

OPINION OF THE EUROPEAN MONETARY INSTITUTE

on a consultation from the Commission of the European Communities under Article 105(4) and 109 f (8) of the Treaty and Article 5(3) of Council Regulation No. 2494/95 of 23rd October 1995;

on a **draft Commission Regulation concerning Harmonised Indices of Consumer Prices - Transmission and dissemination of sub-indices of the HICP** (No. XX/96) (“Draft Regulation”).

CON/96/11

1. By letter of 31st July 1996¹ the Commission consulted the EMI on a draft Commission Regulation concerning Harmonised Indices of Consumer Prices - Transmission and dissemination of sub-indices of the HICP.
2. The objective of the Draft Regulation is to establish the sub-indices of the HICPs which are to be produced by the Member States and transmitted to and disseminated by the Commission (Eurostat) in accordance with Articles 9 and 11 of the above Council Regulation.
3. The EMI warmly welcomes the fact that the Draft Regulation provides a detailed level of disaggregation for the HICPs. For the EMI, as a future main user and taking into account the requirements of the future ECB, a sufficient and harmonised breakdown of the data is an indispensable condition for its effective use, both with a view to assessing sustainable convergence and to conducting a future single monetary policy. Detailed sub-indices for national HICPs and for MU aggregates are needed for the analysis of specific price developments in certain index categories and for the compilation of additional, analytically orientated aggregates (e.g. for a distinction between traded versus non traded items). Subject to the remarks expressed below, the Draft Regulation meets these requirements, since it ensures the flexibility needed for these tasks.
4. In accordance with Article 5.1 of the Council Regulation, the Draft Regulation requires sub-indices of the HICPs to be disseminated from January 1997. For the year 1996, the Draft Regulation stipulates in accordance with the Council Regulation no such legal obligation, including on the grounds that the quality of sub-indices for 1996 would not always be sufficient for their dissemination, since, for example, the collection of data for new sub-categories will be set up no earlier than by the end of 1996. Though the EMI accepts this reservation with regard to the *legal obligation* to publish single sub-indices for 1996, it underlines that Article 5(1) of the Council Regulation requires the calculation of “estimates of price changes” for this year.

¹ Document [D(96) 35486]

This requires that the data used for 1996 - the aggregated index as well as all sub-indices used to derive the aggregated results - has a high quality and is consistent with the data used for 1997. This is important, because these data will be used for the formal assessment of convergence for the year 1997 which will have to take account of the HICP change for 1997 against the year 1996. In this light it will be important, in addition, to give consideration to publishing as many sub-indices as possible for 1996, with appropriate quality warnings.

5. Regarding specific sub-indices, the EMI notes the following points:
- a. **Category 04.4A ('Other services relating to the dwelling')** does not provide any breakdown, though this was envisaged in previous drafts and not basically questioned by the Member States. The EMI suggests to re-include the following defined sub-categories (or meaningful alternatives):
 - 04.4.1A Refuse collection where consumers pay according to consumption
 - 04.4.2A Sewerage services where consumers pay according to consumption
 - 0.4.4.3A Water supply where consumers pay according to consumption
 - 0.4.4.4 Other services relating to the dwelling

Indeed, these services are very heterogeneous, so that the numbers for the aggregate category need to be supplemented by a corresponding breakdown. Moreover, the single sub-categories are often subject to particular and significant price movements, not to mention the fact that they are important for households.

- b. **Category 07.1.1 ('New and second-hand motor cars')** provides two alternative methods for deriving the relevant weights for this combined sub-category (see Annex II of the Draft Regulation). The rationale appears to be that - under certain assumptions - both alternatives lead to the same sum of weights for new and used cars and that thus the choice can be left to the Member States. However, even if the resulting overall weight were identical, the two alternatives divide the weight differently between new and used cars. The first alternative leads to a lower weight for new cars and a higher weight for used cars² than the second alternative³. Possible effects on the comparability of the results should be monitored by the Commission (Eurostat) and further harmonisation measures taken if necessary. Moreover, in a longer-term perspective, the introduction of separate categories for new and used cars following a fully harmonised procedure would be desirable.
- c. **Category 07.3.6A ('Combined tickets')** was introduced in order to include tickets covering more than one mode of transport, e.g. combined tickets for the use of local transport by bus and by underground. This might imply an increased risk of lack of comparable classification

² Weight for new cars = purchase of new cars minus sales of used cars to second-hand dealers (trade-ins);
weight for used cars = purchase of used cars including those purchased from the business sector.

³ Weight for new cars = purchase of new cars;
weight for used cars = trade margin of second-hand car dealers plus purchases of used cars from the business sector.

between Member States. The Commission (Eurostat) should monitor the future practices in this sub-index group.

- d. Category 12.4A ('Insurance')** provides a harmonised approach for the calculation of a sub-index for insurance services (see Annex II of the Draft Regulation). The EMI welcomes this proposal, particularly since the re-inclusion of insurance is one of the major extensions of coverage of initial HICPs compared with the Interim index (IICP) and the methods currently applied for national CPIs are by no means comparable. Further conceptual work regarding the price indicator used for insurance (net premiums versus gross premiums) is required and should start as soon as possible.
6. Subject to the remarks mentioned, the EMI considers the Draft Regulation to be an important step towards harmonised indices of consumer prices and welcomes this initiative.
7. The EMI agrees that this opinion may be made public by the competent authorities at their discretion.

29th August 1996