



EUROPEAN COMMISSION

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



## **HICP COMPLIANCE MONITORING**

### **INFORMATION NOTE ON THE HARMONISED INDICES OF CONSUMER PRICES FOR BULGARIA**

**DECEMBER 2007**

In the context of compliance monitoring and quality assurance, Eurostat reviewed the HICP for Bulgaria in autumn 2007. The statistical practices used to compile the HICP for Bulgaria 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 Bulgaria, and additional information collected by Eurostat prior to and during a mission to the National Statistical Institute of Bulgaria held on 28 September 2007.

## **I. OVERALL ASSESSMENT**

Eurostat considers that in general the methods used for producing the Bulgarian HICP are satisfactory. The quality of the consumer price statistics for Bulgaria has improved significantly in recent years. In close collaboration with Eurostat and other international experts, the National Statistical Institute of Bulgaria (BNSI) successfully completed many necessary pieces of work in order to set-up the Bulgarian HICP before accession to the EU.

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

While the representativity of the HICP, in terms of accuracy and reliability, seem generally adequate, in some cases the methodology or data used need improvement and/or further analysis (see Section III). A targeted follow up of these cases will be carried out by BNSI and Eurostat. In the opinion of Eurostat, the Bulgarian statistical office would benefit from increased human resource capacity for carrying out HICP work. In addition, access to basic data held by other authorities such as the National Insurance Fund, and the Telecoms Authority would greatly improve the quality of the Bulgarian HICP.

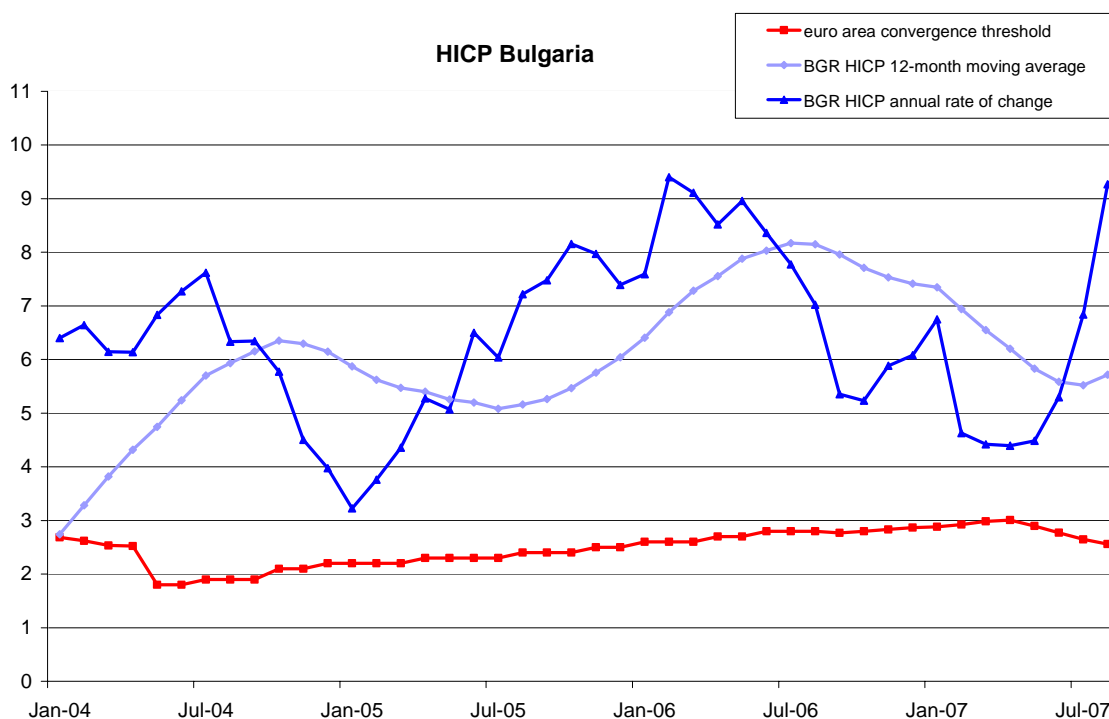
## **II. RECENT PRICE DEVELOPMENTS**

HICP compliance for Bulgaria was assessed positively by Eurostat in 2004 before accession to the EU. The focus of Eurostat's current assessment has been on those headings which show the largest impact on the 12-month moving average rate of change, such as tobacco, telecommunications, vegetables, pharmaceutical products, and energy and water supply prices as such.

On average the most significant upward impacts on the HICP in the year to August 2007 came from tobacco, bread & cereals and restaurants & cafes.

In August 2007 the annual inflation rate for Bulgaria was much higher than the euro area average. The chart below shows the recent development in the 12-month moving rate and the annual rate of change for Bulgaria together with the euro-area convergence threshold for inflation. The annual inflation rate for Bulgaria was 9.3% in August 2007.

In August 2007 there was a sharp increase of the annual inflation rate of change. The most significant upward impact came mainly from bread & cereals, vegetables, milk, cheese & eggs and from restaurants & cafes. The most significant downward impacts on the HICP in August 2007 came from fuels for transport, tobacco and pharmaceutical products.



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

### III. FINDINGS AND RECOMMENDATIONS

For most headings both the methodology and data seem to be satisfactory, and the movements in both prices and weights in recent periods correctly reflect economic determinants.

HICP weightings are updated annually. For the HICP the BNSI uses National Accounts (NA) data from t-3. For the CPI the Household Budget Survey (HBS) data for t-1 are used. Analysis should be carried out with a view to combining NA data with data from the annual HBS, in order to set up a reliable and cost-effective system for the more timely updating of HICP weights and better consistency between HICP and CPI weights. The implementation of this system would result to more up-to-date and more representative weightings for the HICP and also minimize the differences between the HICP and CPI.

According to the BNSI, no major methodological changes are currently planned in 2007-2008. Bulgaria is already compliant with HICP standards related to the temporal coverage of price collection, which in some other Member States will take effect with the index for January 2008 in accordance with Council Regulation (EC) No 701/2006.

Nevertheless, for some headings with significant impacts on the HICP the methodology or data used show some need for further analysis or improvement.

Eurostat recommends that:

- Movements in volumes of electricity consumption be studied in more detail, in order to amend or support current weights. Eurostat supports BNSI initiatives to monitor closely this issue. BNSI should be given full access to basic information held by the

Regulatory Authority that is necessary to compile indices in accordance with HICP standards.

- The samples for accommodation services, newspaper and periodicals, and new cars needs to be improved. The samples used at present have some clear limitations. As regards new cars, new models are generally introduced by means of re-sampling at the turn of the year.
- A representative sample for used cars, and a cost-effective price collection system be put in place without unnecessary delay. Eurostat welcomes and supports BNSI plans and efforts to achieve this goal. BNSI should be given the necessary means to access or collect the information needed in order to compile a reliable used cars index.
- In the case of package holidays the sample be improved and research be carried out to establish whether the prices collected are also representative for last minute and advance bookings.
- For passenger transport by air, insurance and banking services in particular, the samples and the structure and the number of elementary aggregates be reviewed and the number of prices collected in each case be improved. For air transport, BNSI is planning to introduce a new sample for year 2008 and to carry out a research on low cost flights in order to revise the consumer basket for 2009.
- The samples and the structure of elementary aggregates for telecommunications needs to be improved. Short Message Services (SMS) are not yet covered in the index. Eurostat therefore supports BNSI plans to introduce a new structure for telecom services, which would cover subscription fees, pre-paid services, calls and SMS by the end of 2008. BNSI should be given full access to basic information held by service providers and the Regulatory Authority that are necessary to compile indices in accordance with HICP standards.
- Further analysis is carried out and evidence provided that the Bulgarian outlet structure, including internet shopping, is correctly represented in the HICP.
- For pharmaceutical products, in particular as regards the data on medicines on the list of reimbursable medicines set up by the National Insurance Fund, a systematic monitoring be carried out into the movements in purchased volumes, in order to support the weightings used. BNSI should be given full access to basic information held by the National Insurance Fund that is necessary to compile indices in accordance with HICP standards.
- For rents, prices be collected monthly and the sample improved in order to achieve full compliance with HICP requirements.
- Further analysis is carried out to ensure that the samples of, for example accommodation, restaurants and car rentals, are representative of price changes faced by tourists.