

**ANNEXES TO PROPOSAL FOR COMMISSION REGULATION
CONCERNING HARMONISED INDICES OF CONSUMER PRICES:
MINIMUM STANDARDS FOR PRICES USED IN THE HICPS**

- Annex 1** Communication to the European Monetary Institute
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COMMUNICATION TO THE EUROPEAN MONETARY INSTITUTE

Reference: Proposed Commission Regulation concerning Harmonised Indices of Consumer Prices: Minimum Standards for Prices used in the HICPs

Justification

1. Under the Treaty establishing the European Community (Article 109j) the European Monetary Institute (EMI) and the Commission are required to report to the Council on the progress made in fulfilment by the Member States of their obligations regarding the achievement of economic and monetary union. One criterion of such progress is a high degree of sustainable convergence in price stability as apparent in the rate of inflation in comparison with the three best performing Member States. Inflation has to be measured by means of the consumer price index on a comparable basis. The CPIs of Member States currently differ in concepts, methods and practices and a programme of harmonisation is therefore necessary to produce comparable indices. CPIs are politically, socially and economically sensitive statistics and cannot be readily changed. It will therefore be necessary to construct distinct CPIs which are comparable. The indices will be referred to as Harmonised Indices of Consumer Prices (HICPs).
2. The harmonisation project is in two steps: first the framework Council Regulation (EC) No. 2494/95 of 23 October 1995 published in the Official Journal No. L 257 on page 1; followed by a series of Commission Regulations containing detailed technical guidelines for progressing implementation in stages from March 1996 to January 1998 and thereafter if necessary. This Commission Regulation deals with Minimum Standards for Prices used in the HICPs. It will require Member States to maintain the target sample from month to month where monthly collection is the requirement, or from period to period where less frequent collection is planned. When prices are not observed, prices must be estimated by an appropriate estimation procedure. Simply carrying forward previous prices would not normally be appropriate. The "target sample" is for Member States to determine in the first instance. However, this may need to be modified as a result of subsequent Commission Regulations (for example, regulations on sampling or on new goods and services).

Draft Regulation

3. The EMI is invited to give its opinion on the draft Commission Regulation.

EXPLANATORY MEMORANDUM

1. Council Regulation (EC) No. 2494/95 (Article 8) requires that HICPs be compiled each month with monthly price collection but lets Eurostat allow less frequent collection as long as the results are comparable. Without this Commission Regulation monthly collection would be mandatory. Less frequent collection arises in practice in national CPIs when prices are procedurally required monthly but cannot be or are not obtained. It is also used when procedures do not require observation every month. In either case some implicit or explicit estimations are made. Particular practices for estimation can lead to non-comparability, as will differences in the extent of missing observations between Member States.
2. This Regulation will require Member States to maintain the target sample from month to month where monthly collection is the requirement, or from period to period where less frequent collection is planned. When prices are not observed they must be estimated by an appropriate estimation procedure. Simply carrying forward previous prices would not normally be appropriate. The "target sample" is for Member States to determine in the first instance. However, this may need to be modified as a result of subsequent Commission Regulations (for example, regulations on sampling or on new goods and services). The Regulation will also require Member States to keep track of the extent of missing prices and to cease "automatic carry-forward" and other inappropriate methods of estimation. If the extent of estimation is too high, steps will need to be taken to improve standards of price collection in order to reduce the number of missing observations or to seek replacements.
3. The aim of the Regulation is to set a minimum standard for the prices used in order to ensure that HICPs are comparable by limiting the extent to which Member States depart from their own plans for monthly, or other frequency of, price observation. It requires appropriate estimates to be used where prices are missing and prohibits the practice of carrying forward previous prices in the absence of observation where such a practice cannot be justified. The Regulation applies to all goods and services including seasonal goods and services and rents but does not, in itself, require Member States to increase the number of prices collected beyond that used for the national CPI. Plans for price collection, the target sample, may be changed by the Member State as it deems appropriate or where estimation procedures are shown to be inappropriate or in order to meet the requirements of later Commission Regulations e.g. on sampling standards. "Appropriate estimates" and the "appropriate limit" on missing

observations will be determined by deciding what is inappropriate in consultation with Member States in the light of the quality control information obtained. The "minimum standard" will in effect be raised in the light of what is learned from the quality control information (Article 4) provided by Member States. The procedures for deciding what is appropriate will be further considered as part of the forthcoming Commission Regulation on Audit.

**COMMISSION REGULATION (EC) No [xx/96]
OF [DATE]
CONCERNING HARMONISED INDICES OF CONSUMER PRICES:
MINIMUM STANDARDS FOR PRICES USED IN THE HICPS**

The Commission of the European Communities

Having regard to the Council Regulation (EC) No 2494/95¹;

Whereas each Member State is required to produce a Harmonised Index of Consumer Prices starting with the index for January 1997;

Whereas Article 8.1 of the above Council Regulation requires that Harmonised Indices of Consumer Prices are compiled each month, and Article 8.2. requires price collection once a month, but the Commission (Eurostat) may allow less frequent collection as long as the comparability requirement of Article 4 of the above Council Regulation is met;

Whereas the practice of using previous prices as substitutes for the current monthly prices differs from the use of prices collected to the extent that the resulting Consumer Price Indices fail to meet the comparability requirement of Article 4 of the above Council Regulation;

Whereas implementing measures are necessary for ensuring the comparability of Harmonised Indices of Consumer Prices in accordance with Article 5.3 of the above Council Regulation;

Whereas the envisaged measures are in accordance with the opinion of the Statistical Programme Committee (SPC), established by Council Decision 89/382/EEC²;

Whereas the European Monetary Institute has reached a favourable conclusion on the Commission proposal;

HAS ADOPTED THIS REGULATION :

¹ OJ No L 257, 27.10.1995, p. 1.

² OJ No L 181, 28.6.1989, p. 47.

Article 1 Aim

The aim of this Regulation is to establish minimum standards for the prices used in the production of Harmonised Indices of Consumer Prices (HICPs).

Article 2 Definition

- (1) For the purpose of this Regulation the "target sample" is defined as the set of prices of goods and services which the Member State plans to obtain for the production of the HICP from January 1997 or plans at some subsequent date in order to meet the Member States' own or any European standard for reliability or comparability.
- (2) An "observed price" is a price actually confirmed by the National Statistical Office or by a person or persons acting on its behalf.
- (3) An "estimated price" is a price which is substituted for an observed price and is based on an appropriate estimation procedure. Previously observed prices shall not be regarded as "estimated prices" unless they can be shown to be appropriate estimates.
- (4) A "replacement price" is an observed price for a good or service which is taken as a direct substitute for a good or service the price of which was in the target sample.

Article 3 Comparable Results

- (1) Subject to the minimum requirements stated in Article 3.2:-
 - a) Member States shall produce HICPs using the observed prices of the target sample;
 - b) Where the target sample requires monthly observation, but observation fails due to non-availability of an item or for any other reason, estimated prices may be used for the first or second month but replacement prices shall be used from the third month.
 - c) Where, exceptionally, the target sample requires observations less frequently than monthly, estimated prices shall be used for those months where observed prices are not required. Estimated prices may also be used on the first occasion on which price observation fails. Where observation fails for a second consecutive occasion, replacement prices shall be used.
- (2) Where, in the circumstances referred to in this Article, replacement prices are not available, estimated prices may continue to be used,

provided that the extent of their use is limited to a level appropriate for achieving comparability.

Article 4 Quality Control

Member States shall establish and maintain a clear statement of the target sample and shall maintain checks of price observations and price estimates sufficient to ensure compliance with this Regulation. They shall provide the Commission (Eurostat) at its request with such information to evaluate and ensure compliance.

Article 5 Entry into Force

This Regulation shall enter into force on the 20th day following its publication in the Official Journal of the European Communities.

This Regulation shall be binding in its entirety and directly applicable in all Member States.