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HICP – Administered prices (HICP-AP)

The HICP-AP is a series of inflation indices which were first released by Eurostat in February 2010. These indices provide a summary of the development of administered prices (those prices set or influenced to a significant extent by the government, and their complement, prices which are not administered).

Definition of administered prices

Administered prices cover all goods and services the prices of which are *fully* (“directly”) set or *mainly* (“to a significant extent”) influenced by the government (central, regional, local government including national regulators).

Fully administered prices cover the prices of goods and services directly set by the government. For example, the government may choose to increase local public transportation charges at regular intervals. Other examples may include education fees, theatre tickets, waste collection, childcare, and fees for administrative documents.

Mainly administered prices cover the prices of goods and services on which the government including any national regulator has a significant influence. For example, these may include prices which require approval/permission by national regulatory authorities for their change. The influence of the national regulator's decisions could be direct on retail prices or indirect via wholesale prices. However, the regulator must have a significant influence on the consumer price.

A number of conventions have been agreed to guide the implementation of the definition of administered prices: see **supplementary explanations and conventions** below. It should be noted that consumer prices subject to indirect taxation and excise duties (e.g. tobacco, petrol) are not classified as administered as their effects are reflected in the HICP at Constant Tax Rates (HICP-CT).

Supplementary explanations and conventions

Covered in the definition of administered prices are:

- Price changes approved by government and other national supervisory authorities. This may be the case in particular for network industries (e.g. telecommunication services by fixed line providers or postal services) and some insurance prices in some countries; the supervisory authority's decisions shall be explicitly taken with the objective to influence consumer prices, although these may only be indirectly affected through changes in producer prices.
- The effects of intended restriction in the consumer price level (price caps/price floors).
- The effects of “permanent” (e.g. long-term) restrictions on consumer price changes.

Not covered in the definition of administered prices are:

- Consumer prices subject to indirect taxation and excise duties (i.e. prices of goods and services with a high indirect tax component (e.g. tobacco, petrol)). These cases are excluded as the effect of change in taxation is reflected in the HICP at Constant Tax Rates (HICP-CT).
- The effects of product regulation such as safety or environmental standards (e.g. safety standards for cars). These cases are excluded as their effect on consumer prices is extremely difficult to determine and almost all goods and services are subject to some regulation.
- Prices subject to the Common Agricultural Policy in the EU. These regulations mainly have an influence on food products at an intermediate stage and therefore their impact is very difficult to identify.
- Index linked prices, unless the reference indicator for linking is an administered price or when the index linking is mandatory and enforced by regulation and law. For example, the linking of rent changes and changes of insurance gross premiums to the overall HICP or CPI or to other price indices, or the linking of gas price changes to the change of oil prices, should normally not be considered as an administered price, as they are contractual agreements that aim at simplifying price adjustments rather than a government control of price changes.
- The effects of “transitory” restrictions for consumer price changes, i.e. restrictions which are not “permanent” (e.g. restrictions in place in some countries around the time of the euro changeover).

For telecommunications the following conventions have been adopted:

- Fixed line and internet services: If price regulation exists, and is binding, at the retail level (for at least 50% of the consumption expenditures), fixed line services should be considered as mainly administered. If price regulation exists only at the wholesale level, fixed line and internet services should be classified as non-administered unless there are arguments (quantitative or qualitative) for a dominant impact on prices over several years.
- Mobile services as a whole shall be considered as non-administered unless there are arguments (quantitative or qualitative) for dominant impact on prices over several years, or if the revenue share of regulated termination rates is above 50% of total revenues for mobile operators.

For electricity and gas the following conventions have been adopted:

The HICP sub-indices for electricity and gas cover both a service component (transmission and distribution of electricity/gas) and a commodity component (i.e. the electricity and gas itself).

- In cases where only the service component, and not the commodity component, of the HICP sub-index falls under the above definition of an administered price, the whole sub-index shall not be considered as an administered price.
- In cases where both the service and commodity components of the HICP sub-index fall under the above definition of an administered price, the whole sub-index shall be considered as an administered price.

Integrating changes in price administration practices over time into the HICP-AP

Over time, prices which were administered may become deregulated and conversely free market prices may become administered. It is therefore necessary that the composition of the HICP-AP must likewise change over time. The HICP-AP is updated for such changes in the January following the change.