

### Box 3

#### Extended and further harmonised coverage of the HICP

The publication of the Harmonised Index of Consumer Prices (HICP) for January 2000 marks another important step towards further harmonisation. This measure has not only improved the comparability of HICP calculation methods between countries, but has also extended the coverage of household consumption expenditure in the HICP. The changes are the result of the implementation of four Council Regulations approved in the past two years. The changes can be summarised as follows.

The **product coverage** of the HICPs has been extended in the areas of health, education, social protection services and insurance. For example, pharmaceutical products, dental services and private health insurance services have been added to the HICP coverage. The agreed concept for coverage of *all* HICP items is *household final monetary consumption expenditure*, which is consistent with the concept of final consumption expenditure in the European System of Accounts 1995 (ESA 95), but which limits the coverage to actual (“monetary”) transactions. Accordingly, the prices recorded in the HICP reflect the price development net of reimbursement or subsidies, i.e. the prices actually paid by the consumer. This is important in the context of the extension of product coverage, since for several of the added items, the consumer does not typically cover the full price. Based on the available information from national sources it can be estimated that the extended product coverage accounts for approximately 4% of the overall coverage of the HICP in 2000.

Furthermore, the **geographic and population coverage** of the HICPs has been harmonised. The geographic coverage of all national HICPs and, as a consequence, the euro area aggregates, refer to the consumption in the domestic territory of the respective Member State and the euro area. This implies that the expenditure of visitors (tourists) within the country in question or the euro area is covered by the HICP, and the expenditure of residents abroad is excluded. The introduction of the harmonised geographic concept has caused a change only in those countries which used to apply a different concept for the HICP before 2000. However, the HICPs for Germany, France and Italy – which together account for around three-quarters of the euro area index – are not affected by this change, because this concept had been applied previously. In addition, minor changes are a result of the introduction of the harmonised concept for population coverage (coverage of *all* households, irrespective of income or other socio-economic factors), where relevant. This change has been introduced in several national HICPs which account, however, for no more than approximately one-fifth of the euro area index. The harmonisation of the geographic and population coverage does not lead to any change in the *items* covered by the HICP. However, it may have an impact on the *weights* of individual items in the HICP.

Finally, the **sub-index classification** used for the HICPs has been revised in line with the new version of the international Classification of Individual Consumption by Purpose (COICOP). Except for differences due to rounding, this revision has had no impact on the development of the all-item HICPs since 1995.

A further extension of coverage of the HICPs is scheduled for January 2001 and relates to the inclusion of hospital services and social protection services (e.g. those services provided by retirement homes). The treatment of owner-occupiers’ housing costs in the HICP, the only significant remaining item not covered by the HICP, is currently being discussed by Eurostat’s statistical working group.

Since the extended and further harmonised coverage of the HICPs has applied only since January 2000, in the course of 2000 the annual inflation rates will – to some extent – be distorted by the change in coverage. During this period, the distortion will arise because the annual rate of change will be derived from values of the old HICP and from values of the new extended and further harmonised HICP. However, the distortion of the annual changes resulting from this extended and further harmonised coverage is expected to be small and as from January 2001, when data based on the extended HICP will be available for a 12-month period, it will disappear completely.