



EUROPEAN COMMISSION

EUROSTAT

Directorate C: National Accounts, Prices and Key Indicators

Unit C-4: Price statistics. Purchasing Power Parities. Housing statistics

## HICP recommendation on administered prices <sup>(1)</sup>

### I. The recommendations

#### Recommendation 1: Definitions and coverage of administered prices

The harmonised index of administered consumer prices (HICP-AP) refers to products whose prices are set or significantly influenced by central government, local government, national regulators or supervising authorities ('government'). For the HICP-AP, the sub-indices that are considered as mainly or fully administered are defined at the five-digit level of the European classification of individual consumption according to purpose (ECOICOP).

Prices charged by government-owned companies are not necessarily regarded as administered. The ownership of a company is not a sufficient criterion for price administration, as government-owned companies may act as market participants and thus need to adapt to market conditions.

If the government outsources tasks to private operators and, via contractual arrangements or regulation, influences the setting of the product prices so that prices do not follow market conditions, these products should be classified as administered.

Subsidies on products should be taken into account in the HICP-AP. The subsidised product should be classified as mainly administered unless the level of the subsidy is insignificant. In principle, subsidies on products would belong to the harmonised index of consumer prices at constant tax rates (HICP-CT) as they can be seen as negative taxes. However, as it is often difficult to quantify the exact effect of the subsidy on product prices, subsidies are not taken into account in the HICP-CT. The aim should therefore be to cover them in the HICP-AP.

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<sup>(1)</sup> The content of this document corresponds to the Annex of the document 'Draft HICP recommendation on administered prices', endorsed by the Directors of Macro-Economic Statistics in June 2018 (DMES/2018/06-15). Only a paragraph has been added to the explanatory text (part II) explaining the conceptual differences between HICP-CT and HICP-AP according to the comments received during the meeting.

The HICP-AP does not cover:

- product regulations such as safety or environmental standards, as the impact of these measures on the prices of individual products is not clear;
- subsidies on production, the minimum wage and other regulated input prices affecting production costs.

### **Recommendation 2: Degree and forms of administration**

‘Fully-administered prices’ refers to products where prices are directly set by the government. ‘Mainly-administered prices’ refers to products where the government has a significant influence on prices. For example, this may be a requirement to get approval for prices from national regulatory authorities.

In the context of the HICP-AP, ‘significant influence’<sup>2</sup> means that government influence causes price levels to be noticeably different from what they would have been if the prices had been set freely. If prices, by and large, are similar to market prices, the influence is not defined as significant.

The forms of price administration are:

- direct price setting by government; prices are always classified as fully administered.
- approval by government or a regulator; prices are considered as mainly administered if the government has actual and significant influence.
- subsidies on products; unless insignificant.
- indexation; indexed prices are to be classified as administered if the indexation is required by law.
- price caps; prices are regarded as mainly administered if the maximum or minimum price set by government has a significant influence on the price level.

### **Recommendation 3: Fifty per cent rule**

If 50 % or more of households’ final monetary consumption expenditure on a sub-class of the ECOICOP relates to products that are classified as mainly administered, the whole sub-class is considered as mainly administered. The same logic applies when classifying ECOICOP sub-classes as fully administered.

If 50 % or more of households’ final monetary consumption expenditure on a sub-class of the ECOICOP relates to a mixture of products whose prices are either mainly or fully administered, a second-stage rule decides whether the sub-class is considered as mainly or fully administered. If 50 % or more of the expenditure on products whose prices are administered is spent on products whose prices are fully administered, the whole sub-class is classified as fully administered. Otherwise the whole sub-class is classified as mainly administered.

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<sup>(2)</sup> Examples are provided in the Annex.

**Recommendation 4: Annual review**

The HICP-AP should be reviewed and updated at the beginning of each year. The HICP-AP should only include product groups the prices of which are considered as administered throughout the calendar year. Revisions should be carried out in case the change of status was not known at the beginning of the year.

***Proposed implementation:***

From January 2019 onwards.

## II. Explanatory text

Users of inflation data, especially central banks, want to analyse the drivers of inflation. In this context, a key distinction is between prices that are driven by market forces and prices that are, in varying ways, influenced by government decisions. Governments influence the prices of consumer goods and services to varying degrees and by different means. This can be done by directly determining prices, through various market or product regulations, or through taxes or subsidies.

Two satellite indices to the harmonised index of consumer prices (HICP) have been constructed to analyse government influence on inflation:

- The HICP at constant tax rates (HICP-CT), which is an index based on prices where the rates of taxes on products are kept at the level of December of the previous year. When compared with the HICP, the HICP-CT shows the potential impact of changes in indirect taxes (e.g. VAT and excise duties) on the sub-index in question.
- The harmonised index of administered consumer prices (HICP-AP) measures the development of product prices where the level of the prices is influenced by the government. It is a sub-set of the HICP that includes ECOICOP sub-classes for which prices are set or significantly influenced by government.

The HICP-AP is an index which, together with the HICP-CT, is intended to help analyse different drivers of inflation. It should be kept in mind that they can only make a first-step contribution to a better understanding of inflation drivers, since many price changes are complex combinations of government and market influences.

The concepts of HICP-CT and HICP-AP are quite different: HICP-CT includes all ECOICOP product groups without exception, where rates of taxes and excise duties are kept constant. HICP-AP is an index of a selection of product groups that are, to some extent, administered by government. The HICP-AP and HICP-CT indexes are complementary in the sense that they are designed to demonstrate different aspects of government influence in the process of price formation. This means that a specific effect should be included in only one of the two indexes and never in both.

The two indices look at different ways the government can influence prices: the HICP-CT via taxes on products and the HICP-AP via other means. Any government influence linked to taxes on products (e.g. VAT or excise duties and levies) should be dealt with in the HICP-CT and not in the HICP-AP.

If the level of price subsidies is significant, a significant government influence can be assumed in the majority of cases.

Following the entry into force of Regulation (EU) 2016/792 on harmonised indices of consumer prices and the house price index, the compilation of the HICP-AP can be based on the five-digit instead of the four-digit level of the European ECOICOP. As a consequence, the

national statistical institutes should adapt accordingly their lists of sub-indices that are considered as mainly or fully administered.

The status of ECOICOP categories may change over time for various reasons. Prices which were administered may become deregulated and, conversely, market prices may become administered. It is therefore necessary to update the composition of the HICP-AP over time. In order to minimise market influence on the HICP-AP, only products that are subject to price regulation throughout the calendar year should be included in the HICP-AP. Therefore, products which change status during the year from administered to non-administered or for which administration is introduced later in the year should not be included, as their prices are set on the market for at least a part of the year. However, in some cases this change is not known at the time of the update. In these cases, the HICP-AP should be revised back to the beginning of the year as soon as the change is known, or at the latest during the yearly review.

### III. Annex: Significance of governmental influence - Examples

Institutional setting	Instrument	Influence?	Administered?
Market participant on behalf of government	Price setting by law or governmental fee schedule	Price directly set by the government	Fully administered
Market participant on behalf of government	Price set by the provider according to rules of a statute (e.g. prohibition to earn profit)	Significant influence on the price	Mainly administered
Provider with public bodies/shareholders	Government participates in the price setting procedure	Significant influence on the price	Mainly administered
Provider with public bodies/shareholders	Shareholders have general supervision mandate	No significant influence on the price	Not administered
Regulation of an individual provider with market power or regulation of the whole sector	Approval/permission of price by regulatory authority	Significant influence on the price	Mainly administered
Regulation of an individual provider with market power or regulation of the whole sector	Regulation of price approval procedure	No significant influence on the price	Not administered
Regulation of an individual provider with market power or regulation of the whole sector	Prescription of a mechanism for price setting that immediately triggers price changes (e.g. indexation required by law)	Significant influence on the price	Mainly administered
Regulation of an individual provider with market power or regulation of the whole sector	Regulation of a procedure of implementing price increase	No significant influence on the price	Not administered
Regulation of an individual provider with market power or regulation of the whole sector	Price floors/caps set as absolute price limit	Significant influence on the price	Mainly administered
Regulation of an individual provider with market power or regulation of the whole sector	Relative price floors/caps connected to other products	No significant influence on the price	Not administered
Subsidies on products	Permanent/long-term to secure the provision of a product at low price	Significant influence on the price	Mainly administered
Subsidies on products	Short-term	No significant influence on the price	Not administered