



# Eurostat-OECD Programme on Purchasing Power Parities: Latest developments and way forward

Washington May 2015



# Outline of the presentation

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- Introduction : growing demand for PPPs
- Latest developments in the Eurostat-OECD PPP Programme:
  - Introduction of a new basic heading classification in 2015
  - Moving gradually towards an annual PPP calculation from 2015 onwards
- Conclusion



## Introduction : 30 years of PPP use at the OECD

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- Launched in 1983, PPPs are today well-established in the statistical work of the OECD. Calculated every three years since 1990, they are widely used but not always well understood. In particular, it is difficult for users to understand comparisons over time.
- Since a few years, there is a growing demand to have reliable and timely PPPs, not only for OECD countries but for all countries. 2011 ICP results published end of April 2014 have shown again the importance of PPPs to measure the size of economies and the challenge to compare results over time.



# Latest developments in the Eurostat-OECD PPP Programme

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- PPP Manual end of 2012
- Education and health: move to an output approach for the benchmark year 2008 for Education and 2011 for Health
- **New basic heading classification in 2015**
- **A gradual move to annual calculation for OECD non-European countries**



# Why a new basic heading classification in 2015 ?

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- The new classification will be implemented in 2015 (finalisation beginning of 2015 after country comments) for the benchmark year 2014.
- Various developments impacting on basic heading (BH) OECD classification:
  - ❖ SNA 2008 - ESA 2010
  - ❖ Introduction of CPC Ver.2 (CPA 2008) in National Accounts – impact on GFCF
  - ❖ New PPP methodologies for Health and Education
  - ❖ Harmonised 5-digit COICOP developed by Eurostat, common to HICP, HBS and PPPs.



# New basic heading classification in 2015 - Main features (1)

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- **Household individual consumption:** limited changes
  - Eurostat has adopted a very detailed classification following the decision to develop a 5-digit COICOP common to HICP, HBS and PPPs (from 140 BH to 224 BH).
  - The OECD will only adopt a more detailed breakdown in certain areas such as communication, ICT products and for some very heterogeneous basic headings.
- **Collective consumption of Govt:** less basic headings and simplification

Input method still used, but possible simplification following the introduction of SNA 2008: no longer necessary to have separate BHs for Defence.



## New basic heading classification in 2015 - Main features (2)

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- **Individual consumption of Govt:** Significant reduction of the number of BHs  
Consequence of the implementation of the new PPP methods for Education and Health: 5 BHs, defined by COFOG
- **Gross fixed capital formation:** Major changes
  - ***Machinery and Equipment:*** from 23 to 12 BHs as a consequence of the switch to CPA 2008 (CPC Ver.2) and more generally of “the modernisation” of the classification.
  - ***Impact of the Introduction of SNA 2008:*** no BH created following the reclassification of expenditures on R&D and on military weapons systems. A reference PPP will be applied under a new big basic heading “Other products”.



# Why a move to an annual calculation for non-European OECD countries ? (1)

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1. Weakness of the global extrapolation method to estimate PPP for intermediate years
  - Global extrapolation of PPP GDP = updating results using relative changes in implicit price indices of GDP
    - ➔ only a proxy solution because changes in price structures are not taken into account
  - Changes in price structures generate differences between various benchmark PPP results, and extrapolated PPPs using implicit price indices of GDP .



## **Why a move to an annual calculation for non-European OECD countries ? (2)**

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- 2. To have reliable annual detailed results to respond to growing user demands**
- 3. To improve quality of PPPs, by giving more continuity and emphasis to the PPP Programme within National Statistical Offices**

Making PPP calculation a more regular exercise with more routine data collection, which could facilitate the integration of the PPP work in the overall working programme of NSOs without necessarily an increased workload. It will also contribute to foster continuity of expertise.



## Move to annual calculation: The way forward

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- This proposal was discussed in length at the PPP meeting held in Paris 20-22 May 2014 and it was agreed :
  - To change the extrapolation method for PPPs (for GDP and other main aggregates) for the years in between benchmark years by using more detailed extrapolations (implemented in June 2014)
  - To gradually move to an annual calculation of PPPs, at least for Actual Individual Consumption by introducing annual surveys (rents, compensation of employees, hospital services, national accounts) starting from the year 2016 for 2015 data.
- However, as countries expressed some reservations (in terms of resources), no strict timetable has been established. A more precise timetable will be established in 2015 in consultation with countries.



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Thank you for your  
attention