



EURO CHANGEOVER AND INFLATION IN CYPRUS AND MALTA

Taking account of the developments in the HICP inflation rates for Cyprus and Malta in January 2007 and February 2008, Eurostat has assessed the impact of the changeover on the HICP in both countries.

Prices for, in particular, food and energy increased substantially in most Member States in late 2007 and early 2008. In the EU as a whole, the HICP also increased substantially in late 2007, with an annual inflation rate of 3.4% being reached in February 2008.

Provisional calculations show that in both Cyprus and Malta the total (one-off) impact of the changeover on headline inflation, during and immediately after the changeover, was probably between 0.2 and 0.3 percentage points. These estimates for Cyprus and Malta are in line with the experience of the first-wave changeover in 2002 and of Slovenia in 2007. Eurostat considers therefore that the euro changeover effects in both Cyprus and Malta seem to have been noticeable but were not of a magnitude that could drive headline inflation in either country.

In Cyprus the annual HICP rate for January 2008 was 4.1%, up from 3.7% in December 2007. In February 2008 the HICP increased further to 4.7%. The HICP showed a declining month-on-month rate in January (-1.4%), as has been the case for the last few years in January, mainly due to the impact of seasonal sales.

In Malta the annual HICP rate for January 2008 was 3.8%, up from 3.1% in December 2007. In February 2008 the HICP increased further to 4.0%. The HICP showed a declining month-on-month rate in January (-0.4%), which, as in Cyprus, was mainly due to the impact of seasonal sales.

Harmonized Indices of Consumer Prices

Month	Cyprus		Malta		EU	
	Annual rate of change (%)	Monthly rate of change (%)	Annual rate of change (%)	Monthly rate of change (%)	Annual rate of change (%)	Monthly rate of change (%)
Sep-07	2.3	1.3	0.9	0.5	2.2	0.4
Oct-07	2.7	0.9	1.6	0.1	2.7	0.5
Nov-07	3.2	0.4	2.9	-2.2	3.1	0.5
Dec-07	3.7	0.3	3.1	0.1	3.2	0.4
Jan-08	4.1	-1.4	3.8	-0.4	3.4	-0.2
Feb-08	4.7	0.3	4.0	0.4	3.4 ^p	0.4 ^p

p=provisional

Eurostat considers that in general the methods used for producing the Cypriot HICP are of a good standard. The methodological basis conforms to HICP requirements and the accuracy and reliability of the Cypriot HICP are adequate.¹ Eurostat also considers that in general the methods used for producing the Maltese HICP are satisfactory. The methodological basis for the most part

¹ ['HICP Compliance Monitoring Information Note for Cyprus'](#), Eurostat, November 2006.

conforms to HICP requirements and the accuracy and reliability of the HICP are generally adequate.²

Eurostat visited the Statistical Service of Cyprus on 11 February 2008 and the National Statistics Office of Malta on 21 February 2008. In both countries it was confirmed that the HICPs continued to correctly measure inflation during the period of the switch from pricing in national currencies to pricing in euro. During and following both visits, information was provided by the national statistical institutes on price changes at the time of the changeover and on possible reasons for those price changes. Eurostat and the Cypriot and Maltese national statistical institutes also met with other national stakeholders, to collect their views on the possible impact of the changeover on prices.

In Eurostat's view, in Cyprus some unusual price rises were seen in December 2007 and January 2008, such as for restaurants and cafes, recreational services, hairdressers and some other services. In Malta, some unusual price rises were also seen in December 2007 and January 2008 such as for telecommunications, cars, alcoholic drinks, repairs and some other services³.

Against the background of the EU annual inflation rate standing at 3.4% in February 2008, and the increases in inflation across the EU in recent months, Eurostat considers that the euro changeover effects in both Cyprus and Malta seem to have been noticeable but were not of a magnitude that could drive headline inflation in either country.

Eurostat's provisional assessment is that in both Cyprus and Malta the total (one-off) impact of the changeover on consumer price inflation in the period around the changeover was probably between 0.2 and 0.3 percentage points. These estimates for Cyprus and Malta are in line with the experience of the first-wave changeover in 2002⁴ and of Slovenia in 2007.⁵

Neither the Statistical Service of Cyprus nor the National Statistics Office of Malta has released its own assessment of the impact of the changeover on inflation.

Eurostat will update its conclusions concerning the impact of the changeover in Cyprus and Malta if necessary when further information becomes available.

Estimating the impact of the euro changeover

Eurostat has used statistical techniques to identify those HICP sub-indices for Cyprus and Malta which showed price changes in December 2007 or January 2008 which were outside what the past data and data for other EU countries would predict. This gives an “expected price development”. The difference between the expected and the actual price developments is regarded as an unusual price change. The unusual price changes which could not be plausibly attributed to other factors were attributed to the euro changeover.

In practice there is no way to estimate precisely what inflation would have been if the euro changeovers in Cyprus and Malta had not taken place. Even at the lowest level of detail, there are many factors which overlap with potential changeover effects, and there are a multitude of potential changeover effects which may amplify each other or cancel out.

² ['HICP Compliance Monitoring Information Notes for Malta'](#), Eurostat, October 2006 and November 2007.

³ Around the time of euro-changeover price increases for certain medical and domestic services in Cyprus and for accommodation services and footwear in Malta were also observed. There being no evidence that those price increases were linked directly to the changeover, they have not been taken into account in Eurostat's estimates of the impact.

⁴ ['News Release 69/2003'](#), Eurostat, June 2003.

⁵ ['Information note on euro changeover and inflation in Slovenia'](#), Eurostat, March 2007.