

Background information, harmonization objectives and uses of Harmonized Consumer Price Indices (HCPIs)

Starting with the publication of the January 2013 indices our Monthly News Release is called **HCPI-COMESA** as opposed to the **Interim HCPI-COMESA** that we published beginning with the May 2011 to December 2012 indices.

As part of the harmonization strategy set out in **HCPI-COMESA road map** and approved in December 2008, the development of the HCPIs was designed to proceed in a gradual manner and in two Stages, Stages 1 and 2.

The harmonization program is complex and continuous; it requires a group of countries to implement critical measurement steps at the same time or within a defined time frame. For instance as part of the harmonization program, all the participating countries were supposed to use the Classification of Individual Consumption by Purpose (COICOP) by December 2010. A number of countries used different classifications for their national Consumer Price Indices (CPIs) then and were supposed to appreciate the new approach and move as fast as possible to comply with the December 2010 deadline. Not only did the countries migrate to COICOP but were also supposed to exclude particular household consumption expenditure categories like own consumption among other measurement issues. The HCPI is a macroeconomic index and excludes all non monetary transactions.

The participating countries were also supposed to use the geometric mean to average un-weighted price data at a detailed level given that the same mean does well for purposes of international comparison. It is not all the participating countries that were familiar with the use of the geometric mean then. The harmonization process is not just limited to these two critical measurement steps; there are a lot of other steps involved. The details are contained in eighteen HCPI implementation Regulations. The same HCPI Regulations are supposed to be used consistently over time.

Stage 1 harmonization used a limited number of HCPI Regulations; it began in December 2010 and ended in December 2012. Stage 2 began in December 2012 and the result is the full HCPI or 12 Division HCPI beginning with the indices for the month of January 2013.

The HCPIs are based on a set of harmonized methodology following laid down HCPI implementation Regulations. The rationale for harmonization was motivated by the fact that **“existing national consumer price indices are not in general compiled on a directly comparable basis”**. In other words, **“HCPIs shall be considered to be comparable if they reflect only differences in price changes or consumption patterns between Member States”**. **“HCPIs which differ on account of differences in the concepts, methods or practices used in their definition and compilation shall not be comparable”**.

Below we provide clarity on some of the uses of the HCPIs and how they differ from the national CPIs.

1. **What are the uses of the HCPI given the existence of the national CPIs that users are so much used to?** The intended main uses of the HCPI are, for measuring price stability in the COMESA region, macroeconomic convergence, and facilitation of international price comparison. It is intended that the change in the HCPI from year to year (annual inflation rate) will be one of the convergence criteria used to assess whether a Member State is ready to join a common currency area once a Monetary Union (MU) is established in the COMESA region. **This is clearly not an objective of the national CPIs.** Such uses require a harmonized conceptual framework and comparable results; hence the HCPIs are based on a harmonized approach and a regulated set of definitions.
2. CPIs play a role in some countries for monetary policy and for economic analysis in general. There are some other uses like indexation of commercial contracts, wages, and financial instruments inter alia. The range of uses for the CPIs varies across countries and therefore the CPI calculation methods vary as well. **As currently measured in the COMESA region the national CPIs are not necessarily comparable.**
3. The HCPIs provide comparable measures of consumer price inflation and are supposed to be used for cross country analysis.

4. **Is the HCPI supposed to replace the national CPI?** The background notes to the harmonization program clearly stress that the HCPIs and the national CPIs are two different measures of inflation; it is only the member States themselves that can decide to replace the national CPIs with the HCPIs. Otherwise, it is expected that Member States will continue producing and disseminating both the HCPIs and the national CPIs side by side. **The COMESA Secretariat is not advocating for a replacement of the national CPIs but instead for a measure of inflation that is internationally comparable across the COMESA member States.**

The HCPIs benefit from incorporating many of the international developments in consumer price index theory and methods in recent years. Further improvements to the HCPI methods are expected in the coming years.