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**CONCEPTUAL FRAMEWORK FOR CREATING A COST-OF-LIVING
INDEX IN THE RUSSIAN FEDERATION**

**Special report submitted by the Federal State Statistics Service
of the Russian Federation**

The meeting is organized jointly with the International Labour Office (ILO)

I. INTRODUCTION

1. The Russian Federation is developing consumer price statistics not only by improving price-gathering methods and procedures for calculating consumer price levels and consumer price indices, but also by broadening the indicators recognized by international price statistics theory. One such indicator, which describes how overall changes in prices and tariffs affect the total market basket, can be the cost-of-living index, which by no means replaces the consumer price index but has an informative function.
2. The implementation of market reforms has brought about dynamic changes in the socio-economic situation of the population of the Russian Federation.

3. Within the existing system of State statistics for studying processes involving changes in the population's standard of living, the system of socio-economic indicators, which provides a comprehensive theoretical base and a sufficiently long period for carrying out the relevant calculations, is currently in use.

4. On the whole, the existing system provides Government bodies and voluntary and scientific organizations with the information they need to conduct a comprehensive and targeted analysis of the population's socio-economic situation and, on that basis, to take effective decisions. At the same time, as approaches based on a broad interpretation of the concept of standard of living are increasingly accepted in international statistical theory and practice, the development and use of a cost-of-living index are becoming a high priority.

5. The construction of this indicator at the current stage of reforms in Russian statistics is particularly relevant in the light of fundamental changes in the system of social services (housing and public utilities, medical care, public transport, etc.) and in the nature of the social transfers for individual categories of the population (in the area of cash and in-kind social benefits).

6. Without in any way questioning the priority of calculating a consumer price index or its methodological validity, the Russian Federation has begun work on expanding its system of consumer price indices and is attempting to construct a cost-of-living index.

7. The most important stages in preparations for calculating the cost-of-living index are:

- Analysis and generalization of foreign experience in developing a cost-of-living index;
- Development and justification of a common concept and description of the proposed model for calculating the cost-of-living index;
- Formation of the general theoretical bases for constructing a cost-of-living index and justification of the chosen weighting system;
- Preparation of a methodological basis and general conceptual apparatus for constructing a cost-of-living index.

II. BASIC METHODOLOGICAL PRINCIPLES FOR DEVELOPING A COST-OF-LIVING INDEX

8. Changes in consumer prices affect the real purchasing power of the population's cash income and, consequently, its material situation and standard of living or welfare, which a given amount of cash income guarantees.

9. In the circumstances, in addition to a consumer price index there is a need for an indicator to evaluate the extent to which price changes affect the level of spending necessary to maintain a certain standard of living of the population. The cost-of-living index is such an index.

10. Bearing in mind that the consumer price index is used for many purposes, it can hardly satisfy to the same extent the requirements demanded of it in all spheres of activity. In the circumstances, there is an objective need to develop a methodology and procedure for conducting systematic calculations of a number of alternative price indices. Such a system of alternative indices will make it possible to obtain answers to specific questions concerning the impact of price changes on the population's well-being.

11. In order to exclude the possibility of using certain price indices for purposes for which they were not intended, every price index must have a corresponding name. At the same time, the consumer price index must remain the basic price index for reflecting inflation processes on the consumer market.

12. When prices are rising, the cost-of-living index must take account of the fact that households with a certain income level alter their spending patterns in accordance with the relevant price changes, namely, by substituting goods that have decreased in price for goods that have become relatively more expensive. Thus, the cost-of-living index must take into account the way consumers change their consumption patterns in response to corresponding price movements.

13. The resolution concerning consumer price indices adopted at the Seventeenth International Conference of Labour Statisticians noted that the cost-of-living index is one of the most important economic indicators, which can be used to measure changes in the standard of living of individual social groups.

14. In calculating the cost-of-living index, on the one hand, the quantity and quality of goods purchased change, which is usually interpreted as a change in the average standard of living of the population; on the other hand, prices change.

15. In real conditions, the basket of products for a base year does not remain constant: it changes along with changes in relative prices, real income, population demographics and other factors. By somewhat reducing their consumption of products whose prices rise rapidly, and by purchasing larger quantities of relatively cheaper goods and services, consumers can sometimes substitute one set of goods and services for others without adversely affecting their standard of living.

III. PRACTICAL IMPLEMENTATION

16. In these methodological approaches for constructing a cost-of-living index, the principal focus was on the two most important components that generally determine the content of the calculated indicator, in this case the cost-of-living indicator.

17. The first component is the set of goods and services on the basis of which the market basket is defined. The cost of the goods and services in the market basket are recorded on a regular basis (the twenty-fifth day of each month).

18. Bearing in mind that the cost-of-living index (together with the consumer price index, the main indicator for measuring inflation) can be used as an index reflecting changes in the population's socio-economic situation, consideration was given to the possibility and appropriateness of making general use of a common source database in calculating the two indices (the consumer price index and the cost-of-living index); the database may be modified depending on which of the two indices is being constructed.

19. Since the basket of goods and services used in developing the consumer price index was fairly representative and for all intents and purposes fully reflects the existing assortment of goods on sale, it was considered possible to use the same basket of goods and services in the calculation of the cost-of-living index.

20. At the same time, in calculating the cost-of-living index, a combined approach was chosen in the generation of price information. Directly measured prices may be used for individual goods or services, and average prices may be used for other components of the market basket.

21. Indicators of changes in average prices may be used in situations where a cost-of-living change affects individual socio-economic groups when the procedure for offering certain types of services is revised and, as a result, citizens have to pay for them (transition of certain types of services from unpaid to paid).

22. On the whole, this concerns such services as medical treatment, municipal and other forms of transport, housing and public utilities, telephone service, etc.

23. Moreover, with regard to home-produced foodstuffs, the possibility of using the selling prices for agricultural produce is being considered, since these prices do not include taxes or marketing costs.

24. The second component is the weighting system, which is used in calculating the cost-of-living index.

25. Unlike the consumer price index, the weights for which are based on consumer expenditure over a given period (in Russian statistical practice, for a "lagged" base year), in calculating the cost-of-living index it will be necessary to create a substantially different weighting system.

26. Such a weighting system presupposes a quarterly basis. In such conditions, the transition to a new weighting system will take place every quarter, since only a quarterly system will make it possible to take maximum account of changes in consumption in connection with a rise in prices. In calculating the cost-of-living index the use of quarterly weights of "final household consumption" has been proposed; such weights take account not only of consumer expenditure on certain foodstuffs, but also the volume of household consumption of home-produced goods. Moreover, the weights for final consumption also take account of the volume of social transfers to households.

27. As a result of the studies conducted, it was also established that, in calculating the cost-of-living index, just as in the determination of the prices to be used in the calculations, the combined method for determining weights should be used.
28. The choice of an approach to a specific group of consumer items should, in principle, be based on the purpose of the index and also on expenditure and the acceptability of this choice for users, who should be informed of the approach used for various consumer items.
29. Personnel consumption, remuneration in kind, goods and services provided free of charge or at prices subsidized by the State or non-profit institutions serving households, require special methods for evaluating costs and prices.
30. The method should be used in such cases and for such consumer items for which the time of purchase, payment and use do not coincide. This applies to durable goods, and also to the evaluation of consumer items in kind, such as the cost of housing services consumed by households/owners, payment in kind for work performed by members of households, social transfers in kind received by households from the State and non-profit institutions serving households.
31. It is proposed that the cost-of-living index should be calculated on a quarterly basis for the Russian Federation as a whole, and for the federal districts and the constituent entities of the Russian Federation.

IV. CONCLUSION

32. One result of ongoing work on a methodology for calculating the cost-of-living index should be the development (on the basis of the conceptual framework) of a general model and method for calculating the cost-of-living index, the formation of the market basket on which calculations are based, and also weight parameters that are subject to periodic reviews.
33. On the basis of all the work carried out, it is possible to develop methodological recommendations concerning the calculation of a “cost-of-living index” indicator with relevant proposals on expanding the information base and further developing a new direction for consumer price statistics.
34. When all the aforementioned work on a methodology for calculating the cost-of-living index is completed, it would be useful to hold a wide-ranging discussion on the initial results of developing a cost-of-living index not only in the Russian Federation but also with foreign experts who deal with problems of consumer price statistics.
