



EUROPEAN COMMISSION

Directorate D: Economic and Regional Statistics
Unit D-4: Price statistics



HICP COMPLIANCE MONITORING

INFORMATION NOTE ON THE HARMONIZED INDICES OF CONSUMER PRICES FOR CYPRUS

NOVEMBER 2006

In the context of compliance monitoring and quality assurance, Eurostat has been reviewing the HICP for Cyprus in preparation for the autumn 2006 convergence assessments and given the possible future accession of Cyprus to the euro-zone. The statistical practices used to compile the HICP for Cyprus have been reviewed against HICP methodology and other guidelines and good practices in the field of consumer price indices.

This report takes account of publicly available information on the CPI and HICP for Cyprus, and additional information collected by Eurostat prior to and during a mission to the Statistical Service of Cyprus on 27 October 2006.

I. OVERALL ASSESSMENT

Eurostat considers that in general the methods used for producing the Cypriot HICP are of a good standard. The methodological basis for compiling the Cypriot HICP conforms to HICP requirements. The quality of the consumer price statistics for Cyprus has improved significantly in recent years. In close collaboration with Eurostat, the Statistical Service of Cyprus successfully completed the necessary actions in order to set-up their HICP before accession to the European Union (EU).

There were no apparent instances of non-compliance with the HICP methodology. The Cypriot data passes all standard HICP validation tests – it is internally consistent and aggregates correctly. It should be considered comparable to the HICPs of other EU countries.

The accuracy and reliability of the HICP are adequate. There is one point where further analysis is needed to support the current methods: HICP weight for telecommunications services.

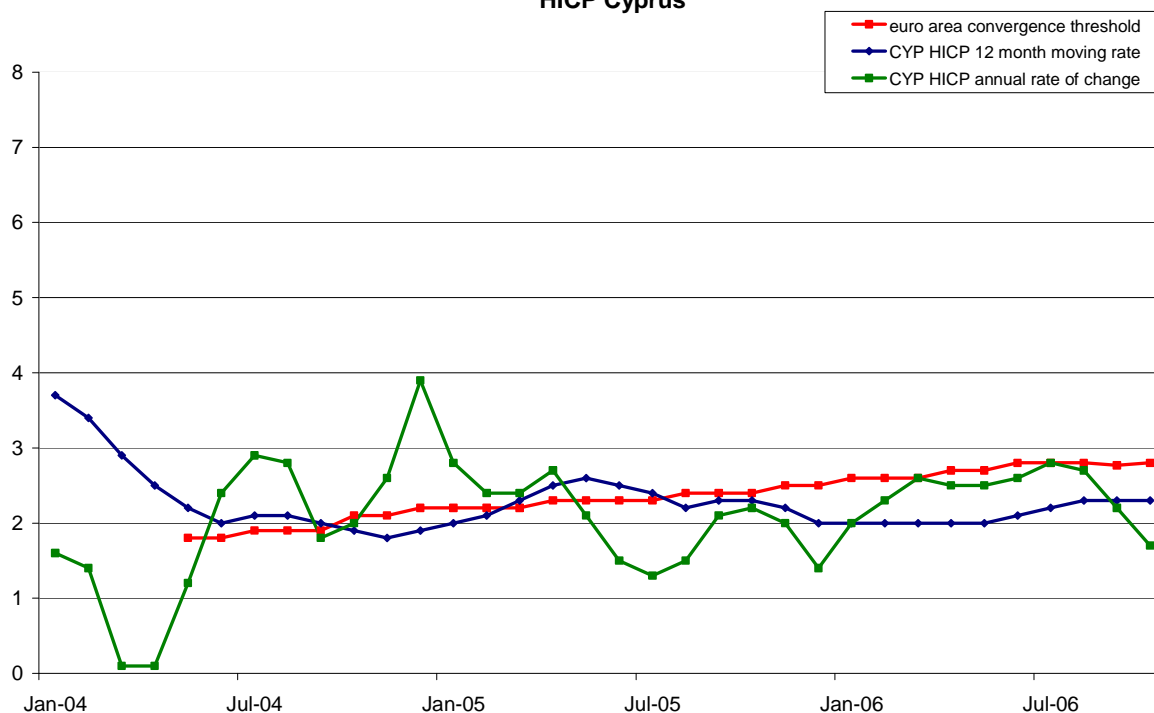
II. RECENT PRICE DEVELOPMENTS

HICP compliance for Cyprus was assessed positively by Eurostat in 2004 before accession to the EU. The focus of Eurostat's current assessment has been on energy and administered prices, such as telecom services and water supply prices, and on some other prices which have a particularly important impact on the Cypriot HICP such as prices for fruit, vegetables, cars, clothing, medical products and accommodation services.

Since August 2005 the average annual inflation rate for Cyprus has been lower than the euro area convergence threshold. The chart below shows the recent development in the 12 months moving rate and the annual rate of change for Cyprus together with the convergence threshold for inflation. The annual inflation rate for Cyprus was 1.7% in October 2006.

On average the most significant upwards impacts on the HICP in the year to October 2006 came from fuels for transport, electricity and meat. The Cypriot economy is exclusively dependent on oil imports for its energy requirements. Energy price increases in the last year have been partly offset by lower inflation for some other products, such as clothing, accommodation and telecommunications services.

HICP Cyprus



Note: The euro area inflation convergence threshold is based on a 12-month moving average calculation.

III. FINDINGS AND RECOMMENDATIONS

For the headings with the most significant impacts on the HICP, and in particular for energy-related headings, both the methodology and data seem to be of good quality. The movements in both prices and weights in recent periods correctly reflect economic determinants.

The Statistical Service of Cyprus uses data from the Telecom Authority (CYTA) as the primary source for the HICP telecommunications weightings. However, in recent months volumes of telecoms consumption in the HICP seem to be falling. The Statistical Service of Cyprus plans to undertake some analysis in order to support and where necessary improve those estimates.

For cars, the Statistical Service has initiated a project to improve the HICP by implementing hedonic methods and Eurostat supports that initiative. The implementation of hedonic methods will need to be followed-up in close cooperation with Eurostat.

The HICP weights for Cyprus are currently based on survey data for 2003. Thus the weights conform with HICP requirements. From 2007 the Statistical Service of Cyprus plans to use data from the annual household budget survey for improving the selective updating of HICP weightings. Eurostat supports that initiative.

According to the Statistical Service of Cyprus, except for the price index for cars, no methodological changes are currently expected.

Changes to tax and excise rates for cars have had an impact on the HICP and most recently due to a substantial change made in November 2006.

Eurostat's recommendations are as follows:

- Eurostat supports the initiative of the Statistical Service of Cyprus to introduce hedonic quality adjustment methods for cars.
- Eurostat supports the use of data from the annual household budget survey for improving the selective updating of HICP weightings.
- Eurostat recommends that some analysis should be carried-out concerning the quality of the weights for telecommunications services, in order to support the current estimates and if necessary improvements implemented.