

Memo 8/98
4 May 1998

A key instrument

**NEW MONETARY UNION INDEX OF
CONSUMER PRICES (MUICP)**

Monitoring inflation in the euro zone

The new Monetary Union Index of Consumer Prices (MUICP) is published for the first time today by **Eurostat, Statistical Office of the European Communities in Luxembourg**. It is a key instrument for monitoring price stability in the euro zone.

The MUICP is based on the Harmonized Indices of Consumer Prices (HICPs) of the 11 countries participating in Stage III of Economic and Monetary Union (EMU).

Time-series for the MUICP are available from January 1995 to March 1998. From now on Eurostat will publish the MUICP and its sub-indices monthly about 30 days from the end of the month to which it relates.

A weighted average

The MUICP is calculated as a weighted average of HICPs of the 11 Member States participating in Stage III of EMU. Country weights are computed every year reflecting the country's share of private final domestic consumption expenditure¹ in the EMU total.

Country weights used to calculate the MUICP

	1998	1997	1996
Belgium	38.0	38.2	38.2
Germany	345.2	345.5	346.5
Spain	89.0	88.7	88.2
France	218.7	219.3	219.5
Ireland	9.0	9.1	9.0
Italy	181.7	181.2	180.5
Luxembourg	2.2	2.2	2.2
Netherlands	53.5	53.1	53.2
Austria	30.4	30.5	30.5
Portugal	16.8	16.7	16.7
Finland	15.5	15.5	15.6
EMU	1000.0	1000.0	1000.0

¹ National Accounts aggregate a51

Private final domestic consumption expenditure data for a given Member State are computed in the Member State's currency. In order to establish the country's shares, those data have to be converted into the same currency.

Until now in the context of EICP, the Purchasing Power Standards were used for that conversion. But the context for MUICP is different since EMU has now entered into force. Therefore, the bilateral exchange rates between the national currencies of the 11 participating Member States as announced by the Council last weekend are used from 1995 onwards to convert the values of final consumption expenditure of households for calculating the MUICP country weights. Once the national accounts of the EMU participating countries are expressed in euros this conversion will no longer be necessary.

Country weights used in computation of the MUICP for the months of 1995 and 1996 are 1996 national accounts data. For the months in 1997 and 1998, country weights are based on the same 1996 national accounts data but price-updated to December 1996 and December 1997 using participating Member States' HICPs for December 1996 and December 1997 respectively. For the months in 1999 Eurostat will use 1997 national accounts data updated to December 1998 using participating Member States' HICPs for December 1998.

MUICP sub-index formula

Analysis of sources of inflationary pressure requires a sub-division of the MUICP into component parts relating to the different product groups it covers. Therefore, Eurostat publishes about 100 MUICP sub-indices. They are compiled using the classification COICOP/HICP, based on the international classification of consumers' expenditure known as COICOP (Classification Of Individual CONsumption by Purpose), specially adapted to the purposes of HICPs.

The weight assigned to each MUICP sub-index reflects the relative importance of consumers' expenditure on each sub-category in EMU. The sub-index weights are calculated as a weighted² average of the HICP sub-index weights of the 11 Member States participating in EMU. Where a country does not provide a sub-index its weight is set to zero.

Member States with derogation

According to Article 109(k)(2) of the Treaty establishing the European Community, at least once every two years, or at the request of a Member State with a derogation, the situation of non-participating countries may be reassessed. Assuming that in January of a given year n , x more countries will join, increasing the number of participants from 11 to $11+x$, the MUICP will then be extended to include $11+x$ Member States. This is achieved by linking, in December of the year $n-1$, the MUICP for the $11+x$ participating countries to the MUICP for the former 11 participating countries.

Calculation of the EICP in EMU Stage III

The computation of EICP will remain unchanged until 1 January 1999.

Currently the EICP is calculated as a weighted average of the HICPs of the 15 EU Member States. The index construction allows for country weights to change each year. A Member State's weight is its share of private national consumption³ in the EU total. Values of private national consumption in national currencies are converted into purchasing power standards (PPS) using

² The country weights are given in the above table

³ National Accounts aggregate a03

the purchasing power parities of final consumption. The country weights used in 1998 are 1996 national accounts data at December 1997 prices. The European Economic Area Index of Consumer Prices (EEAICP) is calculated the same way but including Iceland and Norway⁴.

Until the start of Stage III of EMU in January 1999, Eurostat will continue to calculate the EICP and the EEAICP in this way. In Stage III the formula for the EICP will be amended to take account of the unity of the euro zone in using the purchasing power parity of the euro zone.

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⁴ Liechtenstein does not provide an HICP