

## Table of contents

<b>Foreword</b> .....	3
<b>Acknowledgements</b> .....	4
<b>Table of contents</b> .....	5
<b>Overview</b> .....	<b>11</b>
<i>What does the Eurostat-OECD PPP Programme do?</i> .....	13
<i>Why is GDP compared from the expenditure side?</i> .....	13
<i>What are PPPs?</i> .....	13
<i>What are PPPs used for?</i> .....	14
<i>What are the price and volume indices that PPPs generate?</i> .....	14
<i>Why not to use exchange rates to make international comparisons of GDP?</i> .....	15
<i>Are PPPs necessary if countries share a common currency?</i> .....	15
<i>Can PPPs be used to determine whether a currency is undervalued or overvalued?</i> .....	16
<i>Should PPPs always be used to make international comparisons?</i> .....	16
<i>How are PPPs calculated?</i> .....	16
<i>What products are used to calculate PPPs?</i> .....	16
<i>What prices are used to calculate PPPs?</i> .....	17
<i>In what circumstances could PPPs be biased?</i> .....	17
<i>What has to be considered when comparing PPP-derived data over time?</i> .....	18
<i>Who is responsible for calculating PPPs and for the quality and accuracy of PPP results?</i> .....	18
<i>How often are comparisons made and the results updated?</i> .....	19
<i>What are purchasing power standards (PPS) and OECD dollars?</i> .....	19
<i>What data are published?</i> .....	20
<i>Which measure to use to compare material well-being?</i> .....	20
<i>How to get access to more data?</i> .....	21
<b>Chapter 1: Purpose of the Eurostat-OECD PPP Programme</b> .....	<b>23</b>
1.1 <i>Introduction</i> .....	25
1.2 <i>General approach</i> .....	25
1.2.1 <i>Gross domestic product (GDP)</i> .....	25
1.2.2 <i>Eurostat-OECD approach</i> .....	26
1.3 <i>Exchange rates and PPPs</i> .....	28
1.3.1 <i>Exchange rates</i> .....	28
1.3.2 <i>Purchasing power parities (PPPs)</i> .....	30
1.3.3 <i>Price, volume and value measures</i> .....	32
1.4 <i>Using PPPs</i> .....	34
1.4.1 <i>Uses and users of PPPs</i> .....	34
1.4.2 <i>Points to remember when using PPPs</i> .....	35

<b>Chapter 2: Data requirements .....</b>	<b>39</b>
2.1 Introduction .....	41
2.2 Consistency with national accounts .....	42
2.3 Comparability and representativity .....	43
2.3.1 Comparability .....	44
2.3.2 Representativity .....	45
2.3.3 Equi-representativity .....	46
2.4 Actual data requirements .....	47
<b>Chapter 3: Organisation .....</b>	<b>51</b>
3.1 Introduction .....	53
3.2 Institutional framework .....	53
3.2.1 PPP Regulation .....	53
3.2.2 Responsibilities .....	54
3.2.3 Quality control and compliance monitoring .....	55
3.3 Survey organisation .....	56
3.3.1 Schedule of surveys .....	56
3.3.2 The 2011 comparison .....	59
3.3.3 Organisation of groups .....	60
3.3.4 Integrated information technology system .....	61
<b>Chapter 4: Component expenditures of GDP .....</b>	<b>63</b>
4.1 Introduction .....	65
4.2 The expenditure approach to GDP .....	65
4.2.1 Actual and imputed expenditures .....	66
4.2.2 Individual and collective consumption expenditures .....	67
4.2.3 Actual individual and collective consumption .....	69
4.2.4 Market and non-market services .....	70
4.2.5 Gross capital formation .....	71
4.3 The expenditure classification .....	72
4.3.1 Structure of the classification .....	72
4.3.2 Basic headings .....	74
4.3.3 Derivation of actual individual consumption .....	75
4.3.4 Main aggregates .....	76
4.3.5 Presentation of the classification .....	79
4.3.6 Correspondence with COICOP, COPNI, COFOG 98 and CPA 96 .....	80
4.3.7 Classification by type of product .....	80
4.4 Reporting and validation of expenditure data .....	81
4.4.1 Reporting .....	81
4.4.2 Validation .....	82
4.5 Future developments .....	84
4.5.1 SNA 2008 and ESA 2010 .....	85
4.5.2 Harmonisation of COICOP .....	86
4.5.3 CPA 2008 .....	86
<b>Chapter 5: Consumer goods and services .....</b>	<b>87</b>
5.1 Introduction .....	89
5.2 Survey process .....	89
5.3 Preview and planning .....	95

5.4	<i>Pre-survey and product list creation</i> .....	96
5.4.1	Requirements for product lists.....	96
5.4.2	Pre-survey.....	98
5.4.3	Establishment of the final product list.....	99
5.4.4	Structured product descriptions.....	101
5.4.5	Product specifications.....	103
5.5	<i>Price collection and intra-country validation</i> .....	108
5.5.1	Prices to be collected.....	109
5.5.2	Selection of outlets.....	110
5.5.3	Number of products to be priced per basic heading.....	113
5.5.4	Number of price observations per product.....	114
5.5.5	Assigning representativity indicators.....	115
5.5.6	Intra-country validation.....	117
5.5.7	Survey report.....	122
5.6	<i>Inter-country validation</i> .....	122
5.6.1	Validation of prices.....	122
5.6.2	Validation of representativity indicators.....	125
5.6.3	Comparison of results across surveys.....	126
5.7	<i>Evaluation</i> .....	127
5.8	<i>Derivation of national annual prices</i> .....	127
5.8.1	Survey prices to national prices.....	127
5.8.2	National prices to annual national prices.....	129
5.8.3	Seasonal products.....	129
5.9	<i>Estimation of PPPs for non-survey years</i> .....	132
5.10	<i>Synergies between PPP and CPI price collection</i> .....	132
<b>Chapter 6: Housing</b> .....		<b>135</b>
6.1	<i>Introduction</i> .....	137
6.2	<i>Actual and imputed rents</i> .....	137
6.3	<i>Rent survey</i> .....	141
6.3.1	Price approach reporting form.....	142
6.3.2	Quantity approach reporting form.....	145
6.4	<i>Calculating PPPs for housing</i> .....	146
6.4.1	Directly by the price approach.....	146
6.4.2	Indirectly by the quantity approach.....	147
6.4.3	Linking the direct and indirect PPPs.....	148
6.5	<i>Validation of housing data</i> .....	150
<b>Chapter 7: Health</b> .....		<b>151</b>
7.1	<i>Introduction</i> .....	153
7.2	<i>Classification of health expenditures</i> .....	153
7.3	<i>Price collection: purchases from market producers</i> .....	155
7.3.1	Full market price.....	155
7.3.2	Pharmaceuticals and other medical products.....	156
7.3.3	Out-patient health services.....	156
7.4	<i>Price collection: government-produced health services</i> .....	157
7.5	<i>Hospital services</i> .....	158

7.6	<i>Towards an output based approach</i> .....	160
7.6.1	Defining output .....	160
7.6.2	Case types.....	161
7.6.3	Quasi prices.....	163
7.6.4	Weights.....	164
7.6.5	PPPs for actual individual consumption of health.....	164
<b>Chapter 8: Education .....</b>		<b>167</b>
8.1	<i>Introduction</i> .....	169
8.2	<i>The output method</i> .....	169
8.3	<i>Data sources</i> .....	171
8.4	<i>Quality adjustment factors</i> .....	173
8.5	<i>Calculating PPPs for education</i> .....	176
8.6	<i>Validation of education data</i> .....	179
<b>Chapter 9: Collective services .....</b>		<b>181</b>
9.1	<i>Introduction</i> .....	183
9.2	<i>Collective services</i> .....	183
9.3	<i>Input-price approach</i> .....	185
9.4	<i>Survey of compensation of government employees</i> .....	186
9.5	<i>Productivity differences</i> .....	192
<b>Chapter 10: Equipment goods .....</b>		<b>195</b>
10.1	<i>Introduction</i> .....	197
10.2	<i>General approach</i> .....	197
10.3	<i>Survey process</i> .....	199
10.4	<i>Pre-survey and item list creation</i> .....	199
10.4.1	Products, items and SPDs.....	199
10.4.2	Item specifications.....	201
10.4.3	Representativity.....	201
10.4.4	Pre-survey .....	204
10.5	<i>Price collection</i> .....	204
10.5.1	Equivalent items .....	204
10.5.2	Number of products and items to be priced.....	205
10.5.3	Sources of prices.....	207
10.5.4	Cars and motor cycles.....	207
10.6	<i>Reporting prices</i> .....	208
10.6.1	Reporting items and their prices.....	208
10.6.2	Survey report.....	209
10.7	<i>Validation of prices</i> .....	210
10.7.1	Intra-country validation .....	210
10.7.2	Inter-country validation .....	210
10.8	<i>Adjustment for non-deductible VAT</i> .....	212
10.9	<i>Estimation of PPPs for equipment goods in non-survey years</i> .....	213

<b>Chapter 11: Construction .....</b>	<b>215</b>
11.1 <i>Introduction .....</i>	217
11.2 <i>General approach .....</i>	217
11.3 <i>Survey process .....</i>	219
11.4 <i>Bills of quantities .....</i>	220
11.4.1 <i>Standard construction projects .....</i>	220
11.4.2 <i>Flexibility in interpretation .....</i>	222
11.5 <i>Rolling survey approach .....</i>	223
11.6 <i>Collection and reporting of prices .....</i>	224
11.6.1 <i>Prices to be collected .....</i>	224
11.6.2 <i>Sources of prices .....</i>	225
11.6.3 <i>Reporting prices .....</i>	226
11.6.4 <i>Survey report .....</i>	226
11.7 <i>Validation of prices .....</i>	226
11.7.1 <i>Intra-country validation .....</i>	226
11.7.2 <i>Inter-country validation .....</i>	228
11.8 <i>Adjustment for non-deductible VAT .....</i>	228
<b>Chapter 12: Calculation and aggregation of PPPs.....</b>	<b>233</b>
12.1 <i>Introduction .....</i>	235
12.2 <i>Calculation of PPPs for a basic heading .....</i>	236
12.2.1 <i>Multilateral PPPs and their required properties .....</i>	236
12.2.2 <i>Overview of the calculation procedure .....</i>	236
12.2.3 <i>Calculation of binary PPPs: Fisher type PPPs .....</i>	238
12.2.4 <i>Achieving transitivity: EKS PPPs .....</i>	238
12.2.5 <i>Missing PPPs .....</i>	239
12.2.6 <i>Fixity .....</i>	241
12.2.7 <i>EKS-S method .....</i>	243
12.3 <i>Aggregation of basic heading PPPs .....</i>	244
12.3.1 <i>Overview of the aggregation procedure .....</i>	244
12.3.2 <i>EKS aggregation .....</i>	245
12.3.3 <i>Specific properties of EKS results .....</i>	245
12.3.4 <i>Reference PPPs .....</i>	246
12.3.5 <i>Fixity .....</i>	247
<b>Chapter 13: Presentation and dissemination of results .....</b>	<b>261</b>
13.1 <i>Introduction .....</i>	263
13.2 <i>Presentation of results .....</i>	264
13.2.1 <i>Tables and analytical categories .....</i>	264
13.2.2 <i>Purchasing power standards and OECD dollars .....</i>	268
13.3 <i>Eurostat annual publication schedule .....</i>	270
13.3.1 <i>Preliminary to final estimates .....</i>	270
13.3.2 <i>Revision of PPPs .....</i>	271
13.4 <i>OECD estimation of PPPs outside benchmark years .....</i>	272
13.4.1 <i>Annual PPPs .....</i>	272
13.4.2 <i>Monthly PLIs .....</i>	273
13.5 <i>Data access policy .....</i>	273
13.6 <i>Consistency between Eurostat, OECD and ICP results .....</i>	275

<b>Annexes .....</b>	<b>277</b>
<i>ANNEX I. BRIEF HISTORY OF THE PROGRAMME .....</i>	<i>279</i>
<i>ANNEX II. EUROSTAT LEGAL FRAMEWORK.....</i>	<i>299</i>
<i>ANNEX III. CLASSIFICATION OF GDP EXPENDITURES .....</i>	<i>313</i>
<i>ANNEX IV. QUARANTA EDITING PROCEDURE .....</i>	<i>357</i>
<i>ANNEX V. CALCULATION AND AGGREGATION OF EKS PPPs.....</i>	<i>369</i>
<i>ANNEX VI. DIFFERENCES BETWEEN EUROSTAT AND OECD COMPARISONS.....</i>	<i>387</i>
<i>ANNEX VII. INTERNATIONAL COMPARISON PROGRAMME.....</i>	<i>395</i>
<i>ANNEX VIII. A COMPARISON OF DIFFERENT AGGREGATION METHODS.....</i>	<i>405</i>
<b>Glossary .....</b>	<b>409</b>
<i>Abbreviations and acronyms .....</i>	<i>441</i>