



EUROPEAN COMMISSION
EUROSTAT

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



HICP COMPLIANCE MONITORING

INFORMATION NOTE

ON THE HARMONIZED INDICES OF CONSUMER PRICES

FOR THE CZECH REPUBLIC

February 2009

In the context of compliance monitoring and quality assurance, Eurostat reviewed the HICP for the Czech Republic in autumn 2008. The statistical practices used to compile the HICP for the Czech Republic 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 the Czech Republic, and additional information collected by Eurostat prior to and during a mission to the Czech Statistical Office (CzSO) held on 1 October 2008.

I. OVERALL ASSESSMENT

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

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

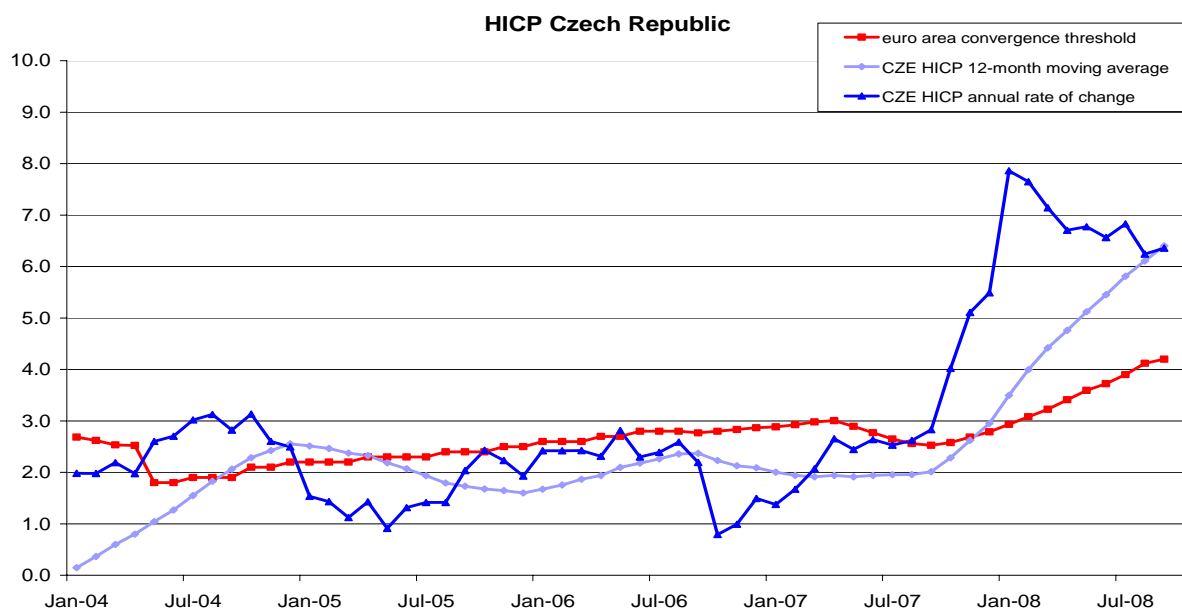
While the representativity of the HICP, in terms of accuracy and reliability, seems generally adequate, in some cases the methodology or data used need improvement and/or further analysis (see Section III). A targeted follow up of these cases will be carried out by CzSO and Eurostat.

II. RECENT PRICE DEVELOPMENTS

HICP compliance for the Czech Republic 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 showed a significant impact on the 12-month moving average rate of change, such as tobacco, bread and cereals, milk, cheese and eggs, rents, garments, cars and telecommunications.

In September 2008 the annual inflation rate of change for the Czech Republic was above the euro area average. The chart below shows the recent development in the 12-month moving average rate of change and the annual rate of change for the Czech Republic together with the euro area convergence threshold for inflation. The annual inflation rate of change for the Czech Republic was 6.4 % in September 2008.

Inflation in the Czech Republic has substantially risen since autumn 2007, but it has dropped back during 2008. The sharpest increase was in January 2008 with most significant upward impacts coming from tobacco, milk, cheese and eggs, bread and cereals, fuels for transport, medical and paramedical services and rents. At the same time significant downward impacts came mainly from vegetables, cars, garments and telecommunications.



Note: The euro area inflation convergence threshold is based on a 12-month moving average rate of change 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. The item weights for 2008 refer to the year 2006 and are price-updated to December 2007.

Regarding differences between the HICP and the national consumer price index, consumption expenditure of non-residents in the economic territory of the country is included in the HICP but excluded from the national CPI. Expenditure of investments in the owner-occupied houses (major repairs) is included in the national CPI, but excluded from the HICP. The purchase of the house itself is excluded from both indices.

According to the CzSO, no major methodological changes are currently planned for 2009. Czech Republic is compliant with HICP standards related to the temporal coverage of price collection that took 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:

- As regards newly significant outlets and internet shopping, further analysis should be carried out in order to provide evidence that they are correctly represented in the HICP.
- The HICP sample be reviewed and updated annually, in particular for critical expenditure groups, in order to be able to adapt promptly to changes in market structures and include newly significant expenditures and outlets into the HICP as they become evident.

- Further analysis be carried out for distinguishing foreign business expenditures from foreign tourist expenditures.
- Foreign expenditure on medical services in the economic territory be closely monitored and its significance for the HICP properly assessed. Eurostat welcomes the plans of CzSO to introduce dentist services paid by foreigners from 2009.
- Eurostat welcomes the plans of CzSO to introduce exchange office services into the Czech HICP.
- Concerning income-dependent prices, price changes resulting from income changes of households, in particular services by elderly homes be reflected in the Czech HICP, as required by Article 4 of Council Regulation (EC) No 2166/1999.
- For passenger transport by air, PCs as well as for fruits and vegetables, the CzSO review and monitor the representativity of the sample and its elementary aggregates, also taking into account the forthcoming standard on the seasonal items.
- Regional expenditure weights should be used instead of population weights when aggregating regional data.
- CzSO undertakes the necessary steps to verify that, in case of missing observations, price changes are reproduced correctly and the representativity of the sample is maintained from month to month
- The CzSO review their procedure for case specific quality adjustment methods. In particular, Eurostat encourages CzSO to speed up the implementation of recommended quality adjustment (QA) procedures, with special respect to the implementation of consumption segments in case of personal computers.