

Observatory Group

Current economic and monetary policy issues

Martin Kocher
Governor

Tokyo, 13 May 2026

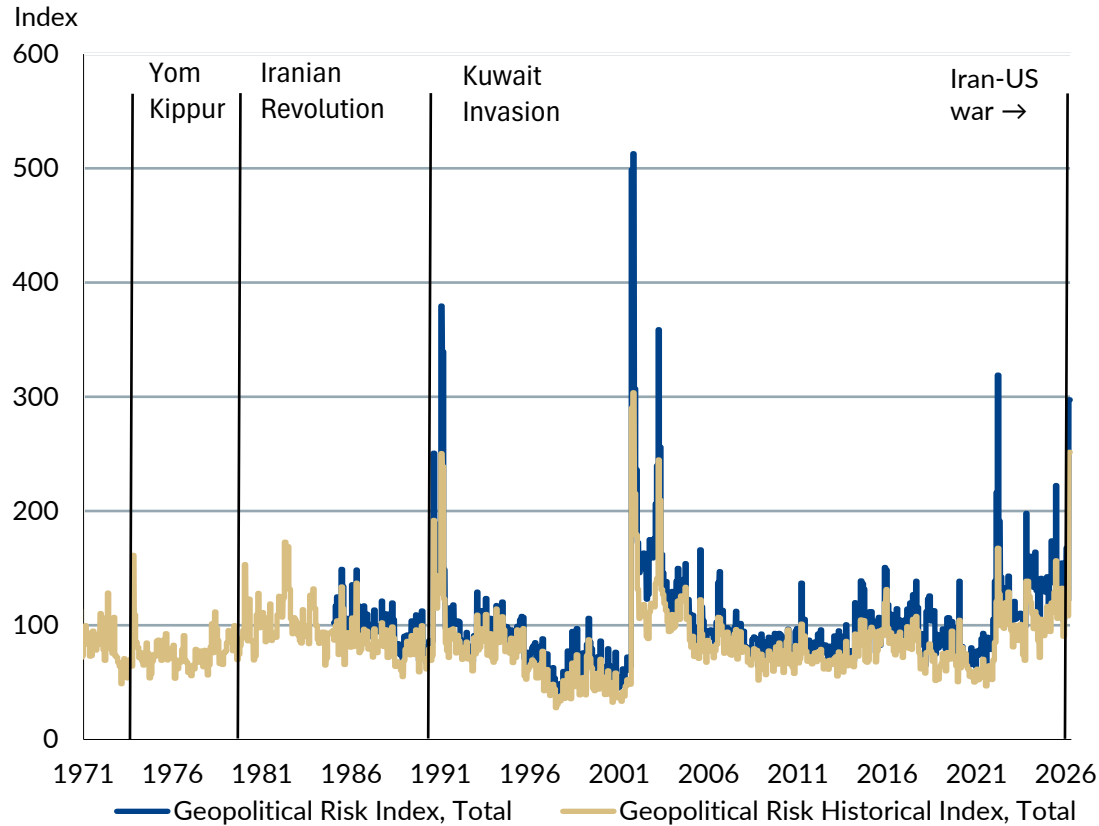


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International developments

Geopolitical risks are elevated and, on the rise, once again

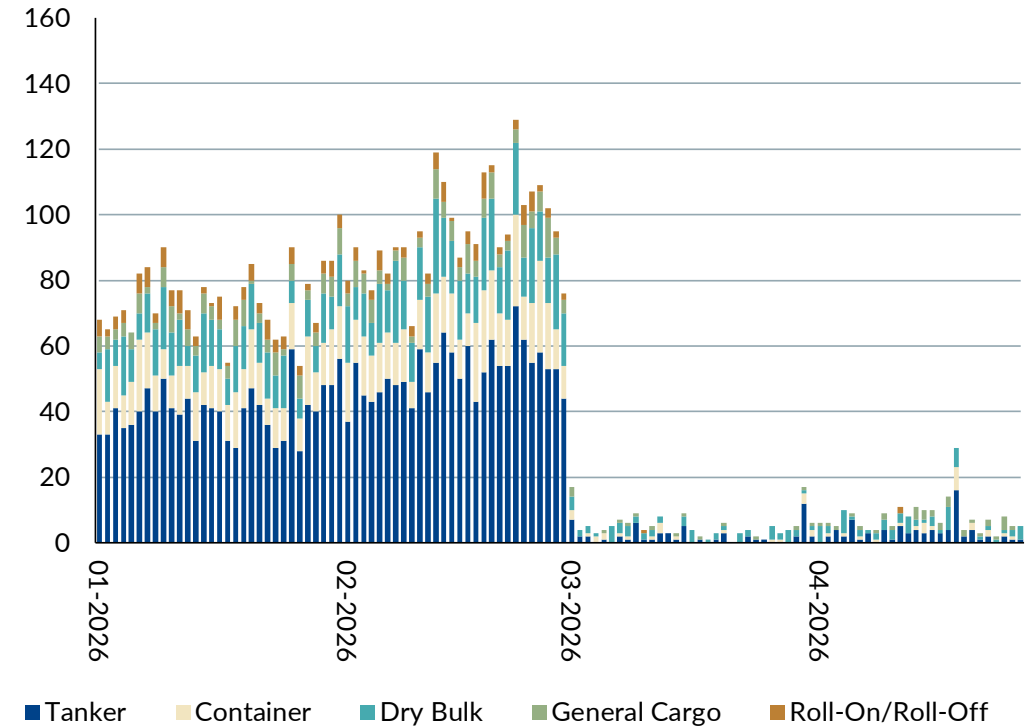
Geopolitical risks are on the rise



Source: Macrobond (Caldara and Iacoviello, 2022).

Strait of Hormuz

Number of ships



Source: Macrobond (IMF PortWatch).

Muted growth outlook: Middle East war burdens the U.S., China, and the euro area

Projections of economic growth

Growth of real GDP in percent

	IMF forecast (April 2026)		Revisions compared to January 2026	
	2026	2027	2026	2027
Euro area	1.1	1.2	-0.2	-0.2
UK	0.8	1.3	-0.5	-0.2
Japan	0.7	0.6	0.0	0.0
China	4.4	4.0	-0.1	0.0
USA	2.3	2.1	-0.1	0.1
World	3.1	3.2	-0.2	0.0

Source: IMF.

- **United States:** The energy price shock weighs on purchasing power, while the PCE core rate (3.1%) constrains the Fed’s policy room. Growth edges slightly higher in 2027 if the conflict eases.
- **China:** Disruptions at Hormuz affect export logistics and raise production costs. The property sector and weak domestic demand remain structural drags.
- **Euro area:** As a net energy importer, the region is directly exposed. Parallels to 2022 shape risk perception. Higher defense spending (Germany) helps cushion the downturn in 2027.
- **Risks:** The baseline scenario (+19% energy prices, short-lived conflict) is quite optimistic. An adverse scenario implies global growth of 2.5%; a severe scenario 2.0%.



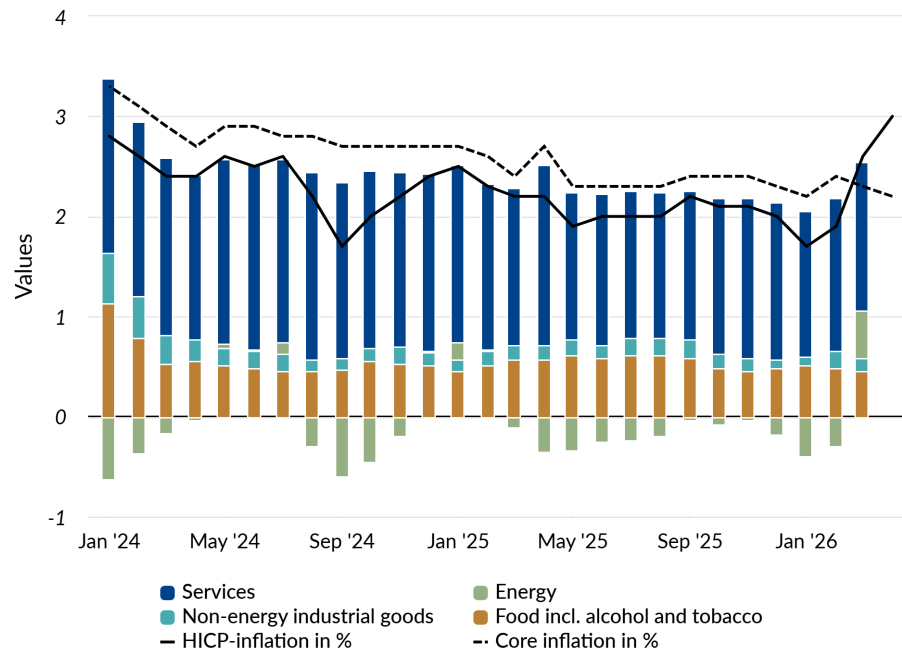
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Economic and monetary policy issues in the euro area

Euro area HICP inflation has picked up recently due to high energy prices, while core inflation continues to ease

HICP Components

Contribution to HICP-inflation in percentage points

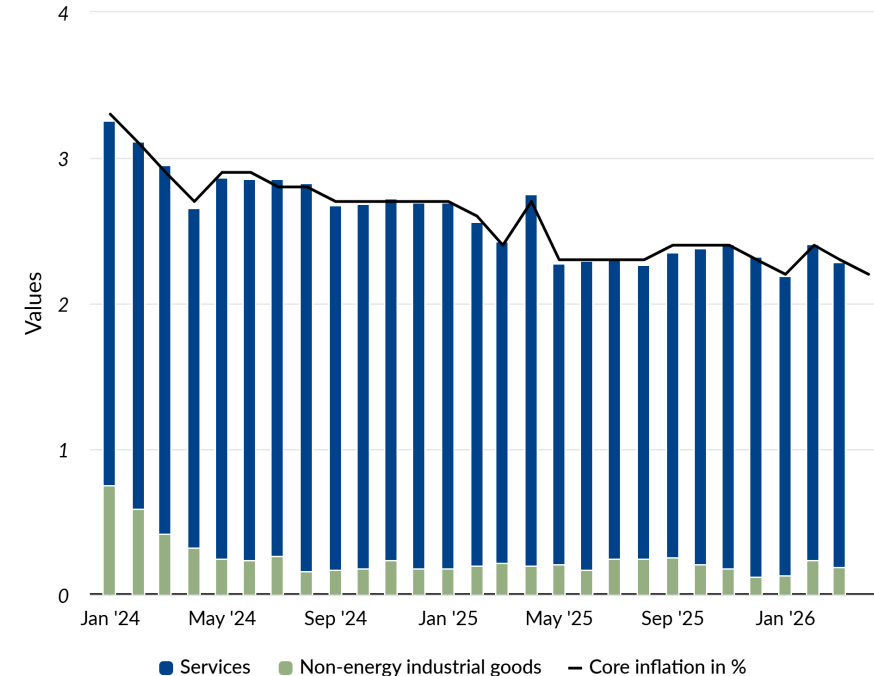


Source: Eurostat. Last observation: 04/2026 (flash estimate). Country: EA

- **HICP inflation picked up** recently to **3.0%** in **April**.
- **Energy prices increased** to **10.9%** in April as a consequence of the war in the Middle East.

Core inflation components

Contribution to Core inflation in percentage points

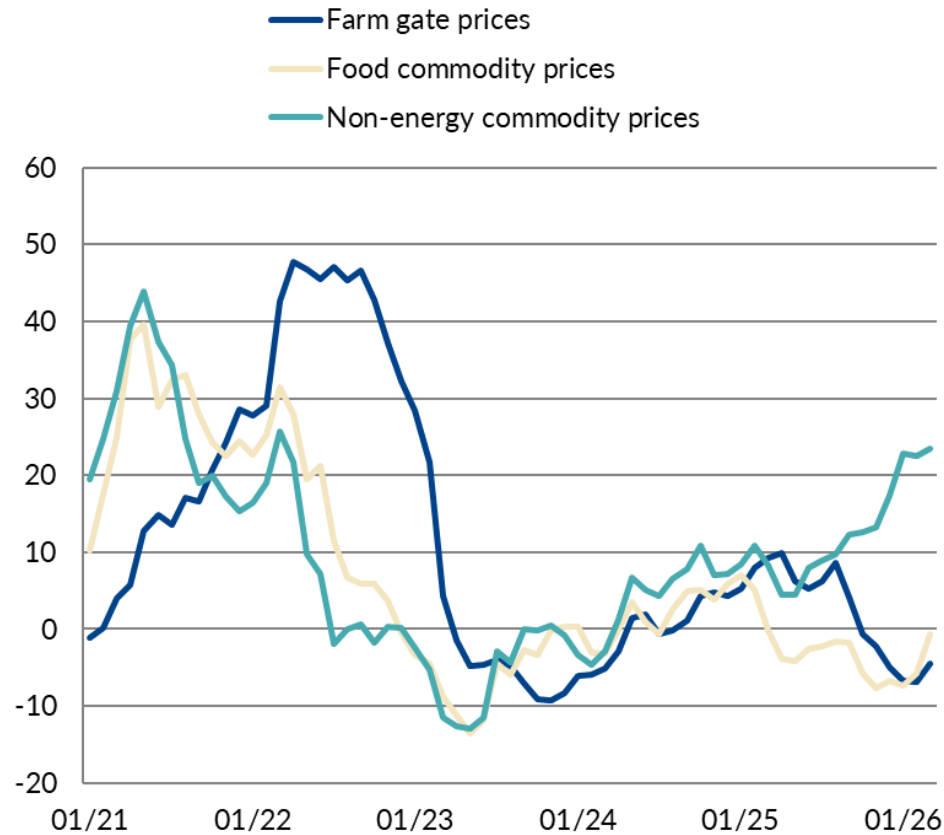


Source: Eurostat. Last observation: 04/2026 (flash estimate).

- **Core inflation eases** to **2.2%**, with **services inflation** down to **3.0%**.
- **Non-energy industrial goods inflation** picks up to **0.8%** in **April** from **0.5%** in **March**.

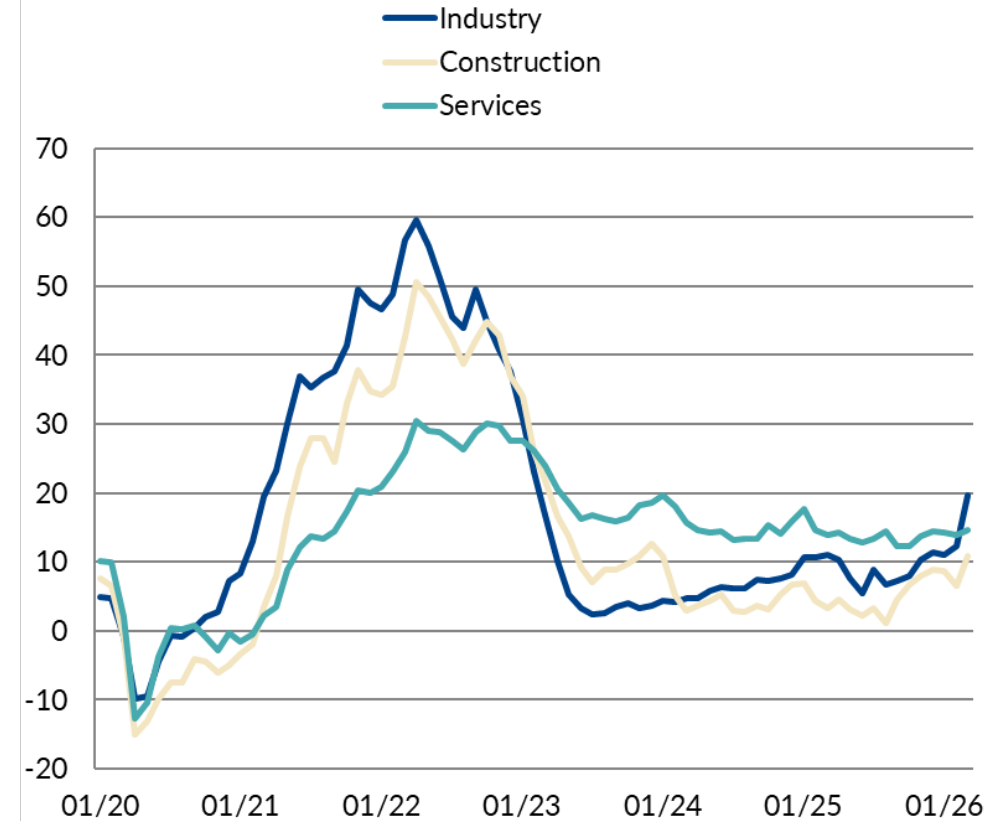
Incoming data shows energy shock is feeding into upstream indicators

Commodity prices excluding energy (annual percentage change)



Source: ECB and IMF.
Note: Latest observation: March 2026.

Selling price expectations (balance of responses)

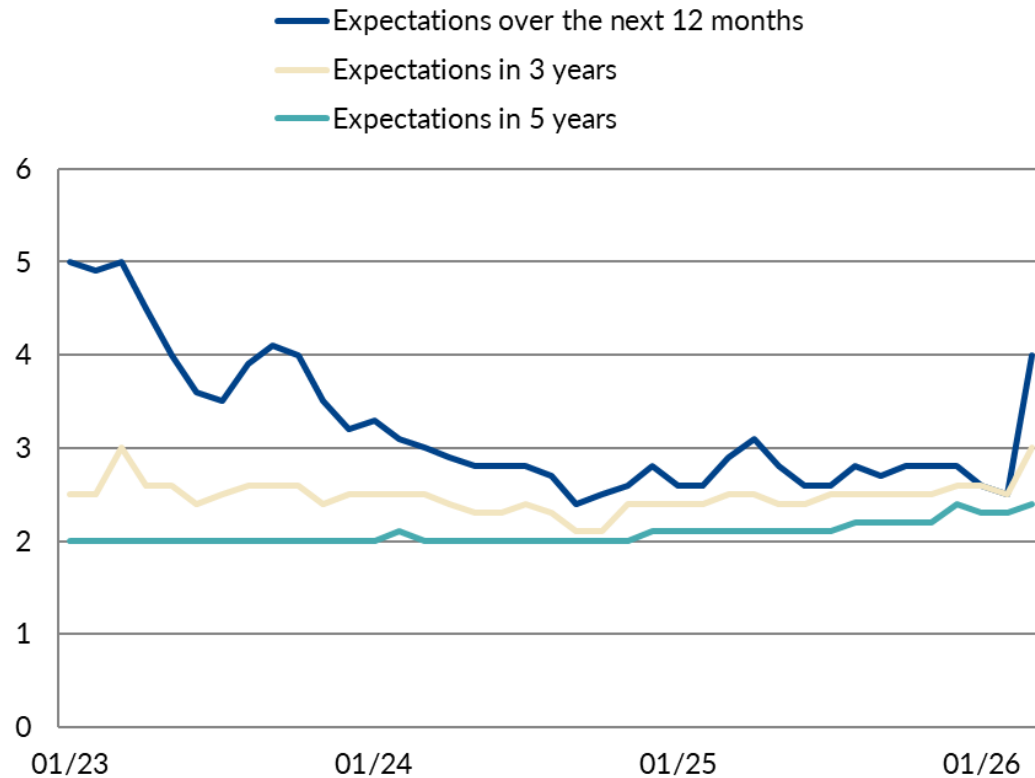


Source: European Commission Business Survey.
Note: Selling price expectations over the next 3 months. Latest observation: March 2026.

Inflation expectations increase in the short run, but remain stable in the longer run

Consumer inflation expectations

(in %)



Source: Consumer expectations survey (CES).

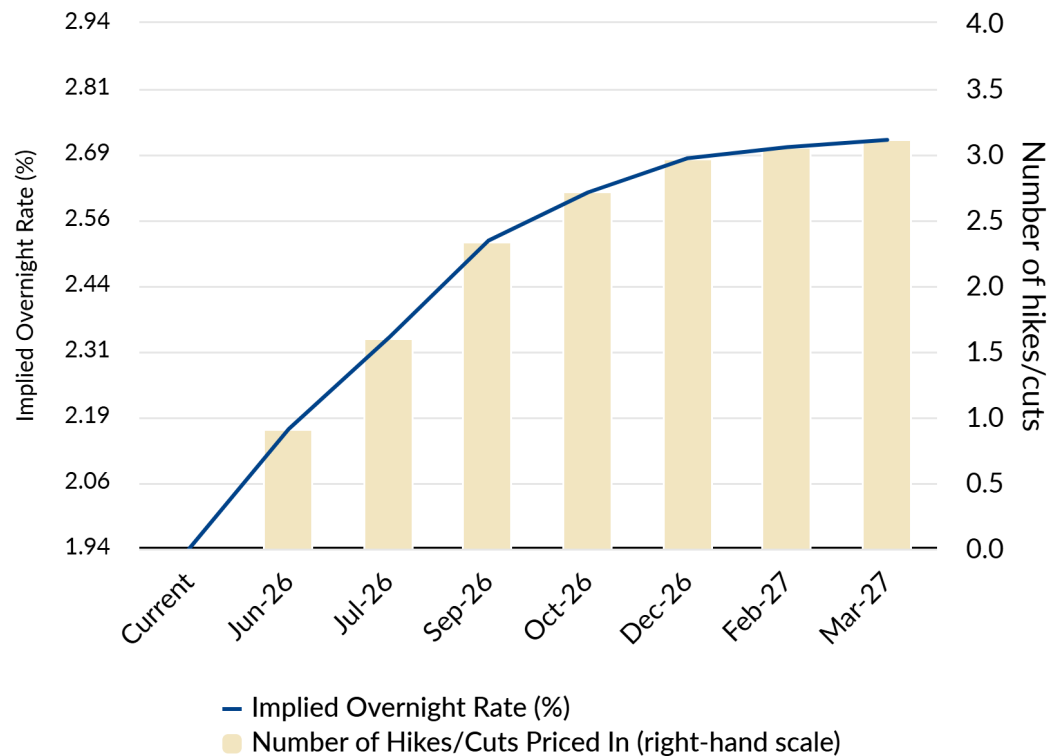
Note: Median expectations. Latest observation: March 2026.

- Given the magnitude of the shock, there is **potential for pass-through** to broader inflation via second-round effects.
- Transmission might occur through rising **inflation expectations and subsequent wage adjustments**. These effects typically materialize with a lag of around 1 to 1.5 years.
- So far, **long-term inflation expectations remain anchored**.
- **Short-term expectations have increased** recently (4% in March from 2.5% in February), with a more **moderate uptick at the medium-term** horizon (3% in March from 2.5% in February for 3-years ahead).

Monetary policy decision of the ECB Governing Council as of 30 April 2026

Implied overnight rate and number of hikes/cuts (± 25bps) priced in at upcoming GovC meetings

Euro area, Overnight index swaps as of May 04, 2026



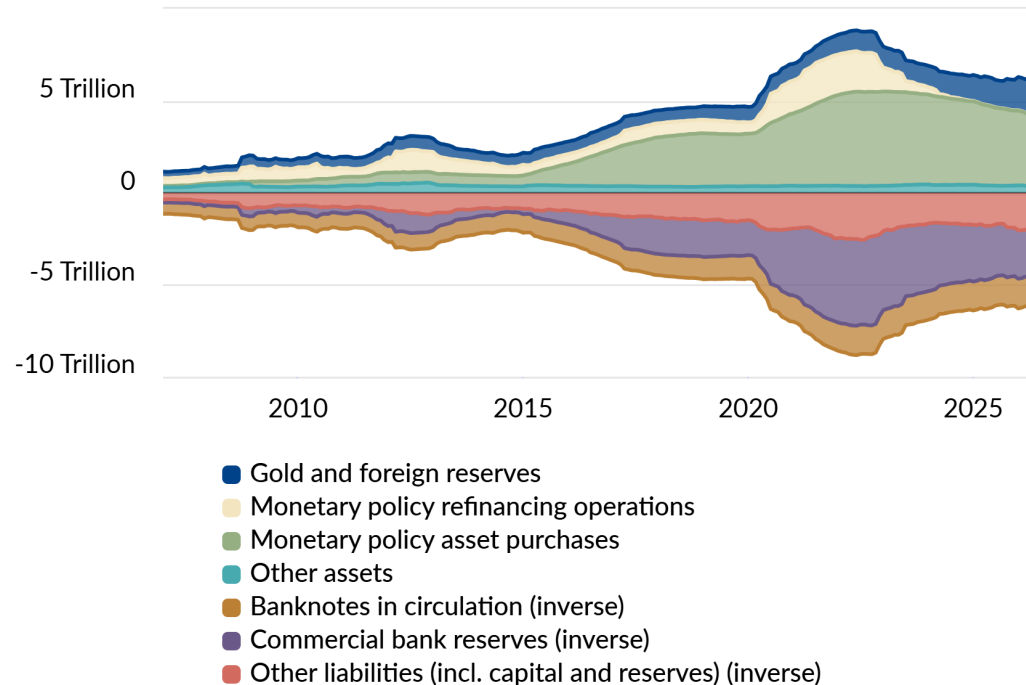
- As financial markets expected, the **ECB Governing Council kept key interest rates unchanged** at the end of April.
- The **upside risks to inflation** and the **downside risks to growth** have intensified. The economy is moving away from the baseline scenario.
- The **implications** of the war in the Middle East on the euro area economy will depend
 - on the intensity and duration of the energy price shock
 - and the scale of its indirect and second-round effect.
- Market participants currently expect an average of **two to three interest rate hikes** in 2026.

Source: Bloomberg, Macrobond, OeNB calculations.

Eurosystème is gradually reducing its balance sheet total

Consolidated financial statement of the Eurosystème

Assets vs. Liabilities



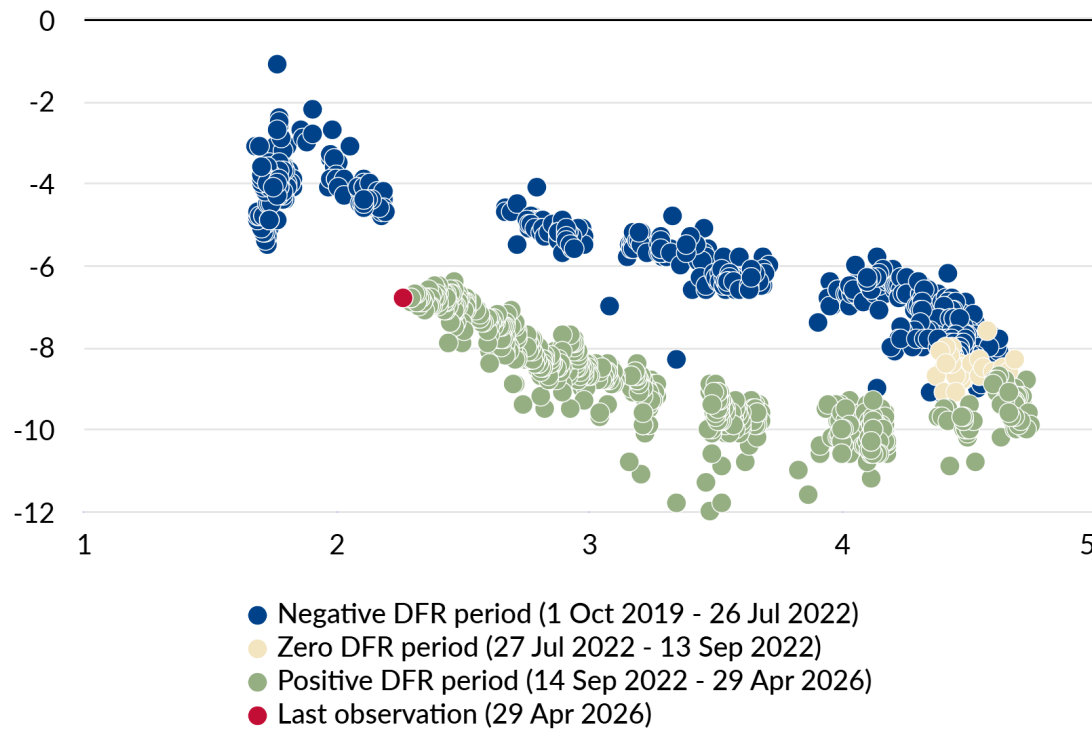
Latest observation: April 24, 2026
Source: ECB SDW (public).

- **Consolidated financial statement of the Eurosystème**
 - Peak in mid-2022: EUR 8.8 trillion
 - Decline due to the maturing of targeted longer-term refinancing operations: EUR -2.2 trillion
 - Reduction of monetary policy assets: EUR -1.4 trillion
 - Partly counteracting:
Increase in other items: e.g. gold reserves
- **Since its peak, the total balance sheet has been reduced by EUR 2.7 trillion.**
- **By the end of 2027, a further EUR 0.8 trillion in securities will reach maturity, further reducing the central bank's balance sheet.**

The Eurosystem will shortly be launching an operational framework review

Relationship between excess reserves and the €STR-DFR spread

x-axis: excess reserves (EUR trillion); y-axis: €STR-DFR spread (basis points)



- Purpose of the operational framework: to **keep short-term money market rates closely aligned with policy rates.**
- In 2024, the Eurosystem concluded its latest review and decided to steer its policy stance by **adjusting the deposit facility rate (DFR).**
- Short-term money market rates are currently close to the DFR (see graph).
- **Excess liquidity** also plays a key role in money market developments. As it declines, central banks must ensure this does not interfere with the intended monetary policy stance.

Source: ECB SDW (public).

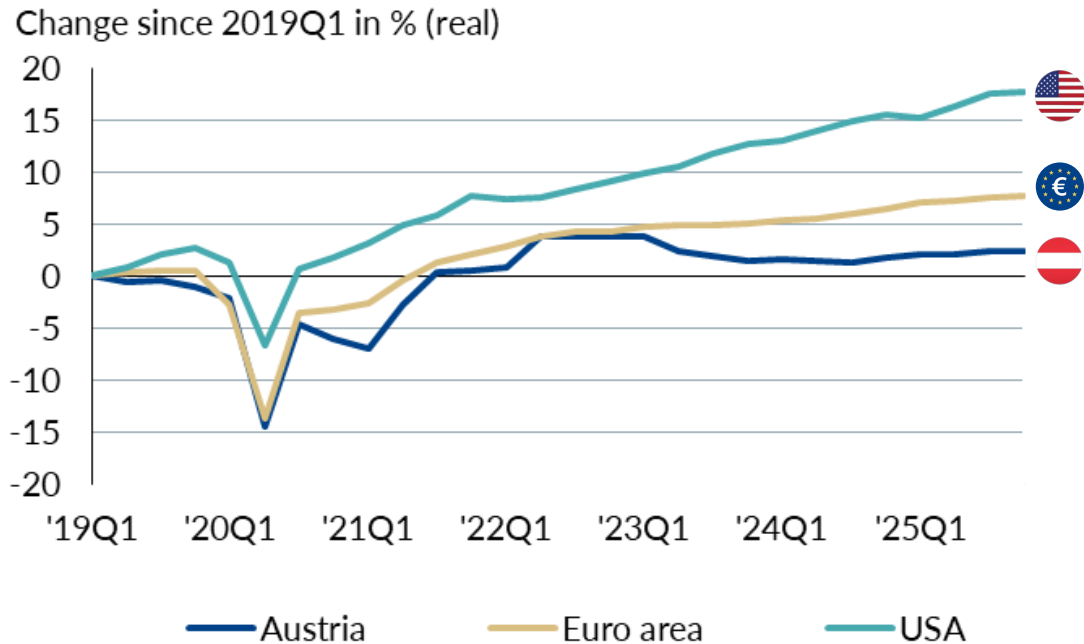


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Recent developments in Austria

Gross domestic product only slightly higher than 2019

Almost stagnation of economic performance in Austria since 2019



Source: Eurostat, Bureau of Economic Analysis.

OeNB March 2026 interim forecast

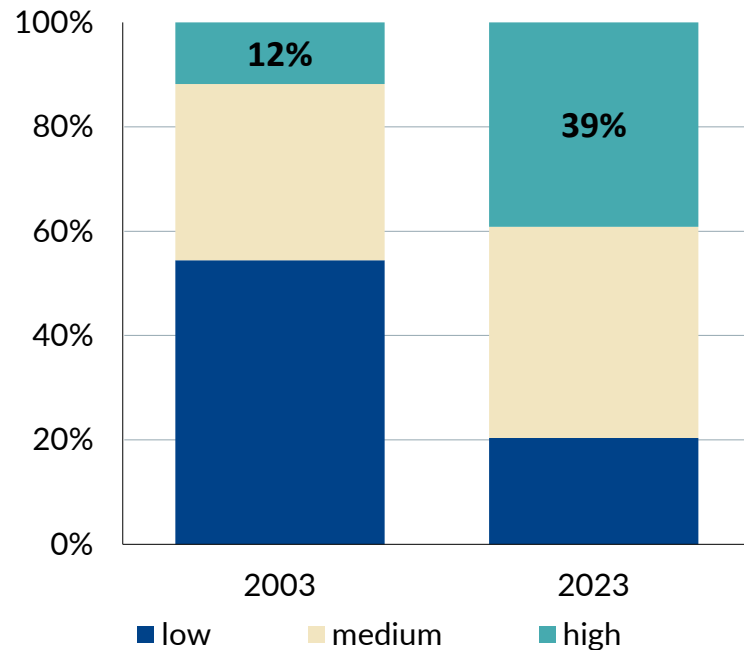
		Baseline	Adverse Scenario
Real GDP	2026	0.5	-0.2
	2027	1.0	-
	2028	1.1	-
HICP Inflation	2026	2.7	4.2
	2027	2.3	-
	2028	2.1	-

Source: OeNB. Assumptions adverse scenario: average annual oil price \$100 per barrel, average annual gas price €70 per mwh, increased uncertainty, second-round effects.

Austrian exporters increasingly under pressure from Chinese competition

Product complexity of China

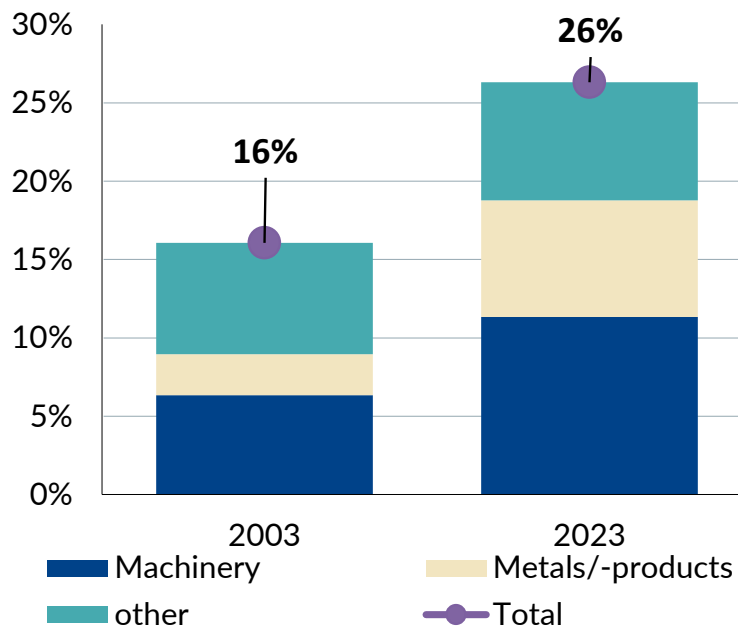
in percent of the exported goods value



Source: BACI (v202501), OeNB.

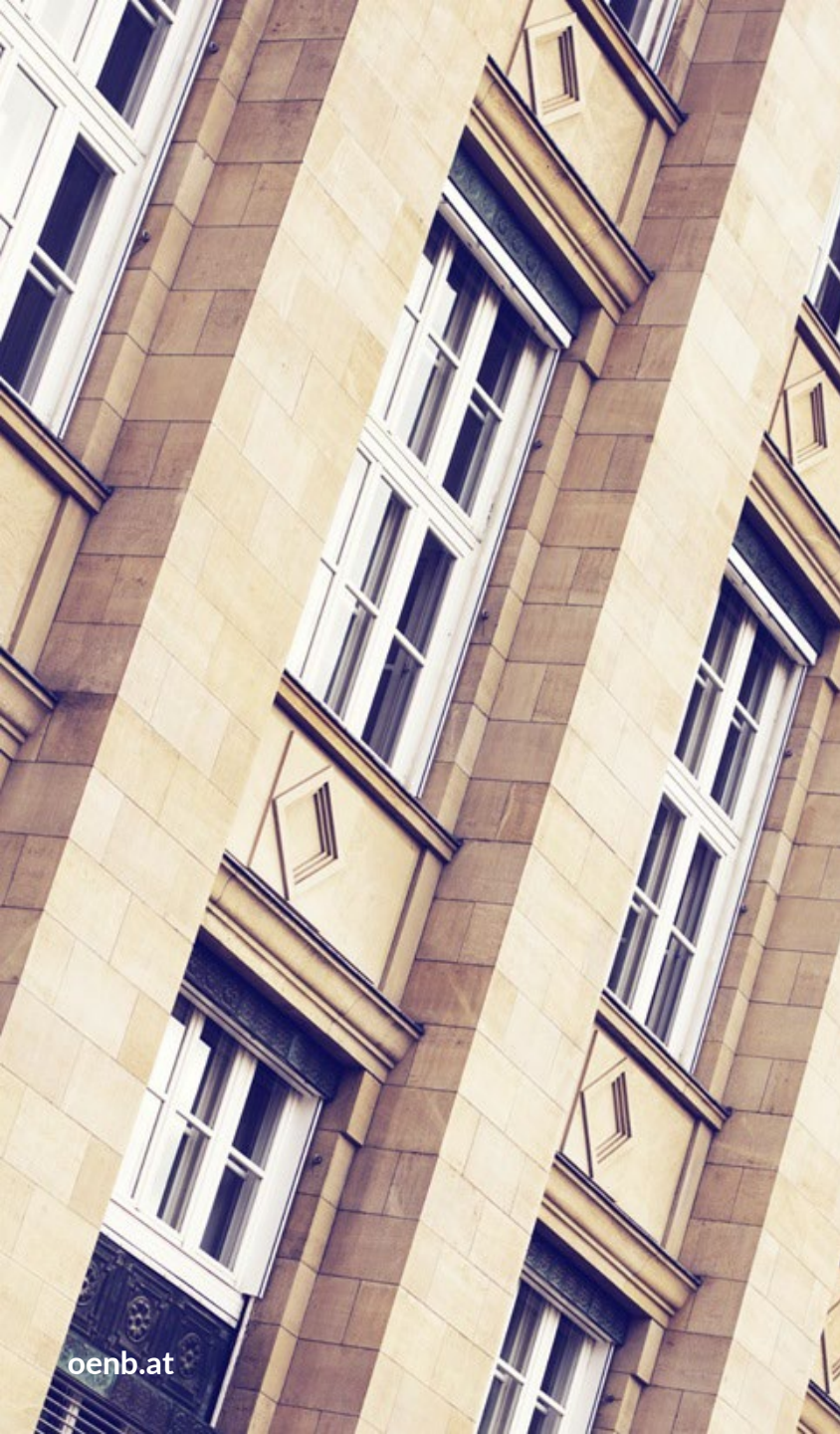
Value of Austrian goods exposed to Chinese competition

%-share of total export value of Austria









Source: BACI (v202501), OeNB.

- The share of **complex goods** in **Chinese exports** increased from 12% to 39% between 2003 and 2023.
- 26% of **Austrian goods exports** are exposed to strong **Chinese competition** in 2023, up from 16% in 2003.
- Particularly affected are **machinery** as well as **metals** and **metal products**.



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Vielen Dank für die Aufmerksamkeit!

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