BOX 2

IMPACT OF HIGHER ENERGY PRICES ON INFLATION AND HOUSEHOLD CONSUMPTION

In the beginning of 2019, electricity and gas prices posted a year on year increase of 15% and 13% respectively. Such annual growth of electricity prices is the largest in almost a decade, while that of gas prices – in six years. However, one should note, that the administrative price tariffs for household consumers are recalculated twice per year. Both gas and electricity administered prices consist of regulated and unregulated price parts. The National Commission of Energy Control and Prices (NCECP) regulates only a regulated part of prices. Another part of prices is unregulated and depends on market conditions. This year, the increase in prices of these energy products was mostly driven by the growth of the unregulated part of gas and electricity prices due to external factors. For example, the growth of the unregulated part of electricity prices was likely affected by the lower electricity production volume of the Scandinavian hydroelectric power plants on account of unfavourable weather conditions. Electricity prices also rose partly as a result of disrupted supply, for example, from repairs of Scandinavian power plants and electricity supply links, as well as due to compensations for servitudes. Earlier increase in oil prices and strengthening global demand significantly contributed to the upturn in gas market prices. These price developments are likely to push up the annual inflation by about 0.2 percentage point. In the first half of 2019, the price developments of these energy products are expected to remain relatively stable. However, it is quite difficult to make a longer-term forecast since fluctuations of electricity prices also significantly depend on weather conditions, whereas of gas prices – on the global supply and demand. Compared to last year, however, it is expected that gas prices on the market may be lower this year, amid rapid growth in global supply and expected decrease in oil prices.

The anticipated gas and electricity price growth in the first half of this year may have a minor negative impact on household consumption development. According to the latest data, household expenditure for electricity, gas and other fuel accounts for only slightly more than 4% of total household expenditure, whereas expenditure for only electricity and gas – half as much. Thus, the projected gas and electricity price increase would only somewhat reduce household consumption growth. According to the Bank of Lithuania projection, this impact would account for less than 0.2 percentage point.

Some households are likely to be affected by the gas and electricity price growth more than others. An average household consumes the largest share of electricity for lighting and electrical appliances (see Chart A), therefore, the majority of households will be affected by the rising prices quite similarly. However, those households that use gas for heating will be affected by higher gas prices to a larger extent. The volume of gas consumed for this purpose in Lithuania is significant – it accounts for about two-thirds of the total volume of gas consumed by households. In Lithuania, about a tenth of households using natural gas use it for heating.

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6 These price parts change each six months, when prices are reviewed. For example, according to the data from NCECP, this year the unregulated electricity price part comprises 44%, whereas the regulated part makes up 56%, exclusive of VAT.
7 Compensations for servitudes are paid for the installed or planned to be installed electricity equipment or distribution networks, for example, in the land that does not belong to the operator.
An average household mostly uses electricity for lighting and electrical appliances, and gas – for heating.

Chart A. Household electricity and gas consumption in 2017

Sources: Statistics Lithuania and Bank of Lithuania calculations.