Glossary:Purchasing power parities (PPPs)

Statistics Explained

Purchasing power parities , abbreviated as **PPPs** , are indicators of price level differences across countries. PPPs tell us how many currency units a given quantity of goods and services costs in different countries. Using PPPs to convert expenditure expressed in national currencies into an artificial common currency, the purchasing power standard (PPS) , eliminates the effect of price level differences across countries created by fluctuations in currency exchange rates .

Purchasing power parities are obtained by comparing price levels for a basket of comparable goods and services that are selected to be representative of consumption patterns in the various countries.

PPPs make it possible to produce meaningful indicators (based on either price or volume) required for cross-country comparisons, truly reflecting the differences in the purchasing power of, for example, households . Monetary exchange rates cannot be used to compare the volumes of income or expenditure because they usually reflect more elements than just price differences, for example, volumes of financial transactions between currencies and expectations in the foreign exchange markets.

Further information

- European price statistics - an overview - 2008 edition, chapter 5 (publication)
- Purchasing power parities (ESMS metadata file — reference metadata in euro SDMX metadata structure)
- Purchasing power parities (PPPs) (dedicated section)

Related concepts

- Harmonised index of consumer prices (HICP)
- Purchasing power standard (PPS)

Statistical data

- Comparative price levels of consumer goods and services