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EU ‘energy bank’ idea finds a champion in quest to curb market volatility

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By Eleonora Rinaldi

The EU's gas and power markets should benefit from a new European energy bank to reduce market volatility, Benjamin Lakatos, the CEO of energy company MET Group, told MLex in an interview. Such a central bank-like institution could stabilize price swings with tools — including liquidity injections and circuit breakers — not available in energy markets today. A challenge, though, would be implementing the idea within the EU's institutional framework, and other options do exist, experts say.

The EU electricity market has expanded significantly since liberalization in the 1990s, but the new geopolitical environment has sharply increased price volatility.

Average wholesale power prices have eased since the EU energy crisis that erupted with Russia's 2022 invasion of Ukraine, but market volatility remains elevated, particularly in southeastern Europe, according to a study by industry group Eurelectric (see here).

In response, economists, industry players and policymakers have floated ways to lower prices and reduce volatility. One novel proposal is an energy bank.

According to Benjamin Lakatos, the chief executive of Zug, Switzerland-based MET Group, the entity could be modeled on a central bank. It would operate as a regulated system that injects liquidity at times of crisis and standardizes operations to stabilize the market.

Unlike financial markets, EU gas and electricity lack an institution that can provide liquidity when the market is short. Services such as circuit breakers — instruments used to halt trading during panic selling on stock exchanges — as well as liquidity-boosting products, creditworthiness assessments and eased margin calls for investors “would have greatly benefited the energy market during the price crisis,” Lakatos told MLex.

Without a central player, energy companies are left to “trust each other” while governments inject cash, he said. An energy bank "would open up so much more competition inside the European economic sphere, and competition ultimately always leads to lower prices.”

The idea took shape during 2022, when sharp cuts to Russian imports sent electricity and gas prices soaring across Europe. An analysis by MET Group estimates that only 40 percent of the price surge was driven by supply-and-demand fundamentals: The remaining 60 percent reflected a lack of market liquidity.

“It was a kind of domino effect, people started to lose their trust [in the market],” Lakatos said, adding that this 60 percent could have been avoided with an institutional framework similar to that in financial markets.

— Institutional framework —

Granting an energy bank full EU institutional status would require reopening the EU treaties with unanimous backing by member states, said Michael Leigh, senior adjunct professor and academic director of European public policy at Johns Hopkins University SAIS Europe.

By contrast, establishing a separate agency or independent structure would not require treaty change, he said, adding that a more feasible option would be a facility housed within an existing EU body such as the European Investment Bank.

The purposes would differ, however: While the EIB is a long-term lender, an energy bank would act as a short-term liquidity provider. It would effectively serve functions akin to the European Central Bank but specialized for gas and electricity markets, Lakatos said.

The ECB declined to comment on Lakatos’s proposal. But it has previously acknowledged that high volatility in European and global energy markets can raise banks’ exposure to counterparty default and credit risks, given their roles as clearing members and credit providers.

During the energy crisis, market participants exposed to power and gas derivatives were required to post significantly higher margins — sometimes double the usual requirements — on futures and swaps. A margin call occurs when an investor trading with borrowed funds is asked by their broker or lender to deposit additional cash or securities to cover potential losses. While higher margins are designed to safeguard against elevated counterparty risk, they place substantial strain on companies' cash and collateral.

Many market participants drew on bank credit lines or sought to lower margin requirements by shifting to alternative exchanges or Over The Counter contracts — private, customized agreements negotiated directly between two parties, rather than via a centralized exchange.

But the ECB warned that increased reliance on OTC arrangements can concentrate counterparty credit risk — particularly for banks — and create market risk in the event of a default. The ECB called for more predictable initial margin modeling given energy-market liquidity challenges.

According to Lakatos, a dedicated energy bank could help in this regard by providing guarantees and a safety net for market participants if banks fail during crises.

“This is not a fully fledged proposal, but an early-stage concept. The details and mechanics still need to be developed,” he said.

— Other solutions —

Some experts are skeptical about the idea, noting that other tools are available to curb volatility.

According to the EU energy regulators’ agency ACER, crisis measures such as circuit breakers for energy trading could be introduced in cases of extreme market stress. While Lakatos links such tools to an energy bank, ACER views them as temporary measures that existing institutions could enact.

“This crisis measure is currently neither implemented nor discussed at EU level, but examples of its application can be found in Australia and the United States,” ACER said. “A discussion on the trade-offs of this measure would be needed before considering its introduction in the EU law, to ensure that the benefits outweigh the drawbacks."

Expanding the use of long-term contracts — such as forward contracts or power purchase agreements — could also improve price predictability for consumers and investors, ACER said.

For gas, however, there is a tradeoff between the price stability of fixed long-term deals, which can last more than 15 years, and uncertainty over future gas demand as electrification rises. Suppliers may be reluctant to lock in volumes amid demand uncertainty.

“Liquid markets and flexible contractual structures are the best way to manage volatility,” said Mark Coupley, chief executive of the European Federation of Energy Traders, in a statement.

Calls for more hedging instruments and long-term contracts were also advocated by power lobby group Eurelectric during the EU electricity market design reform, and are now embedded in the new market framework.

Beyond long-term contracts, there could be joint procurement via an "EU Energy Platform," according to a suggestion by Mario Draghi, the former Italian prime minister who previously chaired the Financial Stability Board and was president of the ECB.

Collective EU purchasing could strengthen bargaining power, reduce intermediaries’ margins and shield companies from volatile spot markets, Draghi said at a high-level dialogue in Brussels in September, recalling recommendations in the high-profile report on EU competitiveness, published in 2024.

Such a platform could develop financial instruments, such as grants, loans and guarantees, including “a government-supported hedging mechanism to protect companies signing long and medium-term contracts from extreme market volatility,” his report said.

But Coupley pushed back on this concept, noting that AggregateEU — the platform created in 2023 to consolidate EU gas demand and reduce reliance on Russian imports — drew limited interest and delivered negligible volumes.

Many experts agree that a natural stabilizer would be deeper market integration. An ACER study in 2021 found that price volatility would be seven times higher if the EU energy market had been isolated.

In September, European Commission President Ursula von der Leyen announced an EU Single Market Roadmap to 2028 to remove barriers and deepen the single market (see here). While details are expected toward the end of this year (see here), energy is among the sectors in scope.

Whether an energy bank could feature in such plans remains to be seen. It's clear, though, that the debate over strengthening market integration — through new or refreshed tools — is gaining political momentum.

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