

Czechia: New measures to reduce the financial distress of households resulting from the current energy crisis

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Due to the collapse of some energy suppliers and the rise in energy prices since the last quarter of 2021, the government prepared a reform of the housing allowance, which was voted through at the end of January 2022. The main points of the reform consist in a one-off extension of the number of beneficiaries and greater flexibility in the parameters of the benefit. A few months after its introduction, we can better assess its adequacy and effectiveness in the context of actual price increases. The current high level of non-take-up of this allowance might hinder its impact. The government has promised to simplify access to the benefit. In response to rising inflation, the government has announced further social benefits.

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Description

Energy prices (gas, electricity) rose sharply in the last quarter of 2021. The problem escalated massively due to the closure of some major energy suppliers and the subsequent switch of clients to new suppliers or a supplier of last resort, at significantly higher prices. This problem affected about 1 million clients at that time and was expected to increase in 2022 (an expectation that was later confirmed; see below).

The housing allowance (HA) is the standard measure used to address the rising costs of energy. However, it cannot reflect rapidly and adequately such a steep increase in household energy costs. Indeed, according to the legislation (Act No. 117/1995 on State social support), it takes a year for increased costs to be reflected in the parametric setting of the HA (Minister for Labour and Social Affairs [MLSA], 2022a).

The government has therefore decided to amend the relevant legislation to allow a one-off change to the parameters of the HA calculation for 2022. The Parliament approved the amendment on 20 January 2022. It increased the normative housing costs, i.e. the maximum amount of housing costs on which the HA is calculated and which depends on tenure, size of household and size of municipality; in 2021, it varied from 4,932 CZK/€197 to 20,077 CZK/€803) It also expanded the range of eligible persons, and empowered the government to adjust the HA parameters by government decree in the event of a significant change in energy prices in 2022.

The increase in the HA level ranges from 1,120 CZK/€45 to 2,147 CZK/€86,

depending on the number of persons in the household and the type of housing. It is based on the projected average increase in energy prices in 2022. According to the Energy Regulatory Office, electricity prices will increase by about 37% and gas prices by 40% on average by the end of 2022. These figures are in line with results from PAQ Research (2021) (PAQ is a sociological research organisation), which show that the housing costs of a single-person household eligible for HA may increase by 1,300 CZK/€52 in 2022. The problems fall most heavily on low-income households, mostly pensioners and single parents. Their options to deal with the situation are limited (increase their income through work activity, invest in reducing energy consumption, etc.) (MLSA 2022a).

The total cost of the measures is estimated at between 2.56 billion CZK/€102 million and 2.98 billion CZK/€119 million annually (MLSA 2022a).



Outlook and commentary

Using the Czech SILC 2020 data, we assessed the impact of energy price increases on residual income. We defined residual income as disposable income after deduction of the household's housing costs and the household's basic subsistence amount (defined by the government as the minimum amount necessary to meet the basic needs of the household, taking into account its size and composition). Our simulation shows that on average there will be a 12% decline in the residual income of Czech households, and the share of households with negative residual income will increase from 2.1% to 5.7%. However, the distribution is uneven. Households in the first and second decile groups are affected the most. The impact

is negligible for households in the higher decile groups. The dependence on HA will increase for households in the lowest two decile groups. At the same time, there will be a greater variation in residual income within Czech society.

The number of households that will benefit from the measures is uncertain. According to PAQ Research (2021), about 16% of households were eligible for HA under the previous conditions, but only 4% claimed it. This means that around half a million households do not claim the benefit. Households often report that they have not needed it yet, do not know about it or do not want to claim it. However, as energy prices rise, the need and willingness to claim the HA may increase.

Heavy administrative burden is one reason behind the low take-up of HA. An applicant must submit approximately 14 different documents, many of which must be submitted four times a year to maintain eligibility for the benefit (the household has to provide detailed (printed) evidence of their housing costs and composition of household income). The Minister for Labour and Social Affairs is aware of this problem and declared that: "At a time of rising energy prices, the HA is growing in importance, so simplifying this HA is key. People should not be put off by unnecessary red tape. If they demonstrably need help, they should be able to get it easily." (MLSA, 2022b). Simplification of the HA application has been prepared and is awaiting completion of the legislative process. It will include extending the period for which the benefit is obtained (from the current 3 months to 6 months), simplifying

the means of demonstrating housing expenses (the possibility to take photos with a mobile phone) and removing the obligation to provide evidence of income, which the authorities can find out themselves. (CPA 2022)

The effectiveness and appropriateness of the new measure will depend on the accuracy of the estimates of the magnitude and frequency of energy price increases. According to Lukáč (2022), between 2020 and 2022 the price of electricity increased by around 50% for customers who have an ongoing contract with their suppliers, but households that were forced to switch from their original failed suppliers to other suppliers are paying 150% more than they used to. In the case of gas supply, the price has increased even more significantly (by between 100% and 300%). Most recent sources suggest that if a household heats with electricity, its heating costs in 2023 will be almost 2.5 times those of 2021. And if it heats with gas, they will almost triple (Government, 2022). These numbers are far higher than those from PAQ Research (2021), which were used to justify the measure. Moreover, the Czech inflation rate (the year-on-year price level change reached 14.2% in April 2022) suggests that managing the social impact of the current rise in prices of goods and services will require much more extensive social policy measures. The government has recently announced other measures to offset the impact of inflation – e.g. a one-off allowance of 5,000 CZK/€200 per child for lower- and middle-income families, greater flexibility of the parental allowance, support to part-time work, and better support for foster parents (MLSA, 2022b).

Further reading

Czech Press Agency (CPA) 2022. [Sněmovna schválila zjednodušení pravidel u příspěvku na bydlení](#) [*House of Commons approves simplification of rules for housing allowance*]. 24 June 2022.

Government 2022. [Vládní návrh zákona kterým se mění zákon č. 458/2000 Sb., o podmínkách podnikání a o výkonu státní správy v energetických odvětvích. Důvodová zpráva. Sněmovní tisk č.259/0](#) [*Government bill amending Act No. 458/2000 Coll., on the conditions of business and the exercise of state administration in the energy sectors. Explanatory memorandum. Parliamentary print No. 259/0*].

Lukáč, P. 2022. [Jaký tarif si vybrat, když vám skončí fixace? Z velkých hráčů má nejlevnější elektřinu E.ON, u plynu vede Innogy](#) [*Which tariff to choose when your fixed term period ends? Among the big players, E.ON has the cheapest electricity, Innogy leads in gas*].

MLSA 2022a. [Důvodová zpráva k návrhu zákona, kterým se mění zákon č. 117/1995 Sb., o státní sociální podpoře](#) [*Explanatory memorandum to the bill amending Act No. 117/1995 Coll., on State Social Support*].

MLSA 2022b. [Rodiny dostanou 5 tisíc na dítě, zjednoduší se příspěvek na bydlení. Vláda schválila i další návrhy MPSV](#) [*Families will receive 5,000 CZK per child, the housing allowance will be simplified. The government also approved other proposals of the MLSA*]. Press release. 1 June 2022.

PAQ Research 2021. [Dopady zdražení energií a reforma příspěvků na bydlení 15. 12. 2021 Analýza PAQ Research a IDEA s podporou Akademie věd ČR](#) [*Impact of energy price increases and reform of housing allowances, 15 December 2021, PAQ Research and IDEA analysis with the support of the Czech Academy of Sciences*].

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