

The 2026 Energy Shock: How to Deliver Targeted and Temporary Support while Encouraging Energy Conservation—Learning from the 2022 shock and best practice in 2026¹

Responses by EU governments to the 2026 energy price shock have leaned heavily on untargeted, price-distorting measures—as in 2022. Yet, well-targeted, fiscally prudent options have been applied, in both 2022 and 2026, creating clear opportunities for peer learning. Efficiency gains and an improved energy mix have cushioned the impact of the current shock, underscoring the case for staying the course on the energy transition.

Background

The war in the Middle East has pushed up oil and natural gas prices, though by less than in 2022.

The average crude oil price in 2026 is projected to rise at a similar rate as in 2022, but the gas price increase is projected to be only about one-fifth as large. Tightness in some petroleum-product markets has led to sharp price jumps—especially for jet fuel. Since the war began, prices have also been highly volatile, and outcomes above the current futures curve remain possible. The “severe” scenario in the IMF’s April 2026 World Economic Outlook (WEO) captures this risk: oil prices rise by 100 percent from Q2 2026 relative to the pre-war baseline, and European gas prices rise by 200 percent.

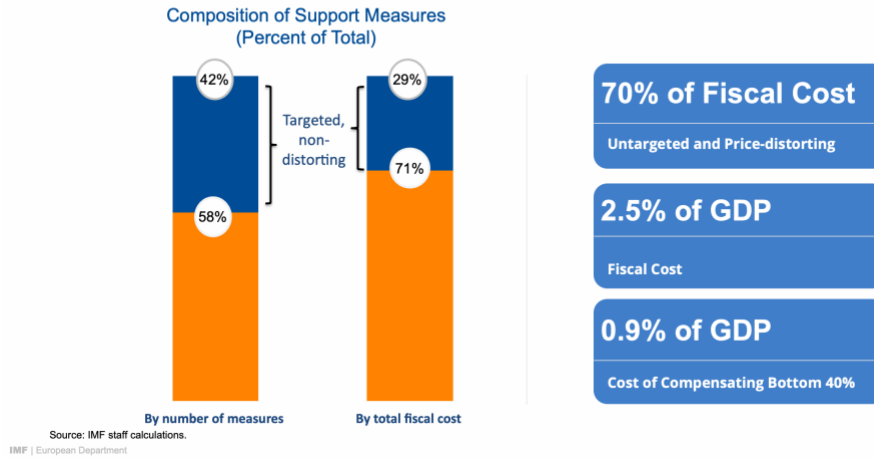
The 2022 Shock: untargeted support was costly

The 2022 response offers clear lessons on what to avoid. In 2022/23, EU countries spent about 2.5 percent of GDP on household support. Despite some good examples, roughly 70 percent of the total cost came from measures that were either untargeted, price-distorting, or both.² Instead, fully compensating the bottom 40 percent of households by income would have cut the fiscal bill to 0.9 percent of GDP, while achieving the objective of reaching the most affected. Lack of targeting tripled the costs.

¹ Background Note accompanying remarks Oya Celasun, Deputy Director European Department IMF, at the Eurogroup meeting in Brussels on Monday, May 4, 2026.

² Countries including France, Germany, Greece, Italy, and Spain delivered targeted, temporary income support through existing safety nets at scale. However, targeted measures were often paired with broad, price-distorting interventions.

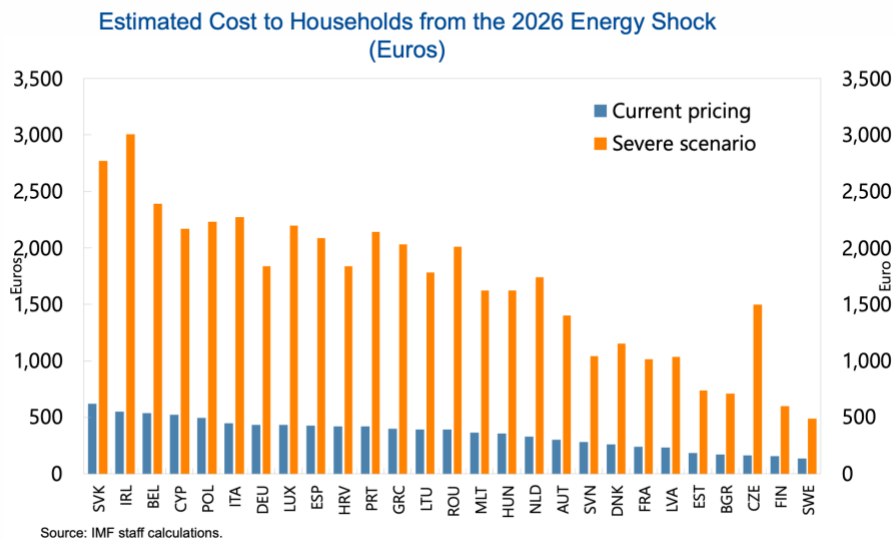
2022: Most Support Was Not Targeted, Tripling Fiscal Costs



The 2026 shock: impact, principles for fiscal support, measures implemented to date

If current market pricing holds, the impact on households will be modest. Because retail fuel prices adjust much faster than household natural gas and electricity tariffs, near-term effects are concentrated in transport fuels. Under current pricing, the average EU household would lose about €375 in 2026—0.7 percent of average consumption—from all price hikes. Impacts vary widely, from €620 in Slovakia to €134 in Sweden. Under the IMF’s April 2026 WEO “severe” scenario, the average loss would rise to €1,750.

2026: Limited Impact on Household Budgets (so far)



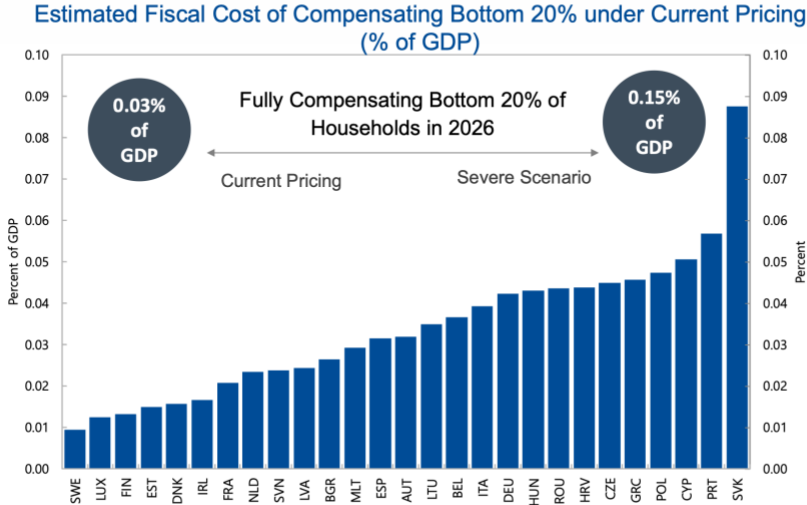
Any support should be targeted, temporary, and implementable—without distorting price signals. The case for broad-based support is weak, and consumption tax cuts or price measures (cuts, caps) should be avoided. Moreover, governments should allow international prices to pass through to end users

to encourage conservation given that global supply is constrained, and import prices are high. Support, if any, should focus on vulnerable households through targeted cash transfers—ideally delivered through existing social safety nets—and where needed, expanded using income data from tax or payroll systems. Where means-tested assistance cannot be readily leveraged, second-best options include categorically targeted cash transfers (e.g., by age, disability, or family status), lump-sum bill discounts for households below an income threshold, and bill smoothing. Support need not be uniform across countries, as income losses and appropriate responses differ. Support to firms should be strictly limited, given readily available adjustment strategies. If support for firms moves ahead, it should be coordinated at the European level to safeguard the level playing field (and limit cascading calls for support). Clear communication is key: the authorities should emphasize that the shock is exogenous, its impact—while tangible—is smaller than in the previous energy crisis, and universal support would be fiscally costly—requiring cuts in other areas or costly borrowing with the bill passed on to future taxpayers—and an inefficient way of helping the vulnerable.

Globally and in Europe, some countries have moved quickly with targeted measures at limited cost. For example, Bulgaria and Thailand introduced temporary, targeted transfers for the bottom 20 percent of the income distribution. In Bulgaria, enrollment is automatic for recipients of means-tested social assistance, while others can apply with eligibility verified using administrative tax data on income and vehicle ownership. In Thailand, enrollment is automatic for those in the social registry.

The fiscal bill for income-targeted relief would remain modest. For example, fully compensating the bottom 20 percent of households for the rise in energy prices this year would cost about 0.03 percent of GDP under current market pricing, rising to 0.15 percent in the severe scenario—potentially good value if prices end up significant above today’s futures curve.

Targeted Support Would Limit Fiscal Cost in 2026



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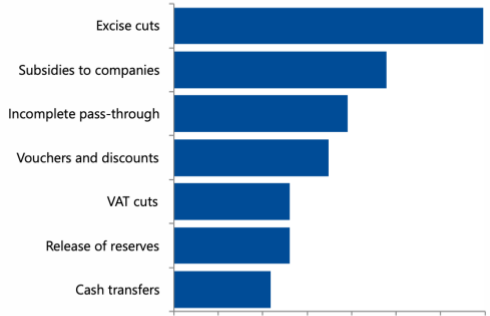
Source: IMF staff calculations.

The risk is that, despite the 2022 experience, countries are again relying on poorly targeted support. This support may be difficult to reverse. Our review of measures introduced in March–April 2026

identifies 125 support measures across the EU. Around 70 percent of countries adopted at least one excise tax cut, and many also limited price pass-through, subsidized firms, reduced VAT rates, or introduced other—often untargeted—measures. More than 90 percent of countries took at least one price-distorting measure. So far, the average fiscal cost is estimated at about 0.18 percent of GDP, with most costs stemming from untargeted measures.

Yet Untargeted, Price-Distorting Measures Dominate in 2026

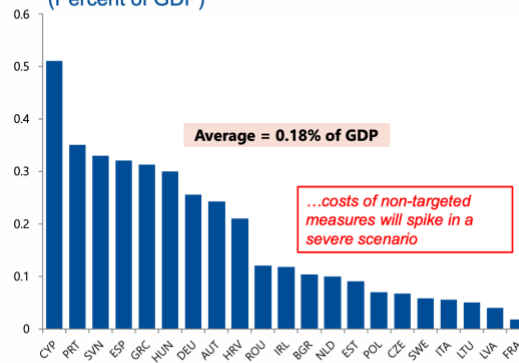
Fiscal Energy Support Measures in EU, 2026
(Percent of Total Count)



Source: IMF staff calculations.
 Note 1: Percent of countries that have announced at least one measure.
 Note 2: Several additional measures were announced that do not fall within the categories shown above and are therefore not captured in the chart.

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Fiscal Cost of Support Measures in EU, 2026
(Percent of GDP)



Source: IMF staff calculations.

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Untargeted measures are not just untargeted—they benefit the rich *much more* than the poor. For an economy-wide price reduction of €100, on average the richest 20 percent receive €34 via a road-transport-fuel subsidy and €33 via an electricity subsidy; the bottom 20 percent would receive €9 and €11, respectively. Price-suppressing support skews benefits toward higher-income households.

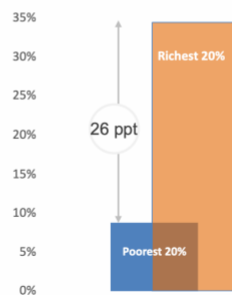
Rich Households Capture Much of the Subsidies

Share Captured by Bottom vs. Top Income Quintiles
(Percent of Total Fiscal Cost of Subsidy)

Electricity



Transport Fuels



Source: IMF staff calculations.

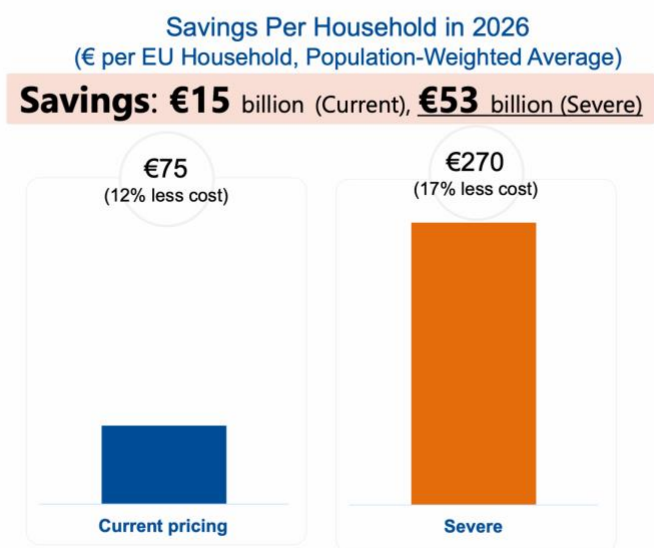
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Staying the course on the energy transition is the surest way for the EU to cut exposure to fossil fuel price shocks and bring down energy costs structurally

Energy efficiency gains and a cleaner energy mix have already made Europe more resilient in the current shock. Greater efficiency and the shift toward renewables over the past five years have reduced the shock on households by 12 percent under current pricing. In the severe scenario, the reduction rises to 17 percent—€270 per household, or roughly €53 billion in aggregate savings.

EU Already More Resilient Thanks to the Energy Transition



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Energy security, affordability, and the transition to renewables are mutually reinforcing. However, more remains to be done to expand low-carbon, low-marginal-cost energy generation and further integrate Europe's electricity grid. Stable, credible policy signals to the private sector remain crucial. Long-term investment in energy infrastructure requires predictable rules and consistent climate policies, including maintaining the EU Emissions Trading System.