy needs to see to calibrate its reaction, and how fiscal policies can help keep the inflation shock as small as possible.

The economic situation

The economic picture remains deeply uncertain. The stop-start nature of the conflict – war, ceasefire, peace talks, their collapse, a naval blockade, its lifting, its reinstatement – makes it exceptionally hard to gauge the duration and depth of the consequences.

But what is clear is that there is no easy path back to where we were before this conflict erupted.

In March, we published our baseline projection for the economy alongside an adverse and a severe scenario, each driven by progressively higher energy prices. All three saw higher inflation and lower growth than we expected in December, with the damage escalating with the severity of the shock.

The critical question now is which path we are on.

The supply disruption is enormous. Even accounting for pipeline redirection and strategic reserve releases, the net loss of oil is estimated at around 13 million barrels per day – roughly 13% of global consumption. And that is before the US blockade.

But so far, we have not seen energy prices rise far enough to push us squarely into our adverse scenario.

While both oil spot and futures prices are above what we assumed in our baseline, markets appear to be betting that the disruption will be short-lived. European natural gas prices are below our baseline reflecting, among other things, gas-to-coal switching in Asia and relatively mild weather in China.

If the conflict resolves quickly, the direct energy price shock could prove to be at the smaller end of expectations – and the economic impact would be contained.

The outlook, however, remains fragile – and worse paths are still possible.

Every day the conflict continues, the wider the gap between energy supply and demand and the longer the normalisation. And the longer the disruption, the further the spread of its effects – not only through higher energy costs, but through the loss of critical inputs.

Around a third of helium produced globally comes from the Gulf, and its loss would be felt in semiconductor fabrication and high-tech manufacturing. A similar share of seaborne trade in fertilisers passes through the Strait, affecting global food prices. Close to a fifth of global methanol production is at risk, with consequences for the chemicals and plastics industries.

If the disruption persists long enough, the adjustment shifts from prices to rationing – with very different economic consequences. Higher prices are primarily inflationary. Shortages hit output directly and are worse for growth.

Overall, there have been limited signs of supply chain disruptions so far – both globally and in the euro area. But local tensions are visible: jet fuel prices have roughly doubled since the outbreak of the conflict, and rationing has been imposed at some individual airports since early April.

The appropriate policy mix

Setting monetary policy in such an environment is challenging.

We know we are facing a major shock – the International Energy Agency deems it the largest oil supply disruption in history. But past experience has taught us that the size of the shock alone does not determine its economic consequences.

Two other factors remain genuinely uncertain, and both are critical for getting our policy response right.

The first is the duration of the disruption.

As the economic picture I just described makes clear, the longer the conflict lasts, the worse the outlook becomes – and not in a linear way. Duration is therefore key for judging which scenario we are facing.

In 2022 it was clear early on that the shock was not only large but persistent. Europe was not going back to using Russian gas. We had to build new LNG infrastructure, find new suppliers and compete in the global market for imports.

Today the range of possible outcomes is far wider. On 31 March, when the conflict appeared to be escalating, oil prices would have placed us squarely in our adverse scenario. By 10 April, after the ceasefire was announced, we were between the adverse scenario and the baseline.

We are watching what comes next.

The second factor is the pass-through of energy prices to broader inflation.

The same energy shock can play out very differently depending on the economic environment in which it lands. In 2022, strong demand, global supply chain bottlenecks, and acute labour shortages created the conditions for broad pass-through. By contrast, when energy prices spiked in 2008 and 2011, weaker economies meant that higher prices stayed largely in the energy component.

Two forces pulling in opposite directions are likely to influence the inflation response this time.

On one side, households and firms have just lived through a large inflation shock and may be more sensitive to rising costs. The muscle memory is fresh. Incoming surveys suggest that the selling price expectations of firms have increased, and that households are already paying more attention to inflation.

On the other side, higher energy prices and weaker consumer sentiment will weigh on demand, particularly given that growth, while recovering, was moderate before the conflict began. That could limit the extent of price and wage increases. In the two most recent comparable episodes – the Gulf War of 1990-91 and Russia's invasion of Ukraine – oil supply shocks reduced euro area GDP by around 0.4% on average in the first year.

The relative importance of these forces will only become clear as we see actual data on firms' pricing behaviour and wage negotiations.

This double uncertainty about the duration of the shock and the breadth of pass-through argues for gathering more information before drawing firm conclusions for our monetary policy.

But there is another factor that will shape the inflation outcome: the design of fiscal policy.

Governments face strong pressure to cushion the blow for households when energy prices surge. But the 2022 experience shows that both approaches to providing support – price-based measures and income-based measures – involve difficult trade-offs.

Price-based measures can bring down inflation, but at the cost of blurring the signal that households and firms need to reduce energy consumption.

Measures such as tax cuts and price caps reduced inflation by close to 1 percentage point in 2022. This was valuable because energy prices are highly visible to the public and weigh heavily on inflation expectations.

But when such measures are broad and open-ended, the public has no incentive to cut back on energy use. And when they are eventually unwound, they raise inflation mechanically. During the last shock, the withdrawal of fiscal support contributed to prolonging the period of above-target inflation well into 2024 and 2025.

Income-based measures can protect citizens, but at the cost of stimulating the economy too much.

Fiscal transfers to lower-income households are socially necessary and economically stabilising. But when support is extended across the income distribution, it sustains demand that firms can then use to pass on higher costs – forcing monetary policy to tighten more than it otherwise would.

In 2022 fiscal measures to compensate for higher energy costs and inflation amounted to 1.7% of GDP. That made fiscal policy net expansionary at a time when monetary policy was tightening with the aim to dampen demand.

Today there is another constraint. In the years since the pandemic, an expectation has taken hold that governments will step in to shield households and firms from every large shock.

But fiscal space has shrunk since then. Governments that try to cushion every shock for every household risk undermining fiscal sustainability at their peril.

That makes selectivity not just desirable but necessary. The lesson of 2022 is clear: support that is temporary, targeted and preserves the price signal can protect the most vulnerable without making inflation worse or public finances less stable.

Conclusion

Let me conclude.

Europe faces one of the most decisive moments in the 75 years since this association was founded. The pace of change is disorienting. The shocks keep coming. And the familiar certainties of the past are not returning.

But each crisis has sharpened our understanding of what is needed.

I began with Hegel's observation that understanding comes only after the experience. Let me end with Goethe's solution: *Es ist nicht genug zu wissen, man muss auch anwenden*. Knowing is not enough; we must apply.

For the ECB, this means being ready to act when we have the information we need. Our commitment and our compass are clear.

We are committed to our price stability mandate. We will ensure that inflation returns to 2% over the medium term. And we will act as the situation demands.

Thank you.