# CHAPTER 15 PRICES

The only price statistics currently compiled in Bhutan relate to Consumer Price Indices, often referred to as the CPI. Since 1979, the CPI had been produced by the NSB twice a year till 2003. From 3rd quarter 2003, it has been producing quarterly. In addition, a food price index for Thimphu has been produced each quarter since September 1987.

The purpose of the CPI is to provide a general indicator of the rate of price change for consumer goods and services. The CPI is important monitoring overall price development and assessing changes in the living standard of the population.

The CPI is formed by measuring the change in the cost of purchasing a basket of consumer goods and services where items in the basket are weighted according to their relative importance in the total spending of consumers. The baskets include food items (i.e. rice, other cereals, vegetables, oils and fats, and spices) together with non-food items such as clothing, fuel, furniture and other personal items. Items such as cereals are weighted more heavily than say furniture, because they represent a larger proportion of consumer expenditure. A price change in cereals will therefore have greater effect on the CPI than a price change for furniture.

Bhutan’s CPI had 1979 as base year. Undoubtedly, substantial changes had taken place since then – economically, socially and technologically. A number of new products had likewise emerged. These factors contributed to the change in households’ tastes and preferences thereby causing the fixed market basket of goods and services to become outmoded. To capture such changes for a more meaningful price comparison, it was necessary to re - base the CPI. This entailed the revision of or updating the base year, the weights, the fixed market basket and the sample outlets.

The year 2003 is chosen as the new base year since it was the year when the Bhutan Living Standard Survey was conducted. The Household Income Expenditure Survey or Living Standard Survey is the usual source of weights and the basis for drawing up the market basket.

The CPI is presented as Index Numbers, where the indices are measured in relative to the base of 3rd quarter 2003 = 100.00; price change is estimated by measuring change in the Index numbers.