



The Eurostat-OECD PPP Programme and the ICP – a shared commitment

The World Bank has today officially launched the price collection for the International Comparison Programme (ICP) 2003-2006. This note explains how the Eurostat-OECD Purchasing Power Parities (PPP) Programme and the PPP data that it generates will contribute to the current ICP. It also outlines the special role of the United Kingdom, Slovenia, Estonia and Japan, who are acting as European-OECD ring countries for the global ICP Ring Comparison.

The partnership between the Eurostat-OECD PPP Programme and the ICP Programme is an excellent example of effective working between international organizations. Although the two programmes are managed and organized independently and use different software systems, there has been a very productive collaboration on methodological improvements for the international comparison of prices and volumes.

The Eurostat-OECD PPP Programme

The Eurostat-OECD PPP Programme was established in the early 1980s to facilitate the comparison of the GDPs of European Union and OECD member countries that take into account the relative purchasing powers of the currencies of the individual countries involved. Since then the coverage has been extended to include countries that have applied to join the European Union and countries of the former Soviet Union and the former Yugoslavia with which Eurostat and the OECD have programmes of technical cooperation in statistics.

The table below provides an overview of the number of countries participating in the Programme since 1980.

Participants in the Eurostat-OECD PPP Programme: 1980 to 2002

	1980	1985	1990	1993	1996	1999	2002
Countries co-ordinated by Eurostat	13	13	14	16	19	31	31
- EU Member States	10	10	12	12	15	15	25
- Non-EU OECD countries	3	3	2	4	4	8	1
- Other countries	-	-	-	-	-	8	5
Countries co-ordinated by the OECD	5	9	10	8	13	12	12
- Non-EU OECD countries	5	9	10	8	9	7	7
- Other countries	-	-	-	-	4	5	5
Total	18	22	24	24	32	43	43

From 1980 to 1990, Eurostat comparisons took place every five years and involved mainly EU member states and countries in line for EU membership at the time. After 1990, Eurostat adopted a rolling programme of price surveys, which provided the basis for annual comparisons. The number of participating countries rose from 14 in 1990 to 19 in 1996 due to the expansion

of the European Union and to countries of the European Free Trade Association harmonizing their statistics and statistical programmes with those of EU member states. In 1999, the number of countries covered by Eurostat comparisons rose to 31 with the inclusion of the 13 countries that were candidates for EU membership. To accommodate this increase in the number of participating countries, Eurostat initiated the 'ECP Reform' under which the 31 participating countries were split into three relatively homogeneous country groups. This made the Programme more manageable and the countries easier to co-ordinate with respect to the collection and verification of prices.

Encouraged and assisted by Eurostat, the OECD began in the early 1980s organizing comparisons for those OECD member countries that were not already included in Eurostat comparisons. The first comparison had 1980 as the reference year, but data collection did not start until 1983 and was limited to four countries. Two of these - Japan and the United States – were major non-European economies of particular interest to the European Commission because of the close trade links. The results of this retrospective exercise were combined with those from the Eurostat comparison, thereby covering 18 of the OECD's 24 member countries. Thereafter, the OECD worked closely with Eurostat to effect comparisons for 1985 and 1990. By 1990 all OECD countries were covered.

After the 1990 comparison, Eurostat adopted the rolling benchmark approach whereby data collection is continuous over a three-year cycle. The approach allows Eurostat comparisons to be made annually. The OECD did not adopt the approach in its entirety and makes comparisons every three years. Consequently, since 1990, Eurostat-OECD comparisons have been three yearly – 1993, 1996, 1999 and 2002. The next joint comparison will be 2005.

Use of PPP data

The major users of PPPs have traditionally been the international organisations, such as Eurostat, the International Monetary Fund, the OECD, the United Nations and the World Bank, who have used the data for international comparisons of global income in connection with, for example, the alleviation of poverty. But now there is a growing demand for PPPs from a variety of other users, including government agencies, universities, research institutes, public enterprises, private firms, banks and individuals.

International organisations, government agencies, universities and research institutes use PPPs as inputs into economic research and policy analysis requiring comparisons between countries. In such studies, PPPs are employed either as currency converters to generate volume measures with which to compare levels of economic performance, economic welfare, poverty, consumption, investment, economic growth, overall productivity and selected government expenditures (such as defence, police, health, education, etc.) or as price measures with which to compare price levels, price structures, price convergence and competitiveness.

Public enterprises and private firms use PPPs in their detailed analysis of international investment decisions. Banks employ PPPs in economic analysis and in the monitoring of exchange rates. Individuals often refer to PPPs when moving from one country to another.

With one exception, PPPs are not used by international organisations for calculating member countries' contributions to international funds nor for assessing their eligibility for aid grants or access to loans on favourable terms. The exception is the European Commission. Some 30 per cent of its total budget is spent on the Structural Funds, the overall aim of which is to gradually reduce economic disparities between EU Member States. The list of regions, which are eligible for fund allocations, is established on the basis of PPP-converted GDP per capita.

Also in the European Union, PPP and related data are the statistical basis for monitoring price convergence in the context of competition policy and consumer protection. In addition, the prices collected for the PPP exercise also are used administratively to establish the salary and pension correction coefficients for EU officials.

The Eurostat-OECD PPP Programme and its role in the ICP

Eurostat and OECD are ICP regional coordinators for the 45 countries covered by their own Programme in 2005. They are represented on both the ICP Executive Board and the ICP Technical Advisory Group. The two organizations and the ICP global office collaborate on methodological and practical issues. For example, they have shared their lists of product specifications for the price surveys covering consumer products and equipment goods. In addition, the data validation methods of Eurostat and OECD have been adopted in the ICP software. The programmes also will collaborate on updating the product specifications to be used to price selected government services. The Eurostat-OECD Programme has contributed to chapters in the ICP Handbook and has helped to develop the global programme's expenditure classification that is consistent with the OECD and Eurostat breakdown.

No extra price collection is foreseen in the Eurostat-OECD Programme for ICP purposes, except by those "ring countries" that are included in the global Ring Comparison. Data collected for the 2005 Eurostat-OECD comparison will be used for the 2005 ICP comparison.

The Ring Comparison

In the 2003-2006 round of the ICP, a multilateral approach is being used to link regional PPPs across regions to provide global PPP measures. This methodology is called the 'Ring Comparison'. Essentially, it involves choosing a subset of countries from each ICP region to price a common product list in addition to their regional lists. It requires the preparation of a global list of products that will maximize an overlap in products for a maximum number of countries, thereby creating enough robust pair-wise links for an efficient and effective comparison. In effect, the Ring Comparison can be seen as another region, but one spanning the complete globe.

From the Eurostat-OECD Programme the following countries act as ring countries: United Kingdom, Japan, Estonia and Slovenia. United Kingdom also acts as coordinator for the European-OECD ring countries to ensure firstly that the products that these countries can price are well represented at the global list, secondly that the four countries take the same approach to pricing and data validation and thirdly that the global timetable is adhered to. The UK government is supporting the ICP through funding and the active participation of the UK Office for National Statistics in the Ring Comparison.

Notes for Editors

For more information about the OECD-Eurostat PPP Program please visit <http://www.oecd.org> and <http://europa.eu.int>. For more information on the ICP please go to <http://www.worldbank.org>.