III

(Preparatory acts)

EUROPEAN CENTRAL BANK

OPINION OF THE EUROPEAN CENTRAL BANK

of 13 March 2015


(CON/2015/10)

(2015/C 175/02)

Introduction and legal basis

On 17 December 2014, the European Central Bank (ECB) received a request from the European Parliament for an opinion on a proposal for a Regulation of the European Parliament and of the Council on harmonised indices of consumer prices (1) (HICP) (hereinafter the ‘proposed regulation’). This legal act would repeal and replace Council Regulation (EC) No 2494/95 (2). On 26 January 2015, the ECB was consulted on the same proposal by the Council of the European Union.

The ECB's competence to deliver an opinion is based on Articles 127(4) and 282(5) of the Treaty on the Functioning of the European Union. The proposed regulation lies within the ECB's fields of competence as the ECB is a key user of HICP statistics. Harmonised indices of consumer prices are important indicators in the context of monetary policy. They are of crucial importance to the ECB's primary objective of maintaining price stability in the euro area (3), as sound monetary policy decisions depend on reliable and high quality HICP statistics. They also support the Eurosystem's tasks in the area of financial market stability (4).

In accordance with the first sentence of Article 17.5 of the Rules of Procedure of the European Central Bank, the Governing Council has adopted this opinion.

1. General observations

The ECB supports the efforts undertaken by the European Commission (Eurostat) concerning the review and modernisation of the Union legal framework for compilation of HICP statistics.

2. Consultation of the ECB and its involvement in the preparatory and implementing work

2.1. Given the ECB's consistent contributions to the HICP framework and the importance of high quality HICP statistics for sound monetary policy and, in particular, for the pursuit of the ECB's primary objective of price stability, the ECB should continue to be consulted on future modifications of this framework (5).

(3) See Article 127(1) of the Treaty and first sentence of Article 2 of the Statute of the European System of Central Banks and of the European Central Bank (hereinafter the 'Statute of the ESCB').
(4) See the first indent of Article 127(2) and Article 127(5) in conjunction with Article 139(2)(c) of the Treaty and the first indent of Article 3.1 and Article 3.3, in conjunction with Article 42.1 of the Statute of the ESCB.
(5) See Article 5(3) of Regulation (EC) No 2494/95 according to which the Commission shall request the ECB to provide an opinion on the measures which it proposes to submit to the European Statistical System Committee.
2.2. In particular, pursuant to Articles 127(4) and 282(5) of the Treaty, the ECB is to be consulted on any implementing and delegated acts, which the Commission may adopt under the revised legal framework for the HICP (1). The obligation to consult, and the benefits of ECB consultation, were underlined by the European Court of Justice in Commission v ECB (2).

2.3. Consistent with the existing provisions of Regulation (EC) No 2494/95 (3), and notwithstanding the collaboration in the preparation of legislative acts, Recital 2 of the proposed regulation should reflect the ECB’s competence to be consulted on implementing and delegated acts adopted under the proposed regulation.

3. Use of delegated and implementing acts

3.1. Regarding the Commission’s power to adopt delegated acts based on Article 290 of the Treaty, the ECB considers the threshold below which there is no obligation for Member States to provide sub-indices of harmonised indices, and the list of sub-indices that need not be produced by Member States (4) to be essential elements of the proposed regulation. These items are fundamental to ensure sound and harmonised consumer price indices. Changes to these parameters have a direct effect on the coverage and on the soundness of the indices. They exert a significant influence on the index quality and reliability. The ECB therefore considers that delegated acts are not the appropriate legal instruments to be used to establish rules governing these key elements of the HICP framework. These issues should be decided and laid down in the proposed regulation. The ECB suggests incorporating in Article 5(6) and (7) the well established thresholds of 1/1 000 weight of the total expenditure covered by the HICP, and 1/100 for owner-occupied housing and house price indices, respectively.

3.2. The ECB supports the proposed Article 5(1) in connection with Article 2(q) on the collection of information about ‘administered prices’ as part of the ‘basic information’ that should be provided with reference to HICPs (and HICPs at constant tax rates). The ECB monitors price developments that are either set directly, or influenced to a significant extent, by the government (at central, regional or local level, including national regulators), as well as the impact of these developments on the overall HICP. Indeed, this information is very useful for the analysis of inflation developments. However, further guidance is necessary with regard to the classification of prices as either not, mainly or fully administered. This classification is often ambiguous. For indices that refer to, or exclude administered prices, the ECB would welcome if the Commission would provide guidance ensuring the harmonised definition and application of these concepts in an implementing act adopted under Article 4(4) of the proposed regulation.

4. Methodological issues

4.1. The ECB agrees with the Commission that the new legal framework should not fall behind the current requirements for compiling harmonised indices in terms of quality and consistency assurance. The achievements reached in the past 20 years since the adoption of Regulation (EC) No 2494/95 should be maintained and, where possible, enhanced.

4.2. Article 4(2)(b) of the proposed regulation introduces a wider margin for systematic differences in annual growth rates of the owner-occupied housing price index (OOH-price index) and of the house price index (HPI) that may result from deviations from the concepts or methods laid down in the proposed Regulation. While Commission Regulation (EU) No 93/2013 (5) is silent on this issue, the ECB strongly suggests applying the standard of...
0.1 percentage points that is used for assessing the comparability of sub-indices of the HICP. This could be achieved by dropping Article 4(2)(b) of the proposed Regulation and removing the restriction in the coverage of Article 4(2)(a). Relaxing comparability requirements would deteriorate the quality of the OOH and HPI sub-indices.

4.3. The production of sub-indices at intervals less frequent than required by the proposed regulation should remain subject to prior approval by the Commission (Eurostat). This is currently ensured by Article 8(2) of Council Regulation (EC) No 2494/95 (*). The same requirement should be reflected in Article 6(3) of the proposed regulation, as well as in the implementing regulation.

Where the ECB recommends that the proposed regulation be amended, specific drafting proposals are set out in a technical working document accompanied by explanatory text to this effect.

Done at Frankfurt am Main, 13 March 2015.

The President of the ECB
Mario DRAGHI

(*) The required frequency of price collection shall be once a month. Where less frequent collection does not preclude production of an HICP which meets the comparability requirements referred to in Article 4, the Commission (Eurostat) may allow exceptions to monthly collection. This paragraph shall not preclude more frequent price collection.

<table>
<thead>
<tr>
<th>Text proposed by the Commission</th>
<th>Amendments proposed by the ECB&lt;sup&gt;13&lt;/sup&gt;</th>
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<tbody>
<tr>
<td><strong>Amendment 1</strong></td>
<td></td>
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<tr>
<td>Recital (2)</td>
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<tr>
<td>The European System of Central Banks (ESCB) uses the HICP as an index in order to measure the achievement of the ESCB’s price stability objective under Article 127(1) of the Treaty, which is of particular relevance for the definition and implementation of the monetary policy of the Union under Article 127(2) of the Treaty.</td>
<td>The European System of Central Banks (ESCB) uses the HICP as an index in order to measure the achievement of the ESCB’s price stability objective under Article 127(1) of the Treaty, which is of particular relevance for the definition and implementation of the monetary policy of the Union under Article 127(2) of the Treaty. The Commission should consult the ECB under Articles 127(4) and 285(5) of the Treaty on implementing and delegated acts adopted under this Regulation.</td>
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<tr>
<td><strong>Explanation</strong></td>
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<td>This amendment is consistent with the existing provisions of Council Regulation (EC) No 2494/95 and the existing coordination arrangements between the European Statistical System (ESS) and the ESCB, and reflects the status of the European Central Bank (ECB) as the main user of the harmonised indices of consumer prices (HICP).</td>
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<tr>
<td><strong>Amendment 2</strong></td>
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<td>Recital (13)</td>
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<tr>
<td><strong>Explanation</strong></td>
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<tr>
<td>The provisions on data exchange in Regulation (EC) No 223/2009 apply to data collected under the framework of this regulation. There is no need to refer to these provisions in the proposed HICP regulation.</td>
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<sup>12</sup> COM(2014) 724 final.

<sup>13</sup> Bold in the body of the text indicates where the ECB proposes inserting new text. Strikethrough in the body of the text indicates where the ECB proposes deleting text.
In order to ensure comparability at international level of the classification of individual consumption according to purpose used for the breakdown of HICP and to assure adaptation to changes of UN COICOP, to establish a threshold below which there is no obligation to provide sub-indices of harmonised indices and to establish a list of sub-indices that need not be produced by the Member States, the power to adopt acts in accordance with Article 290 of the Treaty on the Functioning of the European Union should be delegated to the Commission in respect of harmonised indices. It is of particular importance that the Commission carries out appropriate consultations during its preparatory work, including at expert level. The Commission, when preparing and drawing up delegated acts, should ensure simultaneous, timely and appropriate transmission of relevant documents to the European Parliament and the Council.

**Explanation**

As confirmed in the Explanatory Memorandum to the proposed regulation, delegated acts are designed to supplement or amend non-essential elements of a legislative act, such as the proposed regulation. The proposed regulation would give the Commission a mandate to adopt delegated acts based on Article 290 of the Treaty, in particular to:

- establish a threshold below which there is no obligation to provide sub-indices of harmonised indices;
- establish a list of sub-indices that need not be produced by the Member States.

The ECB considers the above items as essential for the compilation of harmonised indices. Changes to the above parameters have a direct effect on the coverage of the harmonised indices and can thus exert a significant influence on the quality of the respective indices. The ECB therefore considers that delegated acts are not the appropriate legal instruments to be used to establish rules governing the key elements of the HICP framework and proposes that such issues be laid down in the proposed regulation.

**Amendment 4**

**Article 2(n)**

<table>
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<tr>
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<tbody>
<tr>
<td>'(n) Laspeyres index' means a price index of the form</td>
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<tr>
<td>$P = \frac{\sum Q_t P_t}{\sum Q_t}$</td>
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<td>where $P$ is the relative index of the price levels in two periods, $Q$ are the quantities consumed, $t_0$ is the base period and $t_n$ the period for which the index is computed;</td>
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**Explanation**

The formula for the Laspeyres index is already well defined in a statistical context. Generally, there are


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<td>no deviations to be considered with regards to the ‘harmonised indices’. Concretely, the presentation in the draft legal text in formula-terms would require a greater level of detail which may go beyond the framework of a legal text.</td>
<td></td>
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</tbody>
</table>

**Amendment 5**

**Article 2(o)**

'(o) “Laspeyres-type index” means an index that measures average price changes on the basis of unchanged expenditure compared to the base period, i.e. holding the consumption pattern of households constant as of the base period.'

'(o) “Laspeyres-type index” means a price index that measures average price changes on the basis of unchanged expenditure compared to the base period, i.e. holding the consumption pattern of households constant as of the base period. From the price reference period to a comparison period using a fixed basket of goods and services from a period prior to the price reference period.

‘Laspeyres-type index’ \( P_{0,t} \) is defined as

\[
P_{0,t} = \frac{\sum p^t q^b}{\sum P_{0}^0 q^b},
\]

where \( p \) denominates the price of a product, and \( q \) the quantity of a product. The price reference period is \( 0 \); the comparison period is \( t \). The quantities refer to a period \( b \) prior to the price reference period 0.'

**Explanation**

The proposed change aims at clarifying the definition. Such clarification is necessary as there is no generally recognised definition of the term ‘Laspeyres-type index’ yet.

**Amendment 6**

**Article 3(2)**

'2. Harmonised indices shall be compiled using a Laspeyres-type formula.'

'2. Harmonised indices shall be compiled using an annually chain-linked Laspeyres-type formula indices.'

**Explanation**

The proposed change is aimed at specifying more explicitly the type of index formula to be applied for HICP compilations.

**Amendment 7**

**Article 4(2)**

'(2) Any sub-indices of the harmonised indices that

'(2) Any sub-indices of the harmonised indices that
deviate from the concepts or methods of this Regulation shall be deemed comparable if they result in an index that is estimated to differ systematically by:

(a) less than or equal to 0.1 per cent on average over one year against the previous year from an index compiled following the methodological approach of this Regulation, in the case of HICP;

(b) less than or equal to one per cent on average over one year against the previous year from an index compiled following the methodological approach of this Regulation, in the case of OOH and HPI.

Where such a calculation is not possible, the consequences of using a methodology which deviates from the concepts or methods of this Regulation must be set out in detail.'

**Explanation**

Thresholds are to be defined in absolute terms, as in the current regulatory framework (see, e.g., Article 7 of Commission Regulation (EC) No 1749/96 and Article 6 of Commission Regulation (EC) No 2646/98).

While Commission Regulation (EU) No 93/2013 is silent on this issue, there is no basis for relaxing the comparability requirements, which could deteriorate the quality of the OOH and HPI. Further, the margins required for cross-country comparability should be consistent with the margins set for assessing a 'significant change of production method' in Article 2(v) of the proposed Regulation.

**Amendment 8**

Article 4(3)

3. The Commission shall be empowered to adopt delegated acts in accordance with Article 10 for the modification of the Annex in order to ensure comparability of the harmonised indices at international level.'

**Explanation**

The changes aim at clarifying the envisaged use of delegated acts, as laid down in recital 15.

**Amendment 9**


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<th>Text proposed by the Commission</th>
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<tr>
<td><strong>Article 5(5)</strong></td>
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<tr>
<td>5. The harmonised indices and their sub-indices shall be rescaled to a new common index reference period in cases of a major methodological change of harmonised indices or every 10 years starting from 2015. The rescaling to the new index reference period shall take effect with the index for January of the following calendar year. The Commission shall be empowered to adopt delegated acts in accordance with Article 10 to establish detailed rules on rescaling of harmonised indices linked to major methodological changes.</td>
<td>5. The harmonised indices and their sub-indices shall be rescaled to a new common index reference period in cases of a major methodological change of harmonised indices or every 10 years starting from 2015. The rescaling to the new index reference period shall take effect with the index for January of the following calendar year. The Commission shall be empowered to adopt delegated acts in accordance with Article 10 to establish detailed rules on rescaling of harmonised indices linked to major methodological changes.</td>
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**Explanation**

The deletion is to avoid a contradiction with the first sentence of this paragraph, which provides for regular re-referencing every ten years.

Amendment 10

**Article 5(6)**

6. In order not to impose an unnecessary burden on Member States and to the extent that the sub-indices of harmonised indices are only significant above a certain threshold, the Commission shall be empowered to adopt delegated acts in accordance with Article 10 in order to establish a threshold below which there is no obligation to provide those sub-indices.

(a) Member States need not produce and provide HICP or HICP-CT sub-indices that have a weight accounting for less than one part in a thousand of the total expenditure covered by the HICP.

(b) Member States need not produce and provide OOH and HPI sub-indices that have a weight accounting for less than one part in a hundred of total owner occupier housing expenditure (O.1) and total purchases of dwellings (H.1), respectively.

**Explanation**

See Amendment 3. The proposed thresholds are well established and already reflected in Article 3(1) of Commission Regulation (EC) No 1749/96 (as amended), Article 3(1) of Regulation (EC) No 2214/96 (as amended) and Article 3(4) of Commission Regulation (EU) 93/2013.

Amendment 11

**Article 5(7)**

7. The Commission shall be empowered to adopt delegated acts in accordance with Article 10 in

[^13]: European Central Bank
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<tbody>
<tr>
<td>order to establish a list of sub-indices of ECOICOP that need not be produced by the Member States, either because they do not cover private consumption or because the degree of methodological harmonisation is not sufficient.'</td>
<td>order to establish a list of sub-indices of ECOICOP that need not be produced by the Member States, either because they do not cover private consumption or because the degree of methodological harmonisation is not sufficient. A list of sub-indices of ECOICOP that do not need to be produced by the Member States, either because they do not cover household final monetary consumption expenditure or because the degree of methodological harmonisation is not sufficient, is included in the Annex.'</td>
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**Explanation**

See Amendment 3; the Annex needs to be supplemented accordingly.

<table>
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<tr>
<th>Amendment 12</th>
<th>Article 6(3)</th>
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| '3. Member States are not obliged to produce sub-indices at monthly or quarterly intervals where less frequent data collection fulfils the comparability requirements of Article 4. Member States shall inform the Commission (Eurostat) of the ECOICOP and OOH categories that they intend to collect at intervals less frequent than, respectively, monthly or quarterly.' | '3. Member States are not obliged to produce sub-indices at monthly or quarterly intervals where less frequent data collection fulfils the comparability requirements of Article 4. Member States shall inform the Commission (Eurostat) of the ECOICOP and OOH categories that they intend to collect at intervals less frequent than, respectively, monthly or quarterly. The production of sub-indices at intervals less frequent than required shall be subject to prior approval by the Commission (Eurostat).'</p>**Explanation**

This addition is in accordance with Article 8(2) of Council Regulation (EC) No 2494/95\(^\text{16}\): 'The required frequency of price collection shall be once a month. Where less frequent collection does not preclude production of an HICP which meets the comparability requirements referred to in Article 4, the Commission (Eurostat) may allow exceptions to monthly collection. This paragraph shall not preclude more frequent price collection.'</p>

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<tr>
<th>Amendment 13</th>
<th>Article 7(3)</th>
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| '3. Sub-indices of harmonised indices that have already been published may be revised.' | '3. The overall index and sub-indices of harmonised indices that have already been published may be revised.'</p>**Explanation**

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For consistency reasons it should be possible to revise also the overall index, where sub-indices may be revised.

### Amendment 14

**Article 10(2)**

'2. The delegation of powers referred to in Articles 4(3) and 5(5) to (7) shall be conferred for an indeterminate period of time.'

**Explanation**

See Amendment 3.

### Amendment 15

**Article 10(3)**

'3. The delegation of powers referred to in Articles 4(3) and 5(5) to (7) may be revoked at any time by the European Parliament or by the Council. A decision to revoke shall put an end to the delegation of the power specified in that decision. It shall take effect the day following the publication of the decision in the Official Journal of the European Union or at a later date specified therein. It shall not affect the validity of the delegated acts already in force.'

**Explanation**

See Amendment 3.