



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 ESTONIA

NOVEMBER 2006

In the context of compliance monitoring and quality assurance, Eurostat reviewed the HICP for Estonia in Spring 2006 in preparation for the autumn 2006 convergence assessments and given the possible future accession of Estonia to the euro-zone. The statistical practices used to compile the HICP for Estonia 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 Estonia, and additional information collected by Eurostat prior to and during a mission to the Statistical Office of Estonia on 31 March 2006.

I. OVERALL ASSESSMENT

Eurostat considers that in general the methods used for producing the Estonian HICP are satisfactory. The methodological basis for compiling the Estonian HICP conforms to HICP requirements.

The quality of the consumer price statistics for Estonia has improved significantly in recent years. In close collaboration with Eurostat and other international experts, the Statistical Office of Estonia successfully completed many actions in order to set-up the Estonia HICP before accession to the European Union (EU).

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

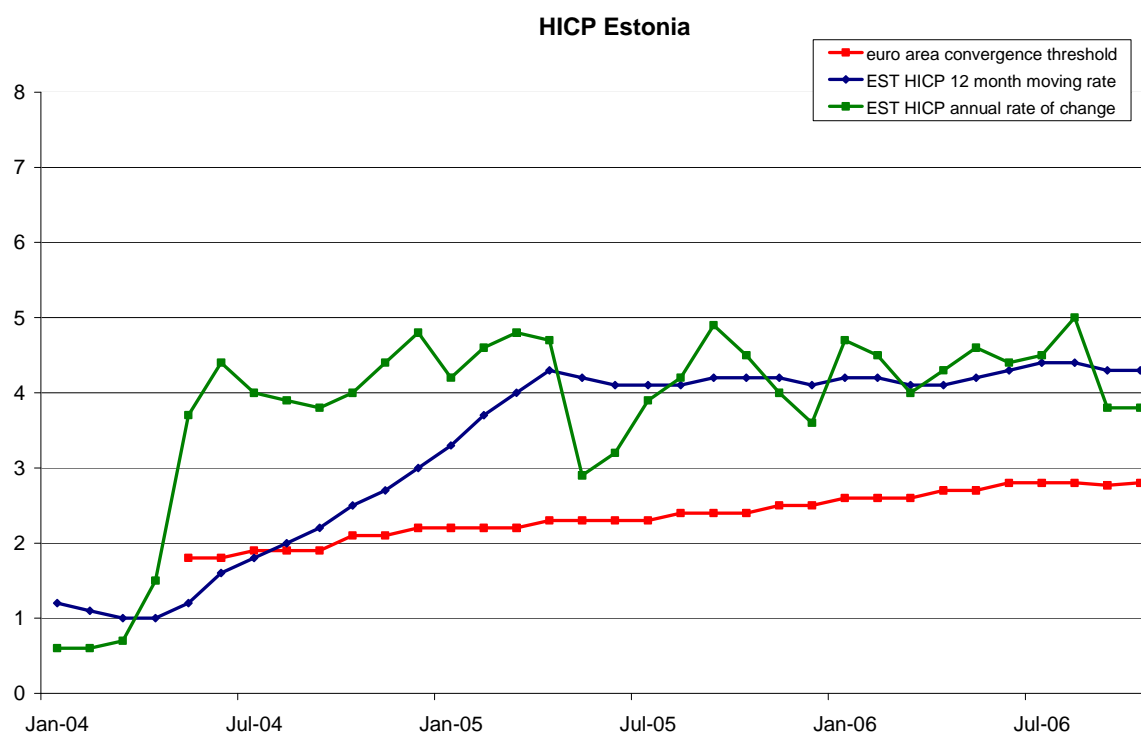
While the accuracy and reliability of the HICP are generally adequate, in some cases the methodology or data used shows some need for improvement which may require further analyses and follow up. In the opinion of Eurostat, the Estonian statistical office would benefit from improved capacity for carrying out HICP work.

II. RECENT PRICE DEVELOPMENTS

HICP compliance for Estonia was assessed positively by Eurostat in 2004 before accession to the EU. The focus of Eurostat's assessment of spring 2006 was on administered prices and on those prices which were having a particularly important impact on the Estonian HICP, in particular prices for energy, cars, clothing and accommodation services.

Inflation in Estonia remains higher than the euro area average. In October 2006 the Estonian HICP annual inflation rate was 3.8%, compared to the euro zone average of 1.6%. This situation is also reflected in Estonia's 12 months moving rate for October 2006 which was 4.3% compared to 2.2% for the euro zone. The chart below shows the recent development in the 12 months moving rate and the annual rate of change for Estonia together with the convergence threshold for inflation.

Estonia's relatively high inflation rate in recent years reflects in particular EU accession-related tax hikes in 2004 and higher energy prices in 2005. On average the most significant upwards impacts on the HICP in the year to October 2006 came from fuels for transport, solid fuels and rents. Energy price increases in the last year have been partly offset by lower inflation for some other products, such as telecommunications, cars, accommodation and IT equipment.



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 satisfactory, although in some cases the methodology or data used shows some need for improvement. Also, some movements in the data (both price indices and weights) may require some further analyses.

According to the Statistical Office of Estonia, no methodological changes are currently expected in 2007.

Eurostat recommends that:

- Further analysis be carried out on car fuel, clothing and accommodation services particularly with regard to weights to ensure that these remain representative and reflect recent price changes.
- Given that the implementation (and timing) into the HICP of possible changes in the following areas could have a marked impact on inflation figures, Eurostat should be kept informed of developments, especially:
 - Changes in VAT and excise duties (especially on heat energy, alcohol and tobacco), though the project to develop an index at constant tax rates,
 - Changes in prices for heat energy and electricity, where these have a significant impact on the HICP
- As the methodology for used car prices has some limitations, it is recommended that the methodology be improved.

Furthermore, Estonia uses the ratio of arithmetic means formula for elementary aggregation within the HICP, and the Statistical Office of Estonia may consider in future changing to the geometric mean formula. Both formulae are allowed according to the HICP legal framework (Regulation 1749/96, Annex II). Eurostat therefore also recommends that any proposal to change the current aggregation formula be implemented in close coordination between the statistical office and Eurostat, according to an agreed timetable and in accordance with Regulation 1921/2001 on revisions to the HICP.