

THE RESPONSE OF ELECTRICITY AND GAS IN THE EU TO THE RUSSIA-UKRAINE CONFLICT DURING THE FIRST YEAR OF WAR

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Abstract

This article aims to analyse the effect of stressful events and uncertainty, specifically the war in Ukraine on electricity and gas prices in the EU relative to the evolution of Brent Oil Futures (BRENT). The results obtained from the impulse response function provide proof of high volatility being present for Electricity_EU and Gas_EU due to the evolution of BRENT, and as well proof of a delayed reaction to the war, more precisely in the next month since the war started. The Granger causality test under VAR provides proof that an increase in BRENT leads to an increase in Electricity_EU with a 4,95% probability level and an adverse relationship between BRENT and Gas_EU for a 52,38% probability level. This article could support policy makers in taking timely measures regarding pricing, and stocking-up a certain commodity and might even help to analyze the political implications given that crude oil, electricity and natural gas are important commodities that shape consumer consumption and corporations and governments budgets.

Keywords

VAR, impulse response, variance decomposition, electricity, gas, war.

JEL Classification

G01, C19, C01, O13

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