



Euro changeover and inflation in Estonia

Estonia joined the euro area on 1st January 2011 and is the 17th EU Member State using the single European currency, the euro.

This note assesses the euro changeover effects on inflation in Estonia, as estimated by Eurostat on the basis of the Harmonised Indices of Consumer Prices (HICP), taking account of the developments in the HICP for Estonia in December 2010 and January, February and March 2011.

Provisional calculations show that in Estonia the total (one-off) impact of the changeover on inflation, during and immediately after the changeover, is likely to have been between 0.2 and 0.3 percentage points. This estimate is in line with the first-wave changeover in 2002 and those of Slovenia in 2007, Cyprus and Malta in 2008 and Slovakia in 2009. Eurostat considers therefore that the euro changeover effects in Estonia seem to have been noticeable but were not of a magnitude that could drive headline inflation.

In Estonia, the annual HICP rate for January 2011 was 5.1%, down from 5.4% in December 2010. In February 2011 the HICP in Estonia increased to 5.5%, and in March 2011, the figure was 5.1%. The month-on-month inflation rates in the four months were 0.5% in December, 0.0% in January, 0.7% in February and 0.8% in March 2011.

Harmonised Indices of Consumer Prices

Month	Estonia		EU		Euro Area	
	Annual rate of change (%)	Monthly rate of change (%)	Annual rate of change (%)	Monthly rate of change (%)	Annual rate of change (%)	Monthly rate of change (%)
Sep-10	3.8	0.8	2.3	0.3	1.9	0.3
Oct-10	4.5	0.6	2.3	0.3	1.9	0.3
Nov-10	5.0	0.3	2.3	0.2	1.9	0.1
Dec-10	5.4	0.5	2.7	0.6	2.2	0.6
Jan-11	5.1	0.0	2.8	-0.4	2.3	-0.7
Feb-11	5.5	0.7	2.9	0.5	2.4	0.4
Mar-11	5.1	0.8	3.1	1.1	2.7	1.4

Source: Eurostat

The methodological basis for producing the Estonian HICP conforms to HICP requirements and the accuracy and reliability of the Estonian HICP are generally adequate ⁽¹⁾.

Eurostat visited Statistics Estonia on 1 March 2011. During the visit, information was provided by Statistics Estonia and other stakeholders on price changes at the time of the changeover, on possible reasons for those price changes and the possible impact of the changeover on inflation. During the visit it was also confirmed that the Estonian HICP continued to correctly measure inflation during the period of the switch from pricing in the former national currency to pricing in euro.

In Eurostat's view, in December 2010 and January, February and March 2011 some unusual price rises were seen in Estonia, in particular for cleaning services, recreational and cultural services, catering services, hairdressing services and repair services related to dwellings. Unusual price increases were observed for certain road transport but their weight is too low to have a significant influence on the headline inflation rate.

Against the background of the EU annual inflation rate standing at 2.9% in February 2011 and at 3.1% in March 2011, and the increases in inflation across the EU in recent months, Eurostat considers that the euro changeover effects in Estonia seem to have been noticeable but were not of a magnitude that could drive headline inflation in the country.

Eurostat's provisional assessment is that in Estonia the total (one-off) impact of the changeover on consumer price inflation during the period December 2010 to March 2011 as a whole is likely to be between 0.2 and 0.3 percentage points. These observations are in line with the experience of the first-wave changeover in 2002 ⁽²⁾, of Slovenia in 2007, Cyprus and Malta in 2008 and Slovakia in 2009 ⁽³⁾.

Eurostat will update its conclusions concerning the impact of the changeover if necessary, as further information becomes available.

Estimating the impact of the euro changeover

Eurostat has used statistical techniques to identify those HICP sub-indices for Estonia which showed price changes in December 2010, January, February and March 2011 which were outside what the past data and data for other EU countries would predict. This gives an 'expected price development'. The difference between the expected and the actual price developments is regarded as an unusual price change. Those unusual price changes which could not be plausibly attributed to other factors were attributed to the euro changeover. In practice it is not possible to estimate precisely what inflation would have been if the euro changeover in Estonia had not taken place. Even at the lowest level of detail, there are many factors which overlap with potential changeover effects, and there are several potential changeover effects which may amplify each other or cancel out.

⁽¹⁾ Compliance Monitoring Information Note for Estonia, Eurostat, March 2010. Available at: http://epp.eurostat.ec.europa.eu/portal/page/portal/hicp/methodology/compliance_monitoring

⁽²⁾ [News Release](#) 69/2003, Eurostat, June 2003.

⁽³⁾ Available at: http://epp.eurostat.ec.europa.eu/portal/page/portal/hicp/publications/technical_and_thematic_news_releases