PROBLEMATIC ISSUES IN COMPILATION OF THE CPI-HICP

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TURKSTAT
REFERENCE PERIODS FOR THE CPI-HICP COMPUTATION

• In practice, there are three types of reference (base) periods used in the construction of CPIs:
  – The period based on which the expenditure for weights are obtained
  – The period in which reference prices are valued
  – The period in which the index base is set at 100
• There are differences between national CPIs in all these reference periods and different frequencies of updating the weights
• There are Member States which compile a ‘fixed base index’ and update weights every five years
• There are Member States which compile a ‘chain index’ with annual weights updating
REFERENCE PERIODS FOR THE CPI-HICP COMPUTATION

- Since HICPs are derived from national CPIs, in order to obtain a consistent set of HICPs with sub-indices allowing aggregations of several sub-indices and construction of indices for groups of Member States, EU as a whole etc, Eurostat needs the HICPs to be presented as if they are computed in the same way with the same formula.
- Therefore, it is necessary to apply a common index reference period and a common weighting reference period.
- The HICP according to the macro-formula chosen for its computation is an annual chain index.
- In order to obtain a common weighting reference period, item weights have to be expressed at the same prices as the weights in the annual chain index.
- It is necessary to ‘re-reference’ or ‘price-update’ the HICPs and its sub-indices, that is, to express the movements in the HICPs and its sub-indices by reference to the average level of prices in the index reference period, and subsequently to each December.
REFERENCE PERIODS FOR THE CPI-HICP COMPUTATION

• Price updating means that the products weights are adjusted according to the movement of the index and then rescaled

• Weights have to be presented in ‰

• HICPs should be compiled on the basis of common index reference periods in order to ensure comparability and relevance requirements

• It allows HICPs to be treated and presented in the same way and avoiding the problem of aggregating CPIs with different references and re-weighting frequencies
REFERENCE PERIODS FOR THE CPI-HICP COMPUTATION

There are three types of common reference or base periods used in the construction of HICPs which may be chosen independently of each other:

- The ‘weighting reference period’ is defined as a 12-month period of consumption or expenditure based on which weightings are estimated for the compilation of the HICP (definition in Article 2 of Commission Regulation (EC) No 2454/97)

- The ‘price reference period’ is defined as the period from which the current price change is measured and for which prices are used as denominators in index calculations; it refers to the prices used for the volume valuation in the HICP weights

- The ‘index reference period’ is defined as a period for which the index is set at 100 index points
REFERENCE PERIODS FOR THE CPI-HICP COMPUTATION

• The HICP common index reference period shall be set at 2015, i.e. \(2015 = 100\)
• The full time series of the HICP all-items indices and sub-indices shall be rescaled to the common index reference period
• Any additional COICOP/HICP sub-indices to be integrated within the HICP shall be linked in December at the level of 100 index points, i.e. December of the previous year = 100, and take effect with the index for the following January
• All-items indices and sub-indices shall be disseminated on the basis of a common index reference period, i.e. taking \(2015 = 100\)
REFERENCE PERIODS FOR THE CPI-HICP COMPUTATION

• It is considered good practice to update the index reference period of price indices when major revisions of the indices are taking place, whether in terms of items, geographical coverage, or both.

• Updating of the HICPs to another common index reference period ensures that sub-indices integrated within the HICP at different points in time have a common index reference period.

• Eurostat may update the index reference period.

• All Member States have to produce and monthly transmit to Eurostat all sub-indices, taking 2015 = 100.
SERVICES

• Services present conceptual and methodological difficulties for CPI (HICP) compilers
  – They are not tangible & can vary e.g. by being tailored to individuals
  – It can be difficult to obtain prices because there are either few or even no established outlets

• Finding a sample of items in accord with HICP procedures can be difficult
  – A “loose specification when sampling and a tight specification when pricing” is generally recommended
Health services

- Free medical care provided by Government & non-profit institutions is out-of-scope of HICP and CPI
  - Excluded are obligatory payments e.g. Employee’s contributions to social security schemes and payments or rebates by government etc to reduce expenditure e.g. sickness payments.

- There are two approaches to pricing
  - Input approach – treats medical items as consumption items irrespective of their effectiveness to treat illness
  - Treatment approach – looks at cost of curing a particular medical problem by selecting an illness & then following the treatment

CPIs generally follow input approach which is used also in Turkey.
Education services

- HICP covers payments made by household (same principle as for health services)
  - Publicly-funded education is out of scope
  - But out-of-pocket expenditures (pens, paper etc), e.g. as reported in household budget survey, should be included
- The typical item to be priced is the cost of a term or semester at a sample of schools
  - Collect prices only in months when the terms begin and use that same price in other months (carry forward)
- To collect tuition fee
  - Select several students at random and use the average of their payments
  - Alternatively, collect posted or advertised tuition fees, directly from the institution or its website
PRACTICE IN TURKEY

- Treatment of services when there is a significant difference between the time of purchase, payment, delivery and consumption according to the rule laid down in the Commission Regulation
- There are two services covered by the Turkish CPI-HICP to which the respective rule is applied: air transport services

AIR TRANSPORT SERVICES

- Three airline companies have been selected
- Prices of tickets for one route and in one company prices of tickets for two routes are observed
- Prices for tickets purchased for selected category are collected. These selected categories are not changed all of the year.
- Collected prices are entered into the CPI-HICP for the month in which the consumption of the service at the observed prices can commence
Thank you...