

Protecting consumers and the UK economy from an energy price shock

Policy briefing | Chaitanya Kumar, Isabel Bull and Alex Chapman | April 2026

Overview

With the volatility of oil and gas prices in recent weeks, the government is under pressure to manage the impact across the economy. The shock, depending on how long it lasts, will have far wider consequences than the 2022 energy crisis, and the economy is in a much weaker position to deal with it.

The government must take a three-pronged approach to avoid a triple crisis of soaring inflation, reduced demand and possible recession. In this briefing we set out how the government can do this through targeted and universal measures to manage inflation and protect UK billpayers; close working with the Bank of England to avoid long-term scarring on the UK economy; and structural changes to help protect us from future shocks.

There is a political and an economic imperative that the government takes all action possible. The affordability crisis is the number one issue for voters. The government will not be forgiven if bills and inflation soar, or if the economy falls into recession. But it's equally vital that lessons are learnt from the aftermath of the 2022 energy crisis. The government cannot afford to simply paper over the cracks and must now ensure future resilience and security.

Impact of the energy price shock caused by the Iran war

The prime minister made tackling the affordability crisis his number one mission. But whilst the government pledged to cut energy bills by £300 a year by 2030, the latest projections suggest bills could increase by £288 at the July price cap.¹ Not being seen to, nor getting credit from voters for, tackling on soaring bills could prove politically catastrophic.

Today's crisis is distinct from the 2022 energy price shock in three ways. Firstly, it's having a considerably bigger impact on oil prices, to which the UK remains very vulnerable given our continued reliance on imported gas. Secondly, the inflationary effects come on top of years of higher inflation. Finally, and importantly, renewables are protecting us more than ever before.

¹ Cornwall. (March 2026). *Predictions & Insights into the Default Tariff Cap (Price Cap)*. <https://www.cornwall-insight.com/predictions-and-insights-into-the-default-tariff-cap/>

The government must act to deal with spiralling inflation from higher global energy prices and protect consumers from surging bills. At worst, this crisis could lead to an inflation spike and recession, due to consumers and businesses having less in their pockets to spend or invest.

Three steps the government must take now

The government must take a three-pronged approach to avoid a triple crisis of soaring inflation, reduced demand and recession.

First, the government must consider fiscal measures to manage inflation and protect billpayers. This will be vital to prevent the energy crisis from causing wider havoc on the economy, including a dangerous mix of inflation and recession from reduced consumer spending and business investment. The government should:

- **Introduce an essential energy guarantee** where every household is guaranteed a very cheap portion of energy by the state to meet their daily essential needs. This is a progressive proposal. While all consumers would benefit from the initial portion of cheap energy, higher-income households that use greater amounts of energy would pay market rates for any additional energy they use. We recommend mixing this policy with additional targeted support, such as an enhanced warm homes discount, for some low-income households who use more energy, like those with disabilities.

Under this proposal, the portion of “essential energy” would be price protected by the state (a true, but constrained, price cap locked at current unit rates of April-June). We propose that this “bare minimum of protected energy” should be the amount needed to sustain basic household functions, such as heating water and two rooms, and running key appliances (eg a fridge and washing machine). Tentatively, we have put these levels at 2,100 kWh of electricity and 5,400 kWh of gas in a typical dual-fuel home, annually. We estimate providing this to all households would cost £4.5bn, which is likely to come under the projected tax revenues from oil and gas production in the UK Continental Shelf, which we estimate to be around £5.6bn² depending on the longevity of high prices. We also estimate the additional tax take from non-renewable generators to be around £1.3bn. We therefore believe this policy would be close to cost neutral.

Across most of the world, minimum or essential levels of energy use are protected by pricing mechanisms. Outside Europe this model isn’t just a temporary crisis response: it’s the norm. Countries like Japan, South Korea, India, China, Indonesia, and Bangladesh all use a similar model.³ Following the 2022 energy crisis, several European countries also followed suit implementing an essential guarantee of energy to

² For context, the OBR estimated tax receipts from oil and gas – combination of offshore corporation tax, petroleum revenue tax and the energy profits levy- at £4.1bn in 2025-26. This is from a period of relatively low oil and gas prices of \$68 a barrel and 89p per therm, respectively. Today oil is trading at ~\$115 a barrel and gas has averaged well over 120p per therm. So, the expected revenues from tax for the next financial year will likely be very high with a small uplift in 2025-26. We estimate the tax take to be £5.6bn. Our cost estimates for the essentials guarantee assumes prices remain at elevated levels, as forecast by Cornwall Insight for July – September forecast, for an entire year. This equates a 2.77p a unit jump in electricity and 2.15p a unit jump in gas from the current April-June price cap levels. We also estimate a rise in tax take from non-gas generators, via corporation tax and the Electricity Generator Levy at £1.25bn.

³ New Economics Foundation. (March 2023). *Delivering a National Energy Guarantee*. [NEG-rollout.pdf](#).

support consumers. Austria, Greece, Poland, the Netherlands, and Hungary all applied large discounts, funded by the state, to an initial fixed block of energy.⁴ For example, Austria's discount applied to the first 2,900 kWh of electricity consumption. This also incentivised households to cut consumption and, for those who could, to install efficiency measures. Importantly, this approach meant that governments spent far less money subsidising the luxury energy consumption of well-off households, who generally consume the most energy.

- **Remove all policy costs off bills and put them on to taxation.** This would be an extension of the government's decision to move some of these costs off bills from April. We advocate pursuing this policy alongside an essential energy guarantee to suppress baseline energy costs. We estimate this would cost about £3 billion and take an additional £106 off household energy costs. It would be progressive, ensuring the lowest income households stop paying a higher proportion of their incomes on policy costs. It would also have a material impact on inflation by controlling the price of the portion of energy prices that government has control over.
- **Offer targeted support for business and industry, and shield frontline public services, who remain fully exposed to wholesale market volatility.** This could include temporary, government-backed loans for SMEs to absorb cash-flow shocks, alongside bridging support for strategic manufacturing sectors tied to industrial decarbonisation commitments. Incentivising large industrial users to reduce power during peak hours would prove cheaper than paying high rates for gas. Public services, like hospitals and schools, could also be protected by a central contingency fund. Without central government intervention to cover the inflationary spike in public sector energy costs, local councils and hospitals might be forced to make immediate cuts to frontline services.

Second, the government must work closely with the Bank of England to ensure monetary policy works in lockstep with fiscal policy. This is not about questioning the Bank's independence but ensuring the right level of coordination in response to a global crisis that could leave long-running scars on our economy.⁵

- **The Bank and government must avoid another round of interest rate hikes** that will do little to address the factors that caused the inflation spike. We made this mistake in 2022, with little benefit to consumers and the wider economy. Increasing rates will only take more money out of the economy at a time when demand is falling, due to consumers and businesses having less money to spend and invest as energy bills eat up more of their outgoings. Instead, the Bank must continue to hold interest rates as the government plays its part by using fiscal measures to stabilise prices and stop rampant inflation.

⁴ New Economics Foundation. (March 2023). *Delivering a National Energy Guarantee*. [NEG-rollout.pdf](#).

⁵ New Economics Foundation. (March 2023). *Energy shocks are the new normal but Britain's not ready for it*. <https://neweconomics.org/2026/03/energy-shocks-are-the-new-normal-but-britains-not-ready-for-it>.

- **Look beyond the 2% inflation target.** Despite severe interest rate hikes, the Bank of England has failed to bring inflation down to 2%. It's crucial to keep a hold over inflation. But, in a highly febrile geopolitical environment, with increasing climate-related supply shocks, there is a strong case for more adaptive inflation targeting that gives the Bank and the Treasury more policy space before initiating monetary tightening⁶. This will help stop the Bank and Treasury from taking steps which don't end up tackling inflation and but could lead to wider economic scarring.

Third, the government must introduce structural changes to help us avoid the worst impacts of future shocks. We live in highly uncertain times, with future price shocks *increasingly* likely. The government has an opportunity to rise to this challenge and take steps to secure the country's future security.

Key to this is breaking the link between foreign imported gas, on which the UK remains highly reliant, and homegrown renewable technologies. Since the start of the Iran crisis, some have advocated for renewed drilling in the North Sea. However, this won't help bring costs down. First, because there is little gas left to extract⁷, and second because it won't reduce the marginal price of gas, which continues to set all energy prices in the UK and is highly sensitive to rising global prices. In short, more drilling *won't* help lower energy costs.

Instead, the government must rapidly increase renewable energy generation and break the link between gas and the UK energy market. The government should:

- **Take gas out of wholesale markets**, either through a regulated asset base model or direct nationalisation, to remove its ability to set the price for the entire market and avoid huge payouts to gas companies during a crisis. Such an intervention will invariably take time but would put the UK in a stronger position to withstand gas price shocks.
- **Accelerate the roll out of micro-renewables, particularly solar photovoltaic and batteries.** Coupled with time-of-use pricing, consumers could immediately begin saving money, while reducing our reliance on gas. To build resilience across the economy as quickly as possible, the government should frontload the billions of pounds committed under the warm homes plan. This will have the added benefit of creating jobs and stimulating the economy in a downturn.
- **Use public finance institutions to drive a green transition.** This crisis is occurring as the UK is making a once-in-a-generation investment to decarbonise its power system. This necessary investment now carries the risk of locking in higher prices on consumer bills for decades. To avoid higher inflation, institutions like the National Wealth Fund (NWF) and UK Export Finance should step in to reduce the cost of capital and invest in clean tech supply chains. In particular, the NWF can carry out what is known as "concessional finance", which means offering loans or guarantees to priority sectors at a rate below what a private bank would charge. This would be neutral to the current fiscal

⁶ Cetex. (December 2024). *The case for adaptive inflation targeting: monetary policy in a hot and volatile world.* <https://cetex.org/publications/the-case-for-adaptive-inflation-targeting-monetary-policy-in-a-hot-and-volatile-world/>.

⁷ Uplift. (March 2026). *Iran Conflict and Rising Energy Prices: What Difference Would the North Sea Make?*

<https://www.upliftuk.org/post/iran-conflict-and-rising-energy-prices-what-difference-would-the-north-sea-make>.

rules, because NWF private sector activities are classed as “financial transactions” rather than spending. This makes the NWF uniquely well placed for a significant expansion, even within the current fiscal framework.

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