

REFLECTION OF THE PHENOMENON OF ENERGY POVERTY IN THE ECONOMIC AND SOCIAL POLICY OF THE STATE AFTER THE START OF THE THIRD DECADE OF THE 21ST CENTURY

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Abstract

At the time of the energy crisis after the start of the third decade of the 21st century, energy poverty is a very important topic that is being addressed across Europe. It is the result of a combination of negative situations, such as low incomes, high energy prices or low energy effectiveness of buildings. This is a highly undesirable socio-economic phenomenon that can lead to threats to physical or psychological health or social exclusion and isolation. The issue of the aforementioned poverty came to be denied the interest of the economic and social policy of the European Union relatively recently, in connection with the necessity to mitigate the effects of the energy transformation on the most vulnerable parts of the population. In the second half of 2021, in connection with the economic recovery after the COVID-19 pandemic, there was a record increase in energy prices, the growth of which was further accelerated by the event of February 24, 2022 – the military aggression of the Russian Federation in Ukraine. Energy poverty and the related protection of vulnerable customers is thus an extremely topical topic for the state's social policy after the start of the third decade of the 21st century.

Key words: energy crisis, energy poverty, protection of vulnerable customers

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Introduction

The aim of the article is to point out the phenomenon of energy poverty on the example of the Czech Republic through an interdisciplinary approach of interested social sciences, especially economics, economic and social policy. The starting point is the importance of energy as a fundamental factor in the country's economic development and a force for sustainable development (economically viable, needs-oriented, self-sufficient and environmentally friendly), which is gaining more and more importance (Šetek & Petrách, 2017; Yildizbasi, 2021). For this reason, the energy sector must constantly transform and adapt to changing

conditions. On the other hand, it must be noted that changes in energy affect people's lives, in various areas such as agriculture, industry, transport, urbanization, quality of life, environment, etc. (Šetek, 2015). It can therefore be stated that the unprecedented energy crisis that the European Union has been facing since the beginning of the third decade of the 21st century clearly shows the need to adjust the structure of the strategic energy commodity market so that this market brings the benefits of affordable energy to everyone. Energy poverty is a term widely used since the 1990s to describe an obstacle to wealth growth in developing regions (Woods & McDonagh, 2011). Limited access to modern energy solutions, such as a stable and affordable source of electricity, rural electrification, the possibility of using electricity in production or heat supply, prevented them from achieving a better quality of life. In a figurative sense, energy poverty refers to a situation where unavailable energy limits people's well-being. At the time of the energy crisis at the beginning of the 3rd decade of the 21st century, the mentioned phenomenon of poverty is a very important topic that is being addressed across Europe.

1 Processing methods

With regard to the specifics of monitoring the issue of energy poverty, an interdisciplinary approach of the interested social science disciplines of economics, demography, sociology, economic and social policy theory is applied. At the same time, applications of analysis, synthesis and deduction methods prevail. The analysis is based on a specific criterion that allows the phenomenon under investigation to be broken down from the point of view of the target being pursued. The application of analytical methods will thus make it possible to know the aspects of the monitored phenomenon. By using the synthesis method, a comprehensive idea of the investigated phenomena is created on the basis of the established criteria, the mutual processes and relationships between the individual aspects of the investigated phenomenon, and thus the overall nature of the phenomena, are revealed. On the basis of deduction and deductive inference, a conclusion based on strategic recommendations is drawn under certain assumptions.

2. Results

2.1 Default philosophy to the issue

The current state and development trend of human society in the national and global dimensions is characterized by a high demand for energy consumption, especially in

industrially and economically developed countries. The increase in consumption is also noticeable in rapidly developing countries in East Asia, especially China, India and the countries of South America (Šetek, 2018). All this contributes to the price growth of energy commodities on world markets, with a corresponding impact on the macroeconomic performance of national economies, businesses and consumers. From a macroeconomic point of view, energy price growth directly affects items in the consumer basket, such as spending on fuel, gas, heat, electricity, or solid fuels. From a microeconomic point of view, it stimulates the growth of business costs, which results in other pro-inflationary effects on the development of producer prices and consumer prices. Increasing expenditure on energy, as a necessary item of consumption, naturally means a change in consumption expenditure with a subsequent change in the structure of aggregate demand. Energy price growth thus stimulates pro-inflationary pressures often accompanied by a decline in economic activity (Balaman et al., 2018).

At the beginning of the 1990s, a tolerant dialogue about the definition of the national interest took place in the Czech professional public. State power is considered an integral part of it, which in a modern society must rely on internal stability with due care for economic security by expanding access to resources, finance and markets (Koirala et al., 2016). From the point of view of strategy, this is macroeconomic stability, an important indicator of which is the price level. The Czech economy is characterized by a high degree of openness, a high degree of dependence on the import of energy raw materials and a small internal market (Šetek & Petrách; 2016). Economic policy is clearly aimed at supporting economic growth, price stability and substantially increasing the transparency of the economic environment and all social relations, which significantly contributes to the creation of a liberal, competitive market economy. Social policy creates a comprehensive system of all-round protection, support and assistance to interest groups of the population in the framework of preventing the occurrence of pathological events of poverty and social exclusion. One of the main determinants of these undesirable events is price increases of energy commodities (mainly electricity and thermal energy).

2.2 Analysis of the phenomenon of energy poverty in the Czech Republic

The production and sale of energy commodities within the national economy is one of the most watched areas of the economic policy of each state. The basic starting document for the Czech Republic in the mentioned issues is the State Energy Concept under the guarantee of

the Ministry of Industry and Trade of the Czech Republic. The basis for its creation is the analysis of the energy base. Within the framework of the national economy, this represents the monitoring of raw energy commodities, production, distribution, energy infrastructure and final consumption of energy commodities. Social policy regulates potential risks associated with price growth of energy commodities.

The second half of 2021 was marked by significant price increases throughout Europe. This also applied to the Czech Republic and Slovakia, even though at that time they were more like the growth average of the entire Union. In the Czech economy for December 2021, the harmonized index of consumer prices (i.e. the inflation indicator according to the Eurostat methodology) reached 5.4% year-on-year and the Slovakian 5.1%, compared to an average of 5.3% for the entire European Union, 5.0% in the Eurozone (Czech Statistical Office; 2022). However, already in January 2022 in the Czech economy, the mentioned index rose to a value of 8.8% and the Slovak one very similarly to 8.5%, while for the Eurozone and the entire European Union it was a value of 5.1% (Czech Statistical Office; 2022). From the beginning of 2021, the inflationary growth in Europe was mainly driven by energy prices, initially by the price increase of fuel, followed by electricity and, from the second half of 2021, also by gas. When comparing individual national economies, these price increases were quite uneven in terms of intensity and timing. This is clearly demonstrated by the prices of energy for housing (electricity and thermal energy, gas), which showed the highest year-on-year growth in December 2021 in Estonia (by 77.8%), the Netherlands (by 74.9%), Belgium (by 57.4%) and in Spain (by 54.8%), on the contrary in Slovakia (a decrease of 3.9%) and in the Czech Republic (as a result of the temporary remission of value added tax, even a decrease of 8.5%).

Based on the analysis of the year 2021 (the year before the beginning of the war crisis), it was fundamentally not the case that residents of the Czech Republic in municipalities of a certain size category would be more at risk of energy poverty compared to the population of other municipalities (e.g. that energy poverty would be more common among people in small municipalities, or on the contrary among people living in big cities). The share of people in energy poverty in municipalities of different sizes is equal to their share in the entire population. However, the representation of people in rental apartments among people in energy poverty is significantly higher than would correspond to their share in the population. While only 16% of all residents of the Czech Republic live in rented apartments, the number of people living in energy poverty is almost three times that (46%), as shown in Table 1.

Tab 1: People in energy poverty by type of housing, legal relationship to housing and size of the municipality where they live (in 2021) in the Czech Republic

Way of living	Total (in %)	Small villages up to 2 thousand population (in %)	Municipalities of 2-10 thousand population (in %)	Cities 10 - 50 thousand population (in %)	Large cities over 50,000 population (in %)
Owned house, head of household under 70 years old	23	12	4	4	3
Owned house, head of household over 70 years old	8	4	2	1	2
Owned apartment	15	1	3	4	6
Apartment for rent	46	3	8	13	23
Other (living with relatives, etc.)	8	3	3	1	1
In total	100	23	19	23	35

Source: Czech Statistical Office. Income and living conditions of households 2022, Ministry Industry and trade, Energy Council regulatory office. 2022 and own processing.

Dramatic changes of price in energy commodities took place in the Czech economy from January 2022. This was also the fundamental return of the inflation level of the Czech economy to the historically more usual leading places in the European ranking. In this one month alone, consumer prices increased by 3.4% month-on-month (Czech Statistical Office; 2022). In comparison, within the modern history of the Czech economy (since the division of the federation), a higher month-on-month growth was recorded only in January 1993, in connection with the introduction of value added tax. The only exception was the year 2008, with annual inflation of 6.3% caused by administrative interventions in the form of an increase in value added tax and the introduction of fees in the healthcare sector. It can therefore be stated that after the end of the transformation of the economy in the 1990s, inflation stabilized at annual values in the range of 2-3%. In the annual cumulation, consumer prices rose by 9.9% in January 2022 compared to January 2021 (Czech Statistical Office; 2022). Moreover, as a result of the events of February 24, 2022 - Russian aggression against Ukraine and the subsequent use of natural gas supplies as a "weapon of war" - prices of

strategic energy commodities reached an all-time high. It is mainly a consequence of the reality of the direct connection between the wholesale price of electricity on the internal market of the European Union and the price of gas, which is mostly imported into the mentioned region. The deliberate reduction of gas supplies by Russia is the main cause of the sharp increase in gas prices in the EU area, which had an impact on the price of electricity produced in gas-fired power plants and affected electricity prices in general. As a result of the mentioned event, the price of energy within the European Union area was expected to continue to be high in the coming months, as it took some time to secure replacement supplies for Russian gas with supplies from EU sources. For this reason, EU countries have adopted emergency intervention regulations to address the high price of energy and help consumers and businesses most affected by the energy crisis. The new rules were quickly adopted by the energy ministers of the EU countries in the Council. The regulation, which was in force from December 1, 2022 to March 31, 2023, complemented the existing initiatives and legislation of the European Union with the aim of ensuring the security of energy supply for it, such as the regulation on the creation of natural gas reserves, the regulation on the reduction of gas demand, the creation of a European Union platform for the purchase of energy and cooperation initiatives aimed at diversifying sources of supply.

2.3 Energy poverty reduction tools in the Czech Republic

Article 28 of Directive (EU) 2019/944 of the European Parliament and of the Council of 5 June 2019 on common rules for the internal market in electricity and on the amendment of Directive 2012/27/EU obligates Member States to define the term vulnerable customers so that there are sufficient safeguards to protect them. This is followed by the obligation to take measures ranging from instruments based on the principles of the market mechanism to the provision of social benefits, which will ensure the necessary supplies to vulnerable customers.

The basic tools for reducing energy poverty include the environment of the market mechanism, which consists not only of the state, but of every participant in the energy market. Therefore, in addition to state institutions, distributors, suppliers, customers and several other entities also play an important role here. These are certain proposals and rules that regulate how and under what circumstances energy is bought, sold and distributed, which should ideally ensure the efficient and fair operation of the energy market. The main goal of a market economy is balancing supply and demand, where the energy market includes interaction between producers (power plants) and consumers (households, industry). When this goal is

met, the market equilibrium will be reached, which is a state where the supply equals the demand, which is extremely difficult, and it is the market mechanisms from the state that help to maintain the balance between the supply and demand for energy.

Capping energy prices is used in times of sudden price fluctuations, which can be caused by too high demand, energy shortages on the market or, for example, geopolitical events, as happened in February 2022, when Russia, as one of the world's largest producers of natural gas, attacked Ukraine and crippled the global electricity and natural gas market. This caused a disproportionately high increase in prices on the stock exchanges, and the state therefore had to act to protect its population and used this market mechanism to prevent the increase in energy poverty. It can therefore be argued that this measure was only used in times of energy crisis to prevent the deepening of energy poverty. Without a doubt, market mechanisms are among the most basic tools that can be effective in the fight against energy poverty. What is interesting about them is that they are not only made up of the state, but of every participant in the energy market. Therefore, in addition to state institutions, distributors, suppliers, customers and several other entities also play an important role here. These are certain proposals and rules that regulate how and under what circumstances energy is bought, sold and distributed, which in ideal conditions should ensure the efficient and fair operation of the energy market (Šetek et al., 2022).

Even before the regulation that introduced the price cap for 2023 was approved, the cost-saving tariff helped with disproportionately high electricity prices in the second half of 2022. This is again aid from the state, when this tariff takes the form of a subsidy, which is given to the energy supplier for each entity that is entitled to it. The electricity and gas bill that the given household has will be reduced by the amount of the subsidy that was set. The right to obtain a savings tariff was very simple and every household that was a consumer of gas, electricity or heat received these subsidies. Specifically, it was an amount of 2,000 or 3,500 CZK, depending on the distribution rate, which was again an extremely high unexpected expense for the state budget. In addition, this tariff was applied to all households even without an application, which caused the subsidy to be added to households that did not even need it.

Social benefits to persons at risk of energy poverty are provided within the second and third pillars of the social security system. Within the framework of the second pillar (state social support) there is a housing allowance, which is a claim-tested benefit. It means that the contribution does not belong to everyone automatically, but on the basis of an application,

when the applicant must attach the actual total income situation of the household. The benefit is granted provided that housing costs are higher than 30% of net income and at the same time 30% of net income does not exceed the amount of normative housing costs, which change every year, according to the number of household members and the size of the municipality. As part of the third pillar (social assistance benefits), this is a supplement for housing and at the same time a living allowance, without which the first benefit cannot be reached. The housing supplement essentially solves the insufficient income of a person or household in connection with the payment of housing costs. Its goal is to provide financial assistance to persons in material need and to prevent social exclusion due to the inability to pay for housing.

Conclusion

Energy is not only strategic from the point of view of national security and a functioning economy. It is important to realize that the standard of living of the population depends on energy. Each individual strives to achieve some kind of personal energy security (Lucas et al., 2016). If states perceive energy as a strategic sector at the macro level, it is logical that they approach it similarly at the micro level (Gökgöz, & Güvercin; 2018). States consider these intentions, for example, in the environment of social policy. They realize that if the state provides its residents with a certain level of well-being, they will reduce undesirable phenomena and contribute to general well-being.

The Czech Republic has a comprehensive social policy based on conservative and social-democratic traditions. The state is paternalistic and within social consciousness it is understood as the guarantor of social policy. In contrast, consumer protection is conceived in a strongly liberal way with an emphasis on the functioning of market principles. The common point is the universalistic concept of both areas. An important feature of consumer protection in the energy industry in the Czech Republic is the fact that it is not codified in the Czech legal system. The energy consumer is thus legally protected by general consumer protection.

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