

## Experimental HICP-based estimates of administered prices in the euro area

### 1. Introduction

The ECB compiles and publishes, on an experimental basis, monthly HICP-based estimates of administered prices for the euro area. These estimates aim to show the development of a subset of prices in the HICP basket that are either directly set or significantly influenced by the government via measures other than changes in indirect taxes. They are compiled using the most detailed HICP sub-indices published that are considered to cover administered prices in the country concerned, following a standardised definition. The estimates can only provide an approximate measure of price administration since changes in administered prices cannot be fully isolated from other influences. For further details of the compilation of HICPs and their dissemination by Eurostat, see the Eurostat HICP website ([http://epp.eurostat.ec.europa.eu/pls/portal/url/page/PGP\\_DS\\_HICP](http://epp.eurostat.ec.europa.eu/pls/portal/url/page/PGP_DS_HICP)).

### 2. Definition of administered prices

According to the definitions used, administered prices cover all goods and services whose prices are included in the HICP and are fully (“directly”) set or mainly (“to a significant extent”) influenced by the government (central, regional, or local government including national regulators).

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

Mainly administered prices cover the prices of goods and services on which the government or another national regulator has a very significant influence. These may include, for example, prices that cannot be changed without the prior approval of a national regulatory authority. The influence of such decisions may have a direct bearing on retail prices or it may be indirect via wholesale prices. However, the regulator must have a very significant impact on the consumer price.

Owing to the many borderline cases that the concept of administered prices inevitably involves, a number of conventions have been used to guide the implementation of the general definition (see Annex 1). Prices that are only influenced by the government via indirect taxation (VAT, excise taxes, etc.) are not considered to be administered. Eurostat intends to publish a separate index that excludes the impact of changes in indirect tax rates on the HICP.

### **3. Compilation of the euro area estimates**

The estimates of administered prices are compiled by the ECB based on the HICP sub-indices and weights as published by Eurostat. The euro area results are based on an assessment of national price administration practices for the goods and services contained in each of the 93 detailed HICP sub-indices.

Consumer goods and services may become administered or may be deregulated over time. In line with the HICP index formula, changes in the composition of administered prices are introduced annually in January. The new data for the year, including such changes, are then linked to the December index of the previous year.

A detailed breakdown of the current composition of estimates for the euro area is set out in Annex 2.

### **4. Caveats to the interpretation of results**

The HICP-based estimates of administered prices can only be a supplementary tool for economic analysis and are not intended to replace a detailed analysis of single price changes in the HICP and their causes. There may also be various other (non-policy) reasons, including market developments, for changes in the prices of administered goods and services. This is particularly true for certain groups in the category of *mainly* administered prices. World energy prices and technological progress, for example, have a significant influence on the price developments of many goods and services, although in most cases it is not possible to distinguish between these factors. As a result, changes in the HICP-based estimates of administered prices can only provide an approximation of price changes due to administrative decisions and should be interpreted with caution. In addition, these data are currently published on an experimental basis and may be subject to future developments, also based on feedback from users.

### **5. Access to data**

The data for the euro area are included in the ECB's Statistical Data Warehouse, which can be accessed via the ECB website (<http://sdw.ecb.int/>). The following series are available as both indices (2005 = 100) and item weights (expressed as parts per thousand in the overall HICP):

- Overall HICP excluding administered prices
- Administered prices
- Fully administered prices
- Mainly administered prices

A table with the most recent data can be accessed at: <http://sdw.ecb.int/reports.do?node=100000723>

For further information please contact the ECB Statistics hotline at [statistics@ecb.int](mailto:statistics@ecb.int).

## **Annex 1 - Supplementary explanations and conventions for the definition of administered prices**

Covered in the definition of administered prices are:

- Price changes approved by government and other national supervisory authorities. This may be particularly the case of network industries (e.g. telecommunications services by fixed-line providers or postal services) and some insurance prices in a number of countries; the supervisory authority's decisions are explicitly taken with the objective of influencing consumer prices, although these may only be indirectly affected through changes in producer prices;
- The effects of restriction in the consumer price level (price caps/price floors), if binding;
- The effects of “permanent” (e.g. long-term) restrictions on consumer price changes;
- Social rents offered at a heavily subsidised price level to, for example, low-income households<sup>1</sup>;
- Fixed Government-set fees for health, education and social services in so far as covered in the HICP basket.

In all such cases, the general definition in Section 2 must apply; namely that prices are fully set or significantly influenced by the government.

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 and petrol)).
- 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 European Union. These regulations mainly have an influence on food products at an intermediate stage and therefore their impact on consumer prices 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 or changes in insurance gross premiums to the overall HICP/CPI or to other price indices, or the linking of gas prices to developments in oil prices, should normally not be considered administered prices, since these are contractual agreements that aim to simplify price adjustments rather than a government control of price changes;
- The effects of “transitory” restrictions on consumer price changes, i.e. restrictions that are not “permanent” (e.g. restrictions in place in some countries around the time of the changeover to the euro).

For telecommunications the following conventions have been adopted:

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<sup>1</sup> Current data availability does not allow a split between social and private rents, and therefore social rents are currently excluded in most countries.

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

Annex 2 - Overview of sub-components and weights included in the estimates of euro area administered prices (percentage of overall index in 2009)

COICOP code	Description	euro area weights (see footnote)	Number of countries included
<b>Non-energy industrial goods</b>			
044100	Water supply	0.75	16
061100	Pharmaceutical products	1.15	11
0612_3	Other medical products, therapeutic appliances and equipment	0.15	4
095100	Books	0.01	1
<b>Energy</b>			
045100	Electricity	1.18	10
045200	Gas	0.98	7
045300	Liquid fuels	0.00	1
045500	Heat energy	0.04	3
<b>Housing</b>			
0411_2	Actual rentals paid by tenants including other actual rentals	0.44	4
044200	Refuse collection	0.53	14
044300	Sewerage collection	0.43	15
044400	Other services relating to the dwelling n.e.c.	0.17	1
<b>Transport</b>			
072400	Other services in respect of personal transport equipment	0.07	7
073100	Passenger transport by railway	0.25	11
073200	Passenger transport by road	0.35	15
073300	Passenger transport by air	0.02	1
073400	Passenger transport by sea and inland waterway	0.04	4
073500	Combined passenger transport	0.46	10
073600	Other purchased transport services	0.00	1
125400	Insurance connected with transport	0.01	1
<b>Communication services</b>			
081000	Postal services	0.10	14
083000	Telephone and telefax services	0.13	1
<b>Recreation and personal</b>			
094100	Recreational and sporting services	0.00	1
094200	Cultural services	0.51	4
111200	Canteens	0.00	1
<b>Miscellaneous</b>			
0621_3	Medical and paramedical services	0.63	7
062200	Dental services	0.34	6
063000	Hospital services	0.43	7
100000	Pre-primary, primary, second., etc. & educ. not def. by level	0.56	8
124000	Social protection	0.78	7
125300	Insurance connected with health	0.03	2
127000	Other services n.e.c.	0.20	4
Total administered prices weight in the overall HICP		10.7	-

Note: estimates of euro area administered prices are weighted aggregates of national administered price indices. The euro area weights are calculated by multiplying the weight of the sub-index in each country in which the item is considered to be administered by the corresponding country weight. Since, for any one sub-index, prices may be administered in only a subset of euro area countries, the weights in this table will generally be smaller than the euro area sub-index weights published by Eurostat.