



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 LITHUANIA**

**NOVEMBER 2006**

In the context of compliance monitoring and quality assurance, Eurostat reviewed the HICP for Lithuania in spring 2006 in view of the possible future accession of Lithuania to the euro-zone. The statistical practices used to compile the HICP for Lithuania 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 Lithuania, and additional information collected by Eurostat prior to and during a mission to the Department of Statistics to the Government of the Republic of Lithuania (hereinafter the Department of Statistics) on 21 March 2006.

## **I. OVERALL ASSESSMENT**

Eurostat considers that in general the methods used for producing the Lithuanian HICP are of a good standard. The methodological basis for compiling the Lithuanian HICP conforms to HICP requirements. The quality of the consumer price statistics for Lithuania has improved significantly in recent years. In close collaboration with Eurostat and other international experts, the Department of Statistics successfully completed many necessary actions in order to set-up the Lithuanian HICP before accession to the European Union (EU).

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

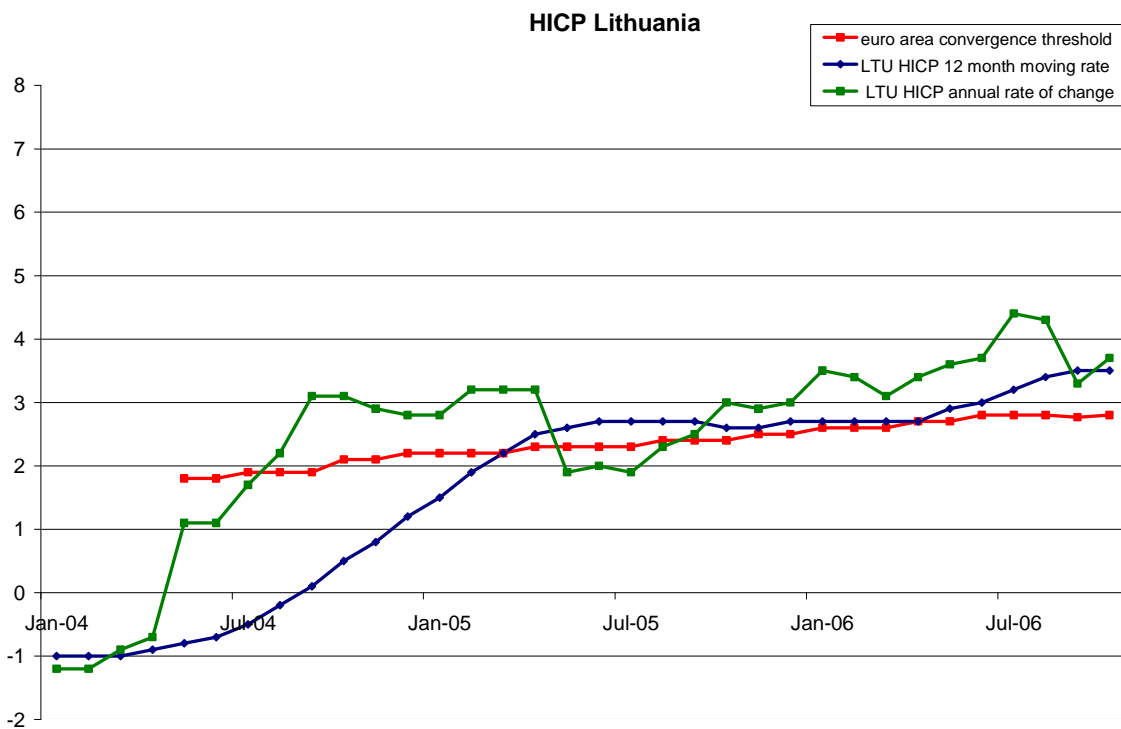
While the accuracy and reliability of the HICP are generally adequate, the Lithuanian HICP would benefit from further analysis to support the current methods, in particular regarding medical products.

## **II. RECENT PRICE DEVELOPMENTS**

HICP compliance for Lithuania 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 the most important impact on the Lithuanian HICP – in particular those for energy – electricity and gas and heat energy and cars, clothing, and air transport.

Inflation in Lithuania remains higher than the euro area average. In October 2006, the Lithuanian HICP annual inflation rate was 3.7%, compared to the euro area average of 1.6%. This situation is also reflected in Lithuania's 12 months moving rate for October 2006 which was 3.5% 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 Lithuania together with the convergence threshold for inflation.

On average, the most significant upwards impacts on the HICP in the year to October 2006 came from fuels for transport, fruit and vegetables, gas and road transport. Price increases in the last year have been partly offset by lower inflation for some other products, such as telecommunications, cars, clothing and footwear.



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 broadly satisfactory.

Some impacts on inflation from the recent increases in oil prices can be seen in the HICP data for Lithuania, as they can for other countries.

Eurostat recommends that:

- The statistical office should continue to monitor closely changes in administered prices, changes in taxation and excise duties, in particular for energy, given the changes that may take place in the future, in order to ensure that the price indices and weights remain representative.
- The recording of the medical products in the HICP should be supported by further analysis to ensure that in particular the weights are representative.

Furthermore, Lithuania uses the ratio of arithmetic means formula for elementary aggregation within the HICP, and the Department of Statistics considers changing to the geometric mean formula in the future. 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.