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(Geneva, 24-27 November 1997)

Item 3 of the provisional agenda

PROGRESS REPORT ON HARMONIZATION OF CONSUMER PRICE INDICES
IN THE EUROPEAN UNION

Paper submitted by Eurostat ¹

A. INTRODUCTION

1. On 23 October 1995, the Council of Ministers adopted a regulation ¹ setting the legal basis for the establishment of a harmonized methodology for compiling consumer price indices (CPIs) in EU Member States.

2. This progress report, which updates the previous one, explains the background to this major project and describes the progress of events leading up to and beyond the Council Regulation. It also outlines the major technical issues involved in the harmonization process.

B. BACKGROUND

3. Although Eurostat for many years published regular bulletins giving the CPIs of Member States those data simply took the national data as published in Member States without any attempt to adjust for methodological differences. An EC "average" CPI was also calculated, but only by taking a weighted average of the unadjusted national indices.

4. More than twenty years ago the need for harmonizing CPI methodologies was identified by Eurostat and this led to the commissioning of a report by J. Stadlbauer ² which reviewed the practices of the nine Member States in the construction of their CPIs.

5. It was over ten years before any further action was taken. During this period, the International Labour Organisation (ILO) devoted considerable effort to the theory and practice of CPIs, in particular the seminars held in 1981 and 1986, jointly organised with the Conference of European

¹ Situation at March 1997.

Statisticians (a body convened by the United Nations Economic Commission for Europe); and the work of the 14th International Conference of Labour Statisticians, convened by the ILO in 1987. The latter conference led to the publication in 1989 of an important manual, "Consumer Price Indices" edited by Prof. Ralph Turvey, then Director of the Labour Information and Statistics Department of the ILO³. Whilst highlighting the conceptual and practical issues involved in designing CPIs, the manual left individual countries to resolve these as they deemed appropriate for their purposes. It did not therefore directly lead to greater comparability among existing indices.

6. At about the same time, in 1988, Eurostat commissioned a further report on the prospects for harmonization of EC CPI methodologies, this time from Prof. Rudolf Teekens, of the Institute of Social Studies Advisory Service in the Hague⁴. In addition to a discussion of some of the conceptual problems of harmonizing methodologies, the report provided a useful compendium of contemporary (1987) practices across a wide range of aspects of CPI compilation in Member States. However, it did not lead to any consensus among Member States on the most appropriate basis for the construction of CPIs. Countries were either unwilling or unable to change their CPIs (which had been designed for a variety of national purposes and which were politically sensitive sometimes to the extent of being protected by legal statute) to serve the limited purpose of international comparisons.

7. At the end of 1991 the **Treaty on European Union**⁵ (the "Maastricht Treaty") laid down various convergence criteria necessary for Economic and Monetary Union. Under the Treaty the European Commission and the European Monetary Institute (EMI) are required to report to the Council of Ministers on the progress made by Member States in fulfilment of their obligations regarding the achievement of economic convergence. 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 indices on a comparable basis⁶. This reinforced the need to make the CPIs of Member States more comparable.

8. In December 1991, the Directors-General of the EU national statistical institutes approved a proposal by Eurostat to establish a new Delegate Working Party specifically to take forward the proposed work on CPI harmonization for which it was accepted that a Council Regulation would be appropriate. The Working Party held its first meeting in Luxembourg in June 1993.

It was attended by delegates of all the then Member States and from Austria, Finland, Iceland, Norway and Sweden. There were observers from OECD, ILO, and from other Directorate-Generals of the Commission as well as the Committee of Governors of the Central Banks, all of whom have since kept close contact with the project. The Working Party has the following terms of reference, approved by the Statistical Programme Committee (SPC) of the Directors-General of EU national statistical institutes in September 1993:

".... to draft guidelines for the construction of harmonized national consumer price indices suitable for inclusion in a legal instrument. It

should also make proposals for the construction of a Community-wide index based on the harmonized CPIs. In seeking to meet its mandate the Working Party should have due regard to the primary purposes of the harmonized CPIs which are to provide comparisons of inflation in the macro-economic and international context. As required under the Treaty on European Union it should aim to provide comparable measures of inflation taking into account differences in national definitions. The Working Party should seek to base its recommendations on the best of current practices allowing for precedent and legal and institutional circumstances existing in Member States. Proposals should be practicable for all Member States and should involve minimum cost consistent with the required accuracy of the indices which the Working Party should attempt to establish on the basis of their many uses. The Working Party may delegate part of its work to sub-groups or task forces where this is likely to lead to a more rapid conclusion. The Working Party will report regularly to the Statistical Programme Committee and to the Committee on Monetary, Financial and Balance of Payments Statistics on the progress of the project and will consult with relevant Commission working parties and committees."

9. In line with its terms of reference, the Working Party decided that it should prepare a draft Council Regulation which would lay down detailed rules designed to lead to fully comparable CPIs. In May 1994 the SPC approved a change of strategy in order to avoid the delays inherent in a legislative procedure whereby lengthy and detailed technical matters would have to be agreed by the Council. The new strategy involved a framework Council Regulation on the basis of which detailed rules for constructing comparable CPIs would be established as Commission Regulations.

10. A Commission proposal to the Council was made on 9th January 1995. The EMI was consulted and its Council delivered a positive opinion to the Council of the EU on 31st March 1995. The Economic and Social Committee was consulted and gave its approval almost unanimously on 31st May 1995. The European Parliament was consulted according to the established procedures; the report of the Parliament's Committee for Economic, Monetary and Industrial Policy was adopted by the Parliament in plenary session on 13th July 1995. At the Council of Ministers, the draft Regulation was examined by the Financial Questions (Statistics) Group of ECOFIN on six occasions between February and June 1995. The Council Regulation ⁷ was finally approved by the ECOFIN Council on 23 October 1995.

11. Within the framework of the Council Regulation, rules as well as guidelines or non-obligatory statements on good practice have been drawn up in collaboration with Member States for the construction of Harmonized Indices of Consumer Prices (HICPs). The legal acts which implement the Council Regulation take the form of separate Commission Regulations, adopted after passing through a Regulatory Committee (which in practice is the Statistical Programme Committee ⁸ (SPC) comprising the Directors-General of the National Statistical Institutes. To date, two Commission Regulations ⁹ (EC) No 1749/96 and No 2214/96 have been adopted by the Commission. Further regulations are currently in various stages of preparation. Furthermore, a Community-wide index based on the HICPs as well as an index measuring the average inflation rate of the members of the monetary union have been

defined. In doing so, due regard was and will be paid to the primary purpose of the HICPs (to provide comparisons of inflation in the macro-economic and international context - see para. 8).

12. The additional costs the Member States incur in implementing the requirements laid down in the Council Regulation, and specified in the first two Commission Regulations, have been recognised by the Commission, and a Commission Decision (C(96) 2452) was adopted in September 1996 allocating 3 million ECU to the Member States over a two-year period for this purpose. This followed earlier disbursements to Member States amounting to 670.000 ECU.

C. THE APPROACH TO HARMONIZATION

13. The methods of compilation of national consumer price indices follow a variety of concepts, methods and practices, to the extent that the measured rates of inflation of the Member States of the European Union cannot be regarded as sufficiently comparable for the purposes of assessing the convergence of their economies under the Treaty on European Union. The objectives of the Council Regulation were therefore to:

- obtain a commitment from Member States to producing consumer price indices on a comparable basis;
- provide a framework within which the Commission could establish rules for constructing such indices.

14. Recognising that CPIs cannot measure all aspects of inflation but only one of its components, the preamble to the Council Regulation includes the following phrase:

"... it is recognised that inflation is a phenomenon manifesting itself in all forms of market transactions including capital purchases, government purchases, payments to labour as well as purchases by consumers ...". The HICPs are thus primarily designed for international comparison of consumer price inflation. The focus lies on comparability among the HICPs of the different countries as well as their relative movements.

15. The HICPs are not expressly intended to replace national CPIs. Many Member States are likely to continue their existing CPIs for domestic purposes, such as indexation or wage bargaining, although the HICP may be used for such purposes. As a consequence of their stated purpose, HICPs are likely to differ from national CPIs in both coverage and methodology. However, for reasons of economy and practicability, the actual construction of HICPs is likely to depend heavily on that of national CPIs. On the other hand, where improved practices are required for HICPs, they can be expected to be adopted for use in national CPIs.

Comparability Requirement

16. No single national CPI could be said to be the model that should be followed by all Member States. There is no right answer in the sense of a general agreement about what should be computed. Existing CPIs have been designed to meet a range of purposes and have been developed in different contexts. They can all be said to meet their purposes to a degree which is unknown (and perhaps unknowable) because there is no reference by which to determine the extent of any bias. It is, however, possible to say whether the differences between two CPIs are due to differences in definitions or methods of compilation and it is sometimes possible to estimate how large the differences might be.

17. The criterion for deciding when indices should be accepted as comparable and when not is written into the Council Regulation as the "comparability requirement" (Article 4). It reads as follows:

"HICPs shall be considered to be comparable if they reflect only differences in price changes or consumption patterns between countries.

HICPs which differ on account of differences in the concepts, methods or practices used in their definition and compilation shall not be considered comparable.

The Commission (Eurostat) shall adopt rules to be followed to ensure the comparability of HICPs under the procedure laid down in Article 14."

Approach towards establishing Rules for Commission Regulations

18. As far as possible, the Commission Regulations which implement the detailed rules are based on the best of current practices allowing for precedent and legal and institutional circumstances existing in Member States. The general approach to the implementing regulations could be characterised by the terms "minimum standards" and "subsidiarity". "Minimum standards" in the sense that banning acknowledged bad practices has the effect of not only achieving convergence on good practices but also raising the general level of standards. "Subsidiarity" is invoked in the sense that the regulations generally specify outputs rather than inputs: they say what is required rather than how to achieve the requirement, the detail of which is left to Member States, sometimes in agreement with Eurostat.

19. More specifically, the criteria which are being followed in determining rules are:

(a) Necessity - Rules should be made only where there is evidence that non-comparability may arise in the absence of such rules. Otherwise the principle of subsidiarity applies.

(b) Practicability - Rules should be made only where National Statistical Institutes can generally accept them and are able to follow what is required. It should also be possible to monitor the application of the rules in order to ensure compliance.

(c) **Specificity** - Rules should be clear, unambiguous and suitably restrictive in order to ensure comparability but should be sufficiently general as to allow variations in practices as long as these do not result in non-comparability.

(d) **Coherence** - Rules should not conflict with or contradict other rules or guidelines.

(e) **Completeness** - Taken together, rules and guidelines should cover all that has to be done in constructing HICPs. Where it is deemed unnecessary to harmonize existing practices the bounds of those practices should nevertheless be defined.

(f) **Best practice** - Where possible, rules should follow the best of existing practices so long as these can be applied across the Union.

(g) **Efficiency** - The costs of following the rules should not exceed what is necessary to achieve comparable HICPs. The cost, over and above existing costs, should be identified and arrangements for meeting such costs agreed between the Commission and NSIs before the rules are adopted.

D. IMPLEMENTATION OF THE COUNCIL REGULATION

20. Article 5 of the Council Regulation commits Member States to a staged process of implementation as follows:

(a) Stage I:

By March 1996 at the latest, the Commission (Eurostat) shall, in collaboration with Member States, produce for the purposes of the report referred to in Article 109j of the Treaty ("convergence criteria") an interim set of consumer price indices for each Member State. These indices shall be based wholly on data underlying existing national consumer price indices, adjusted in particular as follows :

- i) to exclude owner-occupied housing;
- ii) to exclude health and educational services;
- iii) to exclude certain other items not covered or treated differently by a number of Member States;

(b) Stage II :

The HICP shall start with the index for January 1997. The common index reference period shall be the year 1996. The estimates of price changes for the twelve months to January 1997 and subsequent months shall be established on the basis of the indices for 1996."

Stage 1 of the harmonization process: January 1996

21. On 29 February 1996, the Commission launched ¹⁰ the interim set of CPIs referred to in Article 5 (1) (a) of the Council Regulation. These "**interim indices**", as required by the regulation, were based entirely on existing national CPIs, adjusted solely so as to make the product coverage as similar as possible. They therefore provided a better basis of international comparison of consumer price inflation than the unadjusted national CPIs, and were used by the Commission and the European Monetary Institute in their first convergence reports to the Council in 1996.

22. Certain categories of expenditure were excluded where, in the time available, it was impossible to reach agreement on how best to construct comparable measures. In particular, owner occupiers' housing costs, not covered in some countries, measured by equivalent rents in others, and by mortgage interest payments in the rest, were entirely excluded. Expenditure on health and education was also excluded because of major institutional differences between countries in the ways in which consumers pay for such services, either directly or via taxes. As well as excluding certain items, some other categories of expenditure that are not in some national CPIs - in particular, alcoholic drink and tobacco - were included for all Member States.

23. The interim indices were compiled for just one year. As required by the Council Regulation, Harmonized Indices of Consumer Prices (HICPs) begin with the index for January 1997.

Stage 2 of the harmonization process: January 1997

24. On 7 March 1997 Eurostat published the first set of **Harmonized Indices of Consumer Prices (HICPs)** as required by Article 5 (1) (b) of the Council Regulation ¹¹. In contrast to the interim indices, the HICPs are harmonized in several methodological areas as well as coverage. Although the HICPs provide a sound statistical basis for international comparisons of consumer price inflation and very considerable progress has been made in harmonizing methodologies, more work remains to be done to achieve further harmonization of consumer price indices.

25. The rest of this report provides summaries of the first two Commission Regulations (EC) No 1749/96 and No 2214/96, together with notes on plans for further regulations. Commission Regulation (EC) No 1749/96 on initial implementing measures covers six technical areas: initial coverage, newly significant goods and services, elementary aggregates, and minimum standards for quality adjustment, sampling and prices. Commission Regulation (EC) No 2214/96 relates to the transmission and dissemination of the HICP and its sub-indices.

26. The details of the regulations and guidelines needed for constructing the HICP are drawn up by Eurostat in close co-operation with statisticians from the National Statistical Institutes, drawing on expert advice of academics working in the field of price indices. All proposals are at first discussed by a Task Force and then by the full Working Party before draft regulations

are presented to the SPC acting as a Regulatory Committee for approval (which is given under the Qualified Majority Vote procedure).

Initial Coverage

27. Article 3 of Commission Regulation (EC) 1749/96 defines the initial coverage of the HICPs. They are compiled using a relatively new international classification of consumers' expenditure known as COICOP (Classification Of Individual Consumption by Purpose). A version of this classification has been specially adopted for the HICPs, known as COICOP/HICP (see also para. 39). The additions to coverage as compared with the interim indices of Stage 1 (see para. 21) are, for example; insurances for cars and dwellings, package holidays, banking services, educational goods and services such as evening classes, and health goods that are obtainable without prescription. However, some difficult categories, including most health and educational services, are still not covered. A Commission Regulation on extended HICP coverage, which will tackle these difficult areas (see para. 43) is currently being prepared. Some CPIs include either imputed rents or mortgage interest payments in respect of owner occupiers. These are excluded from the HICPs.

28. The weights assigned to each category of COICOP/HICP vary from country to country depending on the relative importance of consumers' expenditure on each good or service in each country. That means that there is **no** "uniform basket" applying to all Member States, but comparability will be ensured.

Newly Significant Goods and Services

29. CPIs are frequently criticised for failing to include new products such as mobile phones and personal computers. The requirement in the Council Regulation (Art. 5(3)) to "maintain the relevance of HICPs" means that steps must be taken to ensure that these criticisms cannot be levelled against the HICPs. If some Member States add new products when they become a significant part of consumption but others fail to do so, it could lead to significant differences in the measured rates of inflation.

30. Article 4 of Commission Regulation (EC) 1749/96 is aimed at ensuring that HICPs keep broadly in step with each other and up-to-date in terms of market developments. In general, new products have to be incorporated in the HICP as soon they achieve a sales volume of over 1 part per thousand of total consumers' expenditure in the Member State. Eurostat is acting as an information exchange, informing each country of the products newly included in other countries' HICPs.

Minimum Standards for Procedures of Quality Change

31. It is a general rule that CPIs should measure "pure price change" unaffected by changes in the things which people buy. The prices taken for a CPI should therefore be adjusted for changes in the quality of the goods or

services to which they relate. However, there is no universal agreement on just how this should be done and there are major differences between countries in actual practices. Studies indicate that this is probably the largest single source of non-comparability¹². Differences between CPIs arise because the same change in the physical characteristics of an item are treated in quite different ways from one country to another. Such differences in practice do not "average out" across the goods and services covered by the indices; on the contrary, they are likely to cumulate to differences well in excess of 0.1 percentage points. Studies, which are continuing, on the different treatments of quality changes in motor vehicles suggest that this alone might lead to CPI effects greater than 0.1 percentage point on annual rates. This is not to say that the same quality characteristic will be valued to the same extent in different Member States, only that the principles and procedures for valuation should be the same.

32. Article 5 of Commission Regulation (EC) 1749/96 requires Member States to examine quality adjustment procedures and to avoid "automatic linking", which is equivalent to the assumption that the difference in price between two successive models is wholly attributable to a difference in quality. If a country always assumes that a price increase from one model to another is due to a quality change and, therefore, reflects no price change in the CPI, this "automatic linking" may lead to underestimation of inflation and vice versa. Eurostat will assist in this process by setting up a database of quality change estimates provided both by Member States themselves and from other sources.

Minimum Standards for Prices

33. A widespread practice used in price estimation for CPIs is known as "carry-forward". Fieldwork price collection involves the observation of the price, usually each month, of a set of specified products in specified retail outlets. If, for any reason, a particular price cannot, or is not, collected, a common procedure is to simply use the price observed on the previous occasion - which may have been many months previously.

34. The banning of this practice - which can lead to serious biases - is the main concern of Article 6 of Commission Regulation (EC) 1749/96 which requires Member States to maintain their target sample from month to month; where prices are not observed they must be estimated by an appropriate procedure, and not by automatically carrying forward the last observed price.

Price Indices for Elementary Aggregates

35. Article 7 of Commission Regulation (EC) 1749/96 concerns the formula to be used for the calculation of "elementary aggregates" - the lowest level of detail for which expenditure weights are known. Practices vary considerably between Member States, and the achievement of consensus was difficult. The arguments centred on two issues. The first was whether the detailed indices should be calculated by taking the ratio of the average price of items in a particular stratum, or whether to take the average of the ratios of those items. The second was how to define "average" in the above calculation: the arithmetic or the geometric average. The regulation allows the use of the

ratio of either arithmetic or geometric mean prices, but not the arithmetic mean of price relatives. The United States' Bureau of Labor Statistics (BLS) is also investigating this following the Boskin report.

Minimum Standards for Sampling

36. Statistical theory suggests that random sampling is desirable in order to avoid bias in a statistic. However, this is not easily achieved when it comes to the collection of prices for a CPI and most countries follow sampling procedures which are referred to as purposive or representative. The decisions on which prices to collect may thus be determined by the degree of co-operation of retailers or by the inclinations of particular price collectors. While this may not seem to be good practice it is not easy to demonstrate that the resultant indices are non-comparable on this count.

37. Only a few countries make any attempt to compute sampling errors for their CPIs and none has any measure of bias. Studies commissioned by Eurostat into these matters indicate that the problem of comparability is particularly acute for sampling. They suggested that representative versus probability sampling could give large differences for item groups, but these were not significant on average. Furthermore, they indicated that the number of elementary aggregates could have short term effects, whereas regional differences did not seem to be a problem. It was clear that it is possible to have a poor sample design and that a rule which changes current practices towards improved comparability was needed.

38. The aim of Article 8 of Commission Regulation (EC) 1749/96 is to improve, where necessary, the reliability and comparability of HICPs by reducing errors that arise from different sample designs and practices. Studies are being carried out to assess both sampling error and bias in HICPs and these will be used later to set appropriate limits on such errors.

Transmission and Dissemination of Sub-indices of the HICP

39. The Council Regulation requires a specification of the sub-indices to be produced and published along with the HICPs. Whilst the assessment of price stability under the convergence criterion (para. 7) primarily concerns the "all items" HICPs, the analysis of sources of inflationary pressure requires a sub-division of the HICP into component parts relating to different product groups. Commission Regulation (EC) 2214/96 defines a set of sub-indices of the HICP with common coverage that the Member States are required to transmit to Eurostat. The sub-indices are based on the classification COICOP/HICP (see also para. 27). A list of the sub-index headings is given in Annex 1. Starting from March 1997 Eurostat will disseminate these sub-indices and their weights each month.

Common Reference Periods

40. There are three types of base period used in the construction of CPIs: the period from which the expenditures for weights are obtained ("weight reference period"); the period in which base prices are valued ("price reference period"); and the period in which the index base is set to 100

("index reference period"). At present, there are differences between national CPIs in all these reference periods. For the HICP, the Council Regulation sets the index reference period as 1996 = 100. Since the HICPs are derived from national CPIs it was necessary to "re-reference" or "price-update" the HICP and its sub-indices to 1996; that is to express the movements in the HICP and its sub-indices by reference to the average level of prices in 1996, and subsequently to December 1996, December 1997, December 1998, etc. Re-referencing is simply a scaling exercise which in itself has no effect on the measured rate of inflation. However, it allows HICPs to be presented as if they were all computed in the same way and provides for the construction of indices for groups of countries or the EU as a whole.

The EICP

41. The European Index of Consumer Prices (EICP) is calculated as a weighted average of the HICPs of the 15 EU Member States. The index is computed as an annual chain index allowing for country weights changing each year. The weight of a Member State is its proportion of final consumption expenditure of households in the EU total. The values of final consumption expenditure in national currencies are converted into purchasing power standards (PPS) using the purchasing power parities of final consumption. The country weights used in 1997 are national accounts data for 1995 at 1996 prices. The European Economic Area Index of Consumer Prices (EEAICP) is calculated in the same way, with the inclusion of Iceland and Norway.

Further steps towards harmonization

42. At present, the HICPs provide the best statistical basis for international comparisons of consumer price inflation and very considerable progress has been made in harmonizing methodologies. However, more work remains to be done to achieve even better comparability. Technical regulations and agreements will shortly be proposed in the following areas:

Extended coverage

43. Article 3 of Commission Regulation (EC) 1749/96 referred to in para. 27 is concerned with the initial coverage of the HICPs from 1997. Some difficult categories such as health and educational services, where there are major institutional differences between Member States, are still not fully covered by the HICP. Since many goods and services in the area of health and education are heavily subsidised by the state, it is not always clear which prices should be included in an index of consumer prices, and the ways of treating this problem differ between Member States. The main options are the net prices actually paid by consumers or the total cost of providing the good or service. A draft Commission Regulation on Extended Coverage is currently being prepared. It sets out the principles on how to extend the coverage of the HICP by reference to the new European System of Accounts (ESA 95) and defines the details by reference to COICOP/HICP.

44. There also remains the question of how to measure the impact of inflation on owner occupiers in respect of housing. Imputed rents or mortgage interest payments, which are used in some CPIs, are not actual price transactions and considered inappropriate for international comparisons of consumer price inflation. The question has been discussed extensively by the Working Party, but the details are still to be settled. The main options now seem to be either to exclude them entirely, or to include them on the basis of acquisition costs for new dwellings.

Minimum standards for the quality of HICP weights.

45. Article 8 (3) of Council Regulation No 2494/95 requires that HICP weights are sufficiently up-to-date to ensure comparability whilst avoiding the cost of having Household Budget Surveys more frequently than every five years. Article 5 (3) further requires that implementing measures for maintaining the "reliability and relevance" of the HICPs be adopted. CPIs are, in general, fairly insensitive to errors in weights. Differences in up-date frequency can, but will not necessarily, lead to differences in the resultant measured rate of inflation or to non-comparability between HICPs. Imposing the cost of high precision for all weights or frequent updating of weights is not therefore justified. On the other hand it is difficult to assert that an HICP which uses weights that are based on limited data sources or on data that may be as much as seven years old will provide a reliable and relevant measure of current inflation. A draft Commission Regulation is currently being prepared. It proposes a minimum action of review and adjustment to ensure that the quality of weights used to construct HICPs is sufficient.

46. Eurostat has for a number of years been working with Member States to harmonize the design, content and frequency of Family Budget Surveys. This work has potential importance for the harmonization of CPIs since the quality and up-to-dateness of weights depend on such data sources as well as other sources such as National Accounts data.

Geographic and population coverage

47. National CPIs differ in their choice of population coverage, e.g. some exclude persons living in institutions, others include them. A particular problem concerns the expenditure of nationals whilst in a foreign country, and the expenditure of foreigners in the home country, and at the same time distinguishing between business and private travellers. Article 3 of Council Regulation No 2494/95 restricts the HICPs to products "available for purchase in the economic territory of the Member State.", but this does not say anything about the residency status of the consumer. This question is associated with what Member States use as a primary source of weights (see para. 45). A Commission Regulation is planned.

Monopoly-like prices

48. Many prices relate to products for which only a single price exists, either because of government regulation or because of a monopoly situation. In particular, prices for such items as post, telephones, gas, electricity

and water, can be the same for many if not all consumers. These products account for a large proportion of the overall expenditure covered by consumer price indices and it is important that differences in the ways these are treated in the HICPs do not lead to non-comparability. Changes are taking place in many countries on the pricing policies of industries supplying services such as electricity and telecommunications and it is important that the impact on consumers is appropriately captured in the HICPs. Weights should reflect the pattern of expenditure by the index population and not by businesses. The Working Party will also examine the effects on comparability where weights relate to the weight reference period as distinct from a more up-to-date period prior to changes in price structure.

E. COMPLIANCE

49. As referred to in para. 16, the general approach to the Commission Regulations is to specify the outputs, leaving it to Member States to decide how to achieve them. This approach implies the need for an effective compliance monitoring system. Plans are currently being drawn up to set in place a system designed to ensure that Member States are following the various Regulations on HICPs, so that users can be assured that the results are achieving what was intended. In line with the practice existing in many Member States, Eurostat also plans to establish an independent advisory body for HICPs which will help to guarantee the quality and independence of this important new economic indicator.

F. ENLARGEMENT OF THE EUROPEAN UNION

50. The Commission has to prepare an opinion on the applications for membership¹³ of the European Union. Eurostat has to support the Commission's opinion with the necessary data. The Commission opinion is concerned with the applicants' ability to take on the obligations of membership, including adherence to the aims of political, economic and monetary union. Statistical information should be available in a form which is relevant for the purposes of membership. For price statistics this means having internationally comparable HICPs. During the pre-accession stage the applicant countries are required to implement the "acquis communautaire"¹⁴. In 1996 the first meeting was held with the applicant countries; the aim is to involve them as fully as possible in the harmonization project.

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Endnotes

1. Council Regulation (EC) No 2494/95, OJ No. L 257/1, 27.10.95.
2. "Consumer Price Indexes in the EC: Comparison of Existing Indexes and Approaches to their Harmonization", SOEC, Luxembourg, 1976.
3. "Consumer Price Indices; an ILO Manual" ed. Ralph Turvey, ILO Geneva, 1989.
4. "Consumer Price Indices in the European Community", R. Teekens, Eurostat, Luxembourg, 1989.
5. Treaty on European Union, Luxembourg, 1992.
6. Treaty on European Union: Protocol on the convergence criteria referred to in Article 109j of the Treaty establishing the European Community.
7. Council Regulation (EC) No 2494/95, concerning harmonized indices of consumer prices, OJ No L 257/1, 27.10.95.
8. Established by council Decision 89/382; OJ No L181 28.6.1989.
9. OJ No L 229/3, 10.9.1996 and OJ L 296/8, 21.11.96, respectively.
10. News Release No 15/96, Eurostat, 29 February 1996.
11. News Releases, Eurostat, 5 and 7 March 1997.
12. See for example the "Boskin Report": "Towards a more accurate measure of the cost of living", Final report to the Senate Finance Committee from the Advisory Commission to study the Consumer Price Index, Michael J. Boskin, Chairman et. Al., 4 December 1996.
13. The applicant countries are: Bulgaria, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic, and Slovenia.
14. The legal framework that applies to the Member States of the European Union

ANNEX I

Sub-indices transmitted to and disseminated by Eurostat

COICOP/ HICP	NAME OF INDEX
00.	HICP (overall index)
01.	FOOD AND NON-ALCOHOLIC BEVERAGES
01.1	Food
01.1.1	Bread and cereals
01.1.2	Meat
01.1.3	Fish
01.1.4	Milk, cheese and eggs
01.1.5	Oils and fats
01.1.6	Fruit
01.1.7	Vegetables including potatoes and other tubers
01.1.8	Sugar, jam, honey, syrups, chocolate and confectionery
01.1.9	Food products n.e.c.
01.2	Non-alcoholic beverages
01.2.1	Coffee, tea and cocoa
01.2.2	Mineral waters, soft drinks and juices
02.	ALCOHOLIC BEVERAGES AND TOBACCO
02.1	Alcoholic beverages
02.1.1	Spirits
02.1.2	Wine
02.1.3	Beer
02.2	Tobacco
03.	CLOTHING AND FOOTWEAR
03.1	Clothing
03.1.1	Clothing materials
03.1.2	Garments
03.1.3	Other articles of clothing and clothing accessories
03.1.4	Dry-cleaning, repair and hire of clothing
03.2	Footwear, incl. repairs
04.	HOUSING, WATER, ELECTRICITY, GAS AND OTHER FUELS
04.1	Actual rentals for housing
04.3	Regular maintenance and repair of the dwelling
04.3.1	Products for the regular maintenance and repair of the dwelling
04.3.2	Services for the regular maintenance and repair of the dwelling
04.4A	Other services relating to the dwelling
04.5	Electricity, gas and other fuels
04.5.1	Electricity
04.5.2	Gas
04.5.3	Liquid fuels

04.5.4	Solid fuels
04.5.5	Hot water, steam and ice
05.	FURNISHINGS, HOUSEHOLD EQUIP. AND ROUTINE MAINTENANCE OF THE HOUSE
05.1	Furniture, furnishing, decorations, carpets and repairs
05.1.1	Furniture and furnishings
05.1.2	Carpets and other floor coverings
05.1.3	Repair of furniture, furnishings and floor coverings
05.2	Household textiles
05.3	Heating, cooking, refrigerators, washing machines, similar major household appliances, fittings, repairs
05.3.1/2	Major household appliances whether electric or not and small electric household appliances
05.3.3	Repair of household appliances
05.4	Glassware, tableware and household utensils
05.5	Tools and equipment for house and garden
05.6	Goods and services for routine household maintenance
05.6.1	Non-durable household goods
05.6.2	Domestic services and home care services
06.A	HEALTH - goods paid by the consumer and not reimbursed
07.	TRANSPORT
07.1	Purchase of vehicles
07.1.1	New and second-hand motor cars
07.1.2/3	Motor cycles and bicycles
07.2	Operation of personal transport equipment
07.2.1	Spares parts and accessories
07.2.2	Fuels and lubricants
07.2.3	Maintenance and repairs
07.2.4A	Other services in respect of personal transport equipment
07.3	Transport services
07.3.1A	Passenger transport by railway
07.3.2A	Passenger transport by road
07.3.3A	Passenger transport by air
07.3.4A	Passenger transport by sea and inland waterway
07.3.5A	Other purchased transport services
07.3.6A	Combined tickets
08.	COMMUNICATIONS

08.1	Communications
08.1.1	Postal services
08.1.2/3	Telephone and telefax equipment and services
09.	RECREATION AND CULTURE
09.1	Equipment and accessories, including repairs
09.1.1	Equipment for the reception, recording and reproduction of sound and pictures
09.1.2	Photographic and cinematographic equipment and optical instruments
09.1.3	Data processing equipment
09.1.4	Other major durables for recreation and culture
09.1.5	Games, toys and hobbies, equipment for sport, camping and open-air recreation
09.1.6	Recording media for pictures and sound
09.1.7	Gardening
09.1.8	Pets
09.1.9	Repair of equipment and accessories for recreation and culture
09.2A	Recreational and cultural services
09.3	Newspaper, books and stationery
09.4	Package holidays
10.A	EDUCATION - commonly paid by consumers in Member States
11.	HOTELS, CAFES AND RESTAURANTS
11.1	Catering
11.1.1	Restaurants and cafés
11.1.2	Canteens
11.2	Accommodation services
12.	MISCELLANEOUS GOODS AND SERVICES
12.1	Personal care
12.1.1	Hairdressing salons and personal grooming establishments
12.1.2	Appliances, articles and products for personal care
12.2	Personal effects n.e.c.
12.4A	Insurance
12.4.2A	Insurance connected with the dwelling - Contents insurance
12.4.4A	Insurance connected with transport - Car insurance
12.5A	Banking services n.e.c.
12.6A	Other services n.e.c.

ANNEX II

LEGAL ACTS ON HICPs

1. Council Regulation (EC) No 2494/95, concerning harmonized indices of consumer prices, OJ No L 257/1, 27.10.95.
2. Commission Regulation (EC) No 1749/96, on initial implementing measures for Council Regulation (EC) No 2494/95 concerning harmonized indices of consumer prices, OJ No L 229/3, 10.9.96.
3. Commission Regulation (EC) No 2214/96, on the transmission and dissemination of sub-indices of the HICP, OJ No L 296/8, 21.11.96.