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**REPORT OF THE NOVEMBER 1999 SPECIAL ECE SESSION ON  
CPI ISSUES OF CONCERN TO TRANSITION ECONOMIES**

Note prepared by the Secretariat

**INTRODUCTION**

1. The Special ECE Session on Consumer Price Index (CPI) Issues of Concern to Transition Economies was organised in the afternoon of 2 November, back-to-back with the Joint ECE/ILO meeting on CPI, 3-5 November, 1999. The ECE session was attended by Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Latvia, Lithuania, Poland, Russian Federation, Slovakia, Slovenia, The former Yugoslav Republic of Macedonia, and Ukraine. Representatives of ILO secretariat, the Statistical Office of the European Community (Eurostat) and IMF also attended. Morocco and South Africa were present under article 11 of the terms of reference of the United Nations Economic Commission for Europe.
2. The provisional agenda was adopted.
3. Mr. J.Stastny (Czech Republic) was elected Chairperson.



#### **ORGANISATION OF THE MEETING**

4. The following topics were discussed at the session:

- (a) Weighting;
- (b) Quality adjustment issues in the calculation of the CPI.

5. The discussion was based on a note prepared by the ECE secretariat which included questions and problems raised by the transition economies, and invited presentations by Mr. J. Astin (Eurostat) and Mr. K. Zieschang (IMF).

#### **SUMMARY OF THE MAIN CONCLUSIONS REACHED AT THE SESSION**

6. The objective of the session was to discuss with the transition economies their specific problems in the calculation of CPI. Several questions associated with weighting procedures used by the countries were raised. In most transition economies, the expenditure weights are updated annually in line with the on-going changes in the structure of the household consumption. However, some countries experience very high levels of inflation. In the Russian Federation, for example, there was a sudden increase in prices in the middle of the year - August 1998. When this occurs, it leads to changes in the structure of the consumption. In this context, the issue of whether the weights should be revised during the current period was discussed. It was noted that the Laspeyres formula assumes that increase in prices does not lead to a big change in the consumer behaviour, so that change in the weighting system is required.

7. Adjustments for change in product quality is one of the main problems which those who deal with price indices face. Only a few of the transition economies have some procedures in place designed to account for changes in the quality of the items which are priced. The methods applied are 'expert judgement' and 'overlap pricing'. The issue whether any criteria exist for estimating when a quality change has occurred was discussed. It was noted that change in product specifications is treated as a quality change and it is the task of the price collector to evaluate it.

8. Participants were informed about the ongoing work within Eurostat on developing Implicit Quality Indices (IQI). The credibility of the Harmonised Indices of Consumer Prices (HICP) requires that EU Member States be able to provide some indication of the allowances that are being made for changing quality. In this context, an example of the application of the IQI concept in the analysis of the imputation procedures was demonstrated.

9. Other topics discussed during the session included problems with seasonal items and classifying household expenditures according to COICOP. Participants were also informed about the Eurostat plans for holding a series of training workshops in the transition economies, mainly the accession countries, in 2000.

#### **RECOMMENDED FUTURE WORK**

10. The meeting emphasised that it is important to have special sessions devoted to CPI issues of concern to the transition economies and other interested countries. However, several participants stressed that future sessions of that kind should be organised as a full day meeting. Several topics of specific concern to transition economies were proposed for the next ECE Sessions, such as: (a) paperless technology for collecting price data; (b) treatment of seasonal items; (c) treatment of quality change; (d) rentals in the CPI, and (e) experience of transition economies in calculating the HICP.

11. The participants recommended that the next Special ECE Session on CPI Issues of Concern to Transition Economies be organised back-to-back with the Joint ECE/ILO Meeting on CPI to be held in 2001/2002.

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