



ICP Computation Task Force Meeting

MC2-850, World Bank, Washington, DC

December 2-3, 2013

Eurostat/OECD description of data submission and proposals for the linking process

I. PPPs and expenditures submitted by Eurostat/OECD

Eurostat and OECD submit four sets of PPPs for the final calculations rounds:

a. 155 ICP BHs

This set is to be used (solely) for the linking process. They should be aggregated only to derive the linking factors for the analytical categories.

b. 202 Eurostat/OECD BHs

These are the combined Eurostat-OECD PPPs that were used to calculate the PPPs for the analytical categories (set D). These cannot be aggregated to the 155 BHs in set A, for reasons set out below. These PPPs have fixity for EU27 and for EU37 (i.e. all Eurostat countries).

c. 224 Eurostat BHs

These are the slightly more detailed Eurostat PPPs that were used to produce set B. These PPPs have fixity for EU27.

d. 46 Analytical Categories

PPPs and expenditures derived by aggregating set B. These are the PPPs to be used for Eurostat/OECD in the CAR method to produce the ICP results for publication. These PPPs have fixity for EU27 and for EU37.

Datasets B and C are provided for the sole purpose of demonstrating the input data to the calculation of dataset D and are not to be used in any ICP calculations.

We have not included any PPPs for aggregate headings, as these are not actually used in the CAR method, and it is time-consuming for us to produce them due to the classification differences.

Please note that the 2011 PPPs and expenditures are final for Eurostat and near-final for OECD (as USA has not yet provided updated weights).

Finally, updated data on population and exchange rates are included.

II. Reasons for differences in aggregated results between set A and sets B/C/D:

1. Different level of aggregation

Aggregation from 155 BHs to the analytical categories will not give the same result as aggregation from 202 or 224 BHs.

2. Different treatment of NPISH

For the purpose of linking, the expenditures of NPISHs have been reallocated to corresponding BHs within household final consumption expenditures. Since the PPPs that were calculated for the NPISH BHs are not necessarily the same as those of the BHs to which the expenditure is reallocated, aggregating the BH PPPs before and after the reallocation will not give the same result.

3. Different method for health

This year, Eurostat and OECD implemented a new, output-based, method for calculating health PPPs. The method is, *inter alia*, based on collecting quasi-prices for a sample of comparable and representative hospital services. The PPPs at BH level derived from this new method cannot be linked in any meaningful way to the BH PPPs from other regions. Therefore, the PPPs for all health BHs in dataset A are based on the “old”, input-based, approach (mainly from compensation of employees), which can be linked to other regions. The PPPs in datasets B, C and D are based on the new method.

III. Linking Eurostat/OECD to other regions; education and health

1. Education

As agreed by the TAG, the linking of Eurostat/OECD to the other regions is to be done through the application of the output approach in five Latin American countries. Effectively, the linking factor is the ratio of the geomean of PPPs of these five countries in the output approach and the geomean of PPPs of the same countries in the input approach. However, this linking factor can only be calculated for total education expenditures, not for the individual BHs of the input approach as currently in the ICP BH classification. Conceptually the only valid approach seems to be to aggregate all education BHs in all regions to two:

expenditures of households and of government (NPISHs already being reallocated) and to link at that level instead of BH level.

2. Health

As explained above, linking is possible at current BH level, but only with the data from the “old” approach of Eurostat and OECD. Aggregate linking factors should be derived from the PPPs of dataset A. In the final step (the CAR method), the aggregate PPPs from dataset D should be used.

This proposal is not as strange and inconsistent as it may sound, as a lot of the “old” data are still used in the new method, for example all prices of pharmaceuticals, medical products and outpatient medical services. Moreover, the impact of the new method on e.g. GDP PPPs is generally rather limited.

IV. 2005 expenditures and PPPs

Revised 2005 expenditures in 224, 202 and 155 BH classifications, and corresponding updated population and exchange rates, are also submitted, for use in the update of the 2005 ICP round results.

For OECD countries, the 2005 PPPs were final at the time the ICP 2005 was released (in December 2007). However, for Eurostat countries the 2005 PPPs were revised in 2008 (following the routine revision schedule). In particular, in 2008 the new output-based method to education was introduced.

The WDI have included the new 2005 PPPs for Eurostat countries in 2009. For the sake of consistency, we suggest that the update of the ICP 2005 results also updates the Eurostat PPP, so that the ratios among all Eurostat/OECD countries are consistent between ICP, WDI and Eurostat/OECD publications.

This will only need to be done at publication level and only involves a replacement of Eurostat countries’ PPPs (expressed to USA=1). There is no further impact on calculations.

We have included the respective PPPs for GDP and HFCE. If further categories are proposed for publication, we will provide them as well.