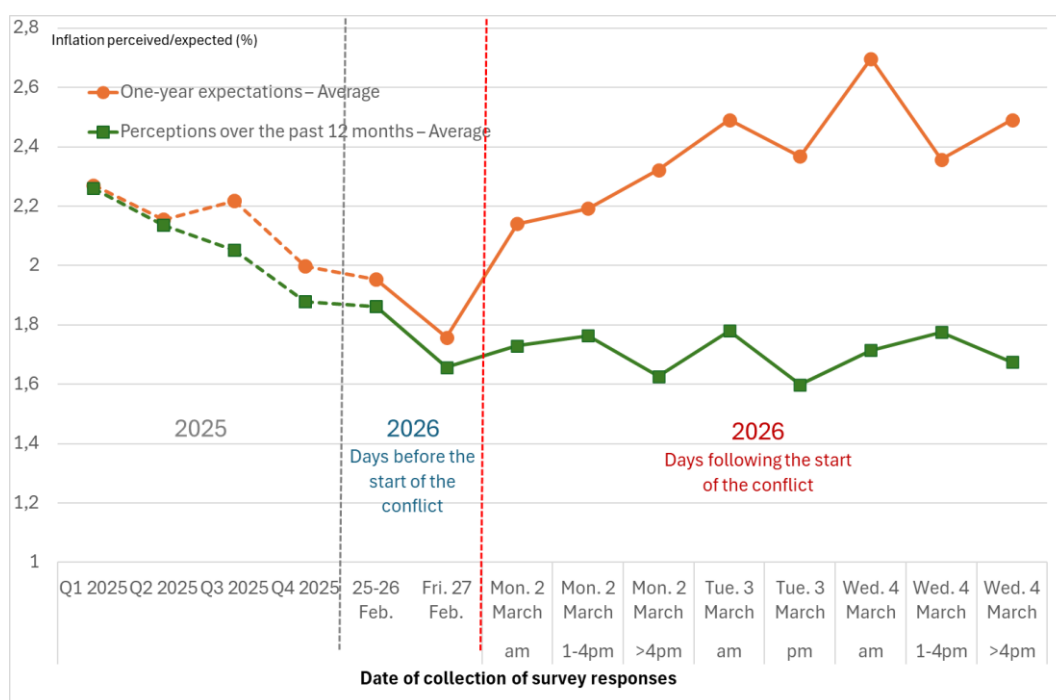


War in the Middle East and Firms’ Inflation Expectations

By Erwan Gautier, Véronique Genre and Léo Parpais

The outbreak of the conflict in the Middle East occurred during the data collection phase of the Banque de France survey on firms’ inflation expectations, providing a unique opportunity to observe business leaders’ assessments “in real time. In the first days of the conflict, they revised their short-term inflation expectations upwards, while their longer-term expectations were less affected.

Chart 1: Business leaders’ one-year inflation perceptions and expectations in France



Source: Monthly Business Survey - Inflation expectations survey (Banque de France)

Note: Unweighted averages of responses to the question: “As a percentage, what, in your opinion, is the actual rate of inflation in France?” and as a percentage, what, in your opinion, will the rate of inflation be in one year in France?.

Keeping economic agents’ inflation expectations stable at a level close to the European Central Bank’s 2% inflation target is a key factor in macroeconomic stability in the euro area. These expectations are important because they can influence price and wage setting behaviour. In the medium term, they therefore influence inflation dynamics. (Coibion et al. 2025). However, a number of economic shocks could disrupt expectations, particularly in an uncertain geopolitical environment (Cardillo et al., 2025)

This blog post examines how business leaders’ inflation expectations in France responded in the days immediately following the outbreak of the military conflict in the Middle East

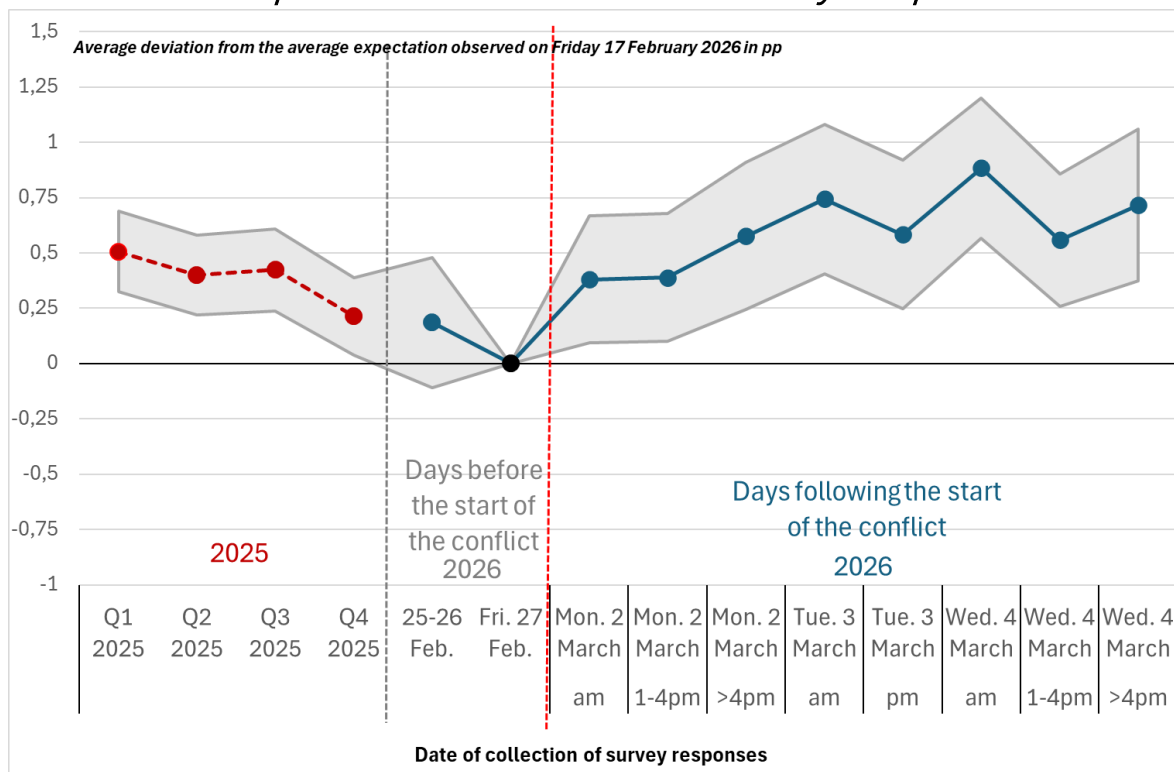
on 28 February 2026. It is based on 1,500 responses from business leaders [to the Banque de France's survey on their inflation expectations](#), conducted between 25 February and 4 March 2026, i.e. just before and just after the start of the conflict. This window provides a clear picture of business leaders' immediate reactions at the start of the war: a quarter of the responses were collected before the conflict began (25–27 February) and three-quarters after (2–4 March).

A few days before the conflict, in line with the moderation in inflation throughout 2025 and early 2026, responses from business leaders suggested a continued gradual but steady decline in their inflation expectations, to below 2% (Chart 1). As of Monday 2 March, inflation expectations rose sharply to levels close to 2.5%. The median response rose by a similar margin, by around half a percentage point, from 1.5% to 2% following the outbreak of the war.

The war in the Middle East has immediately raised business leaders' one-year inflation expectations

To gauge the impact of the conflict in the Middle East, we conducted a simple econometric analysis: we compared average inflation expectations immediately before and after the start of the conflict, using 27 February (the day before the conflict began) as a reference point, whilst taking into account systematic differences by sector, region or company size. The responses obtained just before the outbreak of the war make it possible, in particular, to gauge what inflation expectations would have been had the war not taken place. The difference between the average of the responses recorded before and after the outbreak of the conflict, for firms with similar characteristics, therefore accurately measures the direct impact of the outbreak of war on business leaders' expectations. On the eve of the conflict, one-year inflation expectations were trending downwards: on average, they were 0.2 percentage points (pp) lower than their level in the fourth quarter of 2025 and 0.5 pp lower than at the start of 2025 (Chart 2). As of Monday 2 March, expectations rose significantly: by an average of 0.4 pp compared with the day before the weekend. This increase is statistically significant and grew slightly over the course of the week, reaching 0.7 pp on Wednesday, the final day of the survey.

Chart 2: Estimated impact of the war in the Middle East on one-year expectations



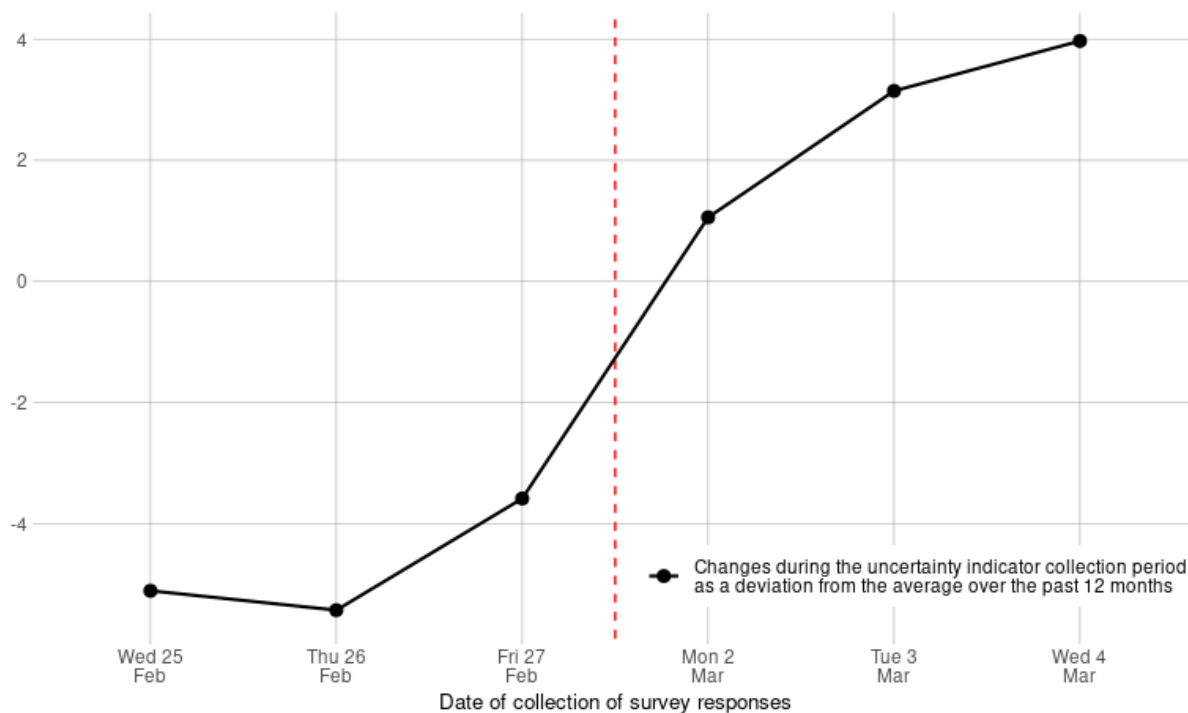
Source: Monthly Business Survey – “Inflation Expectations” (Banque de France) – responses to the question: “As a percentage, what, in your opinion, will the rate of inflation be in one year in France?”. Red: difference between the responses from 27 February and those provided by all surveyed companies on a quarterly basis; blue: difference between the responses from 27 February and those provided by companies during the Q1 2026 survey (25 February – 4 March).

By contrast, perceptions of current inflation remained unchanged between the period before and after the weekend of 28 February (Chart 1). In other words, business leaders reported that consumer prices had not yet changed, but they were anticipating higher inflation in the coming year. This marks a departure from previous quarters, when they had forecast that year-on-year inflation would remain close to current levels, continuing its downward trend.

Uncertainty among business leaders has grown

Beyond the rise in inflation expectations following the outbreak of the conflict, the additional comments from business leaders collected during the survey point to a marked increase in sentiment reflecting uncertainty (such as difficulties in predicting demand or references to heightened risks). Before the conflict, the responses collected between 25 and 27 February suggested, on the contrary, a further decline in the uncertainty observed the previous month, with the indicator falling below the averages observed during the first days of data collection in the surveys conducted in 2025 (Chart 3). In the second part of the survey, following the weekend of 28 February and 1 March, the indicator showed a marked increase, with business leaders citing, in particular, concerns about rising energy prices, as well as the risk of disruptions to supply chains and deliveries.

Chart 3: The difference between the uncertainty indicator measured between 25 February and 4 March and the average value measured on equivalent survey days over the previous 12 months of the survey.



Source: Banque de France Monthly business survey – Additional comments

Note: The uncertainty indicator represents the share of companies whose comments indicate uncertainty. The deviation is measured as the difference (in percentage points) between the value measured each day of data collection between 25 February and 4 March and its average on the corresponding days of data collection (day 1, day 2, etc.) over the past 12 months

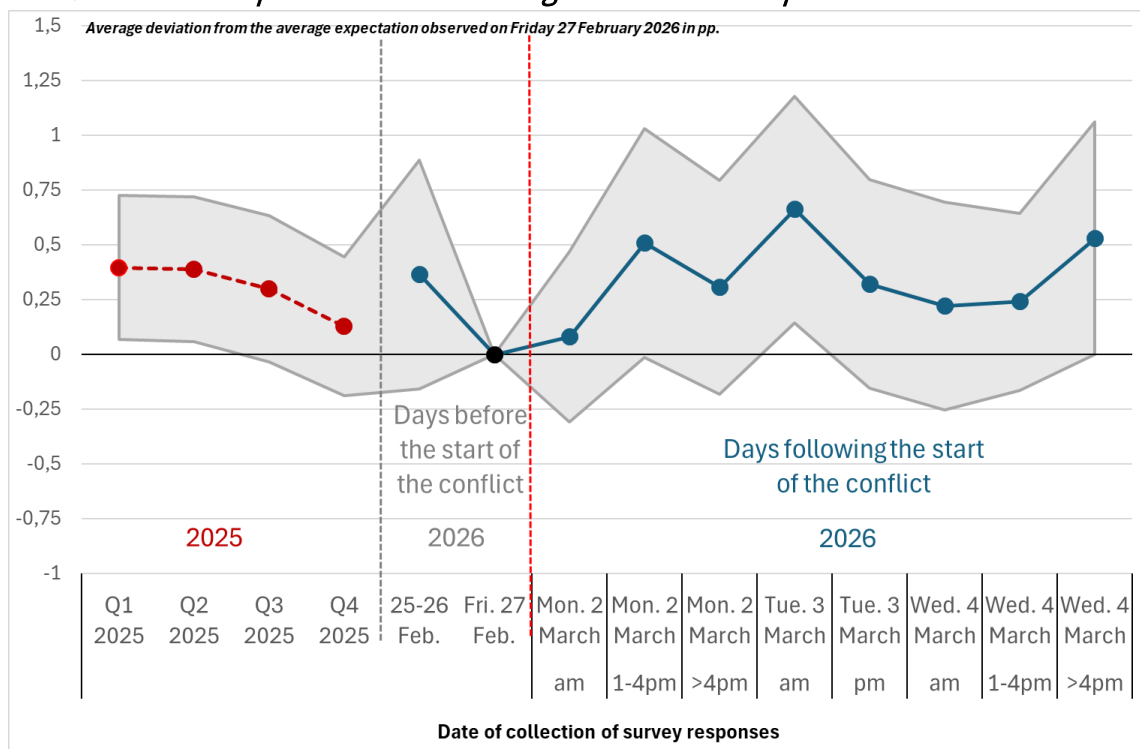
This increased uncertainty is also reflected in a wider dispersion of one-year inflation expectations. Up until Friday 27 February, the responses were heavily clustered around figures below 2.5% (4 out of 5 responses), suggesting a strong consensus among business leaders. From 2 March onwards, this share remained high (64%), but the share of responses of 4% or more rose to nearly 15%, compared with 5% before the weekend. The weaker consensus on one-year inflation reflects greater uncertainty among business leaders. In particular, the impact on one-year expectations is more pronounced among business leaders who expressed uncertainty about the war in the Middle East, compared with other companies.

Long-term inflation expectations are less affected in the days following the start of the conflict

From a longer-term perspective, business leaders' inflation expectations also trended downwards during 2025, falling on average from 2.5% in the first quarter of 2025 to 2% by the end of 2025. On average, on the eve of the conflict (27 February 2026), inflation expectations were 0.4 pp lower than they had been at the start of 2025 (Chart 4). These long-term expectations reacted less strongly at the start of the war than the short-term ones. The impact of the war on business leaders' expectations over the next 3–5 years is

relatively small (ranging from 0.1 to 0.3 pp) and not statistically different from 0 on most dates between 2 and 4 March, and this impact does not increase between Monday and Wednesday. This relatively muted reaction in long-term expectations suggests that long-term expectations remain well anchored at the very beginning of the conflict despite the significant uncertainty shock.

Chart 4: Estimated impact of the war on long-term inflation expectations

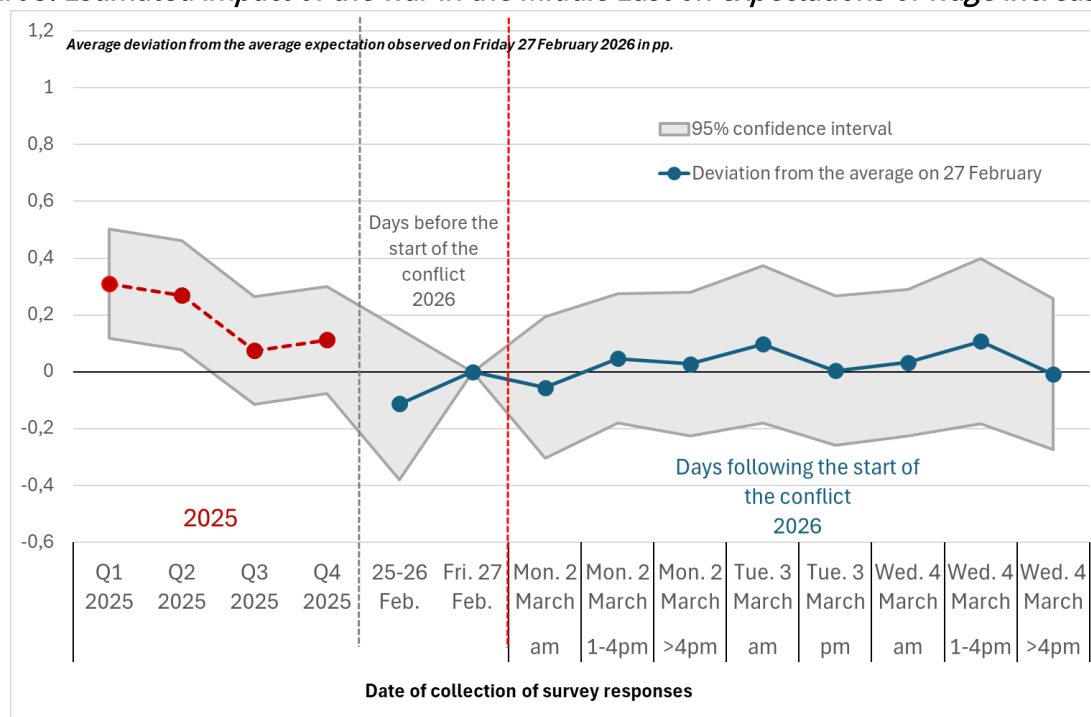


Source: Monthly Business Survey – “Inflation Expectations” (Banque de France) – responses to the question: “As a percentage, what, in your opinion, will the rate of inflation be in 3 to 5 years’ time in France?”. Red: difference between the responses from 27 February and those provided by all surveyed companies on a quarterly basis; blue: difference between the responses from 27 February and those provided by companies during the Q1 2026 survey (25 February – 4 March).

Furthermore, following the outbreak of the conflict in the Middle East, business leaders did not revise their expectations regarding future wage growth in their companies (Chart 5). This suggests that, according to business leaders, the so-called second-round effects – whereby rises in raw material prices are passed on to the rest of the economy via wage increases – are not operating in the short term. It is undoubtedly still too early to detect such repercussions, particularly as the annual wage negotiation cycle for 2026 had already ended before the conflict in the Middle East for many companies and sectors in France (Baudry et al. 2026). Similarly, no impact on expected developments in companies’ selling prices was detected at the time of this survey wave, conducted at the very beginning of the conflict. Since March, commodity prices have continued to rise (although not to the levels observed in 2022). The latest business survey (with responses collected in late April to early May) points to a partial and contained pass-through of cost increases to prices, particularly in industry and construction, and prices are expected to continue rising in

May. Compared with 2022, weaker demand in 2026 is further limiting companies' ability to raise prices.

Chart 5: Estimated impact of the war in the Middle East on expectations of wage increases



Source: Monthly Business Survey – “Inflation Expectations” (Banque de France) – responses to the question: “As a percentage, how, in your opinion, will the basic wage (before tax, excluding bonuses) change in your firm over the coming 12 months? Red: difference between the responses from 27 February and those provided by all surveyed companies on a quarterly basis; blue: difference between the responses from 27 February and those provided by companies during the Q1 2026 survey (25 February – 4 March).

Since the start of the conflict in the Middle East, raw material prices have fluctuated significantly. The length and severity of this conflict will determine the actual economic impact of the shock on economic players in France. Compared with early 2022, at the time of the invasion of Ukraine, it is interesting to note that inflation expectations appeared in March 2026 significantly more moderate: at a one-year horizon, they stand at 2.1% in early 2026, compared with 4.5% in early 2022, and in the long term at 2.4% compared with 3.6%. While business leaders' short-term expectations reacted swiftly to the outbreak of the conflict in the Middle East, this reflects the immediate impact of rising fuel prices. By contrast, long-term expectations remained broadly stable in early March, shortly after the onset of the conflict, unlike in late 2021 and early 2022. And yet, anchoring these long-term expectations around stable and low inflation will be a key factor in preventing a broad and prolonged transmission of the shock and in enabling a return to price stability in France that is as swift and sustainable as possible. The Banque de France's monthly business survey will, in particular, enable us to monitor developments over the coming months in both business leaders' intentions to raise prices and their inflation expectations.