



COMMISSION OF THE EUROPEAN COMMUNITIES

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Proposal for a

COUNCIL REGULATION (EC)

**amending Regulation (EC) No 1749/96
concerning the coverage of goods and services of the
Harmonized Index of Consumer Prices**

Proposal for a

COUNCIL REGULATION (EC)

**amending Regulation (EC) No 1749/96
concerning the geographic and population coverage
of the Harmonized Index of Consumer Prices**

(presented by the Commission)

EXPLANATORY MEMORANDUM

Reference : **Proposal for Council Regulation (EC) amending Regulation (EC) No 1749/96 concerning the coverage of goods and services of the Harmonized Index of Consumer Prices**

1. On 7 March 1997 Eurostat published the first set of Harmonized Indices of Consumer Prices (HICPs) as required by Article 5 (1) (b) of Council Regulation 2494/95. The HICPs provide the best statistical basis for international comparisons of consumer price inflation and will be used in particular by the European Commission and the European Monetary Institute for the assessment of inflation convergence under Article 109 (j) of the Treaty establishing the European Community. They will subsequently form the basis of the Monetary Union Index of Consumer Prices (MUICP) to be used by, among others, the future European Central Bank for the monitoring of inflation in the Economic and Monetary Union. The requirement to produce HICPs in no way puts in question the right of Member States to publish their national, non-harmonised, inflation indices, which they may wish to use for national policy purposes.
2. Under Council Regulation 2494/95, the Commission has so far adopted three detailed regulations establishing the specific implementing measures governing the production of the HICP. The first, Commission Regulation (EC) 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. The second, Commission Regulation (EC) No 2214/96, relates to the HICP and its sub-indices that are transmitted to and disseminated by Eurostat. The third, Commission Regulation (EC) No 2454/97, defines minimum standards for the quality of the weights used to construct the HICP.
3. Article 3 of Commission Regulation (EC) 1749/96, defines the initial coverage of the HICPs from January 1997. Some difficult categories such as health and educational services, where there are major institutional differences between Member States, are not yet fully covered by the HICP. The draft regulation amends Commission Regulation (EC) 1749/96 with regard to coverage of goods and services and proposes a staged procedure on how to extend the coverage of the HICP in December 1998 and December 1999 (see also Annex Ia of the draft regulation).
4. The concept "household final monetary consumption expenditure" in the proposed regulation defines both the goods and services to be covered by the HICP and the price concept to be used: prices net of reimbursements, subsidies, and discounts. The draft regulation follows the definitions laid down in the European System of Accounts (ESA 1995) where they are appropriate for international comparisons of inflation (see also Annex Ib of the draft regulation).
5. "Household final monetary consumption expenditure" refers only to monetary transactions and, therefore, neither includes income in kind, as for example agricultural products grown for own consumption, nor services of owner occupied dwellings. In particular, the expenditure faced by owner occupiers when acquiring housing expressed as imputed rents

or mortgage interest payments are not regarded as part of the inflationary process and hence excluded from the HICPs. Imputed rents are the opportunity costs to owner occupiers of living in their houses rather than a reflection of actual prices faced by them as consumers. These and any other opportunity costs are not regarded as part of inflation. Mortgage interest is simply the cost of credit, and credit payments should not normally be included in CPIs. The Statistical Programme Committee (SPC) discussed the treatment of owner occupied housing in the HICP on 13 March 1997. Many Member States were sympathetic to the idea that the prices faced by owner occupiers when acquiring housing should be covered by the HICP, but felt that it was premature to proceed with an index of net acquisition of new dwellings. A special Task Force will be set up in 1998 by Eurostat. Until a satisfactory solution for the services of owner occupied dwellings can be found, such expenditure is by definition excluded from "household final monetary consumption expenditure".

6. The HICPs of the Member States currently cover more than 90% of "household final monetary consumption expenditure". The remaining 10% will be added by December 1999. 6% refers to goods and services which according to the draft regulation would be added in two stages, in December 1998 and December 1999. The remaining 4% refers to the geographic and population coverage of the HICP. Consultation is proceeding in parallel on a draft regulation defining the geographic and population coverage.
7. The HICP Working Party¹ and its Task Forces have spent many hours in numerous meetings over two years discussing the coverage of the HICP. The proposal has obtained the agreement of almost all members of the HICP Working Party including the main users DG II and the EMI², who have emphasised that the coverage of the HICP should be as broad as possible with respect to consumer price inflation.

¹ Group of experts

² However, the EMI has not been formally consulted

Proposal for
COUNCIL REGULATION (EC) No [xx/98]
of [date]
amending Regulation (EC) No 1749/96
concerning the coverage of goods and services of the
Harmonized Index of Consumer Prices

(Text with EEA relevance)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community,

Having regard to Council Regulation (EC) No 2494/95 of 23 October 1995 concerning harmonized indices of consumer prices¹, and in particular Articles 4 and 5 (3) thereof,

Having regard to the proposal from the Commission,

After consulting the European Monetary Institute,

Whereas, by virtue of Article 5 (1) (b) of Regulation (EC) No 2494/95, each Member State is required to produce a Harmonized Index of Consumer Prices (HICP) starting with the index for January 1997; the requirement to produce HICPs in no way puts in question the right of Member States to publish their national, non-harmonised, inflation indices, which they may wish to use for national policy purposes;

Whereas Commission Regulation (EC) No 1749/96² set down an initial coverage for HICPs that was restricted to those goods and services covered by all or most national Consumer Price Indices (CPIs); whereas the prices to be taken for the HICP, in particular the treatment of subsidies, rebates and reimbursements, require harmonized definitions; whereas the geographic and population coverage of the HICPs need still to be specified;

Whereas Article 3 of Regulation (EC) No 2494/95 requires that the HICP should be based on the prices of goods and services available for purchase in the economic territory of the Member State for the purposes of directly satisfying consumer needs; whereas prices not actually paid by consumers in such purchases or opportunity costs or interest payments are not appropriate for international comparisons of consumer price inflation;

Whereas it is recognised that changes in reimbursements might not have an impact on measures of inflation in a broader context but they do form an essential part of the inflationary process affecting consumers and therefore need to be reflected in the HICP;

¹ OJ L 257, 27.10.1995, p. 1.

² OJ L 229, 10.9.1996, p. 3.

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Whereas the Statistical Programme Committee (SPC) has not delivered an opinion within the time limit laid down by the chairman; whereas in this case following the procedure laid down in Article 14 paragraph 2 of Regulation (EC) No 2494/95 the Commission shall, without delay, submit to the Council a proposal relating to the measures to be taken;

HAS ADOPTED THIS REGULATION:

Article 1

Annex I of Regulation (EC) No 1749/96 is replaced by Annexes Ia and Ib of the present Regulation.

Article 2

In the first indent of Article 1 of Regulation (EC) No 1749/96 the word "initial" is deleted.

Article 3

Sub-paragraph (a) of Article 2 of Regulation (EC) No 1749/96 is replaced by the following:

- " (a1) The 'coverage' of the HICP is defined as those goods and services which are included in household final monetary consumption expenditure (see Article 3 (a2) below). It is classified according to the 4-digit categories and sub-categories given in Annex Ia to this regulation, which derive from the COICOP international classification and shall be known as COICOP/HICP (classification of individual consumption by purpose adapted to the needs of HICPs).
- (a2) 'Household final monetary consumption expenditure' is defined as that part of final consumption expenditure³ which is incurred by households⁴ in monetary transactions⁵ in one or both of the time periods being compared, and specified in Annex Ib to this regulation. Unless otherwise stated, Annex Ib follows the definitions laid down in the European System of Accounts (ESA) 1995⁶. 'Household final monetary consumption expenditure' consists of expenditure incurred on goods and services that are used for the direct satisfaction of individual needs or wants either by:
- (a2a) resident⁷ households on the domestic territory or abroad, or
 - (a2b) resident and non-resident households on the domestic territory, or
 - (a2c) the population of households within the scope of the national household budget survey.
- (a3) Prices used in the HICP are the purchaser prices⁸ paid by households to purchase individual goods and services⁹ in monetary transactions. Where goods and services

³ Annex Ib No 4 to 27

⁴ Annex Ib No 1

⁵ Annex Ib No 3

⁶ Council Regulation (EC) No 2223/96 of 25.6.1996, OJ L 310, 13.11.1996

⁷ Annex Ib No 2

⁸ Annex Ib No 28

have been available to consumers free of charge, and subsequently an actual price is charged, then the change from a zero price to the actual price, and vice-versa, should be taken into account in the HICP.

- (a4) The 'weights' of the HICP are the aggregate expenditure by households on any set of goods and services covered by the HICP expressed as proportion of the total expenditure on all goods and services covered. "

Article 4

Article 3 of Regulation (EC) No 1749/96 is replaced by the following:

" **Coverage**

1. HICPs compiled from price changes and weights for each category of household final monetary consumption expenditure given in Annex Ia accounting for more than one part in a thousand of the total expenditure covered by all those categories included as specified in Article 3 (2), shall be deemed comparable.
2. The coverage of the HICP shall be extended, as follows:
 - (a) Starting with the production of the HICP for January 1997, Member States shall process the data collected covering those categories marked as 'initial coverage' as specified in Annex Ia.
 - (b) On but not before the production of the HICP for December 1998, Member States shall process the data collected covering also those categories marked as 'December 1998' as specified in Annex Ia.
 - (c) On but not before the production of the HICP for December 1999, Member States shall process the data collected covering also those categories marked as 'December 1999' as specified in Annex Ia. "

Article 5

In Article 4 of Regulation (EC) No 1749/96 the words "Annex I" are replaced by the word "Annex Ia".

Article 6

This Regulation shall enter into force on the twentieth day following that of 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.

Done at Brussels,

For the Council

The coverage of the HICP shall include the following categories of COICOP/HICP:

Code	COICOP/HICP Heading	Initial Coverage Jan. 1997	Addition December 1998	Addition December 1999	Excluded
01.	FOOD AND NON-ALCOHOLIC BEVERAGES				
01.1	Food				
01.1.1	Bread and cereals	full			
01.1.2	Meat	full			
01.1.3	Fish	full			
01.1.4	Milk, cheese and eggs	full			
01.1.5	Oils and fats	full			
01.1.6	Fruit	full			
01.1.7	Vegetables including potatoes and other tubers	full			
01.1.8	Sugar, jam, honey, syrups, chocolate and confectionery	full			
01.1.9	Food products n.e.c.	full			
01.2	Non-alcoholic beverages				
01.2.1	Coffee, tea and cocoa	full			
01.2.2	Mineral waters, soft drinks and juices	full			
02.	ALCOHOLIC BEVERAGES AND TOBACCO				
02.1	Alcoholic beverages				
02.1.1	Spirits	full			
02.1.2	Wine	full			
02.1.3	Beer	full			
02.2	Tobacco				
02.2.1	Tobacco	full			
02.3	Narcotics				
02.3.1	Narcotics				excluded
03.	CLOTHING AND FOOTWEAR				
03.1	Clothing				
03.1.1	Clothing materials	full			
03.1.2	Garments	full			
03.1.3	Other articles of clothing and clothing accessories	full			
03.1.4	Dry-cleaning, repair and hire of clothing	full			
03.2	Footwear				
03.2.1	Shoes and other footwear	full			
03.2.2	Repair and hire of footwear	full			
04.	HOUSING, WATER, ELECTRICITY, GAS AND OTHER FUELS				
04.1	Actual rentals for housing				
04.1.1	Actual rentals paid by tenants	part ¹⁰	full ¹¹		
04.1.2	Other actual rentals	part ¹⁰	full ¹¹		
04.2	Imputed rentals for housing				
04.2.1	Imputed rentals of owner-occupiers				excluded ¹²
04.2.2	Other imputed rentals				excluded ¹²

¹⁰ Relates to the practice followed in the national CPI

¹¹ Refers to all rentals actually paid by tenants, i.e. the rentals the tenant pays to the landlord regardless of any social benefits the tenant receives from public authorities (including payments which at the tenant's discretion go directly to the landlord); see also Annex Ib No 12b

¹² This does not prejudice the coverage of owner occupied housing in general

Code	COICOP/HICP Heading	Initial Coverage Jan. 1997	Addition December 1998	Addition December 1999	Excluded
04.3	Regular maintenance and repair of the dwelling				
04.3.1	Products for the regular maintenance and repair of the dwelling	full ¹³			
04.3.2	Services for the regular maintenance and repair of the dwelling	full ¹³			
04.4	Other services relating to the dwelling				
04.4.1	Refuse collection	part ¹⁴	full ¹⁵		
04.4.2	Sewerage services	part ¹⁴	full ¹⁵		
04.4.3	Water supply	part ¹⁴	full ¹⁵		
04.4.4	Other services relating to the dwelling n.e.c.	full			
04.5	Electricity, gas and other fuels				
04.5.1	Electricity	full			
04.5.2	Gas	full			
04.5.3	Liquid fuels	full			
04.5.4	Solid fuels	full			
04.5.5	Hot water, steam and ice	full			
05.	FURNISHINGS, HOUSEHOLD EQUIPMENT AND ROUTINE MAINTENANCE OF THE HOUSE				
05.1	Furniture, furnishings and decorations, carpets and other floor coverings and repairs				
05.1.1	Furniture and furnishings	full			
05.1.2	Carpets and other floor coverings	full			
05.1.3	Repair of furniture, furnishings and floor coverings	full			
05.2	Household textiles				
05.2.1	Household textiles	full			
05.3	Heating and cooking appliances, refrigerators, washing machines and similar major household appliances, including fittings and repairs				
05.3.1	Major household appliances whether electric or not	full			
05.3.2	Small electric household appliances	full			
05.3.3	Repair of household appliances	full			
05.4	Glassware, tableware and household utensils				
05.4.1	Glassware, tableware and household utensils	full			
05.5	Tools and equipment for house and garden				
05.5.1	Major tools and equipment	full			
05.5.2	Small tools and miscellaneous accessories	full			
05.6	Goods and services for routine household maintenance				
05.6.1	Non-durable household goods	full			
05.6.2	Domestic services and home care services	full			
06.	HEALTH				
06.1	Medical products, appliances and equipment				
06.1.1	Medical products, appliances and equipment	part ¹⁶	full ¹⁷		

¹³ Refers to expenditure which tenants or owner-occupiers incur on materials and services for minor maintenance and repairs; following a decision on the treatment of owner occupied housing, the coverage of this categories might need to be extended to include expenditure for major decoration, maintenance and repair of the dwelling and for extensions and conversions of the dwelling not typically paid by tenants; see also Annex Ib No 4 and 15

¹⁴ Refers to expenditure according to consumption

¹⁵ Refers to separately identifiable charges for specific services relating to the dwelling whether or not consumers pay according to consumption that is, excluding payments for services financed out of general taxation; see also Annex Ib No 9 and 29

¹⁶ Refers to health goods outside the social security system

Code	COICOP/HICP Heading	Initial Coverage Jan. 1997	Addition December 1998	Addition December 1999	Excluded
06.2	Out-patient services				
06.2.1	Medical services		full ¹⁷		
06.2.2	Dental services		full ¹⁷		
06.2.3	Paramedical services		full ¹⁷		
06.3	Hospital services				
06.3.1	Hospital services ¹⁸				
07.	TRANSPORT				
07.1	Purchase of vehicles				
07.1.1A	New motor cars	full			
07.1.1B	Second-hand motor cars	full			
07.1.2	Motor cycles	full			
07.1.3	Bicycles	full			
07.2	Operation of personal transport equipment				
07.2.1	Spares parts and accessories	full			
07.2.2	Fuels and lubricants	full			
07.2.3	Maintenance and repairs	full			
07.2.4	Other services in respect of personal transport equipment	full ¹⁹			
07.3	Transports services				
07.3.1	Passenger transport by railway	full			
07.3.2	Passenger transport by road	full			
07.3.3	Passenger transport by air	full			
07.3.4	Passenger transport by sea and inland waterway	full			
07.3.5	Other purchased transport services	full			
07.3.6	Combined tickets	full ²⁰			
08.	COMMUNICATIONS				
08.1	Communications				
08.1.1	Postal services	full			
08.1.2	Telephone and telefax equipment	full			
08.1.3	Telephone, telegraph and telefax services	full			
09.	RECREATION AND CULTURE				
09.1	Audio-visual, photographic and data processing equipment and accessories, including repairs				
09.1.1	Equipment for the reception, recording and reproduction of sound and pictures	full			
09.1.2	Photographic and cinematographic equipment and optical instruments	full			
09.1.3	Data processing equipment	full			
09.1.4	Recording media for pictures and sound	full			
09.1.5	Repair of audio-visual, photographic and data processing and accessories	full			

¹⁷ Full coverage refers to that part of expenditure on health goods and services (other than hospital out-patient services) which is paid by the consumer and not reimbursed by government, social security or NPISHs; see Annex Ib No 12a and the methodological details of inclusion as specified in accordance with the procedure laid down in Article 14 of Council Regulation (EC) No 2494/95

¹⁸ The methodological details and the timetable of inclusion shall be specified in accordance with the procedure laid down in Article 14 of Council Regulation (EC) No 2494/95

¹⁹ Includes driving licences, road worthiness tests, motor associations fees, tolls for bridges, tunnels, shuttle-ferrys, and motorways; excludes licences to own or use vehicles; see also Annex Ib No 9, 18, and 19b

²⁰ Refers to tickets covering two or more modes of transport and the expenditure cannot be apportioned between them

Code	COICOP/HICP Heading	Initial Coverage Jan. 1997	Addition December 1998	Addition December 1999	Excluded
09.2	Other major durables for recreation and culture				
09.2.1	Other major durables for recreation and culture	full			
09.2.2	Repair of other major durables for recreation and culture	full			
09.3	Other recreational items and equipment; flowers, gardens and pets				
09.3.1	Games, toys and hobbies, equipment for sport, camping and open-air recreation	full			
09.3.2	Gardening	full			
09.3.3	Pets	full			
09.4	Recreational and cultural services				
09.4.1	Sporting and recreational services	full ²¹			
09.4.2	Cultural services	full ²²			
09.4.3	<i>Games of chance</i>				excluded
09.5	Newspapers, books and stationery				
09.5.1	Books	part ²³	full ²⁴		
09.5.2	Newspapers and periodicals	full			
09.5.3	Miscellaneous printed matter	full			
09.5.4	Stationery and drawing materials	part ²³	full ²⁴		
09.6	Package holidays				
09.6.1	Package holidays	full			
10.	EDUCATION				
10.1	Educational services				
10.1.1	Pre-primary and primary education		full ²⁴		
10.1.2	Secondary education		full ²⁴		
10.1.3	Tertiary education		full ²⁴		
10.1.4	Education not definable by level	part ²⁵	full ²⁴		
11.	HOTELS, CAFES AND RESTAURANTS				
11.1	Catering				
11.1.1	Restaurants and cafés	full			
11.1.2	Canteens	part ²³	full ²⁴		
11.2	Accommodation services				
11.2.1	Accommodation services	part ²³	full ²⁴		
12.	MISCELLANEOUS GOODS AND SERVICES				
12.1	Personal care				
12.1.1	Hairdressing salons and personal grooming establishments	full			
12.1.2	Appliances, articles and products for personal care	full			
12.1.3	<i>Personal care services n.e.c.</i>				excluded
12.2	Personal effects n.e.c.				
12.2.1	Jewellery, clocks and watches	full			
12.2.2	Other personal effects	full			

²¹ Includes fees or subscriptions to sport clubs and fitness centres; it also includes payments for hunting and fishing licences if the government uses the issue of licences to organise some proper regulatory function; see also Annex Ib No 9 and 19b

²² Includes entrance fees to museums, fees for libraries, and licence fees and subscriptions to TV and radio; see also Annex Ib No 9 and 10

²³ Includes educational goods and services only if they are fully paid by consumers

²⁴ Full coverage refers to that part of expenditure on educational goods and services which is paid by the consumer and not reimbursed by government, social security or NPISHs; see Annex Ib No 12a and the methodological details of inclusion as specified in accordance with the procedure laid down in Article 14 of Council Regulation (EC) No 2494/95

²⁵ Refers to computer courses, language courses, typing courses, and other such courses which are fully paid by the consumer

Code	COICOP/HICP Heading	Initial Coverage Jan. 1997	Addition December 1998	Addition December 1999	Excluded
12.3	Social protection				
12.3.1	Social protection services		part ²⁶		
12.4	Insurance				
12.4.1	<i>Life insurance</i>				excluded
12.4.2	Insurance connected with the dwelling	part ²⁷	full ²⁸		
12.4.3	Insurance connected with health			full ^{29, 30}	
12.4.4	Insurance connected with transport	part ³¹		full ^{32, 30}	
12.4.5	Other insurance			full ^{33, 30}	
12.5	Financial services n.e.c.				
12.5.1	Financial services n.e.c.	part ³⁴		full ³⁵	
12.5.2	<i>FISIM</i>				excluded
12.6	Other services n.e.c.				
12.6.1	Other services n.e.c.	full ³⁶			

²⁶ Refers to crèches, nurseries, play-schools and kindergartens which are not an obligatory part of the educational system; covered are only those expenditure which are paid by the consumer and not reimbursed by government, social security or NPISHs; see also Annex Ib No 12a; other items within code 12.3.1 such as retirement homes, schools for the disabled, home cleaning services, and meal programmes are subject to the same arrangement as described in footnote 18

²⁷ Refers to service charges for contents-insurance

²⁸ Refers to all service charges paid by owner-occupiers and tenants for the kinds of insurance typically taken out by tenants against fire, theft, water damage, etc.; see also Annex Ib No 7, 8 and 24; following a decision on the treatment of owner occupied housing, the coverage of this categories might need to be extended to include service charges paid by owner-occupiers for the kinds of insurance for the dwelling typically taken out by landlords

²⁹ Refers to service charges for private sickness and accident insurance; see also Annex Ib No 7, 8 and 24 and the methodological details of inclusion of category "06. Health" as specified in accordance with the procedure laid down in Article 14 of Council Regulation (EC) No 2494/95

³⁰ The methodological details and the timetable of inclusion shall be specified in accordance with the procedure laid down in Article 14 of Council Regulation (EC) No 2494/95. The implementation may be scheduled for an earlier date

³¹ Refers to service charges for insurances in respect of personal transport equipment

³² Refers to service charges in respect of personal transport equipment, travel insurance and luggage insurance; see also Annex Ib No 7, 8 and 24

³³ Refers to service charges for insurance such as civil liability for injury or damage to third parties or their property not arising from the operation of personal transport equipment; see also Annex Ib No 7, 8 and 24

³⁴ Refers to banking service charges which are not expressed as proportion of the transaction value

³⁵ Refers to financial services including banking services; not covered are service charges for private or public pension funds, which are a kind of life insurance but restricted to specific groups of persons, as well as interest payments; see also Annex Ib No 21 and 23

³⁶ Includes fees for the issue of passports, birth, marriage or death certificates, and dues for membership to professional associations if they can be considered as payments for the services rendered; see Annex Ib No 9 and 19

A Definition of Household final monetary consumption expenditure

1. The **household** sector includes individuals or groups of individuals (as defined in ESA 2.76.a and 2.76.b) and may or may not include institutional households (as defined in ESA 2.76.b).
2. A **resident** household has its centre of economic interest within the economic territory of the Member State, which may or may not include territorial or extraterritorial enclaves (as defined in ESA 2.04. to 2.07.).
3. A **monetary transaction** is an economic flow that is an interaction between institutional units by mutual agreement, where the units involved make or receive payments, or incur liabilities or receive assets denominated in units of currency. By convention the collection of household refuse shall be considered as interaction by mutual agreement. Transactions that do not involve the exchange of cash, or assets or liabilities denominated in units of currency, are non-monetary transactions. Intra-unit transactions are normally non-monetary transactions. Non-monetary transactions involving more than one institutional unit occur among transactions in products (barter of products), distributive transactions (remuneration in kind, transfers in kind, etc.) and other transactions (barter of non-produced non-financial assets).

Household final monetary consumption expenditure covers the following borderline cases:

4. It **covers** items not treated as intermediate consumption, like materials for small repairs to and interior decoration of dwellings of a kind typically carried out by tenants as well as owners, and materials for repairs and maintenance to consumer durables, including vehicles.
5. It **covers** items not treated as capital formation, in particular consumer durables, that continue to perform their function in several accounting periods; this includes the transfer of ownership of some durables from an enterprise to a household.
6. It **covers** financial services directly charged.
7. It **covers** non-life insurance services by the amount of the implicit service charge.
8. It **covers** all expenditure financed out of non-life insurance claims, including payments made directly by the insurance companies to the garages, hospitals, doctors, etc. This implies that the full price paid by households or by insurance companies to the garages, hospitals, doctors, etc. is covered by the HICP.
Non-life insurance claims are the amounts which insurance enterprises are obliged to pay in settlement of injuries or damage suffered by persons or goods. They are current transfers from the insurance companies to the receiving households and, therefore, enter into the households' disposable income. Any expenditure made as a result, for example payments to garages, hospitals, or doctors, is treated as being incurred by the households and not by the insurance companies. It is irrelevant whether the households

actually make the expenditure before the claims are paid out, which then look like social security reimbursements, or whether the payments are made directly by the insurance companies to the garages, hospitals, etc. In the latter case, the companies are treated merely as agents acting on behalf of the households who are still treated as incurring the expenses.

9. It **covers** payments by households for licences, permits, etc. which are regarded as purchases of services. If the government uses the issue of licences to organise some proper regulatory function, such as checking the competence or qualification of the person concerned, the payments made should be treated as a purchase of services from government and the prices taken in the HICP, but if the licences are being granted automatically on payment of the amounts due, payments should be treated as direct taxes and not prices. Driving or pilot's licences, television or radio licences, firearm licences, museum or library admissions, garbage disposal fees, etc. are treated in most cases as purchases of services rendered by government, whereas licences on the use of vehicles, boats or aircraft are treated in most cases as taxes.
10. It **covers** the purchase of output at not economically significant prices, e.g. entrance fees for a museum.

**Household final monetary consumption expenditure does not cover
the following borderline cases:**

11. It does **not cover** income in kind because it is no monetary transaction (although according to ESA 3.76.b it is included in final consumption expenditure).
12. (a) It does **not cover** social transfers in kind received by households, including those parts of expenditure initially made by households for which they are subsequently reimbursed by social security, government units or NPISHs, e.g. for medical expenses or education. When a household purchases a good or service for which it is subsequently reimbursed in part or in whole, the household is treated merely as agents acting on behalf of a social security fund, government unit or NPISH. The amounts reimbursed to households are treated as social transfers in kind made by social security, government units or NPISHs. They are not recorded as cash transfers to households and do not form part of households' disposable incomes. This accounting treatment leads to the same result as when a social security fund purchases the goods and services from market producers and then re-sells them to households at low non-market prices. This implies that the price taken for the HICP is the amount paid by the household less the reimbursement.
- (b) All other rebates by public authorities, especially housing payments to tenants in order to reduce their rents (including payments which at the tenant's discretion go directly to the landlord), are considered as social benefits in cash and, therefore, enter into households' disposable income. This implies that the full price of the good or service before the rebate is **covered** by the HICP.
13. It does **not cover** services of owner occupied dwellings, because these are no monetary transactions (although according to ESA 3.76.a it is included in final consumption expenditure).

14. It does **not cover** the purchase of dwellings, and items treated as acquisitions of a non-produced assets, in particular the purchase of land.
15. It does also **not cover** expenditure that an owner-occupier incurs on the decoration, maintenance and repair of the dwelling not typically carried out by tenants.
16. It does **not cover** the expenditure on valuables.
17. It does **not cover** expenditure by households owning un-incorporated enterprises when incurred for business purposes.
18. It does **not cover** current taxes on income and wealth, which are all compulsory, unrequited payments, in cash or in kind, levied periodically by general government and by the rest of the world on the income and wealth of institutional units, and some periodic taxes which are assessed neither on the income nor the wealth. Other current taxes include all those payments by households for licences which are to be regarded as taxes, such as licences to own or use vehicles, boats or aircraft, etc.
19. (a) It does **not cover** subscriptions, contributions and dues paid by households to NPISHs, like trade unions, professional societies, consumers' associations, churches and social, cultural, recreational and sports clubs.

(b) However, if a club, union, society or association can be considered as a market producer selling its services at an economically significant price, which usually is the case even though the legal status may be a non-profit organisation, then the subscriptions, contributions and dues paid by households are considered as payments for the services rendered - not as a transfer - and, thus, **covered** by the HICP.
20. It does **not cover** voluntary transfers in cash or in kind by households to charities, relief and aid organisations.
21. It does **not cover** payments of property income, including interest. Property income is the income receivable by the owner of a financial asset or a tangible non-produced asset in return for providing funds to, or putting the tangible non-produced asset at the disposal of, another institutional unit. Under the terms of the financial instrument agreed between them, interest is the amount that the debtor becomes liable to pay to the creditor over a given period of time without reducing the amount of principal outstanding.
22. It does **not cover** compulsory or voluntary social contributions, such as employers' actual social contributions to social security funds, insurance enterprises or autonomous as well as non autonomous pension funds administering social insurance schemes to secure social benefits for their employees, or employees' social contributions payable to social security, private funded and unfunded schemes.
23. It does **not cover** life insurance and pension funding services (although according to ESA 3.76.f and g such services are included in final consumption expenditure by the amount of the implicit service charge).

24. It does **not cover** net non-life insurance premiums. These are premiums payable under policies taken out by institutional units. The policies taken out by individual households are those taken out on their own initiative and for their own benefit, independently of their employers or government and outside any social insurance scheme. Net non-life insurance premiums comprise both the actual premiums payable by policy holders to obtain insurance cover during the accounting period (premiums earned) and the premium supplements payable out of the property income attributed to insurance policy holders, after deducting the service charges of insurance enterprises arranging the insurance. (NB: This service charge is **covered** by the household final monetary consumption expenditure!). Net non-life insurance premiums are the amounts available to provide cover against various events or accidents resulting in damage to goods or property, or harm to persons as a result of natural or human causes, for example fires, floods, crashes, collisions, sinkings, theft, violence, accidents, sickness, or against financial losses resulting from events such as sickness, unemployment, accidents, etc.
25. It does **not cover** current transfers between households, which consist of all current transfers in cash or in kind made, or received, by resident households to, or from, other resident or non-resident households.
26. It does **not cover** fines and penalties. They are imposed on institutional units by courts of law or quasi-judicial bodies and treated as compulsory current transfers. Also not covered are fines and penalties imposed by tax authorities for the evasion or late payment of taxes, which cannot usually be distinguished from the taxes themselves.
27. It does **not cover** lotteries and gambling; neither the payment of the service charge to the unit organising the lottery or gambling, nor the residual current transfer that is paid out to the winners (although according to ESA 4.135 the service charge is included in final consumption expenditure).

B **Definition of Price**

28. At the time of purchase, the **purchaser's price** is the price for the products the purchaser actually pays; including any taxes less subsidies on the products; after deductions for discounts for bulk or off-peak-purchases from standard prices or charges; excluding interest or services charges added under credit arrangements; excluding any extra charges incurred as a result of failing to pay within the period stated at the time the purchases were made.
29. Goods and services for individual consumption ('**individual goods and services**') are acquired by a household and used to satisfy the needs and wants of members of that household. Individual goods and services have the following characteristics:
- (a) It must be possible to observe and record the acquisition of the good or services by an individual household or member thereof and also the time at which it took place;
 - (b) the household must have agreed to the provision of the good or service and take whatever action is necessary to make it possible, for example by attending a school or clinic;

- (c) the good or service must be such that its acquisition by one household or person, or possibly by a small, restricted group of persons, precludes its acquisition by other households or persons.

All household final consumption expenditure is individual. By convention, all goods and services provided by NPISHs are treated as individual.

By convention, all government final consumption expenditure on education, health, social security and welfare, sport and recreation, and culture should be treated as expenditure on individual consumption services except for expenditure on general administration, regulation, research, etc. In addition, expenditure on the provision of housing, the collection of household refuse, and the operation of transport system should also be treated as individual. The collective consumption expenditure is the remainder of the government final consumption expenditure. It consists in particular of management and regulation of society, the provision of security and defence, the maintenance of law and order, legislation and regulation, the maintenance of public health, the protection of the environment, research and development, and the infrastructure and economic development.

FINANCIAL STATEMENT

1. Title of operation

Council Regulation (EC) amending Regulation (EC) No 1749/96 concerning the coverage of goods and services of the Harmonized Index of Consumer Prices.

2. Budget heading involved

Article B5-604.

3. Legal basis

Council Regulation (EC) No 2494/95.

4. Description of operation

4.1 General objective

The aim of the Council Regulation is to expedite the programme of work leading to Harmonized Indices of Consumer Prices (HICPs) in line with the convergence criteria requirements of the Treaty establishing the European Community. Council Regulation (EC) No 2494/95 provides the framework for detailed Commission Regulations requiring Member States to produce HICPs following concepts methods and practices which have been proposed by the Working Party¹ on CPI Harmonization and approved by the Statistical Programme Committee following the Regulatory Committee procedure.

Commission Regulation (EC) No 1749/96 of 9 September 1996 gives measures on initial coverage, treatment of newly significant goods and services, minimum standards for procedures of quality adjustment, minimum standards for prices, price indices for elementary aggregates, and minimum standards for sampling.

Commission Regulation (EC) No 2214/96 of 20 November 1996 defines the sub-indices of the HICPs which are produced, transmitted and disseminated each month starting with the index for January 1997.

Commission Regulation (EC) No 2454/97 of 10 December 1997 defines minimum standards for the quality of the weights used in the computation of the HICP.

¹ Group of experts

The Commission Decision of 9 September 1996 [ref. No C(96)2452] provides for the funding of part of the additional costs to Member States.

This draft Council Regulation amends Regulation (EC) No 1749/96 with regard to the coverage of goods and services. It proposes a staged procedure for extending the coverage of the HICP to include difficult categories such as health and educational services, where there are major institutional differences between Member States.

In parallel consultation is proceeding on a draft Council Regulation amending Regulation (EC) No 1749/96 with respect to the geographic and population coverage of the Harmonized Index of Consumer Prices.

4.2 Period covered and arrangements for renewal

The Council Regulation requires an implementation in stages of progressive harmonization. The first, in February 1996, involved minimal resources and was based almost entirely on existing Consumer Price Indices (CPIs). The second, in January 1997, involved substantial resources. The third and fourth, in December 1998 and 1999, will also involve substantial resources.

5. Classification of expenditure or revenue

DNO : CD.

6. Type of expenditure or revenue

Subvention cofinancing (66.6%) with national administrations;
Administrative expenditure - see paragraph 10.

7. Financial impact

7.1 Method of calculating the total cost of the action

The proposed extensions to the coverage of the HICP are necessary to achieve comparability. However, they will involve significant additional resources in Member States, and in accordance with Article 13 of Council Regulation (EC) No. 2494/95 the Commission (Eurostat) will bear two-thirds of these additional costs until the end of the second year of implementation of the measures. It is estimated that costs will not exceed 4,5 million Ecu up to 1998 for the implementation of the measures required by the Council Regulation (EC) No. 2494/95 of which the costs of this fourth regulation will not exceed 0,5 million Ecu during the above period. The costs to the Commission of this fourth Regulation will therefore not exceed 2/3 of 0,5 million Ecu. Some Member States are better equipped to handle the necessary system changes than others.

7.2 Breakdown of the cost of the action

Member States will produce a breakdown of the costs of their action as part of the process of agreeing contracts.

8. Fraud prevention measures

Contractual arrangements with Member States will be set in place to ensure appropriate actions are undertaken and properly accounted for.

9. Elements of cost-effectiveness analysis

9.1 Specific and quantified objectives; target population

Specific objectives:

Improved and comparable indices of consumer prices.

Target population:

Users of price indices in Member States will benefit from improved measures as will decisions by the EMI and the Commission as regards both Monetary Union and other macro-economic developments.

9.2 Grounds for the operation

The Council Regulation should lead to improved reliability and international comparability of the CPIs of Member States. It should lead too to a sharing of expertise and technological applications on CPI compilation between Member States.

Main factor of uncertainty:

The Council Regulation provides only a framework within which many technical details must be resolved in collaboration with Member States.

9.3 Monitoring and evaluation of the operation

The implementing measures provide for extensive monitoring and the development of appropriate performance indicators by means of questionnaires and Eurostat audit missions (see below for costs).

The Council Regulation provides for a review by November 1997 and again by November 1999. The 1997 review has already been sent to the Secretariat General of the Commission for submission to the Council of Ministers.

10. Administrative expenditure (Section III, Part A of the budget)

Actual mobilisation of the necessary administrative resources will depend on the Commission's annual decision on the allocation of resources, taking into account the number of staff and additional amounts authorised by the budgetary authority.

10.1 Effect on the number of posts

Type of post		Staff to be assigned to managing the operation		Source		Duration
		<u>Permanent posts</u>	<u>Temporary posts</u>	Existing resources in the DG or department concerned	Additional resources	
Officials or temporary staff	A	3½		3½		3 years
	B	2		2		
	C	1		1		
Other resources (experts) A-7000		2		1		
Total		7½		7½		

The annual cost of existing resources is:

Officials (titles A1, A2, A4, A5)	= 682.500 Ecu x 3 years	= 2.047.500
Experts (A-1178)	= 98.000 Ecu x 3 years	= <u>294.000</u>
Total		= 2.341.500

10.2 Overall financial impact of additional human resources

none

10.3 Increase in other administrative expenditure as a result of the operation

Ecu

Budget heading	Amounts	Method of calculation
A - 7031 Working groups of the Statistical Programme Committee	96.000	4 meetings at 8 K Ecu covering delegates expenses (x 3 years)

The costs of the audit missions to ten Member States per year - three days at 120 Ecu per day + fares - is estimated at 31.800 Ecu:

A-701	= 31.800 Ecu x 3 years	= 95.400
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STATEMENT OF IMPACT OF THE PROPOSAL ON INDUSTRY AND IN PARTICULAR ON SMALL AND MEDIUM ENTERPRISES

Title of proposal:

Proposal for Council Regulation (EC) amending Regulation (EC) No 1749/96 concerning the coverage of goods and services of the Harmonized Index of Consumer Prices

The proposal:

1. Taking account of the principle of subsidiarity why is Community legislation necessary in this area and what are the main aims?

The aim is to expedite a programme of work leading to Harmonized Indices of Consumer Prices (HICPs) in line with the convergence criteria requirements of the Treaty establishing the European Community. HICPs are designed for international comparisons of consumer price inflation. They will be used in particular by the European Commission and the European Monetary Institute for the assessment of inflation convergence under Article 109 (j) of the Treaty establishing the European Community. HICPs will subsequently form the basis of the Monetary Union Index of Consumer Prices (MUICP) to be used by, among others, the future European Central Bank for the monitoring of inflation in the Economic and Monetary Union.

Council Regulation (EC) No 2494/95 provides the framework for detailed Commission Regulations requiring Member States to produce HICPs following concepts methods and practices which have been proposed by the Working Party¹ on CPI Harmonization and approved by the Statistical Programme Committee following the Regulatory Committee procedure. In accordance with Article 5 (3) of the Council Regulation, implementing measures are necessary for ensuring comparability of HICPs and for maintaining and improving their reliability. So far the Commission has adopted three detailed regulations establishing specific statistical standards governing the production of the HICP. The first, Commission Regulation (EC) 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. The second, Commission Regulation (EC) No 2214/96, relates to the HICP and its sub-indices that will be transmitted to and disseminated by Eurostat. The third, Commission Regulation (EC) No 2454/97, defines minimum standards for the quality of the weights used to construct the HICP.

On 7 March 1997 Eurostat published the first set of Harmonized Indices of Consumer Prices (HICPs) as required by Article 5 (1) (b) of Council Regulation 2494/95. The HICPs provide the best statistical basis for international comparisons of consumer price inflation and very considerable progress has been made in harmonizing methodologies.

¹ Group of experts

However, more work remains to be done to achieve further harmonization of consumer price indices.

Article 3 of Commission Regulation (EC) 1749/96 defines the initial coverage of the HICPs from January 1997. Some difficult categories such as health and educational services, where there are major institutional differences between Member States, are not fully covered by the HICP. The proposed regulation amends Commission Regulation (EC) 1749/96 with regard to coverage. The concept "household final monetary consumption expenditure" in the draft regulation defines both the goods and services to be covered by the HICP and the prices used in the HICP, which should be taken net of reimbursements, subsidies, and discounts. The draft regulation follows the definitions laid down in the European System of Accounts (ESA 1995) where they are appropriate for international comparisons of inflation. It defines that the coverage of the HICP shall be completed in two stages, in December 1998 and December 1999, as follows:

- a) Rents: By December 1998 the treatment of subsidised rents will be harmonized.
- b) Services connected with the dwelling: By December 1998 the coverage of refuse collection, sewerage services and water supply, unless they are financed out of general taxation, will be extended.
- c) Financial services: By December 1999 the HICP will cover the remaining financial services, e.g. charges for tax consultancy or investment advice.
- d) Education: By December 1998 the HICP will cover all educational goods and services in a harmonized way. Education will be covered on a net basis, i.e. the weight and the prices will refer to the amounts actually paid by consumers net of reimbursements by government. This applies to school books and other materials, school meals, and to educational services provided by all types of schools and universities. To solve some of the methodological details, including the treatment of income dependent prices, a special Task Force has been set up by Eurostat.
- e) Health: By December 1998 the HICP will cover all health goods and services (apart from hospital services) in a harmonized way. Health will be covered on a net basis, i.e. the weight and the prices will refer to the amount actually paid by consumers net of reimbursements by social security. The Task Force will look at the methodological details of implementation. The methodology for the inclusion of hospital services will be settled no later than December 1998. The category will be included as soon as possible thereafter.
- f) Insurance: By December 1998 the HICP will cover all insurances connected with the dwelling, not only contents insurance. By December 1999 at the latest the HICP will also cover private health, civil liability, and travel insurance. The methodology will be settled by another special Task Force set up by Eurostat. If the Task Force finds an early solution, the implementation could be scheduled for an earlier date.
- g) Social protection services: By December 1998 the HICP will cover the services provided by crèches, nurseries, play-schools and kindergartens in a harmonized way. They will be covered on a net basis, i.e. the weight and the prices refer to the amount actually paid by the consumer net of reimbursements by government. Other social protection services, especially retirement homes, give rise to similar implementation problems as hospital services. However, since those services are of growing importance they should be covered by the HICP. The methodology for the inclusion of, for example, retirement homes will be settled no later than December 1998. The category will be included as soon as possible thereafter.

Taking into account the current state of the technical discussions, the following goods and services will not be covered by the HICP at least until the year 2000: narcotics, imputed rentals of owner occupiers, other imputed rentals, games of chance, certain personal care services, life insurance and financial intermediation services indirectly measured.

The impact on business:

2. Who will be affected by the proposal?

- *which sector of business*

Consumer price indices are compiled using prices and weights. The weights are mainly derived from already existing information. The prices are collected from all businesses providing goods and services for the direct satisfaction of consumer needs within the scope of household final monetary consumption expenditure, hereafter referred to as "retailers". According to the principle of subsidiarity, the sample of retailers is defined by the National Statistical Institutes. They already send price collectors to retailers to collect the prices for calculating their national consumer price indices (CPIs). The HICPs are mainly based on that information. However, the proposed regulation might involve new data collection in some Member States. The goods and services that will be added to the HICP are to a large extent provided by the government sector.

- *which size of business? (what is the concentration of small and medium sized firms?)*

The size of the business is only relevant to the extent that the prices collected should correctly reflect the price development of all businesses within the concept of household monetary consumption expenditure. In principle, all sizes of retailers are concerned. According to the principle of subsidiarity, the sample of retailers is defined by the National Statistical Institutes.

- *are there any particular geographic areas of the EU where these businesses are found?*

The geographic area is only relevant to the extent that the prices collected should correctly reflect the price development of the whole economic territory of the Member States within the concept of household monetary consumption expenditure. All Member States of the European Union, Norway and Iceland are concerned.

3. What will businesses have to do to comply with the proposal?

National Statistical Institutes send out price collectors to retailers. To comply with the proposed regulation the retailers need to give price collectors access to their premises and permission to collect the prices. In practice, the participation in such surveys is on a voluntary basis.

4. What economic effect is the proposal likely to have?

- *on employment?*
- *on investment and the creation of new businesses?*

- *on the competitive position of businesses?*

An indirect effect, in so far as the HICPs allow international comparisons of consumer price inflation, and provide the statistical basis for the assessment of inflation convergence under Article 109 (j) of the Treaty establishing the European Community. In Stage III of EMU, the HICPs will be used to compile the Monetary Union Index of consumer prices (MUICP), which will be the indicator for monetary policy of the future European Central Bank. A single and stable currency is an important step to advance European integration and to promote economic progress with important impact on employment, investment and competition.

5. Does the proposal take account of the specific situation of small and medium-sized firms (reduced or different requirements etc.)?

According to the principle of subsidiarity, the sample of retailers is defined by the National Statistical Institutes. They already send price collectors to retailers to collect the prices for calculating their national consumer price indices (CPIs). The HICPs are mainly based on that information. The goods and services that will be added to the HICP are to a large extent provided by the government sector. In general, the participation in such surveys is on a voluntary basis. However, the proposed regulation might involve new data collection in some Member States.

Consultation:

6. List the organisations which have been consulted about the proposal and outline their main views.

The European Advisory Committee on Statistical Information in the Economic and Social Spheres (CEIES)², DG II of the Commission, the European Monetary Institute, and Central banks of Member States are participating actively in the meetings of the Working Party³ on CPI Harmonization and its Task Forces. They emphasised that the HICP should have as broad a coverage as possible and are, therefore, in favour of the proposed regulation.

² established by Council Decision 91/116/EEC; the Committee is made up of representatives from the scientific, economic and social fields covering producers and users of statistical information

³ Group of experts

COMPLEMENTARY STATEMENT CONCERNING EFTA COUNTRIES

Title : Proposal for Council Regulation (EC) amending Regulation (EC) No 1749/96 concerning the coverage of goods and services of the Harmonized Index of Consumer Prices

Impact on EFTA countries

EFTA countries have been involved in discussions of the Statistical Programme Committee and the Working Party on the Harmonization of Consumer Price Indices. They are fully aware of the proposals for a Regulation and their views have been taken into account in preparing the draft. They intend to compile Harmonized Indices of Consumer Prices (HICPs) in accordance with this Regulation.

EXPLANATORY MEMORANDUM

***Reference :* Proposal for Council Regulation (EC) amending Regulation (EC) No 1749/96 concerning the geographic and population coverage of the Harmonized Index of Consumer Prices**

1. On 7 March 1997 Eurostat published the first set of Harmonized Indices of Consumer Prices (HICPs) as required by Article 5 (1) (b) of Council Regulation 2494/95. The HICPs provide the best statistical basis for international comparisons of consumer price inflation and will be used in particular by the European Commission and the European Monetary Institute for the assessment of inflation convergence under Article 109 (j) of the Treaty establishing the European Community. They will subsequently form the basis of the Monetary Union Index of Consumer Prices (MUICP) to be used by, among others, the future European Central Bank for the monitoring of inflation in the Economic and Monetary Union. The requirement to produce HICPs in no way puts in question the right of Member States to publish their national, non-harmonised, inflation indices, which they may wish to use for national policy purposes.
2. Under Council Regulation 2494/95, the Commission has so far adopted three detailed regulations establishing the specific implementing measures governing the production of the HICP. The first, Commission Regulation (EC) 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. The second, Commission Regulation (EC) No 2214/96, relates to the HICP and its sub-indices that are transmitted to and disseminated by Eurostat. The third, Commission Regulation (EC) No 2454/97, defines minimum standards for the quality of the weights used to construct the HICP.
3. Article 3 of Council Regulation (EC) No 2494/95 requires that the HICP shall be based on the prices of goods and services available for purchase on the economic territory of the Member State for the purposes of directly satisfying consumer needs. However a harmonized definition of the geographic and population coverage of the HICP is still needed and the draft regulation seeks to provide this. It specifies that the coverage, for the calculation of HICP weights, should include all household final monetary consumption expenditure which takes place on the economic territory of that Member State. In particular the coverage should include expenditure by foreign visitors (the "domestic concept") and individuals living in institutions, and exclude the expenditure of residents whilst in a foreign country. All private households should also be included irrespective of the area in which they live or their position in the income distribution. Expenditure incurred for business purposes should be excluded.
4. A harmonized definition of the geographic and population coverage of the HICP is required for the purpose of achieving comparability and also to avoid gaps or double counting when aggregating the HICPs of Member States to calculate the European index of consumer prices (EICP) and the Monetary Union index of consumer prices (MUICP) which will be main indicator for monitoring the success of the price stability policy of the future European Central Bank (ECB).

5. The reasons for requiring the domestic concept to be used are as follows. The purpose of the HICP is to provide the measure for the price stability criterion and to serve as the basis for the future MUICP. The objective is to measure the price changes within each of the territories of the individual Member States rather than the price changes affecting selected households, such as resident households. The price changes which need to be measured within the territory of a Member State include those affecting foreign visitors and exclude those affecting residents whilst in a foreign country. Therefore, for the purpose of measuring convergence, the domestic concept should be used. Additionally, for the purpose of stage III of EMU, the European Central Bank (ECB) will have to focus on the MUICP. The objective of the ECB is to maintain price stability in the Euro area, and the MUICP will be the main indicator for monitoring the success of the stability policy. Therefore it is necessary to have a coinciding definition of the Euro area and the area to which the MUICP relates. This property is fulfilled by the domestic concept.
6. The expenditure of people living in institutional households, for example in retirement homes, should be included for the following reason. The coverage of the HICP is defined as those goods and services which are included in household final monetary consumption expenditure. The household sector includes people living in institutions and therefore their expenditure should be included in the weights of the HICP. As a result of the demographic changes in the EU the expenditure of people living in institutional households, especially in retirement homes, is of increasing importance and should therefore not be neglected in a measure of consumer price inflation.
7. The draft regulation only requires extensions to the coverage where non-comparability would exist if the extension did not occur. It defines the complete set of households which the HICP should cover. In effect this is all households: rich and poor; rural and urban; resident or non-resident; private and institutional households. However the draft regulation allows a portion of these households to be excluded from a sub-index if the expenditure of that portion on items in that particular sub-index is not significant. In this context "not significant" is defined as less than one part per thousand of the total expenditure covered by the HICP. The portion of households which may be excluded can be made up of any type of households, for example institutional households and foreign visitors together, or foreign visitors alone.
8. The HICPs of the Member States currently cover more than 90% of "household final monetary consumption expenditure". The remaining 10% will be added by December 1999. 4% refers to the geographic and population coverage of the HICP. The remaining 6% refers to goods and services to be added in December 1998 and December 1999. Consultation is proceeding in parallel on a draft regulation defining a stepwise procedure on how and when to include the additional goods and services.
9. The HICP Working Party¹ and its Task Forces have spent many hours in numerous meetings over two years discussing the geographic and population coverage of the HICP. The proposal has obtained the agreement of almost all members of the HICP Working Party including the main users, DG II and the EMI². They emphasised that a harmonized definition of the geographic and population coverage of the HICP was required for the purpose of achieving comparability and essential for assuring that there would be no

¹ Group of experts

² However, the EMI has not been formally consulted

gaps or double counting in the coverage of the Monetary Union index of consumer prices (MUICP) which needs to be calculated from January 1999 as the main indicator for monitoring the price stability policy of the ECB.

Proposal for
COUNCIL REGULATION (EC) No [xx/98]
of [date]
amending Regulation (EC) No 1749/96
concerning the geographic and population coverage
of the Harmonized Index of Consumer Prices

(Text with EEA relevance)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community,

Having regard to Council Regulation (EC) No 2494/95, of 23 October 1995 concerning harmonized indices of consumer prices¹, and in particular Articles 4 and 5(3) thereof,

Having regard to the proposal from the Commission,

After consulting the European Monetary Institute,

Whereas, by virtue of Article 5 (1) (b) of Regulation (EC) No 2494/95, each Member State is required to produce a Harmonized Index of Consumer Prices (HICP) starting with the index for January 1997; the requirement to produce HICPs in no way puts in question the right of Member States to publish their national, non-harmonised, inflation indices, which they may wish to use for national policy purposes;

Whereas Commission Regulation (EC) No 1749/96² set down the initial coverage for HICPs that was restricted to those goods and services covered by all or most national Consumer Prices Indices (CPIs);

Whereas Council Regulation (EC) No [xx/98] amending Commission Regulation (EC) No 1749/96³ defined the coverage of the HICP as those goods and services which are included in household final monetary consumption expenditure;

Whereas Article 3 of Regulation (EC) No 2494/95 requires that the HICP should be based on the prices of goods and services available for purchase in the economic territory of the Member State for the purposes of directly satisfying consumer needs; whereas the weights of the HICP require a harmonized definition of their geographic and population coverage;

Whereas the compilation of the Monetary Union index of consumer prices (MUICP) and the European index of consumer prices (EICP) requires a harmonized geographic concept for the HICPs;

¹ OJ No L 257 of 27.10.1995, p. 1

² OJ L 229, 10.9.1996, p.3.

³ OJ L xxx, [date], p.x.

Whereas the Statistical Programme Committee (SPC) has not delivered an opinion within the time limit laid down by the chairman; whereas in this case following the procedure laid down in Article 14 paragraph 2 of Regulation (EC) No 2494/95 the Commission shall, without delay, submit to the Council a proposal relating to the measures to be taken;

HAS ADOPTED THIS REGULATION:

Article 1

Sub-paragraph (a2) of Article 2 of Regulation (EC) No 1749/96 is replaced by the following:

" 'Household final monetary consumption expenditure' is defined as that part of final consumption expenditure⁴ which is incurred:

- by households⁵ irrespective of nationality or residence status; and
- in monetary transactions⁶; and
- on the economic territory⁷ of the Member State; and
- on goods and services that are used for the direct satisfaction of individual needs or wants; and
- in one or both of the time periods being compared.

Household final monetary consumption expenditure is specified in Annex 1b of the present Regulation and follows the definitions laid down in the European System of Accounts (ESA) 1995⁸."

Article 2

In Article 3 of Regulation (EC) No 1749/96 the following third paragraph is added:

"3. HICPs compiled using sub-index⁹ weights which reflect final monetary consumption expenditure of a sub-set of households¹⁰, rather than of all households, shall be deemed comparable, where this difference in practice accounts for less than one part in a thousand of the total expenditure covered by the HICP. Any amendments of the weights necessary to secure comparability as defined in this paragraph shall be implemented by December 1998 at the latest."

Article 3

In Annex 1b of Regulation (EC) No 1749/96 paragraphs 1 and 2 are replaced by the following:

"1. The household sector consists of households which include all individuals or groups of individuals (as defined in ESA 2.76.a and 2.76.b) irrespective of, in particular, the type of area in which they live, their position in the income distribution and their nationality or residence status.

⁴ Annex 1b No 4 to 27

⁵ Annex 1b No 1

⁶ Annex 1b No 3

⁷ Annex 1b No 2

⁸ Council Regulation (EC) No 2223/96 of 25.6.1996, OJ L 310, 13.11.1996

⁹ Article 2 of Commission Regulation (EC) No 2214/96 of 20.11.1996, OJ L 296, 21.11.1996, p. 8.

¹⁰ Annex 1b No 1

It includes individuals living in institutional households (as defined in ESA 2.76b). It does not include businesses.

2. The **economic territory** is as defined in ESA 2.05 except that the extraterritorial enclaves situated within the boundaries of the country are included and the territorial enclaves situated in the rest of the world are excluded."

Article 4

This Regulation shall enter into force on the twentieth day following that of 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.

Done at Brussels,

For the Council

FINANCIAL STATEMENT

1. Title of operation

Council Regulation (EC) amending Regulation (EC) No 1749/96 concerning the geographic and population coverage of the Harmonized Index of Consumer Prices.

2. Budget heading involved

Article B5-604.

3. Legal basis

Council Regulation (EC) No 2494/95.

4. Description of operation

4.1 General objective

The aim of the Council Regulation is to expedite the programme of work leading to Harmonized Indices of Consumer Prices (HICPs) in line with the convergence criteria requirements of the Treaty establishing the European Community. Council Regulation (EC) No 2494/95 provides the framework for detailed Commission Regulations requiring Member States to produce HICPs following concepts methods and practices which have been proposed by the Working Party¹ on CPI Harmonization and approved by the Statistical Programme Committee following the Regulatory Committee procedure.

Commission Regulation (EC) No 1749/96 of 9 September 1996 gives measures on initial coverage, treatment of newly significant goods and services, minimum standards for procedures of quality adjustment, minimum standards for prices, price indices for elementary aggregates, and minimum standards for sampling.

Commission Regulation (EC) No 2214/96 of 20 November 1996 defines the sub-indices of the HICPs which are produced, transmitted and disseminated each month starting with the index for January 1997.

Commission Regulation (EC) No 2454/97 of 10 December 1997 defines minimum standards for the quality of the weights used in the computation of the HICP.

The Commission Decision of 9 September 1996 [ref. No C(96)2452] provides for the funding of part of the additional costs to Member States.

¹ Group of experts

This draft Council Regulation amends Regulation (EC) No 1749/96 with respect to the geographic and population coverage of the Harmonized Index of Consumer Prices. It proposes a coinciding definition of the Euro area and the area to which the Monetary Union index of consumer prices (MUICP) relates, which will be used by, among others, the future European Central Bank for the monitoring of inflation in the Economic and Monetary Union from January 1999.

In parallel consultation is proceeding on a draft Council Regulation amending Regulation (EC) No 1749/96 with respect to coverage of goods and services of the Harmonized Index of Consumer Prices.

4.2 Period covered and arrangements for renewal

The Council Regulation requires an implementation in stages of progressive harmonization. The first, in February 1996, involved minimal resources and was based almost entirely on existing Consumer Price Indices (CPIs). The second, in January 1997, involved substantial resources. The third and fourth, in December 1998 and 1999, will also involve substantial resources.

5. Classification of expenditure or revenue

DNO : CD.

6. Type of expenditure or revenue

Subvention cofinancing (66.6%) with national administrations;
Administrative expenditure - see paragraph 10.

7. Financial impact

7.1 Method of calculating the total cost of the action

The draft regulation is necessary to achieve comparable measures of inflation, and essential for a coinciding definition of the Euro area and the area to which the Monetary Union index of consumer prices (MUICP) relates, which will be used by, among others, the future European Central Bank for the monitoring of inflation in the Economic and Monetary Union from January 1999. However, it will involve additional resources in Member States, and in accordance with Article 13 of Council Regulation (EC) No 2494/95 the Commission (Eurostat) is expected to bear two-thirds of these additional costs until the end of the second year of implementation of the measures. It is estimated that costs will not exceed 900.000 Ecu for the implementation of this draft Council Regulation. The costs to the Commission of this regulation will therefore not exceed 600.000 Ecu. Some Member States are better equipped to handle the necessary system changes than others. In accordance with Article 13 Member States are not obliged to implement the draft regulation unless the Commission (Eurostat) will bear two-thirds of the additional costs

7.2 Breakdown of the cost of the action

Member States will produce a breakdown of the costs of their action as part of the process of agreeing contracts.

8. Fraud prevention measures

Contractual arrangements with Member States will be set in place to ensure appropriate actions are undertaken and properly accounted for.

9. Elements of cost-effectiveness analysis

9.1 Specific and quantified objectives; target population

Specific objectives:

Improved and comparable indices of consumer prices.

Target population:

Users of price indices in Member States will benefit from improved measures as will decisions by the EMI and the Commission as regards both Monetary Union and other macro-economic developments.

9.2 Grounds for the operation

The Council Regulation should lead to improved reliability and international comparability of the CPIs of Member States. It should lead too to a sharing of expertise and technological applications on CPI compilation between Member States.

Main factor of uncertainty:

The Council Regulation provides only a framework within which many technical details must be resolved in collaboration with Member States.

9.3 Monitoring and evaluation of the operation

The implementing measures provide for extensive monitoring and the development of appropriate performance indicators by means of questionnaires and Eurostat audit missions (see below for costs).

The Council Regulation provides for a review by November 1997 and again by November 1999. The 1997 review has already been sent to the Secretariat General of the Commission for submission to the Council of Ministers.

10. Administrative expenditure (Section III, Part A of the budget)

Actual mobilisation of the necessary administrative resources will depend on the Commission's annual decision on the allocation of resources, taking into account the number of staff and additional amounts authorised by the budgetary authority.

10.1 Effect on the number of posts

Type of post		Staff to be assigned to managing the operation		Source		Duration
		<u>Permanent posts</u>	<u>Temporary posts</u>	Existing resources in the DG or department concerned	Additional resources	
Officials or temporary staff	A	3½		3½		
	B	2		2		
	C	1		1		
Other resources (experts) A-7000		2		1		
Total		7½		7½		

The annual cost of existing resources is:

Officials (titles A1, A2, A4, A5)	= 682.500 Ecu x 3 years	= 2.047.500
Experts (A-1178)	= 98.000 Ecu x 3 years	= <u>294.000</u>
Total		= 2.341.500

10.2 Overall financial impact of additional human resources

none

10.3 Increase in other administrative expenditure as a result of the operation

Ecu

Budget heading	Amounts	Method of calculation
A - 7031 Working groups of the Statistical Programme Committee	96.000	4 meetings at 8 K Ecu covering delegates expenses (x 3 years)

The costs of the audit missions to ten Member States per year - three days at 120 Ecu per day + fares - is estimated at 31.800 Ecu:

A-701	= 31.800 Ecu x 3 years	= 95.400
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STATEMENT OF IMPACT OF THE PROPOSAL ON INDUSTRY AND IN PARTICULAR ON SMALL AND MEDIUM ENTERPRISES

Title of proposal:

Proposal for Council Regulation (EC) amending Regulation (EC) No 1749/96 concerning the geographic and population coverage of the Harmonized Index of Consumer Prices

The proposal:

1. Taking account of the principle of subsidiarity why is Community legislation necessary in this area and what are the main aims?

The aim is to expedite a programme of work leading to Harmonized Indices of Consumer Prices (HICPs) in line with the convergence criteria requirements of the Treaty establishing the European Community. HICPs are designed for international comparisons of consumer price inflation. They will be used in particular by the European Commission and the European Monetary Institute for the assessment of inflation convergence under Article 109 (j) of the Treaty establishing the European Community. HICPs will subsequently form the basis of the Monetary Union Index of Consumer Prices (MUICP) to be used by, among others, the future European Central Bank for the monitoring of inflation in the Economic and Monetary Union.

Council Regulation (EC) No 2494/95 provides the framework for detailed Commission Regulations requiring Member States to produce HICPs following concepts methods and practices which have been proposed by the Working Party¹ on CPI Harmonization and approved by the Statistical Programme Committee following the Regulatory Committee procedure. In accordance with Article 5 (3) of the Council Regulation implementing measures are necessary for ensuring comparability of HICPs and for maintaining and improving their reliability. So far the Commission has adopted three detailed regulations establishing specific statistical standards governing the production of the HICP. The first, Commission Regulation (EC) 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. The second, Commission Regulation (EC) No 2214/96, relates to the HICP and its sub-indices that will be transmitted to and disseminated by Eurostat. The third, Commission Regulation (EC) No 2454/97, defines minimum standards for the quality of the weights used to construct the HICP.

On 7 March 1997 Eurostat published the first set of Harmonized Indices of Consumer Prices (HICPs) as required by Article 5 (1) (b) of Council Regulation 2494/95. 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 further harmonization of consumer price indices.

¹ Group of experts

Article 3 of Council Regulation (EC) No 2494/95 requires that the HICP shall be based on the prices of goods and services available for purchase on the economic territory of the Member State for the purposes of directly satisfying consumer needs. However, a harmonized definition of the geographic and population coverage of the HICP is still needed and the draft regulation seeks to provide this. It specifies that the coverage, for the calculation of HICP weights, should include all household final monetary consumption expenditure which takes place on the economic territory of that Member State. In particular the coverage should include expenditure by foreign visitors (the "domestic concept") and individuals living in institutions. All private households should also be included irrespective of the area in which they live or their position in the income distribution. Expenditure incurred for business purposes should be excluded.

A harmonized definition of the geographic and population coverage of the HICP is required for the purpose of achieving comparability and also to avoid gaps or double counting in the coverage of the Monetary Union index of consumer prices (MUICP) and the European index of consumer prices (EICP).

The reasons for requiring the domestic concept to be used are as follows. The purpose of the HICP is to provide the measure for the price stability criterion and to serve as the basis for the future MUICP. The objective is to measure the price changes within each of the territories of the individual Member States rather than the price changes affecting selected households, such as resident households. The price changes which need to be measured within the territory of a Member State include those affecting foreign visitors. Therefore, for the purpose of measuring convergence, the domestic concept should be used. Additionally, for the purpose of stage III of EMU, the European Central Bank (ECB) will have to focus on the MUICP. The objective of the ECB is to maintain price stability in the Euro area. Therefore it is necessary to have a coinciding definition of the Euro area and the area to which the MUICP relates. This property is fulfilled by the domestic concept.

The expenditure of people living in institutional households should be included for the following reason. The coverage of the HICP is defined as those goods and services which are included in household final monetary consumption expenditure. The household sector includes people living in institutions, and therefore their expenditure should be included in the weights of the HICP.

The impact on business:

2. Who will be affected by the proposal?

- *which sector of business*

Consumer price indices are compiled using prices and weights. For most Member States the draft regulation will involve extending the coverage of the information used to calculate the HICP weights. For example they will have to include expenditure by foreign visitors or individuals living in institutions such as retirement homes. According to the principle of subsidiarity it is up to the National Statistical Institutes to decide how and where to collect that information. To a large extent the data could be obtained from already existing sources such as tourism statistics. Furthermore, information on people living in institutional households could be collected from non-profit organisations serving households or the government sector.

- *which size of business? (what is the concentration of small and medium sized firms?)*

The size of the business is only relevant to the extent that the weights should correctly reflect the expenditure of all households, including people living in institutional households such as retirement homes. According to the principle of subsidiarity, the data sources are selected by the National Statistical Institutes.

- *are there any particular geographic areas of the EU where these businesses are found?*

The geographic area is only relevant to the extent that the weights should correctly reflect the household monetary consumption expenditure on the whole economic territory of the Member States. All Member States of the European Union, Norway and Iceland are concerned.

3. What will businesses have to do to comply with the proposal?

National Statistical Institutes collect the necessary information about the expenditure of all households on the economic territory from already existing data sources such as for example household budget surveys, tourism statistics, and national accounts. In some cases it might be necessary to extend the existing surveys or to collect the information directly from non-profit organisations serving households, government agencies, or retirement homes. In general, the participation in such surveys is on a voluntary basis.

4. What economic effect is the proposal likely to have?

- *on employment?*
- *on investment and the creation of new businesses?*
- *on the competitive position of businesses?*

An indirect effect, in so far as the HICPs allow international comparisons of consumer price inflation, and will provide the statistical basis for the assessment of inflation convergence under Article 109 (j) of the Treaty establishing the European Community. In Stage III of EMU, the HICPs will be used to compile the Monetary Union Index of consumer prices (MUICP), which will be the indicator for monetary policy of the future European Central Bank. A single and stable currency is an important step to advance European integration and to promote economic progress with important impact on employment, investment and competition.

5. Does the proposal take account of the specific situation of small and medium-sized firms (reduced or different requirements etc.)?

According to the principle of subsidiarity, the data sources are defined by the National Statistical Institutes. They already collect similar information on weights for calculating their national consumer price indices (CPIs). The HICPs are mainly based on that information. However, the proposed regulation might involve new data collection in some Member States. To a large extent the data could be obtained from already existing sources such as tourism statistics. Furthermore, information on people living in institutional households could be collected from non-profit organisations serving households or the government. In general, participation in such surveys is on a voluntary basis.

Consultation:

- 6. List the organisations which have been consulted about the proposal and outline their main views.**

The European Advisory Committee on Statistical Information in the Economic and Social Spheres (CEIES)², DG II of the Commission, the European Monetary Institute, and Central banks of Member States are participating actively in the meetings of the Working Party³ on CPI Harmonization and the Task Forces. They emphasised that a harmonized definition of the geographic and population coverage of the HICP was required for the purpose of achieving comparability and essential for assuring that there would be no gaps or double counting in the coverage of the Monetary Union index of consumer prices (MUICP) which needs to be calculated from January 1999. They are therefore in favour of the proposed regulation.

² established by Council Decision 91/116/EEC; the Committee is made up of representatives from the scientific, economic and social fields covering producers and users of statistical information

³ Group of experts

COMPLEMENTARY STATEMENT CONCERNING EFTA COUNTRIES

Title : Proposal for Council Regulation (EC) amending Regulation (EC) No 1749/96 concerning the geographic and population coverage of the Harmonized Index of Consumer Prices

Impact on EFTA countries

EFTA countries have been involved in discussions of the Statistical Programme Committee and the Working Party on the Harmonization of Consumer Price Indices. They are fully aware of the proposals for a Regulation and their views have been taken into account in preparing the draft. They intend to compile Harmonized Indices of Consumer Prices (HICPs) in accordance with this Regulation.

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