

EUROPEAN CENTRAL BANK

OPINION OF THE EUROPEAN CENTRAL BANK

of 17 August 2001

at the request of the Commission of the European Communities on two draft Commission Regulations laying down detailed rules for the implementation of Council Regulation (EC) No 2494/95 as regards minimum standards for revisions of the harmonised index of consumer prices and minimum standards for the treatment of service charges proportional to transaction values in the harmonised index of consumer prices

(CON/2001/18)

(2001/C 244/05)

1. On 10 July 2001 the European Central Bank (ECB) received two requests from the Commission of the European Communities for an opinion, one concerning the draft Commission Regulation laying down detailed rules for the implementation of Council Regulation (EC) No 2494/95 as regards minimum standards for revisions of the harmonised index of consumer prices and amending Commission Regulation (EC) No 2602/2000 (hereinafter referred to as the 'first draft Regulation') and one concerning the draft Commission Regulation laying down detailed rules for the implementation of Council Regulation (EC) No 2494/95 as regards minimum standards for the treatment of service charges proportional to transaction values in the harmonised index of consumer prices and amending Commission Regulation (EC) No 2214/96 (hereinafter referred to as the 'second draft Regulation').
 2. The ECB's competence to deliver an opinion is based on Article 105(4) of the Treaty establishing the European Community and Article 5(3) of Council Regulation (EC) No 2494/95 of 23 October 1995 concerning harmonised indices of consumer prices. In accordance with the first sentence of Article 17.5 of the Rules of Procedure of the European Central Bank, this opinion has been adopted by the Governing Council of the ECB.
- I. First draft Regulation**
3. The objective of the first draft Regulation is to establish minimum standards for the treatment of revisions of the harmonised index of consumer prices (HICP). Revisions may have a significant impact on the index result in any given period and differences in their treatment may affect the comparability of the HICP.
 4. The first draft Regulation states that the officially published HICP series may be revised (Article 3). It defines conditions under which revisions are to be reflected in the HICP, that is in the case of mistakes (Article 4), new or improved information (Article 5) and the correction of provisional results in the case that the HICP is published as provisional (Article 9). The ECB welcomes these proposals.
 5. It also states that the officially published HICP shall not be revised when changes in the system of harmonised rules are introduced in the index (Article 6(1)). However, for monetary policy purposes it is desirable that long and consistent time series are available. In particular, the ECB has defined price stability by reference to the year-on-year change in the HICP. The proposed general rule is therefore not satisfactory. Possible substantial statistical changes could cause structural breaks in the time series and these could seriously distort the year-on-year changes calculated using an unrevised base. Therefore, in cases where substantial statistical changes are introduced, backward revisions to the officially published HICP may be necessary. These revisions should at least cover the 12 months prior to the introduction of changes in the system of harmonised rules. In practice, however, the ECB is aware that revisions to historic time series are constrained by the availability of primary statistics.
 6. For those cases where revisions of at least the 12 previous months are necessary in order to compile meaningful annual rates of change of the HICP, the ECB suggests amending Article 6(1) as follows:

'Unless otherwise specified in implementing regulations, changes in the system of harmonised rules shall not require revisions.'
- A similar clause was included in the draft regulation which was supported by the Statistical Programme Committee in March 2001, but which was removed afterwards. Moreover, this amendment would also avoid inconsistency with Article 11 which explicitly requires revisions for one specific harmonisation rule (the treatment of price reductions).
7. Articles 6 and 7 define the compilation of estimates for the impact of changes in the index method. The ECB welcomes these proposals.

II. Second draft Regulation

8. The objective of the second draft Regulation is to harmonise the coverage and treatment of service charges and in particular those charges proportional to transaction values. The latter were initially excluded from the HICP. The harmonisation of the different practices will increase the comparability of the HICP; the current large differences in the weight of financial services in the HICP across countries indicate different practices regarding the coverage of financial services. The ECB welcomes this further harmonisation effort.
9. The second draft Regulation details the rules for the coverage of financial and other services in the HICP and follows largely the conventions of the ESA 95 (Articles 4 and 5). The ECB accepts these conventions in order to ensure consistency with internationally agreed rules for national accounts. The ECB supports the continued exclusion of interest payments and interest-like charges from the HICP.
10. The second draft Regulation requires the HICP to include charges expressed as a flat fee or flat rate; changes in purchaser prices reflecting a change in the rules deter-

mining them are to be reflected as such in the HICP (Article 3(1)(a) and (b)). The ECB welcomes this proposal.

11. The second draft Regulation also requires that changes in purchaser prices resulting from changes in the values of the representative unit transactions be shown as such in the HICP (Article 3(1)(c)). Variations of the values of the unit transactions are therefore mirrored in the HICP. In some cases, for example when considering the variation of the service charges due to the change in the value of financial assets (e.g. share prices), this requirement may introduce a source of short-term volatility in the HICP. However, it is an inevitable consequence of the coverage of these consumer services in the HICP and the ECB therefore accepts this concept.
12. This opinion shall be published in the *Official Journal of the European Communities*.

Done at Frankfurt am Main on 17 August 2001.

The President of the ECB

Willem F. DUISENBERG
