

Methodological note

TREATMENT OF ENERGY PRICES COMPENSATION MEASURES IN THE HARMONISED INDEX OF CONSUMER PRICES (HICP)

EUROSTAT, DIRECTORATE C

UNIT C4 — PRICE STATISTICS; PURCHASING POWER PARITIES; HOUSING STATISTICS

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In the European Union, many countries have introduced government compensation measures to assist households to cope with increased energy prices. The measures implemented vary widely among countries. Their treatment in the HICP depends on the specific set-up of each measure.

General guidance on the treatment of energy measures

One important principle is that the HICP is based on 'purchase prices'. According to Article 2(4) of Regulation (EU) 2016/792, purchase prices are defined as *the prices actually paid by purchasers for products, including any taxes less subsidies on the products after the deduction of discounts from standard prices or charges [...]*. In line with this definition, the following types of measures should be reflected in the HICP:

- **Measures that temporarily reduce the taxes applied to energy products.** This includes for example reductions in the VAT rate, in the excise duties or in other taxes. It is standard practice for changes in tax rates to be reflected in the prices that enter the HICP. Tax measures that are not linked to the purchase of a product, such as income tax rebates, will have no impact on the HICP.
- **Measures that have a direct impact on the prices paid by households for the actual amount of energy consumed.** This includes for example price reductions by litre of fuel purchased. For gas and electricity, the compensation may for example be determined as the difference between the market price and a maximum price set by the government. In some cases, the measure may only be applicable to a specific category of households, or the amount of the support may be differentiated according to the total quantities of gas or electricity used by the household. The exact impact of the measure on the HICP then depends on the share of beneficiaries or on the consumption structures of households. In contrast, transfers such as lump-sum payments or income support measures have a positive effect on the household disposable income, but they will not be reflected in the prices included in the HICP.

- **Measures that relate to prices over which the government has some influence.** This includes for example regulated tariffs and transmission and distribution fees for gas and electricity.

The following conditions apply for reflecting a measure in the HICP:

- The measure should be known prior to purchasing the energy product,
- The measure should be linked directly or indirectly to the amount of consumption. For example, a refund related to the quantity of energy consumed should be reflected, even if it is an indirect relation, e.g. the size of a household.
- The measure should be reflected even if the target population needs to meet certain social criteria.

Treatment of price caps

Discussions on the introduction of price caps for energy products are taking place at the EU level and within the governments of the Member States. Broadly, a “price cap” means that a maximum price is set by the government or by a national regulator. The price cap can apply either directly to the energy product or to a connected product that will influence the price of other energy products. A regulator can, for example, set a maximum price for gas to households or for gas used to produce electricity. While the former would entail a price decrease for gas, the latter implies a price reduction for electricity.

In either of these two instances, the price to be taken in the HICP is the price charged by the provider that will be shown in the bill to households.

Timing related issues

A compensation measure should affect the HICP in the months in which the energy product can be obtained at the reduced price.

Certain schemes may refer to prices faced by households in periods prior to the formal adoption of the measure. Such retroactive compensations should not be taken into account because they were not known to the households at the time when the energy was consumed. Moreover, the HICP is normally not revised. Therefore, retroactive compensations cannot be taken into account as their integration would change already published HICP figures.

Measures for other products

Apart from energy products, similar measures may apply for other goods and services that are purchased by households (for example public transport). The principles outlined above apply to these products as well. Measures that are not linked to household consumption but that directly target businesses fall outside the scope of the HICP, but the indirect effects of these measures can have an effect on the HICP, e.g. subsidizing utility companies to compensate them for a price cap for consumers.