

EUROPEAN CENTRAL BANK

OPINION OF THE EUROPEAN CENTRAL BANK

of 14 July 1998

at the request of the Council of the European Union under Article 5(3) of Council Regulation (EC) No 2494/95 of 23 October 1995 and Article 109l(2) of the Treaty establishing the European Community (hereinafter referred to as the 'Treaty') on a proposal for a Council Regulation (EC) amending Commission Regulation (EC) No 1749/96 concerning the coverage of goods and services of the Harmonised Index of Consumer Prices and on a proposal for a Council Regulation (EC) amending Commission Regulation (EC) No 1749/96 concerning the geographic and population coverage of the Harmonised Index of Consumer Prices

(CON/98/34)

(1999/C 285/07)

1. On 3 July 1998 the European Central Bank (hereinafter referred to as the 'ECB') received a request from the Council of the European Union for an opinion on a proposal for a Council Regulation (EC) on each of the abovementioned topics. A document with reference number COM(1998) 323 final, which contains the two Draft Council Regulations (EC), was also transmitted to the ECB. The services of the Council of the European Union also transmitted a document dated 25 June 1998 with reference number 9871/98, which presents the current status of discussions on this matter. The ECB's opinion is based mainly on the second document.
 2. In accordance with Article 109l(2) of the Treaty, the ECB has taken over the advisory functions of the European Monetary Institute, which went into liquidation upon the establishment of the ECB on 1 June 1998. The ECB's competence to deliver an opinion is based on Article 5.3 of Regulation (EC) No 2494/95.
 3. The two Draft Council Regulations (EC) concern the extension and harmonisation of the coverage of the Harmonised Index of Consumer Prices (hereinafter referred to as the 'HICP'). The ECB considers it to be essential that it should be possible to calculate meaningful changes in the HICP and its sub-indices when coverage of the HICP is extended in December 1999 in line with the two Draft Council Regulations (EC). The ECB therefore strongly supports the request made by the Commission of the European Communities that Member States should provide sufficiently comparable data covering at least each of the preceding twelve months.
- A. Draft Council Regulation (EC) concerning the coverage of goods and services of the HICP (hereinafter referred to as the 'First Draft Regulation')**
4. The objective of the First Draft Regulation is to extend the initial coverage of the HICP in December 1999 to health, education and social services in particular. Furthermore, harmonisation measures and additions to the coverage of some items are proposed which are only partly covered or which are not covered in a fully harmonised manner by the initial HICP.
 5. The First Draft Regulation concerns categories of consumption for which different theoretical concepts can provide meaningful results depending on the objective of the price analysis undertaken. The First Draft Regulation defines the concept of 'household final monetary consumption expenditure' as a framework for the HICP. In accordance with this definition, expenditure and prices are to be measured net of any reimbursements or subsidies households receive from the government sector or from non-profit institutions serving households (hereinafter referred to as 'NPISH'). As the concept reflects prices which are actually paid by consumers and inflation as perceived by consumers, this is an appropriate concept for a *consumer* price index. One conceptual advantage of the proposal is the definition of household consumption expenditure according to the distinction between the household sector and the government and NPISH sectors as drawn in ESA 95. This helps to strengthen the link with national accounts statistics. Finally, a further advantage of the proposal is that its implementation in a very difficult field of price measurement would be relatively straightforward, this being particularly important for the measurement of *monthly* price changes.
 6. However, the ECB is aware that the 'net approach' as proposed in the First Draft Regulation cannot provide a fully comprehensive and complete picture of inflation. It could be supplemented by an analysis of the reasons for overall index changes, in particular should significant structural changes occur in the financing of goods and services which are consumed by households but which

are supplied by the government or NPISH sectors. The ECB therefore supports the provision contained in Article 5(a) which requests that the Commission review the implementation of the proposed concept within two years of the date on which this first Council Regulation finally enters into force. The ECB also supports the suggestion that the HICP be supplemented by more comprehensive measures of inflation with a view to overcoming some of these difficulties. However, the development of such measures is a long-term project and should not impede the planned extension of the coverage of the HICP as proposed in the First Draft Regulation.

7. Taking into account the fact that the treatment of owner-occupiers' housing costs has yet to be settled for the HICP, the ECB suggests that paragraphs 13 and 14 of Annex I(b) of the First Draft Regulation be clarified. The provisions contained therein should not prejudice the coverage of owner-occupied housing in general or exclude options for the coverage of this item in future extensions of the HICP.
8. Commission Regulation (EC) No 2214/96 governs the publication of HICP sub-indices. The First Draft Regulation requires the coverage of new items in the HICP. The ECB proposes that Regulation (EC) No 2214/96 should be amended accordingly in order to reflect the extended scope of coverage.
9. Finally, Annex I(a) of the latest version of the First Draft Regulation does not include all relevant COICOP sub-categories (categories 5.6.2, 6., 6.1, 6.1.1, 12.2, 12.2.1, 12.2.2 were omitted). The ECB assumes that this mistake will be corrected in the final Regulation.

B. Draft Council Regulation (EC) concerning the geographic and population coverage of the HICP (hereinafter referred to as the 'Second Draft Regulation')

10. The objective of the Second Draft Regulation is to define and harmonise the geographic and population coverage of the HICP with effect from December 1999. The Second Draft Regulation amends the First Draft Regulation on extended coverage (see paragraphs 4 to 8).
11. Article 3 of Regulation (EC) No 2494/95 on the HICP reads as follows: *'The HICP shall be based on the prices of goods and services available for purchase in the economic territory of the Member State (...)*'. The ECB regards the Second Draft Regulation as representing the consistent implementation of this rule.
12. The EBC underlines the importance of a harmonised concept in particular for the geographic coverage of the HICP. Harmonised geographical coverage is a pre-condition for the accurate aggregation of the HICP across the euro area. Therefore, the ECB supports the measures proposed by the Commission.
13. This opinion will be published in the *Official Journal of the European Communities*.

Done at Frankfurt am Main, 14 July 1998.

*For the Governing Council of the
ECB*

The President

Willem F. DUISENBERG