



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 LATVIA

JULY 2007

In the context of compliance monitoring and quality assurance, Eurostat reviewed the HICP for Latvia in summer 2007. The statistical practices used to compile the HICP for Latvia 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 Latvia, and additional information collected by Eurostat prior to and during a mission to the Central Statistical Bureau of Latvia on 13 July 2007.

I. OVERALL ASSESSMENT

Eurostat considers that in general the methods used for producing the Latvian HICP are of a good standard. The quality of the consumer price statistics for Latvia has improved significantly in recent years. In close collaboration with Eurostat and other international experts, the Central Statistical Bureau (CSB) of Latvia successfully completed many actions in order to set-up the Latvian HICP before accession to the European Union (EU).

There were no apparent instances of non-compliance with the HICP methodology. The Latvian 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.

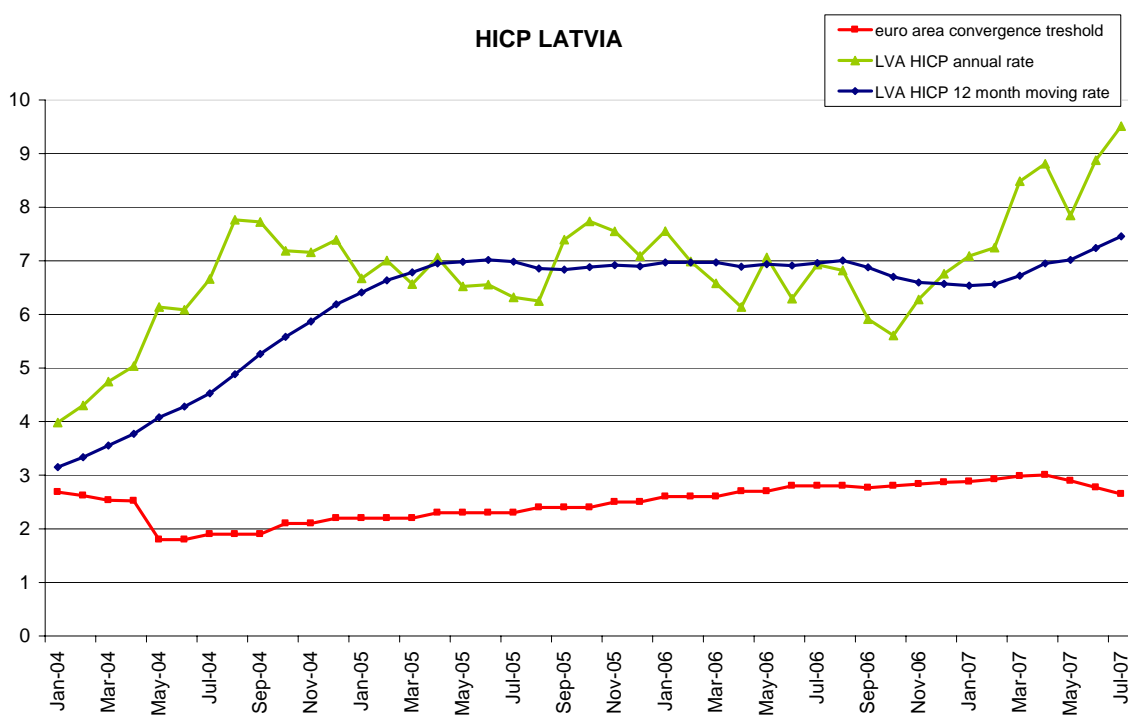
While the representativity of the HICP, in terms of accuracy and reliability, are generally adequate, the Latvian HICP would benefit from further analysis to support the current methods, in particular regarding rents and second-hand cars (see Section III).

II. RECENT PRICE DEVELOPMENTS

HICP compliance for Latvia was assessed positively by Eurostat in 2004 before accession to the EU. The focus of Eurostat's assessment of summer 2007 was on administered prices and on those prices which were having a particularly important impact on the most recent Latvian HICP data, in particular prices for district heating, restaurants and cafes, some foods (including vegetables), telecommunications, clothing and footwear and cars.

Inflation in Latvia is substantially higher than the euro area average. In June 2007 the Latvian HICP annual inflation rate was 8.9%, compared to the euro area average of 1.9%. This situation is also reflected in Latvia's 12 months moving rate for June 2007 which was 7.2% compared to 1.9% for the euro area. The chart below shows the recent development in the 12 months moving rate and the annual rate of change for Latvia together with the euro area convergence threshold for inflation.

Latvia's high inflation rate in recent years reflects price increases across a wide range of goods and services, including prices for energy. On average the most significant upwards impacts on the HICP in the year to June 2007 came from vegetables, district heating, bread and cereals, canteens and restaurants and cafes. Price increases for these items in the last year have been partly offset by lower inflation rates for some other products such as telecommunications, clothing, fuel and cars.



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. Improvements have been made to the methods used for several products in recent years, including telecoms (using a consumer profiles approach), cars, clothing and books. The methods now in place for these products are well-considered and should produce reliable results.

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

According to the CSB, no major methodological changes are currently planned in 2007-2008). Some improvements may be needed because of market developments (e.g. to expand the coverage of package holidays and to reflect the changes in the market for used cars). The CSB expects that its future participation in the pilot work on Owner-Occupied Housing will be its main priority during 2008.

Latvia 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.

Eurostat recommends that:

- The sample used at present for used car prices has some limitations, and it is recommended that the sample be expanded.
- The methodology used to calculate the index for rents focuses on using prices for new rental offers. Further analysis should be carried out to ensure that the price

index is providing a reliable indicator for all types of private sector rents, and if necessary improvements should be made to the rents methodology.

- Price collection is spread between Riga and 13 other regional towns. The proportion of prices collected in Riga is much lower than the share of consumers' expenditure in the capital. When it has the opportunity to do so, the CSB should consider rebalancing its price collection sample towards Riga, and to cover rural areas as appropriate where it would be efficient to do so.
- Given their importance and volatility, movements in energy prices and volumes, in particular for district heating, continue to be monitored closely.