



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 HUNGARY

January 2009

In the context of compliance monitoring and quality assurance, Eurostat reviewed the HICP for Hungary in summer 2008. The statistical practices used to compile the HICP for Hungary 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 Hungary, and additional information collected by Eurostat prior to and during a mission to the Central Statistical Office of Hungary on 19 June 2008.

I. OVERALL ASSESSMENT

Eurostat considers that in general the methods used for producing the Hungarian HICP are satisfactory. In close collaboration with Eurostat and other international experts, the Central Statistical Office of Hungary (HCSO) successfully completed many actions in order to set-up the Hungarian HICP before accession to the European Union (EU).

Instances of non-compliance with the HICP methodology are limited and unlikely to have a major impact in practice on the HICP annual average rates of change. The Hungarian HICP data passes all standard HICP validation tests – it is internally consistent and aggregates correctly. It can therefore be considered broadly comparable to the HICPs of other EU countries.

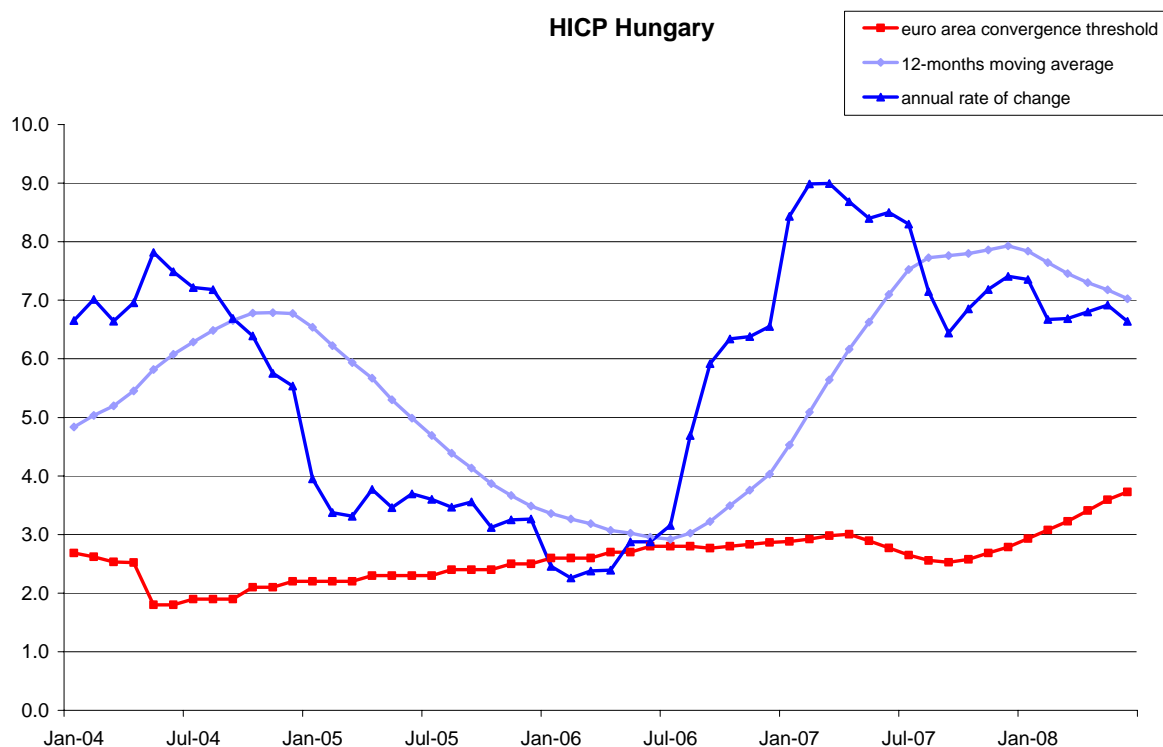
While the representativity of the HICP, in terms of accuracy and reliability, seems generally adequate, in some cases the methodology and data used need improvement or further analysis (see Section III). The targeted follow-up of these cases will be carried out by the HCSO and Eurostat. In the opinion of Eurostat, the Hungarian Central Statistical Office would benefit from increased human resources capacity for carrying out HICP work.

II. RECENT PRICE DEVELOPMENTS

HICP compliance for Hungary was assessed positively by Eurostat in 2004 before accession to the EU. The focus of Eurostat's assessment of summer 2008 was on administered prices and on those prices which were having a particularly important impact on the most recent Hungarian HICP data, in particular prices for bread and cereals, gas, milk, cheese and eggs, district heating, audiovisual equipment, cars, garments and telecommunications.

Inflation in Hungary is substantially higher than the euro area average. In June 2008 the Hungarian HICP annual inflation rate was 6.6%, compared to the euro area average of 4.0%. This situation is also reflected in Hungary's 12-month moving rate for June 2008 which was 7.0% compared to 2.9% for the euro area. The chart below shows the development until June 2008 in the 12-month moving rate and the annual rate of change for Hungary together with the euro area convergence threshold for inflation.

Hungary's inflation rate in recent years reflects price increases across a wide range of goods and services, including prices for food and energy. On average, the most significant upwards impacts on the HICP in the year to June 2008 came from bread and cereals, milk, cheese and eggs, fruits and gas. Price increases for these items in the last year have been partly offset by lower inflation rates for some other products such as telecommunications, garments, cars and audiovisual equipment.



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 appear 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 pattern of consumption to the year 2006 and are price-updated up to December 2007.

According to the HCSO, major methodological changes were made to the Hungarian HICP recently by the inclusion of social protection in 2006. Additionally, the Hungarian HICP had to adapt to changes in the economy in 2007, such as the introduction of hospital services fees and a change in the compensation system for gas and district heating.

The HCSO will continue to participate in the pilot work on Owner-Occupied Housing. In addition, in 2009, it also expects to work on the development of the HICP at constant tax rates, the implementation of the new regulation on the treatment of seasonal items and the adaption to the change in the subsidy system for medical products.

According to the Special Data Dissemination Standard (SDDS), the main differences between the HICP and the national consumer price index concern the coverage of owner-occupied housing and games of chance which are excluded from the HICP and the expenditure of foreign visitors which are excluded from the national CPI. This explanation should be supplemented with the difference in the time of entering some energy prices into these two indices.

There was no evidence of non-compliance with HICP standards related to the temporal coverage of price collection in accordance with Regulation (EC) No 701/2006.

Treatment of seasonal products including annual changes of product weights using moving averages in a Rothwell context, for products such as fresh fruits and vegetables, does not seem strictly compliant with existing HICP standards. This discrepancy will be resolved by implementing the new standard on the treatment of seasonal products.

For some headings with significant impacts on the HICP, the methodology or data used show some need for further analysis or improvement. Analyses to strengthen the methodology of HICP compilation should be carried out in several fields.

Eurostat recommends that:

- The HICP sample be reviewed and updated each year, in order to be able to adapt promptly to changes in market structures and to include newly significant expenditures and outlets into the HICP as they become evident. The relevance of so-called income dependent prices will need to be monitored regularly.
- Better access to basic data obtained from the low cost outlets would greatly improve the quality of the Hungarian HICP.
- Structure and size of the health insurance market, the consumption expenditure of people living in institutional households, and foreign expenditure in the economic territory – such as on education and medical services – be reanalyzed with a view to making necessary improvements to the HICP.
- For some expenditure groups, HCSO review and monitor the representativity of the present sample and its elementary aggregates, for instance such as for medical services, personal computers, telecoms, personal care, or other services n.e.c. Eurostat supports the plans to improve the representativity of accommodation services as well as games and toys as from 2009.
- As regards actual rentals for housing more analysis be carried out, in order to assess accurately size and composition of the free rental market. Furthermore, an appropriate mix of old and new rental contracts needs to be established.
- In the context of implementing Regulation (EC) 1334/2007, HCSO reconsider its approach to elementary aggregation and replacements, and revisit their decision rules for case specific quality adjustment methods. In particular:
 - Eurostat encourages HCSO to speed up the implementation of recommended quality adjustment (QA) procedures, with special respect to the implementation of consumption segments or consumer profiles in the case of personal computers and telecoms.
 - The replacement strategy should be refocused on to the representativity of product-offers that consumers actually buy – in one or both periods being compared.