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# COMMISSION REGULATION (EC) No 1749/96

## of 9 September 1996

## on initial implementing measures for Council Regulation (EC) No 2494/95 concerning harmonized indices of consumer prices

(OJ L 229, 10.9.1996, p. 3)

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| ►**M1** | Council Regulation (EC) No 1687/98 of 20 July 1998 | L 214 | 12 | 31.7.1998 |
| ►**M2** | Council Regulation (EC) No 1688/98 of 20 July 1998 | L 214 | 23 | 31.7.1998 |

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# COMMISSION REGULATION (EC) No 1749/96

## of 9 September 1996

## on initial implementing measures for Council Regulation (EC) No 2494/95 concerning harmonized indices of consumer prices

THE COMMISSION OF THE EUROPEAN COMMUNITIES,

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 prices [1], and in particular Articles 4 and 5 (3) thereof,

Whereas each Member State is required to produce a harmonized index of consumer prices (HICP) starting with the index for January 1997;

Whereas Article 3 of Regulation (EC) No 2494/95 requires that the scope of the HICP shall be the goods and services available for purchase in the economic territory of the Member State for the purposes of directly satisfying consumer needs;

Whereas the coverage of the existing consumer price indices produced by the Member States, practices followed for the inclusion of newly significant goods and services, procedures for adjusting prices for quality changes of the items priced, methods of combining prices to form price indices for elementary aggregates, or sampling methods and practices for obtaining prices differ between Member States to the extent that the resulting consumer price indices produced by the Member States fail to meet the comparability requirement necessary for the production of the HICP;

Whereas the practice of using previous prices as substitutes for the current monthly prices differs from the use of prices collected to the extent that the resulting consumer price indices produced by the Member States fail to meet the comparability requirement necessary for the production of the HICP;

Whereas it is necessary to include newly significant goods and services in both HICPs the weights of which are updated annually and those the weights of which are updated less frequently;

Whereas implementing measures are necessary for ensuring comparability of HICPs in accordance with Article 5 (3) of Regulation (EC) No 2494/95;

Wheres in accordance with Article 15 of Regulation (EC) No 2494/95, the Commission (Eurostat) is required to submit a report to the Council on the reliability of the HICP's and their compliance with the comparability requirements;

Whereas the measures provided for in this Regulation are in accordance with the opinion of the Statistical Programme Committee (SPC), established by Council Decision 89/382/EEC, Euratom [2];

Whereas the European Monetary Institute has been consulted in conformance with Article 5 (3) of Regulation (EC) No 2494/95 and has given a positive opinion,

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[1] OJ No L 257, 27. 10. 1995, p. 1.
[2] OJ No L 181, 28. 6. 1989, p. 47.

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HAS ADOPTED THIS REGULATION:

## I. GENERAL PROVISIONS

*Article 1*

**Aim**

The aim of this Regulation is to establish for the purpose of the production of a comparable harmonized index of consumer prices (HICP) produced by each Member State:

— the ►M1 ———— ◄ coverage of goods and services as well as comparable practices for updating the coverage to include newly significant consumer goods and services,

— minimum standards for the procedures of quality adjustment,

— minimum standards for the prices used,

— the formula for compiling price indices for the elementary aggregates.

The aim is also to ensure that the sampling of prices is such that the HICPs are sufficiently reliable for the purpose of international comparisons and to provide information from which to set minimum standards for sampling.

*Article 2*

**Definitions**

For the purpose of this Regulation:

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(a)(1) The 'coverage' of the HICP is defined as those goods and services which are included in household final monetary consumption expenditure, as referred to in (a)(2). It is classified according to the four-digit categories and sub-categories given in Annex Ia, 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).

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(a)(2) 'Household final monetary consumption expenditure' is defined as that part of final consumption expenditure which is incurred:

— by households irrespective of nationality or residence status, and

— in monetary transactions, and

— on the economic territory 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 and follows the definitions laid down in the European System of Accounts (ESA) 1995 contained in Regulation (EC) No 2223/96 ([1]).

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(a)(3) Prices used in the HICP are the purchase prices paid by households to purchase individual goods and services in monetary transactions. Where goods and services 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.

([1]) OJ L 310, 13.11.1996, p. 1.

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(a)(4) The 'weights' of the HICP are the aggregate expenditure by households on any set of goods and services covered by the HICP expressed as a proportion of the total expenditure on all goods and services covered.

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(b) 'Newly significant goods and services' are defined as those goods and services the price changes of which are not explicitly included in a Member State's HICP and the estimated consumers' expenditure on which has become at least one part per thousand of the expenditure covered by that HICP.

(c) 'Quality change' occurs whenever the Member State judges that a change in specification has resulted in a significant difference in utility to the consumer between a new variety or model of a good or service and a good or service previously selected for pricing in the HICP for which it is substituted. A quality change does not arise when there is a comprehensive revision of the HICP sample.

(d) 'Quality adjustment' is the procedure of making an allowance for a quality change by increasing or decreasing the observed current or reference prices by a factor or an amount equivalent to the value of that quality change.

(e) 'Target sample' is defined as the set of prices of goods and services which the Member State plans to obtain for the production of the HICP from January 1997 or plans at some subsequent date in order to meet the Member States' own or any European standard for reliability or comparability.

(f) 'Observed price' is a price actually confirmed by the Member States.

(g) 'Estimated price' is a price which is substituted for an observed price and is based on an appropriate estimation procedure. Previously observed prices shall not be regarded as estimated prices unless they can be shown to be appropriate estimates.

(h) 'Replacement price' is an observed price for a good or service which is taken as a direct substitute for a good or service the price of which was in the target sample.

(i) 'Elementary aggregate index' is a price index for an elementary aggregate comprising only price data.

(j) 'Elementary aggregate' refers to the expenditure or consumption covered by the most detailed level of stratification of the HICP and within which reliable expenditure information is not available for weighting purposes.

(k) 'Sampling' relates to any procedure in the construction of the HICP where a subset of the population of the prices faced by consumers is used to estimate the price change for some category of the goods and services covered by the HICP.

(l) 'Reliability' shall be assessed according to 'precision' which refers to the scale of sampling errors and 'representativity' which refers to the lack of bias.

## II. MEASURES FOR ENSURING COMPARABILITY, RELIABILITY AND RELEVANCE OF THE HICP

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*Article 3*

**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 paragraph 2, shall be deemed comparable.

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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 1999, Member States shall process the data collected covering also those categories marked as 'December 1999' as specified in Annex Ia.

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3. HICPs compiled using sub-index weights which reflect final monetary consumption expenditure of a sub-set of households, 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 1999 at the latest.

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*Article 4*

**Newly significant goods and services**

Member States shall:

(a) systematically seek to identify newly significant goods and services and

(b) check the significance of goods and services reported to be newly significant in other Member States.

The HICP shall be compiled to include the price changes of a newly significant good or service, where the good or service has been estimated as falling within the definition in Article 2 (b). This shall be accomplished within 12 months of their identification either by adjusting the weights of or within the relevant category of COICOP/HICP classification given in ►M1 Annex Ia ◄ to this Regulation or by assigning part of the weight specifically to the newly significant good or service.

*Article 5*

**Minimum standards for procedures of quality adjustment**

1. HICPs for which appropriate quality adjustments are made shall be deemed to be comparable. Where quality changes occur, Member States shall construct price indices by making appropriate quality adjustments based on explicit estimates of the value of the quality change. In the absence of national estimates, Member States shall use estimates based on information provided by the Commission (Eurostat) where these are available and relevant.

2. Where no estimates are available, price changes shall be estimated as the difference between the price of the selected substitute and that of the item it has replaced. In no case should a quality change be estimated as the whole of the difference in price between the two items, unless this can be justified as an appropriate estimate. Where replacements have to be made after goods or services have been offered at reduced prices, those replacements should be selected according to their similarity of utility to the consumer and not according to similarity of price.

*Article 6*

**Minimum standards for prices**

1. Member States shall produce HICPs using the observed prices of the target sample.

(a) Where the target sample requires monthly observation, but observation fails due to non-availability of an item or for any other reason, estimated prices may be used for the first or second month but replacement prices shall be used from the third month.

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(b) Where, exceptionally, the target sample requires observations less frequently than monthly, estimated prices shall be used for those months where observed prices are not required. Estimated prices may also be used on the first occasion on which price observation fails. Where observation fails for a second consecutive occasion, replacement prices shall be used.

2. Where, in the circumstances referred to in this Article, replacement prices are not available, estimated prices may continue to be used, provided that the extent of their use is limited to a level appropriate for achieving comparability.

*Article 7*

**Price indices for elementary aggregates**

HICPs shall be compiled using either of the two formulae given in paragraph 1 of Annex II to this Regulation or an alternative comparable formula which does not result in an index which differs systematically from an index compiled by either of the given formulae by more than one tenth of one percentage point on average over one year against the previous year.

*Article 8*

**Minimum standards for sampling**

HICPs constructed from target samples which, for each category of COICOP/HICP and taking into account the weight of the category, have sufficient elementary aggregates to represent the diversity of items within the category and sufficient prices within each elementary aggregate to take account of the variation of price movements in the population shall be deemed reliable and comparable.

*Article 9*

**Quality control**

Member States shall:

(a) provide the Commission (Eurostat) at its request with information on the expenditure of any exclusions from coverage, expressed as a proportion of the total expenditure covered by the HICP, sufficient to evaluate compliance with this Regulation;

(b) report to the Commission (Eurostat) newly significant goods and services when they are identified and, if required, the grounds for the non-inclusion of any newly significant good or service sufficient to evaluate compliance with this Regulation;

(b) monitor the incidence of quality changes and the adjustments made sufficient to demonstrate compliance with this Regulation and shall provide the Commission (Eurostat) at its request with such information;

(d) establish and maintain a clear statement of the target sample and shall maintain checks of price observations and price estimates sufficient to ensure compliance with this Regulation. They shall provide the Commission (Eurostat) at its request with such information to evaluate and ensure compliance;

(e) where a formula different from the formulae given in paragraph 1 of Annex II to this Regulation is used, provide the Commission (Eurostat) at its request with information on the effects of using that alternative formula for selected periods and selected elementary aggregates sufficient to evaluate compliance with this Regulation;

(f) provide the Commission (Eurostat) at its request with details of the target samples sufficient to evaluate compliance with this Regulation and summary statistics of the representativity and precision of samples sufficient for the Commission (Eurostat) to make proposals for minimum standards for sampling for inclusion in the Review of

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HICPs required under Article 15 of Regulation (EC) No 2494/95 due in October 1997.

**III. FINAL PROVISIONS**

*Article 10*

This Regulation shall enter into force on the 20th day following 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.

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*ANNEX Ia*

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

| Code | COICOP/HICP heading | Initial coverage January 1997 | 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 (1) | full (2) | |
| 04.1.2. | Other actual rentals | part (1) | full (2) | |
| 04.2. | Imputed rentals for housing | | | |
| 04.2.1. | Imputed rentals of owner-occupiers | | | excluded (3) |
| 04.2.2. | Other imputed rentals | | | excluded (3) |
| 04.3. | Regular maintenance and repair of the dwelling | | | |

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| Code | COICOP/HICP heading | Initial coverage January 1997 | Addition December 1999 | Excluded |
|---|---|---|---|---|
| 04.3.1. | Products for the regular maintenance and repair of the dwelling | full (4) | | |
| 04.3.2. | Services for the regular maintenance and repair of the dwelling | full (4) | | |
| 04.4. | Other services relating to the dwelling | | | |
| 04.4.1. | Refuse collection | part (5) | full (6) | |
| 04.4.2. | Sewerage services | part (5) | full (6) | |
| 04.4.3. | Water supply | part (5) | full (6) | |
| 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 (7) | full (8) | |
| 06.2. | Out-patient services | | | |
| 06.2.1. | Medical services | | full (8) | |
| 06.2.2. | Dental services | | full (8) | |
| 06.2.3. | Paramedical services | | full (8) | |
| 06.3. | Hospital services | | | |
| 06.3.1. | Hospital services (9) | | | |
| 07. | TRANSPORT | | | |

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| Code | COICOP/HICP heading | Initial coverage January 1997 | Addition December 1999 | Excluded |
|---|---|---|---|---|
| 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. | Spare 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 ([10]) | | |
| 07.3. | Transport 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 | | |
| 0.7.3.4. | Passenger transport by sea and inland waterway | full | | |
| 07.3.5. | Other purchased transport services | full | | |
| 07.3.6. | Combined tickets | full ([11]) | | |
| 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 | | |
| 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 ([12]) | | |
| 09.4.2. | Cultural services | full ([13]) | | |
| 09.4.3. | Games of chance | | | excluded |
| 09.5. | Newspapers, books and stationery | | | |
| 09.5.1. | Books | part ([14]) | full ([15]) | |

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| Code | COICOP/HICP heading | Initial coverage January 1997 | Addition December 1999 | Excluded |
|---|---|---|---|---|
| 09.5.2. | Newspapers and periodicals | full | | |
| 09.5.3. | Miscellaneous printed matter | full | | |
| 09.5.4. | Stationery and drawing materials | part ([14]) | full ([15]) | |
| 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 ([15]) | |
| 10.1.2. | Secondary education | | full ([15]) | |
| 10.1.3. | Tertiary education | | full ([15]) | |
| 10.1.4. | Education not definable by level | part ([16]) | full ([15]) | |
| 11. | HOTELS, CAFES AND RESTAURANTS | | | |
| 11.1. | Catering | | | |
| 11.1.1. | Restaurants and cafes | full | | |
| 11.1.2. | Canteens | part ([14]) | full ([15]) | |
| 11.2. | Accommodation services | | | |
| 11.2.1. | Accommodation services | part ([14]) | full ([15]) | |
| 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. | Personal care services n.e.c. | | | excluded |
| 12.2. | Personal effects n.e.c. | | | |
| 12.2.1. | Jewellery, clocks and watches | full | | |
| 12.2.2. | Other personal effects | full | | |
| 12.3. | Social protection | | | |
| 12.3.1. | Social protection services | | part ([17]) | |
| 12.4. | Insurance | | | |
| 12.4.1. | Life insurance | | | excluded |
| 12.4.2. | Insurance connected with the dwelling | part ([18]) | full ([19]) | |
| 12.4.3. | Insurance connected with health | | full ([20]), ([21]) | |
| 12.4.4. | Insurance connected with transport | part ([22]) | full ([23]), ([21]) | |
| 12.4.5. | Other insurance | | full ([24]), ([21]) | |
| 12.5. | Financial services n.e.c. | | | |
| 12.5.1. | Financial services n.e.c. | part ([25]) | full ([26]) | |
| 12.5.2. | FISIM | | | excluded |
| 12.6. | Other services n.e.c. | | | |
| 12.6.1. | Other services n.e.c. | full ([27]) | | |

([1]) Relates to the practice followed in the national consumer price indices.

([2]) 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.

([3]) This does not prejudge the coverage of owner-occupied housing in general.

([4]) 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 category 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 Nos 4 and 15.

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(5) Refers to expenditure according to consumption.

(6) 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 Nos 9 and 29.

(7) Refers to health goods outside the social security system.

(8) 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.

(9) 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.

(10) Includes driving licences, road worthiness tests, motor association fees, tolls for bridges, tunnels, shuttle-ferries, and motorways; excludes licences to own or use vehicles; see also Annex Ib Nos 9, 18 and 19b.

(11) Refers to tickets covering two or more modes of transport and the expenditure cannot be apportioned between them.

(12) Includes fees or subscriptions to sports 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 Nos 9 and 19b.

(13) Includes entrance fees to museums, fees for libraries, and licence fees and subscriptions to television and radio; see also Annex Ib Nos 9 and 10.

(14) Includes educational goods and services only if they are fully paid by consumers.

(15) 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.

(16) Refers to computer courses, language courses, typing courses, and other such courses which are fully paid by the consumer.

(17) Refers to crèches, nurseries, play schools and kindergartens which are not an obligatory part of the educational system; covered is only that expenditure which is 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.

(18) Refers to service charges for contents insurance.

(19) 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 Nos 7, 8 and 24. Following a decision on the treatment of owner-occupied housing, the coverage of this category 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.

(20) Refers to service charges for private sickness and accident insurance; see also Annex Ib Nos 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.

(21) 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.

(22) Refers to service charges for insurance in respect of personal transport equipment.

(23) Refers to service charges in respect of personal transport equipment, travel insurance and luggage insurance; see also Annex Ib Nos 7, 8 and 24.

(24) 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 Nos 7, 8 and 24.

(25) Refers to banking service charges which are not expressed as a proportion of the transaction value.

(26) 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 Nos 21 and 23.

(27) 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 services rendered; see Annex Ib Nos 9 and 19.

▼M1

*ANNEX Ib*

A. DEFINITION OF HOUSEHOLD FINAL MONETARY CONSUMPTION EXPENDITURE

▼M2

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. It includes individuals living in institutional households (as defined in ESA 2.76.b). 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.

▼M1

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, televi-

▼M1

sion 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 not a 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 agent 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 also 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 asset, in particular the purchase of land.

15. It also does 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 unincorporated 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

▼M1

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,

▼**M1**

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.

▼B

*ANNEX II*

**Formulae to be used in compiling elementary aggregates**

1. When compiling price indices for elementary aggregates either the ratio of arithmetic mean prices $\frac{\frac{1}{n}\ \Sigma p^t}{\frac{1}{n}\ \Sigma p^b}$ or the ratio of geometric mean prices $\frac{[\Pi p^t]^{1/n}}{[\Pi p^b]^{1/n}}$, where $p^t$ is the current price, $p^b$ the reference price and n the number of such prices in the elementary aggregate, shall be used. An alternative formula may be used provided that it fulfils the comparability requirement laid down in Article 7.

2. The arithmetic mean of price relatives $\frac{1}{n}\ \Sigma\ \frac{P^t}{P^b}$ should not normally be used, as it will in many circumstances result in failure to meet the comparability requirement. It may be used exceptionally where it can be shown not to fail the comparability requirement.

3. The price index for an elementary aggregate may be calculated as a chain index using one of the above two preferred formulae. For example using the ratio of arithmetic means:

$$I^{tb} = \frac{\Sigma_{i \in sb} P_i^1}{\Sigma_{i \in sb} P_i^b} \cdot \frac{\Sigma_{i \in sl} P_i^2}{\Sigma_{i \in sl} P_i^1} \cdots \frac{\Sigma_{i \in s_{t-1}} P_i^1}{\Sigma_{i \in s_{t-1}} P_i^{t-1}},$$

where $P_i\ t$ denotes the $i^{th}$ price quotation for a given elementary aggregate in period t and $s_t$ denotes the sample of prices obtained for the elementary aggregate in period t. This sample may in practice be updated monthly or, more usually, when prices cannot be obtained, over longer periods. If between base period b and period t there is no replenishing at all $I\ t^b$ becomes $I\ t^b = \frac{\Sigma_{i \in sb} P_i^t}{\Sigma_{i \in sb} P_i^b}$, the simple ratio of arithmetic means (or similarly with the geometric formula described above). The arithmetic mean of price relatives must not be used where chaining is more frequent than annual.