

Box 1**Comparing the Harmonised Index of Consumer Prices and national consumer price index**

Romania's accession to the European Union heightens the importance attached to the harmonised index of consumer prices (HICP), as the nominal convergence criterion on inflation for joining the euro zone is expressed in terms of HICP, and the European Central Bank defines price stability as a year-on-year increase in the HICP of below, but close to, 2 percent. Thus, a brief analysis of this concept and the differences between HICP and national consumer price index (CPI) is required.

The HICP measures changes in the level of retail prices of goods and services on the territory of Romania, with the weights for calculating the index being drawn from the structure of residents' and non-residents' consumption expenditure. Hence, the harmonised index is based on the 'domestic' concept, covering all private households in the country concerned, regardless of income, nationality, and social or residential status (foreign embassies in Romania are not considered). In fact, the definition of this index requires taking into account not only the consumption by residents, but also the expenditure by foreign visitors in Romania.

This is a main conceptual difference in comparison to the CPI which applies the 'national' concept of consumption, covering all consumption expenditure by residents, regardless of the fact that it was incurred within or outside the country concerned. Inclusion of purchases by households outside the country is based on balance-of-payments data and refers actually to consumption of tourist and transport services abroad (IT systems cannot elicit other expenditure incurred abroad).

As a rule, the HICP covers only the prices paid for goods and services in monetary transactions. Some practical consequences of using such a concept are as follows:

- (i) exclusion of some special fees and taxes paid to the government (when there is no equivalent good or service receive din return);
- (ii) exclusion of interest and credit charges (which are regarded as financing costs rather than consumption expenditure);
- (iii) the prices measured are those actually faced by consumers (for example, they include value added tax and reflect end-of-season sales prices).

Essentially, the same concept governs the national CPI which excludes: consumption from own resources, expenditure for investment and accumulation, interest paid on loans, insurance instalments, fines, taxes, etc., as well as expenditure to pay the work for farming output of individual households. The only difference is that the HICP includes insurance expenditure for transport means; weights for the other insurance types (house insurance, health insurance, etc.) are still nil.

Another difference between the HICP and national CPIs is that the former uses 'expenditure net of reimbursement' in case of health and insurance, excluding subsidies for pharmaceutical products and compensation for damages respectively.

As for the calculation method, both the HICP and the CPI are annually chain-linked, Laspèyres-type indices, which differ however in terms of weighing systems. They derive from the aforementioned domestic/national distinction, on the one hand, and from different aggregation formulae in groups and subgroups, on the other.

Thus, the HICP covers all categories and subcategories of COICOP (classification of individual consumption by purpose), as agreed by EEC/Eurostat/OCDE to ensure comparability of indices at European level, and includes 12 divisions, detailed in 39 groups and 93 classes of goods and services. It should be pointed out that the respective weights should not be regarded as an average 'euro-basket', as they are representative for Romania and comply with the principle of ensuring representativity of expenditure for each economy.

The nomenclature used in case of CPI is divided into 3 aggregation levels, i.e. groups, positions and items, as follows: (i) group of food goods, which includes 54 positions with 360 items, (ii) group of non-food goods, which encompasses 112 positions with 947 items, and (iii) group of services, comprised of 56 positions with 423 items.

In both cases, the weighting systems used for year t rely chiefly on the results of the Household Budget Survey recorded in year $t-2$ and are updated on a yearly basis. For computing the HICP, adding to the results is the information on the consumption of foreign tourists in Romania, as provided by the National Institute for Research and Development in Tourism. As mentioned above, the additional data on residents' expenditure outside Romania that are needed for computing the CPI are drawn from the balance of payments (services).

Data regarding the HICP are compiled by the National Institute of Statistics and sent to Eurostat in accordance with the methodology agreed by this institute in 2001; data for previous periods are estimations based on the national CPI.

The status of both indices has not changed basically after Romania's accession to the EU, excepting most likely the increased resort to HICP in making economic analyses, especially for comparing inflation performances with the other Member States. The HICP is not aimed at replacing the national CPI, but at ensuring comparability at European level.