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Methodological note

GUIDANCE NOTE ON THE RECORDING OF GOVERNMENT EXPENDITURE MEASURES ON HIGH ENERGY PRICES

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I. Background

1. Member States have undertaken numerous measures or schemes in order to mitigate the economic and social impacts of the sharp increase in energy prices.
2. For many schemes designed to mitigate rising energy prices, or to cap prices at an upper limit, or to reduce the adverse impact of these rising/high prices, an appropriate borderline needs to be drawn between recording the general government expenditure as subsidies on products (D.31), other subsidies on production (D.39), social transfers in kind – purchased market production (D.632), social assistance benefits in cash (D.623) or other miscellaneous current transfers (D.759). The type of expenditure that is carried out will also have consequences for the counterparty and for the COFOG classification. Additionally, depending on the choice of the ESA transaction, the appropriate time of recording should be followed.
3. Government expenditure measures to mitigate the impacts of high energy prices can:
   1. take the form of a continuous support over a certain period of time or, alternatively, of one-off (lump-sum) relief;
   2. be aimed at all consumers of energy or at selected groups of recipients:
      - a. when aimed at households: they can be subject to means-testing, i.e., only designed for the benefit of some lower income households, or be for the whole population, not distinguishing households needing the relief from those that do not;
      - b. when aimed at producers: they can be aimed at energy suppliers (producers or distributors), at certain types of industries (such as perhaps heavy users of energy) or at all producers using energy as an input;
   3. be typically aimed at specific types of energy products (e.g., only gas).
4. Finally, cash-flow arrangements for the schemes might differ, and payments may be channelled through energy producers or distributors for practical purposes. However, these cash-flow arrangements should generally not impact the recording to be followed in government finance statistics (non-financial accounts).

II. Recording to be followed in national accounts

5. General price reductions or price caps on energy products that are compensated (i.e., eventually paid out) by government and that benefit all users over a determined period of time, or for an unspecified period of time, should be recorded as subsidies on products (D.31).

6. The price reduction can also be considered to be a subsidy on products as long as all or nearly all households (potentially concerned) benefit in relation to their (final) consumption / usage, i.e., even if corporations and other producers are mostly excluded (as energy consumers) from the scheme. Furthermore, when all households within a particular segregated market in a country (e.g. within a geographical area) or all households up to a certain level of consumption benefit from it – in relation to the volumes consumed, this can still be regarded as a subsidy on products.

7. The government expenditure needs to be recorded at the time when the sale of the energy product at subsidised prices takes place, irrespective of the cash flow arrangements, that is: at time of delivery of the products (and not at time of cash flow) matched with an other accounts payable of government (a receivable of the supplier) when there is a delay between product supply and cash flow. Subsidies on products cannot be recorded for periods prior to the introduction of a scheme.

8. Price reductions carried out in the form of 'reversible price caps', which involve a price cap over a first period, followed by a second period of price setting higher than the contract price, with government promising to pay the difference in a third period, should be treated in the same way. For more details, see the dedicated Guidance Note on 'reversible caps of energy prices with final compensation'.

9. If only some households benefit from price reductions per unit of energy consumed, with the distinction between households done by some (possibly simplified) means-testing, rather than being based on a sole distinction on whether or not households consume the particular energy product, the government support must be recorded as a social transfer in kind – purchased market production (D.632).[1] In this case, price reductions on energy only benefit means-tested households for the sole purchase of energy products – i.e., households cannot choose the product they consume. Social transfers in kind must be recorded at the time the goods are provided to the household (e.g., when the electricity is consumed), which may differ in time from government's cash settlements either with households or with the supplier of the energy products.

10. Schemes where all households benefit from lump-sum reductions (i.e. not related to quantities consumed) to their energy bills, as legislated by government, are to be recorded as other miscellaneous current transfers (D.759) rather than as social transfers in kind (D.632) or as subsidies on products (D.31), unless the lump-sum reduction would be explicitly calculated on the basis of (proportionately to) the fixed components paid by consumers on their energy bills. In the latter case, subsidies on products (D.31) can be applicable.

11. When all or almost all producers, but not households, benefit from price reductions on energy products used as an input to their own production process, the expenditure is a subsidy on products (D.31).

12. When only some producers benefit from price reductions on energy products used as an input to their own production process, this is to be considered a subsidy on (their) production (D.39). The subsidy should be recorded when the producers buy the energy as input to their production.

13. Price reduction schemes may simultaneously benefit only some households consuming energy and only some businesses. For such hybrid schemes, the government support should be split between D.632 and D.39 according to recipient.

[1] This guidance deviates from that made in the harmonised indices of consumer prices (HICP) context, which prescribes that price reductions targeting beneficiary households are to be treated as reduction in HICP.

14. When government provides lump sum payments to households (here, for the declared purpose of alleviating the burden of energy inflation) which can use such payments freely, i.e., spend the amount on energy products or on any other products or indeed save the amount, a distinction needs to be made on whether only some households or all households receive the said lump sum. When the benefit is received only by some (socially vulnerable) households, based on social risks and needs, social assistance benefits in cash (D.623) should be recorded (when the claim to the benefit is established). When all households benefit equally from the lump-sum payment, i.e., no means-testing takes place and it can be considered that the payment does not meet the definition of mitigating social risks and needs, other miscellaneous current transfers (D.759) should be recorded.

15. Finally, some NPISH may also be affected by high energy prices and might benefit from additional transfers from general government, and a current transfer to NPISH (D.751) should be recorded.

16. Summarising the distinguishing factors between the different ESA transactions as well as some common types of schemes, a typology covering common types of schemes could be drawn up based on the following table:

Type of scheme	**ESA transaction**	**Comment**
Price-cap or price reduction schemes benefitting all households, and possibly some or all businesses	D.31	The subsidy can be considered as being on products as long as all households benefit in relation to their (final) consumption.
Deductions from energy bills for households, whether lump-sum or not, when means-tested	D.632	Definition of social risks and needs is met, households are not free to use the benefit how they wish
Lump sum deductions from energy bills for households, when applicable to all households consuming the product	D.759	The definition of social risks and needs is not met and the consideration is not per volume.[2]
Price cap schemes or price reduction schemes benefitting all or almost all businesses	D.31	
Price cap schemes or price reduction schemes benefitting only some businesses	D.39	
Price-cap schemes or price reduction schemes benefitting only some households, with some means testing, and some businesses	D.632 / D.39 for businesses	Recording of a hybrid scheme.
One-off lump sum payments to some households based on means testing	D.623	Households are free to use the benefit however they wish.
One-off lump sum payments to all households (no means testing)	D.759	Definition of social risks and needs not met.
Support to NPISH	D.751	

III. Statistical analysis

17. Subsidies (D.3) are *"current unrequited payments which general government [...] make[s] to resident producers"* (ESA 2010 paragraph 4.30), i.e., subsidies are deemed to benefit or otherwise concern producers. There are two sub-categories of subsidies: subsidies on products (D.31) and other subsidies on production (D.39).

[2] D.31, when the lump-sum reduction is explicitly calculated on the basis of (proportionately to) the fixed components of energy bills

18. According to the definition of subsidies on products (ESA 2010 paragraph 4.33), they are *"payable per unit of a good or service produced"* and can be specified as a *"specific amount of money per unit of quantity of a good or service"*, *"a specified percentage of the price per unit"* or *"the difference between a specified target price and the market price paid by a buyer"*.

19. Subsidies on products (D.31) are applicable to a product irrespective of who consumes the product. As such, subsidies on products should not be recorded in case of price reductions / price caps / lump-sums that only target some households, rather than targeting all or very large parts of consumers (see paragraphs 20-23).

20. In the case of the introduction of a **general price cap or price reductions** enforced by government through payments to the electricity/energy providers, the key features of subsidies on products, as described in ESA 2010 paragraph 4.33, seem fulfilled. Price caps or reductions can also be organised via 'reversible schemes', where the producer is partially compensated by the ability to charge higher tariffs later on, with government only paying the remainder. Such 'reversible' schemes, discussed in a dedicated Guidance Note, need to be treated consistently, also having in mind that netting is generally not allowed in ESA 2010.

21. It might be argued that subsidies on products should only be recorded in case of them being applicable to all consumers without distinction, that is, covering both final consumption (households) and intermediate consumption (including corporations, NPISH, general government using energy as an input to their production). That is because, for a subsidy to be a subsidy on products, one should consider that the subsidy should not distinguish between different users but only between different products. Indeed, in the goods and services account, taxes and subsidies on products are not assigned as regards their economic impact to producers or to final consumers, rather being evaluated only for their overall impact on the economy. In contrast to subsidies on production, which are an identified revenue flow[3] of the recipient corporation (counterpart of the expenditure of government), subsidies on products are not identified as a revenue by any sector but instead improve the saving of each interested party via a reduction in the purchase price of their products.

22. At the same time, subsidies on products are on a specific product and it must be determined on which product exactly. This is notably necessary in order to evaluate the basic price of each product. In this context, it can be argued that the energy 'product' (e.g. in volumes by kWh) sold to household is meaningfully different from that sold to producers, for instance when involving a maximum power limit, or when sold through separate distribution channels, or when signalled by specific markers, although the European Classification of Products by Activity (CPA) may not distinguish the products in this way. Requiring support measures to be applicable to all consumers of energy (households as well as other units using the energy as an input to their production) in order to be recorded as a subsidy on products, risks not being able to establish the boundary between different products or production subsidised, and thus their basic price.

23. It is also appropriate to record compensation for price reductions / price caps benefitting all households (without distinction) but not other consuming units, as subsidies on products, because the intention of the legislator is indeed to support the 'real income of households' by lowering energy prices (deflated income), and not other prices (that would have fallen if producers had been included among the beneficiaries).

24. In contrast, targeted measures aimed at supporting selected beneficiaries are better reflected as increasing the nominal income (e.g., adjusted disposable income – B.7) of the beneficiary, because the intention of the legislator is to support a category of beneficiaries, while it is not plausible to argue that the kWh consumed by that category is a different product compared to the kWh consumed by the others. This specific guidance corresponds to a traditional borderline applied in GFS between subsidies on products and social benefits, though deviating from that made in the HICP context, which prescribes that energy price reductions targeting beneficiary households are also to be treated as price reductions in HICP.

[3] Recorded as negative uses, see ESA 2010 paragraph 4.40

25. As an additional argument for the recording of measures only benefiting all households as subsidies on products, one could presume that the conditions for considering a subsidy on products should be defined consistently with taxes on products. Taking the example of VAT, VAT is typically mainly paid on final consumption and investment goods, i.e., mainly by households, and is usually not actually paid, or is deducted from their VAT declarations, by businesses using products as inputs. ESA 2010 paragraph 4.17 on VAT indeed states that *"a value added type tax (VAT) is a tax on goods or services collected in stages by enterprises and which is ultimately charged in full to the final purchaser"* and *"the common feature of VAT is that producers are obliged to pay to the government only the difference between the VAT on their sales and the VAT on their purchases for intermediate consumption and gross fixed capital formation".* Given that both taxes and subsidies on products are treated similarly for basic prices (for which the product needs to be known), as regards the sequence of accounts and the calculation of GDP, the borderline as to their applicability should be similar. In other words, VAT is recorded as a tax on products despite only being actually paid by final consumers. Applying the same logic to subsidies on products, a relief being available only to all households as final consumers should not prevent from recording a subsidy on products.

26. Subsidies on products cannot be recorded on a retroactive basis, i.e., when a scheme is introduced in period t+1, even when volume based, no subsidies on products can be recorded in period t. In period t, the government support was not expected by consumers and producers and thus did not affect their economic decisions. Such retroactive support to all households should be treated as a miscellaneous current transfer (D.759) – see following paragraphs.

27. **Lump-sum reductions to energy bills**, i.e., those given that are not in relation to the volume of energy products consumed, cannot *a priori* be recorded as subsidies on products according to their definition (the payment is not *"per unit of a good [..] produced"*, see ESA 2010 paragraph 4.33). At the same time, such fixed payments may be seen as simply alleviating the cost of the fixed components of the regulated price, such that government *de facto* pays energy producers to reduce (or eliminate) the fixed component of customers' bills, and thus an assimilation to subsidies on products (D.31) of such payments could be plausible, by convention. In particular, such D.31 recording is appropriate if the lump-sum reduction is explicitly calculated on the basis of (proportionately to) the fixed components of energy bills (e.g. payments to be connected to the grid, rather than payments per kWh of energy consumed) paid by consumers and the payments is provided through energy producers, i.e. cannot be used by households for other purposes.

28. For such lump-sum reductions schemes a recording as social transfers in kind (D.632) could perhaps also be envisaged – the households can be deemed to accept the benefit by consuming the energy (2008 SNA paragraph 9.92) and thus the definition of social risks and needs would be deemed to be met (similarly to free schooling for all pupils). It could be argued that, as ESA 2010 paragraph 4.84 covers housing, providing the occupants of such housing with light and heating is also covered.

29. However, both the COFOG manual and the ESSPROS manual only refer to rentals in relation to social benefits for housing, which requires means-testing[4] (ESA 2010 paragraph 4.84j). In order to record 'social exclusion n.e.c.' rather than 'housing' among social protection functions, means-testing[5] appears required both by the COFOG definition and the ESSPROS manual. Moreover, as these lump-sum reductions are applicable to all households, it can also be argued that the definition of social risks and needs is in fact not met (ESA 2010 paragraph 4.84). While ESA 4.110 foresees the recording of social transfer in kind outside the scope of social risks and needs, it seems to refer to this possibility only for those provided by non-market producers (D.631). Recording in this specific case an other current transfer (D.759) is thus the most plausible alternative, although the benefit received is "in kind", in the meaning that the beneficiary has no choice of use of the resource acquired.

[4] COFOG manual 2019 edition, p. 228 and European system of integrated social protection statistics ESSPROS — Manual and user guidelines — 2022 edition, chapter 8, paragraphs 75, 77-79.
[5] In the sense of assessing that the household has "general neediness" or "vulnerability".

30. When **all or almost all producers, but not households, benefit from price reductions on energy products used as an input to their own production process**, the question is whether this is to be considered a subsidy on products (D.31) or a subsidy on their production (D.39). Arguments in favour of subsidies on products include the fact that the amount is based on volume and is not aiming at subsidising certain industries / certain types of production, but at lowering the purchase price of energy inputs in general, thus increasing the basic price of the energy supplier's output (P.1). One argument in favour of subsidies on production is that the subsidy is not based on the volume of output produced by the producers benefitting from the subsidy but rather on the volume of intermediate consumption (P.2) of that producer. As such, it could be argued that it has more the nature of a subsidy on production. However, ESA 2010 paragraph 4.33 defining subsidies on products as being "*per unit of good or service produced or imported*" does not necessarily appear to exclude subsidies per unit of consumed intermediate goods and services (which are produced), as ESA 2010 paragraph 4.33 also suggests that "*a subsidy on a product becomes payable when the good is produced, **sold** or imported*" (bold added). The sale is from the supplier to the intermediate consumer. On balance, it was decided that a subsidy on products should preferably be recorded. In any case, the recording should not depend on whether the government subsidy is actually paid to the energy supplier (that provides the rebate to corporate clients) or to the buyer (on presentation of bills paid, possibly through tax credits), as these elements are merely administrative arrangements.

31. Social benefits D.632 and D.623[6]: Social benefits are transfers to households (i.e., they benefit households rather than businesses), *"in cash or in kind, intended to relieve them from [...] a number or risks or needs"*. When not organised through a collective scheme, *"they include payments from general government to producers which individually benefit households and which are made in the context of social risks or needs"* (ESA 2010 paragraph 4.83).

32. Social assistance benefits in cash (D.623) are by definition paid in cash and are usually based on some kind of means testing (ESA 2010 paragraph 4.85c, *"generally linked to an assessment of available income"*). As such, D.623 should only be applicable to **cash payments to some groups of households with a social need, intended to alleviate the impact of rising electricity/energy prices**. The recipients of the benefits have no restriction on spending or on saving the received cash.

33. Social transfers in kind – purchased market production *"consist of individual goods or services provided for free or at prices that are not economically significant to individual households by government units or NPISH" "purchased on the market"* (ESA 2010 paragraph 4.108). The recording of D.632 depends on recipient households receiving and having agreed to receive a good or service provided in kind from a market producer (2008 SNA paragraph 9.92). There is no freedom by households to receive or consume an alternative good. D.632 can be *"provided directly to the beneficiaries from which general government purchases the corresponding goods or services"*. D.632 must meet a social risk or need (ESA 2010 paragraph 4.110). As such, D.632 can be applicable in case of **refunded price reductions / caps targeting a group of households or groups of households defined by a (social) need to alleviate them from the impact of rising prices**. It would be harder to argue that refunded price reductions / caps benefitting all households (e.g., including high-income households) cover a social risk or need.

34. **Current transfers to NPISHs** D.751: According to ESA 2010 paragraph 4.126 current transfers to NPISHs include the following: *"(c) assistance and grants from general government, other than transfers made for the specific purpose of financing capital expenditure, which are shown under investment grants."* Support to NPISH to help with their costs of energy in providing individual services (P.31, ESA 2010 paragraph 3.108) to households, other than general price reductions or price caps (from which all NPISH equally benefit), is to be recorded as a current transfer to NPISH (D.751).

[6] It is unlikely that a social security scheme or an other social insurance scheme exists that insures against high energy prices, hence one considers only D.623, and not D.621 or D.622.

35. Other miscellaneous current transfers D.759 include *"current transfers from general government to households in their capacity as consumers, if not recorded as social benefits"* (ESA 2010 paragraph 4.138h), i.e., when the consideration does not meet the definition of social risk or need. This would be the case when **all households benefit in their capacity as consumers**.

36. Certain schemes may only target selected producers (using the subsidised energy as an input to their production process). When only **some producers benefit from price reductions on energy products used as an input to their own production process**, this is to be considered as a subsidy on (their) production (D.39), as it influences the prices of their factors of production (ESA 2010 paragraph 4.30c). This is not a subsidy on products because the measure is targeted and thus does not reduce the price of factors of production in general. The subsidy should be recorded when the producers buy the energy as an input to their production.

37. **Hybrid schemes**: Certain hybrid schemes (benefitting some households and only selected producers) might exist. Such hybrid schemes might be deemed to benefit some households in their capacity as consumers (e.g., D.632 expenditure) on the one hand and only some producers (using electricity/energy as intermediate consumption), for influencing the price of their factors of production (ESA 2010 paragraph 4.30c, D.39), on the other hand. In such cases, there cannot be a recording only as social benefits, as the corporations consuming the electricity/energy equally benefit. There can also not be a recording only as subsidies, as also consumers benefit. A split recording dependent on beneficiaries would thus be advisable.

38. In practice, schemes may have complex features, necessitating on occasion additional analyses. This guidance note attempts to cover the most common features, but is not meant to be exhaustive.