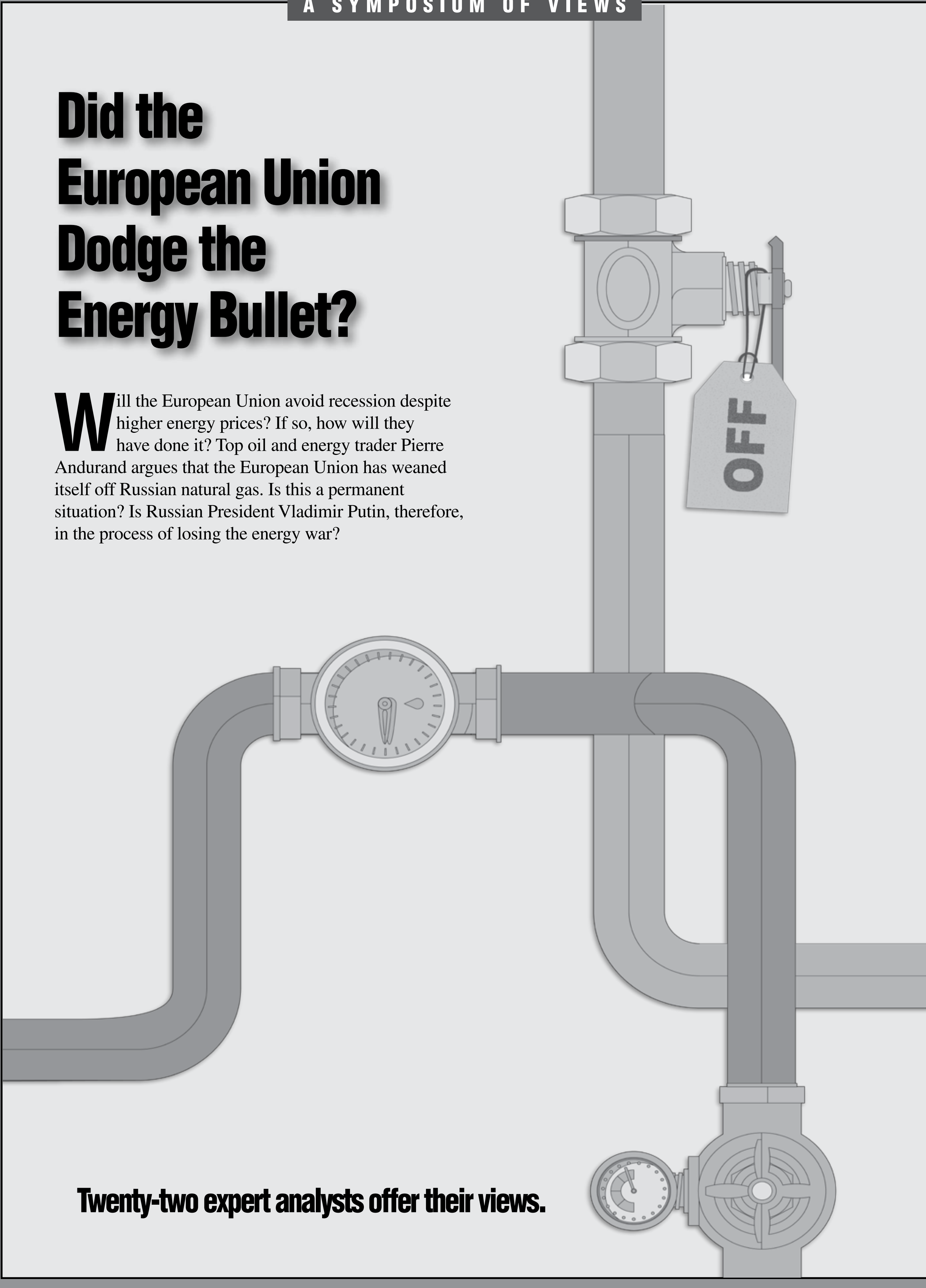
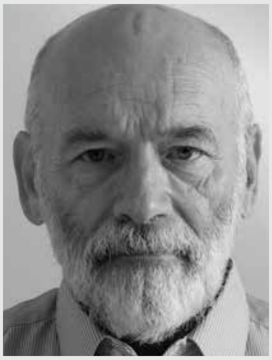
Did the European Union Dodge the Energy Bullet?

Will the European Union avoid recession despite higher energy prices? If so, how will they have done it? Top oil and energy trader Pierre Andurand argues that the European Union has weaned itself off Russian natural gas. Is this a permanent situation? Is Russian President Vladimir Putin, therefore, in the process of losing the energy war?



Twenty-two expert analysts offer their views.

enough to induce further savings by households and force European industry to switch to more high value-added, less energy-intensive products. If this process is allowed to continue to operate, and the green transition towards renewables accelerates, Europe will emerge as a winner in the long run as well.



Putin lost the gas war.

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Indeed, most European economies experience stagflation. The inflation in the European Union exceeded 10 percent in the second half of 2022, while the quarterly GDP growth rate went down to zero in the fourth quarter. Macroeconomic forecasts for the first half of 2023 do not look rosy either.

European economies are paying now for past policy mistakes—slow structural and institutional reforms and expansionary monetary and fiscal policies. During the global (2007–2009) and European (2010–2013) financial crises and the Covid-19 crisis (2020–2021), various forms of fiscal stimulus were applied, which led to an increase in the euro area's gross public debt-to-GDP ratio of 30 percentage points of GDP between 2007 and 2021 (from 66 percent to 96 percent of GDP). Only a few countries (Ireland, Germany, and Malta) managed to decrease their relative debt burdens in the inter-crisis period of 2014–2019.

Monetary policy also was extremely lax with the subsequent rounds of asset purchasing programs that led to an almost seven-fold increase in the European Central Bank's total assets, a substantial part of which consists of government bonds (similar to the U.S. Federal Reserve). In the beginning, the increase in the monetary base was counterbalanced by a decreasing money multiplier and money velocity due to tighter financial regulations. When the Covid-19–related restrictions were relaxed in 2021, economic recovery combined with substantial monetary and debt overhangs led to the inflationary explosion. Unfortunately, policymakers in Europe and elsewhere downplayed the inflation risk for too long. It was too late for a soft landing when they woke up in the first half of 2022.

The energy price shock generated by the post-covid global recovery, Gazprom's manipulation of the European natural gas market in 2021, the Russian invasion of Ukraine, and the Western sanctions and Russian counter-sanctions only added to the inflationary pressures, which were present well before. Remember that the previous periods of high energy prices (2007–2008 and 2014–2015) did not cause inflationary consequences in advanced economies due to their more robust macroeconomic fundamentals.

Fortunately, at the beginning of 2023, the energy shock in Europe is essentially over. Energy prices are decreasing, and the economy has not experienced natural gas shortages. Putin lost the gas war against Europe and the European gas market for good. However, overcoming stagflation remains an urgent task for policymakers in Europe and other advanced economies. They should avoid measures that only add to inflationary pressures, such as energy subsidies, but do not help to decrease energy intensity and fossil fuel dependence.

The European Union acted brilliantly.

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Multinational oil companies and oil-exporting countries have held the global economy hostage for fifty years. In 2022, the European Union exposed this economic treachery. The EU countries have avoided recession despite a record rise in natural gas prices. Furthermore, moving more rapidly to renewables now than planned a year ago will make the European Union's economy stronger and greener.

Energy market disruptions are an annoyance for those attempting to manage the global economy, promote fiscal growth, and address income disparity. In the past, OPEC ministers and the CEOs of multinational oil