

## Consumer prices and prices of production statistics

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### Methodical Notes - HICP

### Harmonized Indices of Consumer Prices

Harmonised Indices of Consumer Prices (**HICPs**) have been set up with an aim to ensure a comparability of consumer price indices of individual countries within the European Union. For this purpose, **Council Regulation** (EC) No 2494/95 was adopted in **1995** related to the introduction of **harmonised** indices of consumer prices compilation at the level of EU **Member States** beginning in 1997. Considering that the methodology of compilation of harmonised indices of consumer prices is still getting through development, until now another 15 regulations have been adopted at the level of Council (EC), or rather Commission (EC). Till now, the last regulations are 3 regulations adopted in the years 2005, 2006 and 2007.

**Commission Regulation (EC) No 1708/2005 of 19 October 2005** laying down detailed rules

for the implementation of Regulation (EC) No 2494/95 as regards to the common index reference period of the harmonised index of consumer prices. According to this Regulation, the common index reference period for HICPs is changed from 1996=100 to 2005=100.

**Council Regulation (EC) No 701/2006 of 25 April 2006** laying down detailed rules for the implementation of Regulation (EC) No 2494/95 as regards to the temporal coverage of price collection in the harmonised index of consumer prices.

**Commission Regulation (EC) No 1334/2007 of 14 November 2007** amending Regulation (EC) No 1749/96 on initial implementing measures for Council Regulation (EC) No 2494/95 concerning harmonised indices of consumer prices.

In June 1988, the European Council confirmed the objective of the progressive realisation of **E**conomic and **M**onetary **U**nion (**EMU**). It was decided that the Economic and Monetary Union should be achieved in three discrete but evolutionary steps (stage one, stage two and stage three of EMU). All member states of the European Union participate in the EMU. Those from the member states of the European Union that have entered **stage three of EMU adopted the euro as their currency**. The **Treaty on European Union (Maastricht treaty)** has determined a timetable for 3rd stage of **European EMU** at the latest from 1st January 1999. For **entering** countries, one **of the convergence criteria** was having an annual average inflation rate, which does not exceed 1.5 percentage points of **inflation rate** of the three most powerful EU Member States under price stability conditions. According to the Criteria Convergence Protocol - "**inflation shall be measured by index of consumer prices on the comparable basis** taking into account differences in the national definitions". **Harmonised Indices of Consumer Prices (HICPs)** shall provide such measures of inflation of EU Member States. The harmonised index of consumer prices (HICP) is one of the indicators for assessment of price stability of the state. Annual average inflation rates measured by HICP still remain one of the convergence Maastricht criteria for achieving stage three of EMU.

**HICPs** of those Member States, which are included in stage three of the EMU and adopted the euro as their currency form a basis for monthly compilation of **Monetary Union Index of Consumer Prices (MUICP)**. HICPs of all member states are the basis for the calculation of **European Index of Consumer Prices (EICP)**.

**MUICP (Monetary Union Index of Consumer Prices)** was calculated as a **weighted average of HICPs of the 11 states of the euro area up to the end of 2000**. Beginning with January 2001 **the number of the euro area countries increased to 12** (Greece added). In January 2007, the euro area was extended by Slovenia. Starting with January 2008 Malta and Cyprus are included in euro area. In the year 2008 the "euro-area" encompasses **15 of 27** EU Member States: Belgium, Germany, Spain, France, Ireland, Italy, Luxembourg, Holland, Austria, Portugal, Finland, Greece, Slovenia, Malta and Cyprus. MUICP is computed as an annual chain index allowing change of country weights each year.

**EICP (European Index of Consumer Prices)** is the annual chain index allowing for country weights to change each year. Beginning with January 2007, with the entry of Bulgaria and

Romania into EU, the basis for compilation of EICP are 27 harmonised indices of consumer prices of EU Member States. Up to 1998, the EICP was calculated as the **weighted average of HICPs of the 15 EU Member States**. Beginning with 1999, the **EICP** is calculated as the annual **chain index** for the "euro- area" and **other member states not included in the third stage of EMU**. **EEAICP (European Economic Area Index of Consumer Prices)** additionally include harmonised indices of Iceland and Norway, which are not EU Member States.

Note: HICP is one of the "Special topics" in the Eurostat home page.

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## Methodical Notes - CPI

### Consumer Price Indices

Since January 2020, after comprehensive revision of consumer price indices, the development of consumer price indices has been surveying on an universal consumer basket established on the set of 728 representatives - selected goods and services paid by the population. A new, revised consumer basket was discussed and consented by the representatives of the statistical bodies, ministries, trade unions and others.

Consumer price index of goods and services for all households characterises price development on a generally averaged level. Consumer price indices are also calculated for selected types of social groups of households - employees, pensioners and for households with low money incomes.

The coverage of representatives in the consumer price indices for all households as well as for individual social groups of households is the same, the only difference is in their weights.

Starting with January 2005 we introduced the compilation of consumer price indices (based on December 2000) by chaining using December of a previous year as a linking period. Weights for the elementary aggregates have to be annually revised to ensure that they reflect current expenditure patterns and consumer behaviour. The important feature of a chain index formula is that it allows weights to be annually updated and facilitates the introduction of new items and sub-indices and the removal of obsolete ones.

In order to be able to link the old and the new series, an overlapping (link) period  $k$  is needed in which the index has to be calculated using both the old and the new set of weights. The link period may be a month or a year. SO SR stated as a link period December of a previous year, i.e. December 2019 is a link period for the compilation of indices in the year 2020. December 2019 is a last period, for which the index is calculated using the previous consumer basket and system of weights and at the same time is the price reference period for an updated consumer basket. Thus December of a previous year is a link period between the new and the old index and these indices create (compile) a chain index.

A chain index may have two or more links. Between each link period, the index may be calculated as a fixed weight index. The disadvantage of a chain index is that chaining leads to non-additivity. When the new series is chained onto the old, the higher-level indices after the link cannot be obtained as weighted arithmetic averages of individual indices using the new weights.

## Selection of representatives

Goods and services with the important share in expenditures of the population, representing the whole sphere of consumption, were selected as price representatives.

Breakdowns of indices were designed in harmony with methodology of Eurostat; universal consumer basket is divided into 12 divisions of COICOP classification (Classification of Individual Consumption by Purpose). Number of price representatives in the universal consumer basket of consumer price indices since January 2020 is as follows:

<b>COICOP division</b>	<b>Title of COICOP division</b>	<b>Constant weight in per mille</b>	<b>Number of representative items</b>
	Consumer price index - total	1000,0000	728
	of which:		
01	Food and non-alcoholic beverages	181,9590	146
02	Alcoholic beverages and tobacco	53,7224	12
03	Clothing and footwear	47,9486	88
04	Housing, water, electricity, gas and other fuels	248,3774	49
05	Furnishings, household equipment and routine maintenance of the house	71,9375	88
06	Health	26,5275	37
07	Transport	76,0171	83
08	Communications	33,6818	19
09	Recreation and culture	89,9569	83
10	Education	17,5182	8
11	Hotels, cafés and restaurants	71,7665	44
12	Miscellaneous goods and services	80,5871	71

## Method of collecting data on consumer prices

Consumer prices of individual representatives are collected at the whole territory of Slovak republic in selected network of shops and service businesses where inhabitants usually do their shopping. Prices are collected during initial 20 days of a reference month.

## **Weighting system**

Weights of individual representatives were computed on the basis of data from statistics on family budget in 2015, of other data from national account statistics in 2018 and data obtained from various administrative sources. These data were used for determination of accurate consumption structure of inhabitants.

## **Method of calculating indices**

Consumer price indices are Laspeyres type indices: