

## EUROPEAN MONETARY INSTITUTE

31st March 1995

### OPINION OF THE EUROPEAN MONETARY INSTITUTE

on a consultation from the Council of the European Union under Article 109 f (6) of the Treaty establishing the European Community as amended by the Treaty on European Union (“the Treaty”) and Article 5.3 of the EMI;

on a Draft Proposal for a Council Regulation concerning Harmonised Consumer Price Indices (COM(94) 674 final) (“the Draft Regulation”).

#### CON/95/1

1. The present consultation was initiated on 9th January 1995 by the Council of the European Union which, for this purpose, transmitted to the EMI document “COM(94) 674 final” containing the Draft Regulation.
2. The principal objective of the Draft Regulation is to establish Community statistics on consumer prices whereby each Member State produces comparable harmonised consumer price indices (“HCPIs”) and the Commission (Eurostat) produces, based on the HCPIs, an index for the Community (“ECPI”) and, as long as derogations under Article 109k of the Treaty are in effect, an index for the Monetary Union (“MUCPI”).
3. For the EMI, this indicator is very important and the initiative of the Commission is helpful both in substance and, given the Treaty timetable, in form. Specifically:  
First, as the primary objective of the ESCB is to maintain price stability, it is necessary to have common measures of price performance. The ECPI, or the MUCPI, will be a very important indicator of inflationary pressures, and will be used by the ECB in conjunction with other price and cost statistics at Monetary Union level.  
Second, Article 109j of the Treaty states that *‘the Commission and the EMI shall report on progress made in the fulfilment by the member states of their obligations regarding the achievement of economic and monetary union’*. This includes, in particular, assessing convergence towards price stability measured by means of the consumer price index on a comparable basis in accordance with the Treaty’s Protocol on the convergence criteria.  
Third, in the light of the timetable provided for in the Treaty, there is urgency involved in harmonising the measurement of consumer prices. The EMI therefore encourages the Commission

and the Member States to take any opportunity to further advance deadlines defined in Articles 9 and 10 of the Draft Regulation.

Fourth, whilst some could cast doubts on the appropriateness of a Council Regulation as much uncertainty surrounds the final conceptual results of the staged harmonisation process, the EMI considers that this argument does not outweigh the need for an act of the Council in the light of the urgency and the importance of the matter.

Fifth, a high level of frequency and timeliness is provided for in the regular production, transmission and publication of results. This is an essential requirement for policy-making.

Finally, the Draft Regulation provides for appropriate co-operation with the EMI during the various phases envisaged therein, and also in its implementation and enhancement. The preamble also confirms that the opinion of the EMI has been sought.

4. The "staged process" envisaged in the Draft Regulation aims at achieving fully harmonised statistics by January 1998. This is after the EMI and the Commission will have reported in 1996 on progress made in the fulfilment by the member states of their obligations regarding the achievement of economic and monetary union and after the first possible start date for monetary union. Prior to the production of fully harmonised consumer price indices, partially harmonised estimates will be compiled. The "staged process" for achieving fully harmonised statistics is probably the only possible one and is appropriate in the light of the prevailing time constraints. However, the EMI would express its concern that credibility difficulties might arise regarding the use of the partially harmonised data in the context of the assessment of progress made in the fulfilment by the Member States of their obligations regarding the achievement of economic and monetary union unless it is clear that they are on a path towards, and close to, the fully harmonised data. Accordingly, the EMI strongly encourages the Commission and the Member States to make rapid and significant progress, not only with regard to the partial harmonisation, but also in the full harmonisation of consumer price indices, limiting the number of stages to the strict necessary minimum.

5. With regard to the text of the Draft Regulation, the EMI suggests the following amendments.

(A) Since the primary objective of the ESCB will be to maintain price stability, and since the MUCPI will be important for the effective execution of this duty, the EMI would suggest the following is inserted in the preamble as the fourth "whereas":

*"Whereas Article 105(1) of the Treaty and Article 2 of its Statute state that the primary objective of the ESCB shall be to maintain price stability."*

(B) The Draft Regulation might be understood to mean that only narrowly defined HCPIs totally excluding imputed prices should be aimed at. Monetary policy purposes as well as comparability may also require broader measures of consumer price inflation. Therefore, whilst a narrow concept is almost certainly the most appropriate in the short term due to time

pressure, it would be important that the Draft Regulation is not construed to preclude the long term possibility that harmonised imputed prices may be allowed as part of future enhancements. To this effect, the EMI would propose:

(a) Insert in the fourth “whereas” the following (proposed insertion underlined):

*“... as well as purchases by consumers, and whereas it is recognised that a range of statistics, of which consumer price indices, including where appropriate imputed prices for enhanced coverage and comparability, is relevant ...”*

(b) Introduce a new sentence in Article 2 as follows:

*“..., and imputed prices which might be deemed necessary to ensure both complete coverage and comparability”.*

(C) Whilst the EMI fully agrees that it is the responsibility of the Community to create common statistical standards for consumer price indices, and this Draft Regulation is the appropriate vehicle for that purpose, it should be clearly stated that the proposed regulation does not affect the statistical tasks vested on the ECB by Article 5 of the ESCB Statute. To that end, it is suggested that:

(a) The following paragraph is included in the Preamble:

*“Whereas this Regulation preserves the provisions of Article 5 of the Protocol on the Statute of the European System of Central Banks and of the European Central Bank”.*

(b) A third paragraph as follows is included in Article 13:

*“(3) Implementation measures shall be consistent with measures eventually adopted under Article 5 of the Protocol on on the Statute of the European System of Central Banks and of the European Central Bank”.*

(D) With regard to Article 4 of the Draft Regulation - (“Timetable and Derogations therefrom”) - the EMI expresses its concern about the fact that, in its present form, the reader might conclude that the Community, contrary to the Treaty provisions, does not envisage the start of Stage Three of EMU until after January 1998. To avoid this interpretation, it is suggested that:

(a) The following paragraph is included in the Preamble as follows:

*“Whereas the complexity of the measures to be adopted by the Commission and the Member States to reach a fully harmonised Consumer Price Index requires a staged process of implementation which extends beyond the first possible dates foreseen for monetary union by the Treaty.”*

(b) In Article 4, paragraph (2), after “the European Monetary Institute” the words “or the European Central Bank, as the case may be, ...” are added.

(E) With regard to the same Article 4 of the Draft Regulation the EMI expresses its concern that the exclusions listed under Stage 1 should not be interpreted as being the only adjustments which may be made to the national price indices. In the light of the considerations in paragraph 4 above, it is important not to preclude other adjustments improving comparability, such as the inclusion of certain items, as far as existing data or new data collected at very low cost (e.g. on monopoly prices) would permit this. The EMI therefore suggests:

(a) The last sentence under the heading “Stage 1” be amended as follows (proposed insertion underlined):

*“These indices shall be based wholly on data underlying existing national price indices, but adjusted in particular as follows:...”*

(b) At the end of paragraph (a) of Article 4 the following sentence is introduced:

*“ The above exclusions shall be reviewed and reintroduced as and when a comparable method of price measurement is agreed”.*

(F) With regard to Article 8, the EMI would recommend that the monthly frequency for producing consumer price indices referred to in paragraph (1) be applicable not only to HCPI but also to the indices to which Article 4(1)(a) - Stage 1 indices - refers. To that end, it is suggested that such paragraph (1) of Article 8 reads as follows:

*“(1) Consumer price indices referred to in Article 4 shall be compiled each month.”*

(G) With regard to Article 13 of the Draft Regulation (“Consultation”), the EMI considers it advisable to change the heading, in order to reflect more adequately its content and make it more consistent with the important provision laid down in Article 4 (1)(c), and name that Article “Implementation measures”.

(H) With regard to the same Article 13, the EMI also considers it advisable to constantly monitor, preserve and enhance the relevance and reliability of the HCPI against the background of changing economic and statistical factors. Whilst the Article mentions adapting to economic and technical developments, formally it may be more appropriate for the Draft Regulation to merely state the requirement. In view of this, the following might be deleted from Article 13.1:

*“, including measures for adaptation to economic and technical developments,”*

and replaced with:

*“and for preserving and enhancing the reliability and relevance of the HCPI”*

(I) The procedure for adoption of implementation measures might be clarified if the consultation procedure laid down in Article 14 in fact referred to the Statistical Programme Committee; the present language of Article 13 (1) might be amended to read as follows:

*“(1) The measures for implementing the present Regulation and for preserving and enhancing the reliability and relevance of the HCPI shall be laid down by the Commission (Eurostat) following consultation with Euratom, with the European Monetary Institute or the European Central Bank as the case may be, and with the Statistical Programme Committee (hereinafter referred to as the Committee). The consultation with the Committee shall take place in accordance with the procedure specified in Article 14.”*

6. Subject to the reservations mentioned in paragraph 4 and 5 above, the EMI considers the Draft Regulation to be conducive towards the execution of its tasks and those of the ECB. Given the importance of harmonised consumer price statistics, the EMI welcomes this initiative.
  
7. The present Opinion is circumscribed to the draft regulation as it appears in the document “COM(94) 674 final”. Because of its importance to the EMI, amended versions of that document should be submitted to the EMI for further opinion.