



EUROPEAN COMMISSION  
EUROSTAT

Directorate G: Business Statistics  
Unit G-6: Price statistics



## **HICP COMPLIANCE MONITORING**

### **INFORMATION NOTE ON THE HARMONIZED INDICES OF CONSUMER PRICES FOR ESTONIA**

**MARCH 2010**

In the context of compliance monitoring and quality assurance, Eurostat reviewed the HICP for Estonia in early 2006 in the preparation for the autumn 2006 convergence assessments and within the context of the possible future accession of Estonia to the euro area.

This updated report takes account of the additional information collected by Eurostat prior to and during a mission to the Statistical Office of Estonia (Statistics Estonia) on 5 March 2010, in preparation for the spring 2010 convergence assessments and within the context of the continued possibility of future accession of Estonia to the euro area. The report also comprises the follow up of the recommendations made in the compliance monitoring report of 2006.

The statistical practices used to compile the HICP for Estonia have been reviewed against HICP methodology and other guidelines and good practices in the field of consumer price indices.

## **I. OVERALL ASSESSMENT**

The Statistical Office of Estonia (Statistics Estonia) successfully completed many actions in order to set-up the Estonia HICP before accession to the European Union (EU). Statistics Estonia has also undertaken several actions to implement the recommendations made in the compliance report of [November 2006](#) following a visit by Eurostat in March 2006. Eurostat supports the efforts of Statistics Estonia to undertake further improvements in the HICP.

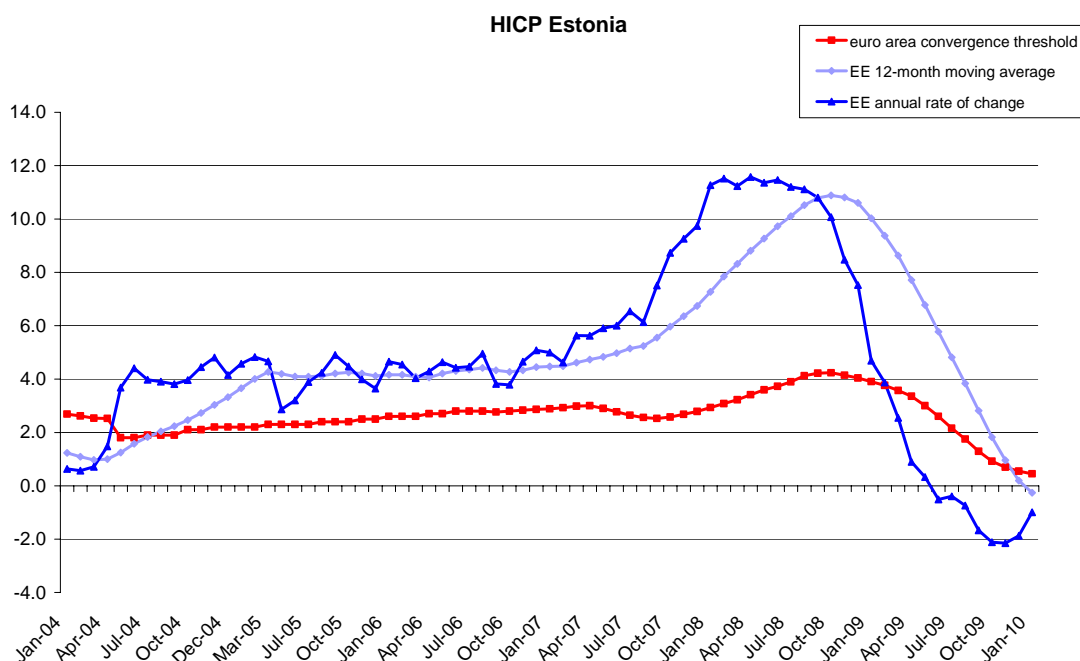
Instances of non-compliance with the HICP methodology are limited and unlikely to have a major impact in practice on the HICP annual average rates of change. The Estonia data pass all standard HICP validation tests – they are internally consistent and aggregate correctly. The HICP should be considered comparable to the HICPs of other EU countries.

While the reliability of the HICP, in terms of precision and representativeness, appears generally adequate, in some cases the methodology or data used need improvement and/or further analysis. A targeted follow up of these cases will be carried out by Statistics Estonia and Eurostat. While there has been some indication of additional internal resource provision since 2006, Eurostat is of the opinion that Statistics Estonia would benefit from improved capacity for carrying out HICP work.

## **II. RECENT PRICE DEVELOPMENTS**

The focus of Eurostat's assessment of January 2010 was on those headings which showed a significant impact on the 12 month moving average rate of change. The most significant upward impacts came from tobacco, district heating, electricity, misc. services and spirits. At the same time significant downward impacts came in particular from fuels for transport, milk, cheese and eggs, cars, rents, vegetables and accommodation services.

In early 2010, inflation in Estonia was lower than the euro area average. In January 2010, the Estonian HICP annual inflation rate was -1.0 % compared to the euro area average of 1.0 %. This situation was also reflected in Estonia's 12 month moving rate for January 2010 which was -0.3 % compared to 0.3 % for the euro area. The chart below shows the recent development in the 12 month moving rate and the annual rate of change for Estonia together with the convergence threshold for inflation.



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 compliant with HICP requirements, and the movements in both prices and weights in recent periods correctly reflect economic determinants. The item weights for 2010 refer to the year 2009 and were price-updated up to December 2009.

In response to the previous compliance monitoring report published in November 2006, Statistics Estonia has undertaken several actions in order to implement the recommendations therein, namely:

- Further analysis has been carried out on weights as regards fuel, clothing and accommodation services. The additional analysis on fuel confirmed earlier estimates. For clothing, improved and more detailed weight information has been sourced. For accommodation services, the use of a monthly survey of Estonian statistics on this subject has provided data which allows Statistics Estonia to better observe structural changes in the accommodation market.
- Specifications of used cars have been tightened. The number of models, for which prices are collected, has been increased by more than 50%.

Eurostat also welcomes Statistics Estonia's plans to split the index on telephone and telefax equipment and services (COICOP 0 82\_83) into two separate, publishable indices for equipment and services.

According to the Statistics Estonia, no major methodological changes are currently expected in 2010, aside from the implementation of the new HICP requirements on seasonal items.

There will be no change to the elementary aggregate formula for the foreseeable future, following a review of the subject after the last compliance monitoring visit.

Eurostat acknowledges that Statistics Estonia has been compiling and transmitting monthly data on HICP at constant tax rates (HICP-CT) to Eurostat since the end of the pilot project.

In addition, for some other headings with significant impacts on the HICP, the methodology or data used show some need for further analyses or improvement.

Eurostat recommends that:

- further analysis be carried out on the treatment of the reimbursement system for medicines with respect to implementing the application of "prices net of reimbursement" in order to be able to capture any changes to the reimbursement system which may occur in the future.
- further analysis be carried out with a view to making the coverage of dwelling rentals and insurance include both new and existing contracts/policies. Presently only new contracts/policies are covered.
- Statistics Estonia investigate the treatment of service charges proportional to transaction values in compliance with regulation 1920/2001 and the weight of insurance connected with dwelling (COICOP 12 52) in the HICP.
- the approach to price collection should be such as to ensure that, in practice, a fully representative range of items for each product is ensured and thus the risk of focusing on a narrower part of the market is minimised.
- Statistics Estonia should look to avoid a mechanical application of implicit quality adjustments as default methods and progressively move towards explicit quality adjustment methods.
- for books, further steps should be undertaken to implement the newly adopted HICP standards.
- the metadata document provided by Statistics Estonia and published by Eurostat should be kept up to date.

## **CLOSING REMARKS**

Statistics Estonia are asked to provide Eurostat with timely information of all potential preparatory steps in view of the euro changeover; Statistics Estonia is expected to apply the conversion rounding rules set out in WG document HCPI 01/360 – rev., entitled *Treatment of the changeover to the euro in the HICP*, from January 2002.