

# Protecting the UK economy from the Iran war energy price shock

**Policy briefing** | Chaitanya Kumar | March 2026

With oil and gas prices rising fast, the government is under pressure to manage the impact across the economy. Unlike the shock of 2022, the ongoing crisis is distinct in three ways: it is having a considerably bigger impact on oil prices, inflationary effects are coming on top of years of higher inflation, and renewables are protecting us more than ever before. The shock, depending on how long it lasts, will have far wider consequences than the previous crisis, while the economy is in a much weaker position to deal with it.

## Macroeconomic impacts and response

A prolonged crisis will likely lead to higher inflation, reduced demand and a potential recession. It is critical that the government does not simply paper over the cracks. Instead, it should introduce structural changes to help us avoid the worst impacts of future shocks. As such, we propose the government does the following:

- **Avoid another round of interest rate hikes** that will do little to address the factors causing an inflation spike. We made that mistake in 2022, with little benefit to consumers.
- **Look beyond the 2% inflation target.** Despite severe interest rate hikes, the Bank of England has failed to bring inflation down to 2%. In a highly febrile geopolitical environment, alongside 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 tightening.
- **Use 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 and UK Export Finance should step in to reduce the cost of capital and invest in clean tech supply chains.

## Consumer bill support

Fiscal measures taken today to manage inflation and its expectations for the future will protect consumers and give the Bank less reason to hike rates dramatically. This starts with energy bills. Based on current estimates, Cornwall Insight estimates the price cap from July will jump by nearly £200. Protecting bill payers will require a mix of universal and targeted interventions. These include:

- **An essential energy guarantee** where every household is ensured a free or very cheap block of energy to meet their daily essential needs, with extra allowances for those with additional needs.
- **Removing all policy costs off bills**, and putting them on to taxation. This would extend the government's decision to move some of these costs off bills from April. Such a move could take an additional £106 off household energy costs. It would also be more progressive and have a material impact on inflation.
- **Accelerating 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. This would require front loading the billions of pounds committed under the warm homes plan.
- **Taking gas out of wholesale markets**, either through a regulated asset base model or direct nationalisation, would 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.
- **Targeted support for business and industry**, 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.
- **Shield frontline public services** through 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.

Beyond these interventions, universal credit and the crisis and resilience fund will remain vital mechanisms to channel support for those most in need.

Finally, despite pressure from industry, the government should retain the windfall tax on oil and gas companies and the electricity generators levy, which are designed to claw back the excess profits that generation companies will likely make in the coming weeks and months.

New Economics Foundation  
www.neweconomics.org  
info@neweconomics.org  
+44 (0)20 7820 6300

NEF is a charitable think tank. We are wholly independent of political parties and committed to being transparent about how we are funded.

Registered charity number 1055254  
© 2026 The New Economics Foundation