



EUROPEAN COMMISSION

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



HICP COMPLIANCE MONITORING
INFORMATION NOTE ON THE HICP FOR MALTA

OCTOBER 2006

In the context of compliance monitoring and quality assurance, Eurostat has been reviewing the HICP for Malta in preparation for the autumn 2006 convergence assessments and given the possible future accession of Malta to the euro-zone. The statistical practices used to compile the HICP for Malta 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 Malta, and additional information collected by Eurostat prior to and during a mission to the National Statistics Office (NSO) of Malta on 22 September 2006.

I. OVERALL ASSESSMENT

Eurostat considers that in general the methods used for producing the Maltese HICP are satisfactory. The methodological basis for compiling the Maltese HICP for the most part conforms to HICP requirements. The quality of the consumer price statistics for Malta has improved significantly in recent years. In close collaboration with Eurostat and other international experts, the National Statistics Office successfully completed many necessary pieces of work in order to set-up the Maltese HICP before accession to the EU.

Instances of non-compliance with the HICP methodology are limited and would seem likely to have a relatively minor impact in practice on the HICP annual average rates of change. The Maltese 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, there are some points where the Maltese HICP needs to be improved or where further analyses are needed to support the current methods.

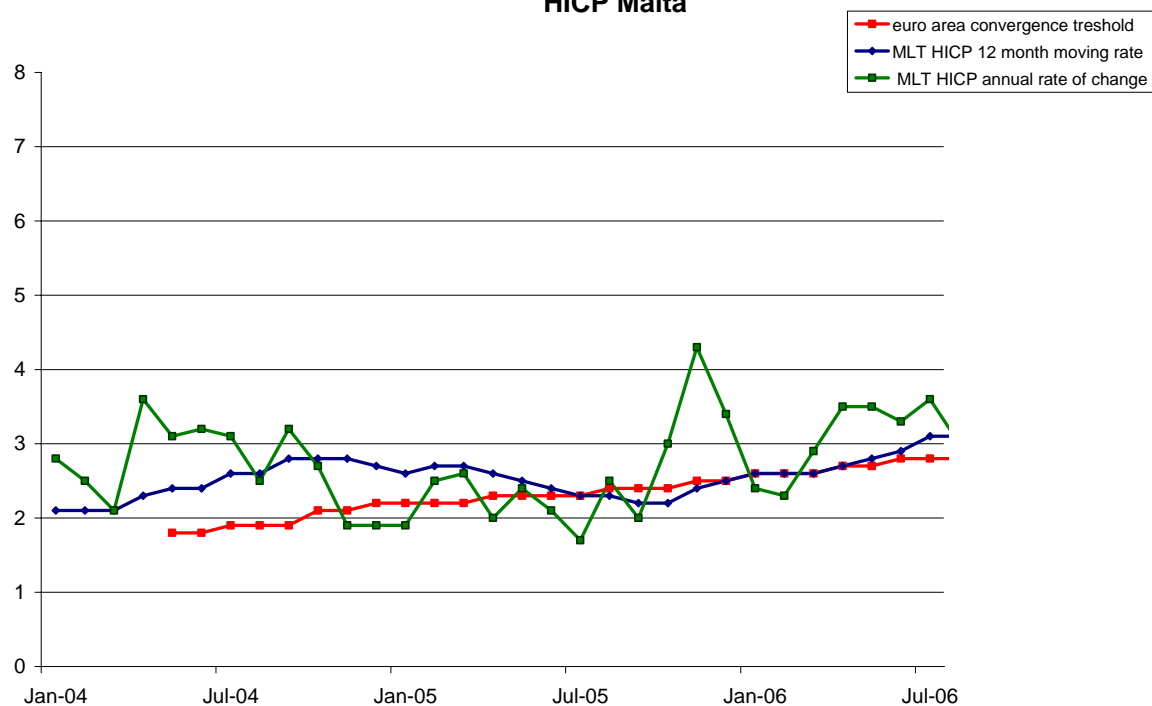
II. RECENT PRICE DEVELOPMENTS

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

In July 2006 the annual inflation rate for Malta was higher than the euro area average. The chart below shows the recent development in the 12 months moving rate and the annual rate of change for Malta together with the convergence threshold for inflation. The annual inflation rate for Malta was 3.0% in August 2006. Malta's relatively high inflation rate in the last year reflects in particular substantial price increases for fuels, electricity and water supply. The Maltese 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. On average the most significant upwards impacts on the HICP in the year to June 2006 came from fuels for transport, electricity and water supply. The most significant downwards impacts came from cultural services, fruit and accommodation services.

HICP Malta



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

III. FINDINGS AND RECOMMENDATIONS

For energy-related headings, the methodology used is satisfactory and the movements in both prices and weights in recent periods correctly reflect economic determinants. In some other cases the methodology or data used will need to be improved, or further analyses are needed - in particular, for cars and accommodation services. For cars, the NSO has initiated a project to improve the HICP by implementing hedonic methods and Eurostat supports in principle that initiative. For accommodation services the prices recorded for the HICP are "rack rates" rather than prices actually paid. The quality of the price index and weights for accommodation services will be the subject of further analysis with a view to establishing whether improvements to the methodology are needed.

Concerning compliance with the HICP methodology, for some aspects of services connected to health, education and culture, prices are not collected each month and this is in contradiction with the requirements. The NSO agrees to increase the frequency of price measurement for these services so as to achieve compliance with HICP requirements.

The HICP weights for Malta are currently based on survey data from 2000-2001. Thus the weights conform at present with HICP requirements.

According to the NSO, except for the price index for cars and increasing the frequency of measurement of some prices to meet HICP requirements, no methodological changes are currently expected. Some changes may be announced to administered prices by the government, in particular to price-setting for medical products in late 2006 or early 2007, which may potentially have some impact on the HICP.

Eurostat's recommendations are as follows:

- Eurostat supports the initiative of the NSO to improve the data and methodology for both new and used cars and recommends the implementation of improved methods as soon as possible.
- Concerning the quality of the price index and weights for accommodation services, Eurostat recommends that some further analysis should be carried-out and if necessary improvements implemented.
- Where price data is not collected each month, improvements should be made or current practices should be justified. In cases where prices in reality only change once per year, the price changes should be reflected in the HICP without delays. The NSO intends to adopt this approach.
- The available sources for the updating of HICP weights should be assessed - in particular national accounts data. More up-to-date HICP weights should be introduced before 2009.