The economic impact of the energy crisis:

Why businesses and government have less financial headroom than in 2022

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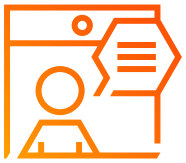

Management Summary

The blockade of the Strait of Hormuz once again illustrates how vulnerable our economy is to geopolitical tensions. As with the oil embargo in 1973 and Russia's invasion of Ukraine in 2022, global conflicts lead to disruptions in energy supply. Recent macroeconomic scenarios mainly focus on the overall economic impact, which depends heavily on the duration and scale of the conflict and on the responses of policymakers, businesses and consumers. Less visible is how the consequences ripple through the economy and what this means for businesses.

Using the PwC Energy Price Impact Model (EPIM), we map the direct and indirect effects of higher energy prices. Our analysis shows that energy-intensive sectors in particular face a sharp rise in total costs (up to +48%). At the same time, the agricultural sector, and many service sectors – including aviation, hotels, hospitality, education, libraries, and sports clubs – will also feel the impact due to their dependence on oil products (such as for transport) and/or natural gas for heating. Including the indirect pass-through of higher energy prices to the rest of the economy, this can result in cost increases of up to 8% for these sectors.

This spread of effects across sectors resembles 2022 in some respects, but the economic context is materially different. Gas consumption is now around 25% lower than before the 2022 gas crisis, the energy supply is more diversified, and the current price increases are, for the time being, less explosive. Moreover, the price shock is global in nature, which means Europe's competitive position is under less pressure. At the same time, there is now less economic tailwind than in the period after Covid. Back then, the economy benefited from broad support packages, low interest rates, catch-up growth and healthy household buffers built up during the lockdowns. The cycle is now weaker and many businesses cannot pass on cost increases without triggering a loss of demand. In addition, the most cost-effective energy-saving measures have already been taken, making further savings harder to achieve, and there is less fiscal space for government support. In this context, margins in many sectors come under pressure – especially where cost increases can only be passed on to a limited extent.

Our EPIM model shows that the impact on profits can be substantial when businesses are only able to pass on some of the higher costs. With 50% pass through, EBIT margins fall by around 4 to 10 percent points in the energy, basic metals, agriculture, construction materials, and chemicals sectors. For the petroleum industry, the decline in profitability can even reach 30 percent points. This contrasts sharply with a decline of around 1 percentage point when costs can be fully passed on, and customers respond as they historically did. In sectors that already operate on low margins, such a steep decline can cause profits to turn into losses, including petroleum, basic metals and chemicals. Sectors with higher margins appear better able to absorb these shocks, but even there a sustained deterioration in the EBIT margin poses a serious threat to the long-term viability of business models.

To remain resilient in this volatile energy landscape, businesses and governments must prepare for continued uncertainty about energy supply and prices. Flexibility, efficiency and autonomy are crucial pillars. Lessons from previous energy crises point policymakers to the importance of a considered and consistent long-term strategy focused on diversification, local production, and more efficient energy use.

What businesses can do:

- Map the use of fossil feedstocks, both directly (through energy consumption and/or as an input) and indirectly (through semi-finished products), and where they are sourced from
- Limit price volatility with a well-designed procurement strategy
- Build flexibility into production and energy consumption
- Invest in reducing energy dependence over the medium to long term
- Strengthen supply-chain and location choices
- Look beyond energy costs to other savings opportunities, especially where it is difficult to reduce or pass on higher energy costs
- Pass on cost increases only where this improves profitability
- Do not rely on support—take action yourself
- Make decisions based on multiple scenarios

What policymakers can do:

The European Commission is currently working on legislation to limit the impact of high energy prices. More clarity is expected in May 2026. In addition, the Jetten cabinet has presented a support package, after discussion in the Council of Ministers and with opposition parties. The following points are important:

- Provide temporary and targeted (income) support for vulnerable households and strategic sectors, rather than broad, generic (price) measures
- Encourage investment in energy efficiency and flexibility to make the economy structurally more resilient
- Enable demand reduction and energy saving through policy measures and behavioral incentives to reduce overall energy demand
- Do not introduce temporary levies without a robust legal basis and an implementability assessment

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“The world as it was before the oil crisis will not return”

On 1 December 1973, Prime Minister Joop den Uyl addressed the nation in a historic televised speech. The message was sober and uncomfortable: the oil embargo in the Middle East abruptly ended the assumption that energy would always be plentiful and cheap. The price of crude oil quadrupled within a year and scarcity became tangible. Car-free Sundays became the symbol of a deeper realisation. “The world as it was before the oil crisis will not return,” Den Uyl said. The Netherlands had to prepare for a fundamentally different reality, in which frugality would be not a temporary virtue but a lasting necessity, and dependencies would have to be reduced.

More than fifty years later, a similar message is making itself feel once again. The war in the Middle East and the recent closure of the Strait of Hormuz – a hub for around a fifth of global oil and LNG trade – have caused a classic supply shock in energy markets. The parallels with 1973 are clear. At the same time, the situation is also different. The Dutch economy has changed: energy is structurally more expensive, population growth has flattened, and for decades employment has been shifting from industrial production towards services. In addition, the energy transition brings new complexity, with major investment requirements, scarce grid capacity, and policy that must balance ambition with deliverability.

The economic aftershocks of the current energy crisis are difficult to quantify. Restoring energy infrastructure and trade flows is not something that can simply be switched back on in the short term. It is also unclear how quickly – and to what extent – high energy prices will depress demand from households and businesses. Through higher costs for goods and services and rising wage pressure, these shocks can feed through broadly, making inflation once again more persistent than policymakers and markets’ hope.

Scenarios for the ultimate impact vary, but they share one common denominator: prices remain volatile and difficult to predict for a long time and – just as in the 1970s – the effects are structural. Against this backdrop, we use the PwC Energy Price Impact Model (EPIM) to explore the impact of the current energy crisis on the Dutch economy. Based on insights from PwC EPIM and lessons from previous energy crises, we outline the options for businesses and government in a world in which scarcity and unpredictability once again are the starting points.

Multiple scenarios, one common denominator: volatility and uncertainty

Various institutions – including the ECB, DNB, credit rating agencies, insurers, the IEA, and major Dutch banks – have developed scenarios for the possible macroeconomic consequences of the current energy crisis. In these scenarios, expected euro area GDP growth in 2026 is revised down from around 1.4% to a range of 1.0% to 0.4%. For the Netherlands, the downward revision ranges from around 1.5% to 1.4% to 0.6%. The ultimate economic impact of the energy crisis is driven by a limited number of interrelated uncertainties and policy choices.

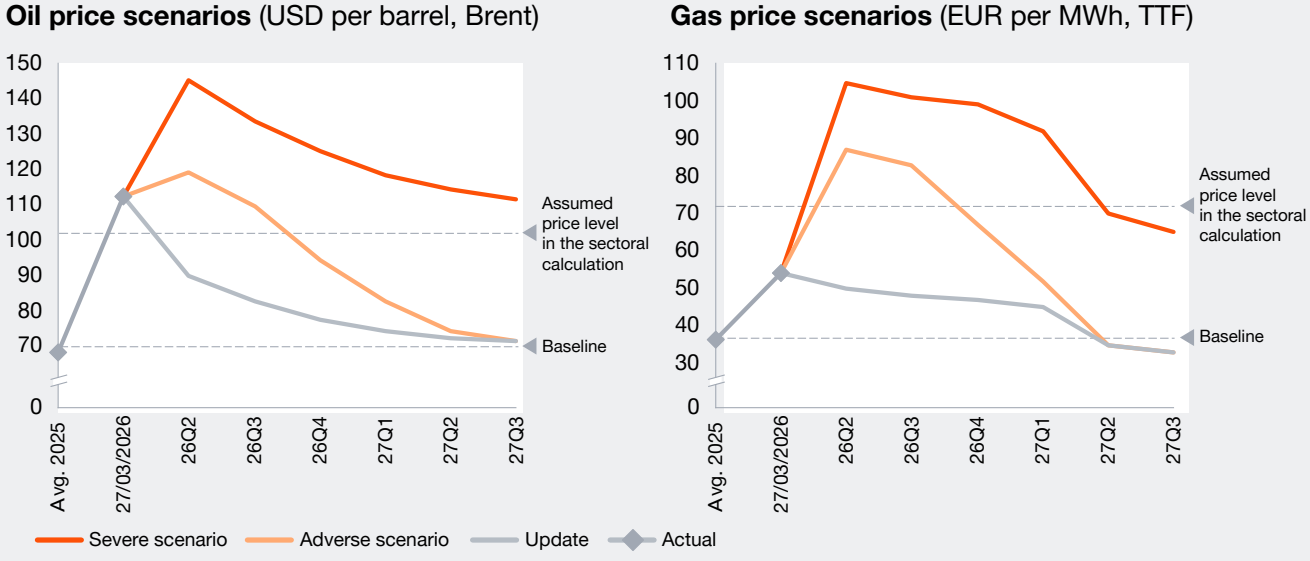
1. **Duration of the disruption in Hormuz:** The crucial question is how long the flow of oil and LNG through the Strait of Hormuz remains materially constrained. Scenarios range from temporary disruptions of days or weeks with rapid normalization to longer periods of several months with repeated interruptions.
2. **Scale and nature of the supply loss:** It is uncertain to what extent energy production and processing temporarily shut down due to bottlenecks in logistics, storage, or transport, and to what extent infrastructure has been damaged.
3. **Extent of demand destruction:** Households and businesses may adjust their consumption and production in response to higher energy prices. Demand destruction can contribute to price stabilization but is also accompanied by a loss of economic growth.
4. **Pass-through to inflation:** A key factor for inflation expectations is the extent to which higher energy prices ultimately feed through into the prices of other goods, services, and wages. The risk of inflation becoming persistent through indirect and second-round effects (wage-price spiral, higher core inflation) increases the longer the shock persists.
5. **Fiscal policy:** Government policy can influence the macroeconomic impact, for example by drawing on temporary buffers, taking demand-dampening measures, or introducing price caps and subsidies. The chosen mix determines both the inflation path and the growth path.
6. **Monetary policy:** In their response (wait-and-see, tightening, or later easing), central banks face a trade-off between fighting inflation and weaker economic growth, with their choices feeding through directly into the real economy via interest rates and exchange rates.

The impact of the energy crisis differs by sector: PwC EPIM as a practical tool

The scenarios above make clear that the macroeconomic impact of high energy prices depends heavily on duration, scale, and the responses of households, businesses, policymakers, and central banks. However, these uncertainties do not feed through uniformly across the economy. The effects ultimately materialize at sector level, where differences in energy intensity, cost structure, competitive position, and the ability to pass through costs determine the magnitude of the economic impact.

To identify the largest impacts and risks, we used PwC EPIM to estimate the sectoral transmission of higher energy prices, using DNB price scenarios as input. The model shows, by sector, the impact of higher energy costs on prices, unit costs, and margins. In 2022 we already used PwC EPIM to estimate the impact of rising gas prices following Russia's invasion of Ukraine (see link).

Figure 1 Oil and gas prices used in PwC EPIM



Source: DNB

Sectors are affected via their direct and indirect energy intensity

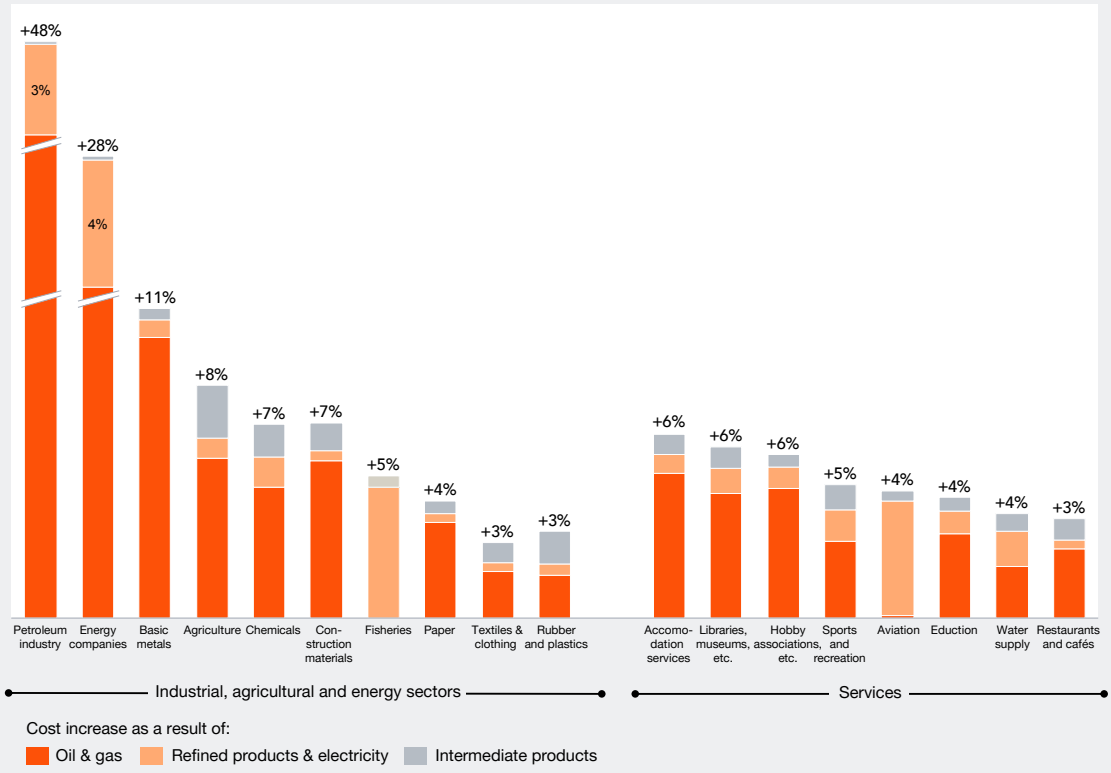
Our analysis shows that the direct impact of higher oil and gas prices – unsurprisingly – once again falls mainly on energy-intensive industries, such as (petro)chemicals, basic metals, construction materials, and paper, as well as energy utilities.

A large share of costs in these industries consists of oil products and gas, both as feedstock and as an energy source, making the impact of higher oil and gas prices immediately tangible. As a result, variable costs increase by 48%, 28%, and 11% respectively for the petroleum industry, energy utilities, and the basic metals industry.

At the same time, the agricultural sector and service sectors – such as accommodation, aviation, water utilities, and hospitality – also face substantial cost increases of 2% to 7%, due to their relatively high dependence on oil products and natural gas (for example for heating). In addition, PwC EPIM shows that public service sectors, such as schools, libraries, and museums, as well as sports clubs and recreation, hobby and association activities, are hit hard by higher oil and gas prices, with a direct cost increase of 3–5%.[1]

1 Displayed sectors are those for which the expected cost increase exceeds 3%. The results are based on a pass-through rate of 50% – i.e., 50% of the direct cost increase can be passed on to customers, while the remaining 50% directly reduces the EBIT margin.

Figure 2 Expected increase in production costs by sector, with a cost increase of 3% or more



Source: Strategy& analysis based on Eurostat data

A portion of the direct cost increases within sectors is then passed on to customers – households and/or other businesses and organizations. This pass-through leads to an additional cost increase: the indirect effect. Based on the PwC EPIM model, this indirect effect results in variable costs per sector rising by around 0.5% to 1.0%, with agriculture seeing an indirect cost increase of about 2%. Differences in the indirect effect are mainly driven by the degree of dependence on energy-intensive sectors. For example, the indirect impact for agriculture and the rubber & plastics sector is relatively large due to their strong dependence on products from the chemicals sector. The fabricated metal products industry is another example where the indirect effect is relatively large, due to strong dependence on products from the basic metals industry. The model does not include second-round effects via higher wages. Ultimately, this could lead to even higher prices and cost increases.

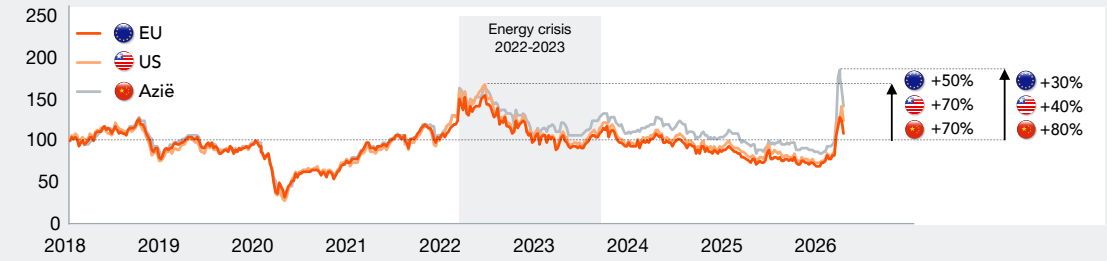
Businesses are now less able to pass on cost increases than in 2022

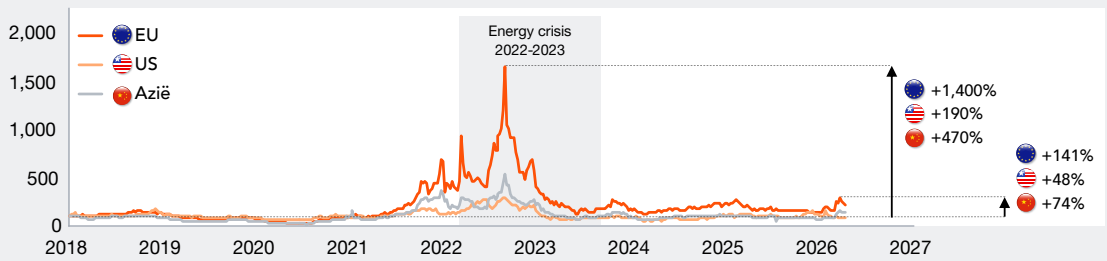
Although these PwC EPIM outcomes are broadly comparable with 2022, the economic impact differs on several crucial points.

First, the starting position in the Netherlands has clearly changed. Gas consumption is 25% lower than before the 2022 gas crisis[2], due to energy-saving measures (such as insulation, heat pumps, and process optimization) and the scaling-down of energy-intensive production. In addition, the energy supply is more diversified. Since 2022, additional LNG import capacity has been built and the electricity mix is less dependent on gas, partly due to increased renewable generation. Finally, price dynamics are different: whereas gas prices peaked extremely in 2022, current increases are significant but, for the time being, less explosive.

Figure 3 shows that the current rise in gas prices is significant, but not comparable with the increase in 2022.

Figure 3 Historical development of oil and gas prices





2 Sources: CBS and Gasunie

Moreover, the current energy shock is more clearly global in nature and less of a specific European crisis. For businesses competing globally, this may mean that price increases can be passed on more easily than at the time. For some sectors that compete with producers in Asia – where oil prices are currently rising even more sharply – this may even ease competitive pressure from China to some extent.

This does not, however, mean that businesses can protect their profit margins in the way many were able to in 2022. The macroeconomic environment offers less room. Whereas in 2022 support packages kept spending up, there was catch-up growth after the Covid lockdowns and interest rates were (almost) zero; the situation is now fundamentally different. In 2022, inflation-adjusted household consumption still grew year-on-year by 2% to 10%. From 2023 onwards consumption became less buoyant, and in the months preceding the energy crisis it had already begun to decline.[3] Interest rates are also considerably higher, and the Dutch government has less room to support the economy financially. Consumers and businesses therefore respond more quickly to price increases by postponing spending or switching to substitutes.

3 Source: CBS (link)

PwC EPIM shows that the impact on profits differs greatly by sector and depends on the extent to which costs can be passed on

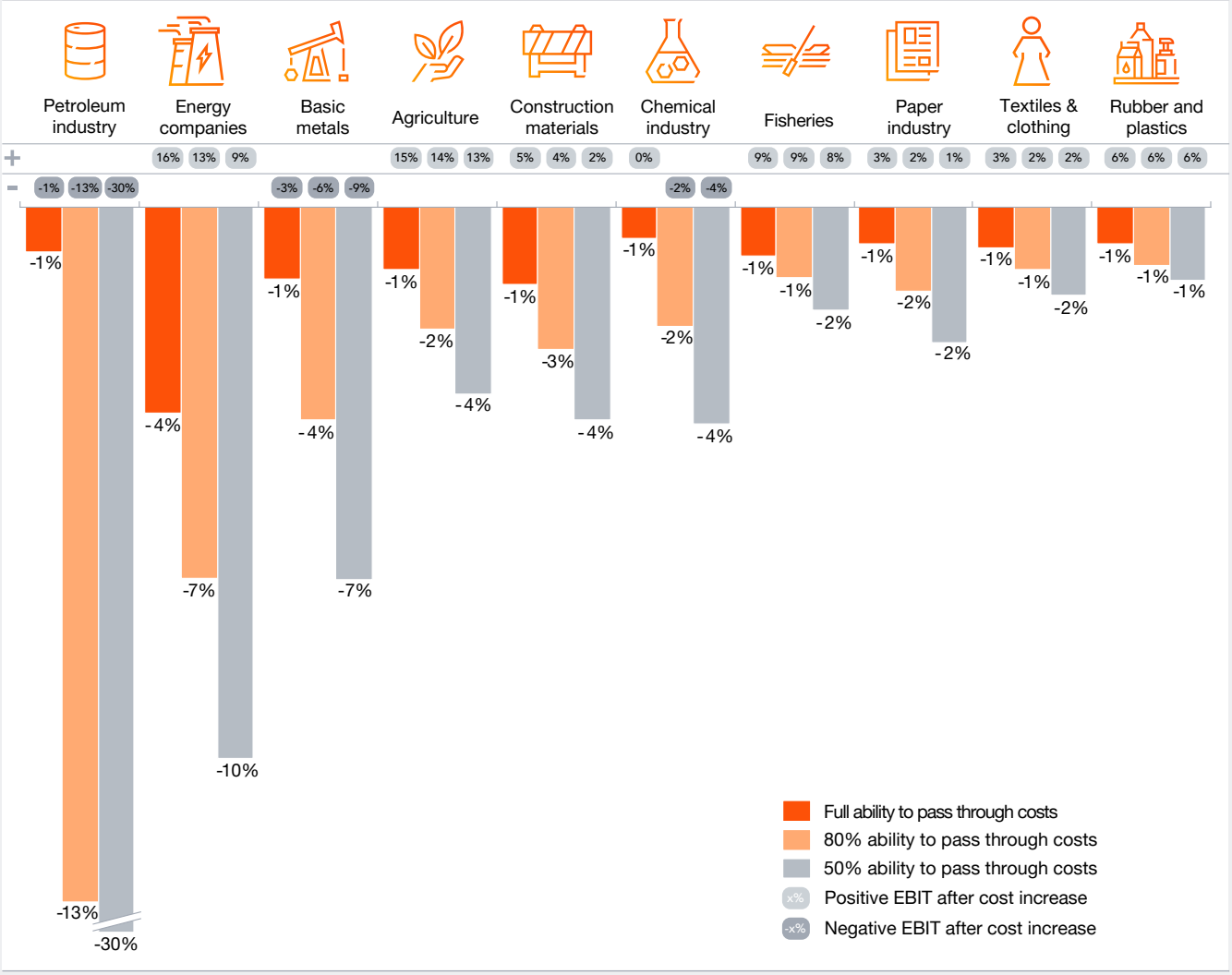
Our analysis shows that, on average, profits decline by around 1 percentage point because of the energy crisis, if businesses can fully pass on higher costs and customers respond as in previous periods of price increases. As soon as that scope becomes more limited and costs cannot be passed on without substantial demand loss, pressure on profits rises quickly. This is particularly relevant in sectors where energy accounts for a large share of costs and where cost increases are greatest.

For example, EBIT margins at petroleum companies can decline by around 13 to 30 percentage points when costs cannot be fully passed on. Energy utilities in that case also give up around 7 to 10 percentage points of margin, while in basic metals, agriculture, construction materials, and chemicals the decline can be as much as around 4 to 7 percentage points. In sectors where margins are already limited, this can cause profits to turn into losses, including petroleum, basic metals, and chemicals.

Sectors with higher margins, such as energy and agriculture, appear better able to absorb these profit shocks. At the same time, a positive EBIT does not automatically mean that businesses have sufficient room to cover the cost of capital and continue investing in growth and innovation. What is required for that differs by sector and depends, among other things, on capital intensity, market pressure, and investment risk. For these businesses too, a declining margin can put the continuity of the business model under pressure over the longer term.

Figure 4 Effect of the energy crisis on EBIT margin because of higher energy prices

Profit impact of higher energy prices
(%-point change in EBIT, under different cost pass-through assumptions)



Source: PwC EPIM model, o.b.v. CBS-data

Higher energy prices put investment capacity under pressure and can hinder sustainability

The PwC EPIM results show that higher fossil energy prices can make sustainability measures look more attractive on paper, but that the sudden and sharp cost increase puts investment capacity under pressure. Economically, the income effect becomes stronger than the substitution effect – business see the need to invest but lack the financial headroom to do so. The policy implication is fundamental. Those who think that simply raising energy prices accelerates the transition to underestimate the income effect. And those who accept low prices in the name of affordability undermine the necessary substitution towards sustainable alternatives.

Preparing is more effective than predicting

Uncertainty about future price developments makes it difficult for businesses to determine a sensible course: what seems logical today may be overtaken tomorrow by a different scenario. That is why there is little value in setting up a separate course for each individual scenario. Scenarios are not forecasted; they show what the future could look like.

A more effective approach is to take measures that make businesses more resilient to the direct impact of higher energy prices and the indirect impact (through more expensive semi-finished products). It is plausible that this will not be the last energy crisis; the previous one was only four years ago. Preparing is therefore more important than predicting. That means investing in choices that increase flexibility, reduce vulnerabilities, and lessen dependence on external shocks.

What businesses can do

1. **Map the direct and indirect use of fossil feedstocks, and where they come from:** Without clear insight into energy exposure, decisions quickly become ad hoc and insufficiently thought through. It is therefore essential to understand what share of unit cost is linked to energy use (both directly and indirectly through suppliers), which sites or production lines are the most energy-intensive, and what price increases and volatility mean for margin, working capital and investment headroom – for example through stress tests.

2. **Limit price volatility with a well-designed procurement strategy:** The challenge is often not only that energy is expensive, but also that prices can fluctuate sharply. It is therefore sensible to organize energy procurement and hedging more strategically. This can be done by spreading risks over time, agreeing clear rules on when to hedge and when not to hedge, and avoiding dependence on a single supplier or a single energy source. Fixed long-term arrangements, such as Power Purchase Agreements (PPAs), and own generation (e.g., via solar or wind), where feasible, can also help.

3. **Build flexibility into production and energy consumption:** When energy prices fluctuate, organizations need to be able to respond flexibly. By designing production and energy planning strategically, consumption – where technically possible – can be shifted to moments with lower costs and peak hours can be avoided. Energy-intensive processes such as furnaces or cooling installations can, for example, be configured so that use can be scaled up at night or at weekends.

4. **Invest in reducing energy dependence over the medium to long term:** Ultimately, the aim is to reduce dependence on fossil energy sustainably. This can be achieved through electrification of installations, optimization of the energy mix, and embedding circularity, so that less primary energy and fewer raw materials are needed. This makes businesses more resilient to future price shocks and can strengthen competitiveness over time.

5. **Strengthen supply-chain and location choices:** Energy costs and risks are not limited to direct energy use; they also sit in transport and in purchased materials and semi-finished products, such as chemicals, metals, and packaging. Businesses can increase resilience by reviewing their sourcing strategy, keeping alternative suppliers as a back-up and sourcing critical components from more than one party. For energy-intensive activities, it may also be sensible to reassess the production location or footprint, especially if structural cost differences between regions persist.

6. **Look beyond energy costs:** Many businesses have already picked up the ‘low-hanging fruit’ of energy-saving in recent years. In addition, switching to alternative energy sources is often not realistic in the short term, partly because preconditions – such as grid connections and permits – can take a long time. It is therefore important that businesses, in addition to energy costs, also adjust fixed costs and overheads to the new reality through cost-saving programmes.

7. **Be cautious about passing through costs:** Where globally competing businesses in 2022 could not pass on costs, locally competing businesses had relatively more scope to pass on higher (energy) costs because demand was exceptionally strong after Covid-19. That situation is now different. Demand is less buoyant, and interest rates are higher than in 2022, making consumers and businesses more sensitive to price increases and quicker to postpone spending or switch to alternatives. This suggests that even for locally competing businesses there is now less scope to pass on costs. Businesses should therefore weigh their pricing strategy carefully to avoid passing on costs, leading to excessive demand loss. Where full pass-through is not feasible, a stress test can help: which customers and products are most price-sensitive, where can bundles or differentiation be used, and which product and customer mix protect margin under high energy prices?

8. **Do not rely on support – take action yourself:** Governments can provide temporary support, but in many countries, limits have been set on broad price support. This is also linked to limited fiscal space. Businesses that base their strategy on prolonged compensation or subsidies run risks if policy changes abruptly, resulting in a hard landing. ‘Waiting for prices to normalize’ is also risky. Recent years show that volatility is structurally higher, and geopolitical shocks follow one another quickly. Delay increases vulnerability and reduces room to maneuver when the next shock arrives.

9. **Make decisions based on multiple scenarios:** Basing decisions on the hope that energy prices will quickly and permanently fall can lead to the wrong investments. Robust choices are investments that remain sensible under multiple scenarios – not only in the most optimistic scenario.

We have been here before: What Dutch policymakers can learn from previous energy crises

The oil crisis of 1973 made clear that energy dependence creates vulnerability and can lead to sudden shortages. At the time, the government chose to allow prices to rise in the short term (rather than introducing compensation measures) and focused on energy saving and efficiency – such as the car-free Sunday – to reduce demand. Over the medium to long term, the focus shifted towards diversification: more local energy production, by further encouraging gas extraction in the Netherlands. In the years that followed, it was decided to subsidize the exploitation of uneconomic gas fields

During the 2022 energy crisis, the Netherlands – partly due to the phasing-out of gas extraction in Groningen – chose a different route. The sharp rise in European gas prices put households and businesses under severe pressure. To provide rapid relief, a price cap was introduced in 2023 for small consumers up to a certain consumption level. In addition, investments were made in infrastructure to switch to LNG. Unlike in 1973, there was no broad push for additional diversification and energy-saving. To cover the costs, among other measures a levy on 'excess profits' was introduced, but in practice this has proved difficult to design due to uncertainty about, among other things, definitions (what is an 'excess profit'), the exact scope, taxpayers, and duration.[4]

These experiences show that a long-term strategy and targeted, well-defined actions are crucial to make the economy more resilient to unexpected shocks in energy markets. This can be achieved by focusing on local energy production – previously via natural gas, but now via solar, wind, and nuclear energy. It also helps to build flexibility, for example by investing in LNG infrastructure and larger oil and gas stocks.

In the short term, governments may choose to provide support. However, measures where the government 'intervenes in prices' often backfire because they keep demand high. Moreover, the costs are substantial, and parties that do not need support may also benefit. Instead of generic price caps or broad support, it is therefore more effective to provide targeted income support to low-income households and to businesses in acute difficulties, where possible linked to sustainability and energy-saving. In this way, the desired incentive to use energy more efficiently is preserved as far as possible.

4 See our recent **PwC Assurance Insights** article for a practical, detailed discussion of the key challenges (**link**)

What policymakers can do

The European Commission is currently working on legislation to limit the impact of high energy prices. More clarity is expected in May 2026. In addition, the Jetten cabinet will present a support package next week. The following points are important:

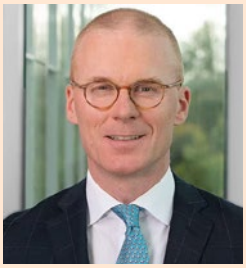
1. **Use support measures temporarily and in a targeted way:** Generic measures (such as excise duty reductions, energy price caps or general subsidies) have three disadvantages: they keep demand artificially high and can therefore prolong shortages and price pressure; costs are relatively high; and parties that do not need support may also benefit. Where governments intervene, this must be temporary, targeted, and fiscally controlled, focusing on vulnerable households and strategically critical sectors – not on generic price reductions for everyone. Moreover, support should not consist of keeping energy prices low, but of targeted income and investment support. The shorter and more clearly defined (with a clear end date and phase-out path), the smaller the risk that emergency support is seen as structural and undermines investment and saving incentives. This also relates to the issue of an uneven playing field with neighboring countries; ideally, support measures should therefore be shaped at European level.

2. **Encourage investments that structurally reduce dependence and make the economy more resilient:** Help businesses invest in measures that increase energy efficiency and flexibility and stimulate local energy generation – for example through subsidies or favorable financing. Also encourage the development of infrastructure and flexibility in the energy system. This supports both businesses and households and limits macroeconomic damage during shocks.

3. **Enable demand reduction and efficiency:** Support businesses that are not only viable at low energy prices and help them transform and become structurally resilient. Effective policy focuses on reducing energy demand through savings, efficiency, behavioral measures, and rapid adjustment options, which distort market functioning less than generic price support. Investment certainty is crucial: uncertainty created by sudden tax changes, inconsistent subsidy policy, slow permitting, and the lack of long-term frameworks increases uncertainty and is counterproductive.

4. **Do not introduce temporary levies without a robust legal basis and an implementability assessment:** The support and mitigation measures mentioned above must, of course, also be financed. In that context, taxing ‘excess profits’ of energy companies is again mentioned as an option. Five EU Member States have called for the reintroduction of a ‘windfall tax’ similar to that in 2022. It is important to learn from the experiences in 2022 and to design any additional taxes more carefully than was done at the time.

Contact



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