

CHART OF THE WEEK

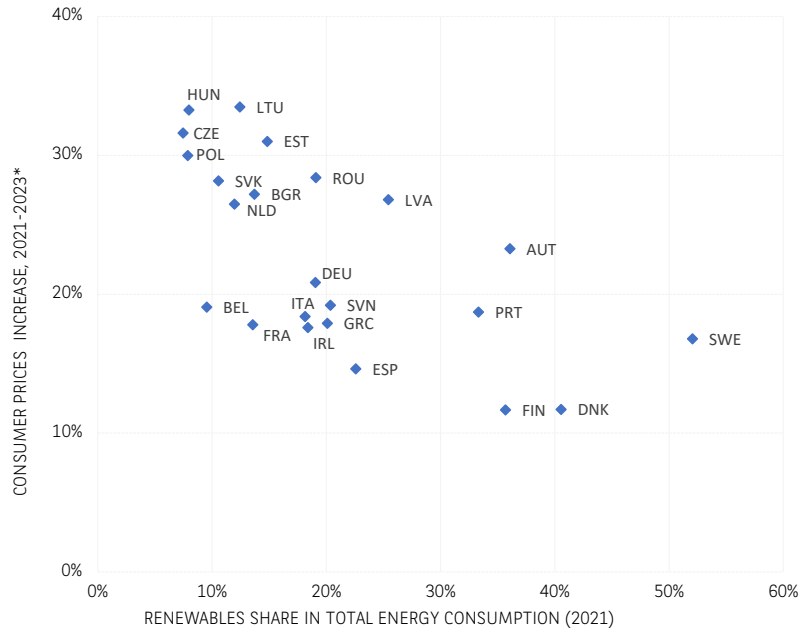
CHART OF THE WEEK

26 June 2024

GREEN PROTECTION

Jean-Luc Proutat in collaboration with Aurane Vernière, intern

SHARE OF RENEWABLES IN THE ENERGY MIX VS PRICE INCREASE BETWEEN 2021 AND 2023



* PRIVATE CONSUMPTION DEFLATOR, ADJUSTED FOR MEASURES TO MITIGATE HIGHER ENERGY COSTS

SOURCE : OUR WORLD IN DATA, BRUEGEL, EUROSTAT, BNP Paribas

The Covid-19 crisis, and even more so the energy crisis triggered by the Russian war in Ukraine, have changed the course of prices in the European Union (EU). Because they buy 90% of their gas and oil from abroad, the EU-27 have paid dearly for their dependence on fossil fuels. In 2022 and 2023, their annual energy bill rose to nearly EUR 700 billion, double that of previous years¹, while 200 million households saw their cost of living rise by an average of 16%, the same as throughout the whole of the 2010s.

Faced with such a shock, expressed in aggregate terms, not all member states were in the same boat. Some of them, often the wealthiest, spent large sums to compensate consumers and businesses for the rise in energy prices. Others had more difficulty. According to the Bruegel Institute, tariff shields, fuel vouchers and other forms of reduced VAT totalled almost EUR 540 billion in the EU, the equivalent of 3.5 points of annual GDP. In the countries in the top income quartile, the average subsidy per capita was EUR 1,760, while it was only EUR 675 in the countries in the bottom quartile².

Over the past two years, European households have seen disparate price rises, ranging from +15% to +35% depending on whether they are Swedish or Hungarian, for example³. While government protection measures have played a role, they are far from the whole story. Once their effects have been neutralised⁴, inflation trajectories seem to depend above all on the degree to which economies have moved away from fossil fuels. For example, the countries that are furthest ahead in deploying renewable alternatives are often those that recorded the lowest inflation rates in the wake of the energy crisis (see chart). As well as being a climate and sovereignty issue, the «green» transition is already proving to be a major factor in price stability.

¹ In 2022-2023, the average annual fossil fuel import bill for the EU-27 was EUR 691 billion, compared with EUR 306 billion in 2020-2021; the cumulative rise in consumer prices was 16.1%, higher than that recorded throughout the whole of the 2010s (15% over the period 2010-2019). Source: Eurostat.

² The wealth indicator used is GDP per capita in dollars and purchasing power parity for 2021; the scope of the study is the EU-27 excluding Croatia, Cyprus and Malta. Source: IMF (for GDP data), World Bank (for population data) and Bruegel Institute for subsidy assessment.

³ Change in the Harmonised Indices of Consumer Prices (HICPs) between 2021 and 2023. Source: Eurostat.

⁴ In an attempt to correct for inflation in government subsidies, these have been allocated in full to the private consumption deflator for 2023. With CR denoting real consumption (at constant prices), CN denoting nominal consumption, and A denoting the amount of government subsidies, the corrected inflation rate between 2021 and 2023 is written as: $\frac{[(CN_{2023} + A) / CR_{2023}]}{[CN_{2021} / CR_{2021}] - 1}$.

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