



EUROPEAN CENTRAL BANK

EUROSYSTEM

Christine LAGARDE

President

Mr Gunnar Beck

Member of the European Parliament

European Parliament

60, rue Wiertz

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Frankfurt am Main, 23 April 2021

L/CL/21/90

Re: Your letter (QZ-013)

Honourable Member of the European Parliament, dear Mr Beck,

Thank you for your letter, which was passed on to me by Ms Irene Tinagli, Chair of the Committee on Economic and Monetary Affairs, accompanied by a cover letter dated 16 March 2021.

The ECB's main indicator of inflation is the Harmonised Index of Consumer Prices (HICP), which for the euro area, the European Union as a whole and its Member States¹ is compiled and reported by the statistical institutes of EU Member States and by Eurostat, the statistical office of the European Union.

The restrictive measures implemented by European governments in response to the COVID-19 crisis have had a direct impact on price collection. The statistical authorities have thus decided to use imputations in cases where prices could not be collected owing to shops being closed or other restrictions being imposed. Another reason for using imputations, which may also be relevant under other circumstances, is an insignificant volume of transactions. With these imputations, official HICP inflation has continued to be calculated based on the complete basket of consumer goods and services. This means that the HICP basket also includes products for which actual prices could not be recorded, as these products were purchased only rarely or not at all. Keeping the basket complete is required by the legal statistical reporting requirements decided on by the co-legislators.² There are other important reasons for continuing to report inflation for the entire basket, including established uses of official inflation indicators in, for example, long-term contracts referring to nominal payments (e.g. housing rents) or wage negotiations. A high degree of continuity and stability, as well as the application of an established, widely acknowledged and transparent methodology, is

¹ Please note that imputations in the HICP for Germany are treated in the same way as in the Consumer Price Index ("*Verbraucherpreisindex*").

² See Regulation (EU) 2016/792 of the European Parliament and of the Council of 11 May 2016 on harmonised indices of consumer prices and the house price index, and repealing Council Regulation (EC) No 2494/95 (Text with EEA relevance) (OJ L 135, 24.5.2016, p. 11), available at: <https://eur-lex.europa.eu/legal-content/en/TXT/?uri=CELEX:32016R0792>

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therefore essential. For each month that imputations in the HICP are applied, these are documented comprehensively by Eurostat in terms of methods and relevance.³

As a result of the disruptions in the collection of prices discussed above, the basket of goods and services calculated without the use of imputations were smaller than the complete HICP basket. For example, package holidays would be left out when changes in the prices of those holidays were imputed to a large degree. To analyse and assess the drivers of recent price changes, the ECB is calculating HICP inflation without imputations. Our calculations show that product categories for which price changes were mainly imputed had an upward impact on annual HICP inflation in the euro area in April and May 2020, and again in January, February and March 2021, and a downward impact in August and October 2020 (the impact was insignificant in the other months). Overall, the impact on annual HICP inflation in the euro area is estimated not to have exceeded 0.25 percentage points in any one month.

The difference between HICP inflation calculated without imputed prices and the reported HICP inflation is determined by the different baskets and hence the methods used for imputation. The methods for imputing price changes include, for example, referring to price changes for similar products or to price patterns from past periods, or assuming that prices have remained constant. For instance, price changes for hairdressing services may be imputed by assuming that prices would not have changed during periods when hairdressers were closed, rather than referring to price changes for other services (since there are no similar services). The inclusion of imputed price changes has a downward impact on reported inflation if the imputed inflation of products for which the collection of actual prices was discontinued is lower than the inflation of those products for which established price collection has continued. However, it is important to stress that the direction of the impact does not always reflect what one may intuitively expect. For instance, when inflation is low, imputing price changes based on past patterns might have an upward impact.

To conclude, let me emphasise that the ECB has full confidence in the HICP inflation figures compiled and reported by the European statistical system. These statistics are of a high quality and are calculated using transparent concepts and methods. The ECB has been regularly informed about every relevant change and adaptation to the calculation methods and practices used. This has been particularly useful in the context of inflation measurement during the COVID-19 crisis.

Yours sincerely,

[signed]

Christine Lagarde

³ For more information, see "Inflation measurement in times of economic distress", *Economic Bulletin*, Issue 3, ECB, 2020, available at: https://www.ecb.europa.eu/pub/economic-bulletin/focus/2020/html/ecb.ebbox202003_04~537bb1d72e.en.html and "Consumption patterns and inflation measurement issues during the COVID-19 pandemic", *Economic Bulletin*, Issue 7, ECB, 2020, available at: https://www.ecb.europa.eu/pub/economic-bulletin/focus/2020/html/ecb.ebbox202007_03~e4d32ee4e7.en.html.

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