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THE CONSUMER PRICE INDEX IN GEORGIA*

Paper submitted by the State Department for Statistics of Georgia

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The Consumer Price Index in Georgia

Introduction

The first cooperation of Georgia with international organizations in terms of implementation of Consumer Price Index (CPI) methodology according to international standards, took place in 1992. The basket of consumer goods and services was then developed together with the International Monetary Fund (to which we would like to express special gratitude for support). The basket included initially 295 goods and services, but prices were registered only in Tbilisi.

In February 1994 with the technical assistance of IMF, the CPI was calculated for January 1994 in accord with international standards, but based on data of the capital city only. The importance of the work on the CPI was reflected in the decision of the government, according to decree, to establish a Price Statistics Division in the beginning of 1995.

From January 1996, besides price data for Tbilisi, prices for four other cities of Georgia were collected and included in the calculation of the national CPI. The other cities are Kutaisi, Batumi, Gori and Telavi.

Previously goods and services were not classified according to COICOP, as suggested by IMF. The difference in coverage of goods and services at groups and subgroups level resulted in a lack of comparability with series from other countries. Some changes in the composition of the basket and update of weights in 1998 did not solve this problem as the difference in classifications prevailed. However, from the beginning of 2004 COICOP was applied, and regular update of the basket was implemented. Thus, from 2004 the sub-indices of the Georgian CPI can be compared with those of other countries without additional calculations.

The basket of goods and services, which is used for the CPI as of today, was constructed in 2003. Compared to the previous basket the new basket has been improved both qualitatively and quantitatively, and it now contains 311 representative goods and services. The last update of the weight system of the CPI was accomplished on the basis of final data of the household survey for second half of 2002 and first half of 2003. Materials of the household survey showed that compared to previous periods the relative expenditure on food products were visibly decreased in the country, in terms of parallel increase of expenditures on other items. The weight of food (including beverages and tobacco) in CPI before the last update was 61.5%, after the update it was 48.8%. At the same time the share of communication services was increased about ten times, and the share of medicines and healthcare increased in about two times. To some extent this can be explained by the increase of tariffs on certain services and also by the increase of prices on some non-food goods, on which expenditures of households are significantly high.

Time Constraints for Price Data Collection

Price data are collected in the most representative cities of the country (Tbilisi, Kutaisi, Batumi, Gori and Telavi) at one and the same dates, during the period between 10 – 20. Deviations from this take place in exclusive cases only and do not exceed 1-2 days. Prices on food and non-food goods in Tbilisi are registered 4-6 times, in other cities 2-4 times. Tariffs on paid services in all cities are registered 1-3 times.

Selection of Trade Points and Assortment

We do not use scientific methods for selection of trade points for price registration (due to a number of reasons, it is very difficult to do this in our country, especially in the regions). In this

way, there is more freedom in the selection of trade points and positions to be estimated, though some points should be taken into account (especially in large cities):

- Many goods or services are available in a wide spectrum of trade points (commercial and special shops, organized and non organized markets, mini markets and supermarkets etc.) and are in constant selling;
- The constancy of observed points and types of goods;
- The combination of trade points of different types, selected for price registration, shows the proportion of their usage by local consumers.

In total the price collection covers about 600 points all over the country.

Substitutes

Primary price information is collected in accordance to particular features of the goods and services. In the localities, the price collectors are free in selection of investigated trade points and in giving priorities to producer countries of particular goods. In case of disappearance of observed goods from counters, the reason should be investigated first of all (except seasonality).

If goods do not reappear in the market, they are replaced by other goods most similar, according to the technical description; if necessary, the trade points are also replaced. In this case a “new” price registered for the first time is marked appropriately in the price registration form (it is cycled). A “New” price is not included in the calculation in the first month it appears; only from the next month the “new” price is included in calculation of relative and average prices and in the calculation of indices for the month.

Criteria of Comparability

For comparison of price data it is necessary to comply with certain essential conditions. However, because of a diversity of objective and subjective reasons (resignation of price collectors due to low salaries that causes change of trade points to ones closer to the place of residence of the new price collector; disappearance of goods from counters; problems in finding goods with similar parameters at other trade points; prices which might be significantly different from previous ones; complete disappearance of goods from the market in some cases leads to unequal substitution; carelessness of price collectors etc.), there may be abrupt changes in the collected prices (this is especially typical for Tbilisi) and significant changes in the product descriptions.

Imperfection of local market and market relations in the country do not have a beneficial effect. In the selling of goods (especially food) salesmen do not give even oral exhaustive description of the product for sale (grade of quality, content, packing, producer country, size etc.). This is the main reason of discrepancy, revealed by us during the double check of price data. For example, absence of grade of quality of flour and cereals may cause that prices of products of different quality are compared. In time of selling packed goods, the actual weight of the pack may differ from the explanation of the salesmen (in most cases there is no information on the packages).

Bread is a subject of special discussion. At first sight, prices on bread in the country are stable. However, periodical control weightings, conducted by us, showed that in time of constant prices, loaf of bread used to become smaller; in other words veiled increase of prices takes place, which means hidden inflation. Similar hidden price increases are revealed on other foods in all towns of Georgia.

Calculation of Relative Prices and Control

The relative prices, which are used for calculation of indices, are based on forms for price registration, filled monthly at 5 towns of Georgia. The derivation of relative prices and control of them is accomplished in accordance with international standards, by using certain criteria of comparison, however without extrapolation (nominal calculation) of prices, which is planned to be implemented from 2007.

Control of Monthly Relative Prices

Control of monthly price data is realized in two stages. After control on regional level, data are received at the department. All primary materials are accurately controlled there (including relative prices). Errors are controlled either at the department or after appropriate double check at local statistical offices (depends on the complexity of errors). From the end of 2005, representatives of the department started practice of double-checking by moving to local areas. This gave quite positive results. It is to be mentioned, that a frequently seen error is the breach of the conditions for comparison of items.

Procedure of Presenting Data at the Department

At 25-28 of each reporting month, hard copies of price information are collected at the central office; before that data are checked at local offices. After logical control and data procession, representatives of the department calculate the national CPI. Until the 5th date after the reporting month is “embargo” for all users of the CPI. To improve the efficiency of representing primary data at the department, work for development of internal network with regions is already started. Due to various reasons (problems of energy supply, especially in autumn and winter, lack of modern resources etc.) this problem is not resolved yet.

Control of Price Registration Form in Next Month

In course of the preparation for the regular cycle of data collection, specialists of regional offices transfer information from the columns of the price registration forms to the appropriate columns of the registration forms of the next month. After that, copies are prepared and sent to the department for analyses and control at calculation of the national CPI.

Seasonal Goods

The calculation of impact of seasonal factors is a separate topic. The primary methodology used recently is in accordance with the recommendations of IMF, and the seasonal increase and decrease of prices is reflected in the CPI. Upon seasonal disappearing of goods prices are not recorded until the goods reappear in the market. This causes inadequate attitude of opponents and users of the statistical information. If necessary the inflation is calculated exclusive of the impact of seasonality, which may be similar to the situation in other countries.

The question of how to treat seasonal items is subject to permanent arguing and discussions. For example peaches appear at local agricultural markets in June of every year and are available until October. Accordingly, from November to May peaches are not available in selling and of course individual indices are not calculated for peaches from November (due to absence of goods in sale) to June (due to absence of goods and price on that in previous month) and they are not included in calculation of the national CPI.

Another example: prices on grapes are observed during the whole year. From September to November information is collected exclusively on local grapes and in the other months on imported grapes (basically from Azerbaijan, or from countries of Middle Asia). In this case, the price change of a given product is included in calculation of individual indices and also in calculation of the CPI during the whole year (excluding those months when due to difference of producer countries price data are not comparable). Based on the above-mentioned examples, it would be useful to hear our colleagues' opinions about innovations in international practice of resolving such type of problems. Is anything cardinally new elaborated in this way?

Temporary Absence of Price

As it is mentioned above, primary price information is collected in accordance with features given in specifications of each type of goods and services. In case of temporary disappearing of any goods from the market, the last observed prices are preserved and carried forward for three months and included in the CPI calculation. After that, if goods still do not appear on the market they are to be substituted by the most similar ones (according to technical description and quality). Imputation of prices is not carried out.

Problems

Notwithstanding the fact that the quality of the CPI is significantly improved during the last years, which has been acknowledged internationally, still there are a number of problems to be resolved in the immediate future, by utilizing external recourses and mobilization of internal reserves. It is essential to:

- Increase the number of areas, where price data are collected, till 11 (the number of regional centers of the country). This will not only increase the representativeness of collected information, it will also improve the quality of the national CPI.
- Regulate collection of primary data from regions by internal network, which will increase efficiency.
- Re-check and update the content of the consumer basket; also the proportions of goods and services included in calculation of CPI, for January 2007.
- Elaborate and implement method for calculation of weighted average prices for goods and services on national level; the average arithmetic calculation of prices, applied at this stage, does not reflect correctly the average prices of Georgia.
- Elaborate methodology of calculation and reflection of changes of prices on seasonal goods in CPI, based on international experience.
- The system of selection of basic trade points and observation of price changes on goods and services need further improvements.

It is obvious that problems are more than enough, so much work is necessary to resolve them.