

SUMMARY OF DISCUSSION

ECE/Eurostat/OECD Joint Consultation on the ECP, Geneva, October 23-25, 2000

Item 3: Current status of the ECP

Presentations by: Eurostat, the OECD, Austria and the CIS Statistical Committee

1. The Eurostat representative informed the meeting about the progress made by Eurostat in improving the quality of the PPP work and in reforming the European Comparison Programme (“ECP Reform”). It was stressed that the primary objective of the ECP reform, launched in January 1999, was to improve the quality, including the timeliness of the results, by placing more responsibility for the surveys on Member States and through more efficient way of working. Timely publication of the overall annual results is important. The meeting was informed that the 1998 results were ready and would be released shortly. It is envisaged that the 1999 results will be available in 2001.
2. Even though the ECP Reform is being successfully implemented, there are various areas where further development is in progress or planned. These include among others: optimisation and reduction of the number of basic headings and number of products; adopting a Regulation on PPPs; more effective dissemination of the results; use of more modern and effective data collection methods and of centrally available data sources, and the production of regional PPPs. It was noted that Eurostat has contracted a pilot project to collect price data using bar code scanner sources. It was also mentioned that Eurostat intends to produce regional PPPs by 2004. In conclusion it was pointed out that the ECP Reform is an on-going process and there is still much work to be done.
3. The OECD representative informed participants about current status of the PPPs work in the OECD. This mainly involves co-operating closely with Eurostat and the Lead Countries to ensure the successful implementation of the ECP Reform and co-ordinating data collection activities in the non-European countries participating in the ECP. It also involves the development of a new expenditure classification, facilitating the participation of European countries bypassed by the ECP Reform and undertaking an experimental bilateral comparison between China and the OECD as a whole.
4. It was appreciated that the Consultation was held in Geneva and hosted by the UN ECE, which gave the opportunity for all ECE member countries to attend the meeting. It was pointed out that the ECP Reform consisted primarily of reorganising the modus operandi of Group I which had been enlarged to include the EU Candidate Countries formerly in Group II. The ECP Reform made no provision for the remaining countries in Group II. Those countries would have been excluded from the current round of the ECP if it had not been the OECD and the statistical agencies of Slovenia and the Russian Federation to cover them.
5. It was also pointed out that as the International Comparison Programme (ICP) had been postponed by the UN Statistical Commission, the ECP with its extended coverage of Europe, North America and Asia now represents the only active element of the ICP.
6. Several problems concerning the current round of comparisons were mentioned. The need to maintain the ‘fixity’ principle when publishing the overall results of the round was stressed. It is important to have only one set of results for each country. Another issue of

concern is the level at which the overall results should be published. Should the usual 52 analytical categories be retained or should the 17 analytical categories adopted by the OECD for its report on the 1996 round be used instead? This was considered to be a particularly pertinent question since the current round was taking place during a period of transition. Not only was the ECP Reform underway, but there was also the move from the 1968 SNA/1979 ESA to the 1993 SNA/1995 ESA to accommodate. It was argued that initially both the ECP Reform and the adoption of the new expenditure classification may lead to a short term loss of reliability and that it would be prudent to signal this to users by publishing results at a higher level of aggregation than previously.

7. The Austrian representative presented the paper describing Austria's experience as a Lead Country within the reformed Eurostat-OECD PPP Programme. During the presentation it was explained why Austria, which used to be the co-ordinator or "development assistant" for the transition economies in Group II in previous rounds, had to drop this role in the current round. This was because the recent reorganisation of Statistics Austria, whereby it was taken out from the general government budget and transformed into a Federal Agency under Public Law, limited the funding for certain activities.
8. Some advantages and disadvantages of the ECP Reform were mentioned. The advantages of the reformed Eurostat Programme refer to strong administrative background and sufficient funding which ensures the work of all participating countries, which follow a common overall timetable. Furthermore, the rolling benchmark approach allocates the work relatively equally. Positive consequence of working in smaller groups is the closer contacts that can be established between the countries and the respective Lead Country. It also resulted in shortening the time for processing and validation of the data. The share of generic definitions in the Eurostat lists has increased and more consideration is given to the national accounts requirements. However, the bureaucratic burden for the Lead Countries has increased substantially and there is less 'scientific freedom' in finding adequate solutions for problematic issues.
9. A joint paper by the CIS Statistical Committee and the State Committee on Statistics of the Russian Federation provided an overview of the work undertaken for international comparison of the countries of the Commonwealth of Independent States (CIS) and Mongolia with data for 2000. The work is a continuation of the work undertaken in 1994 by the OECD in co-operation with the CIS Statistical Committee (CIS-STAT), the State Committee on Statistics (Goskomstat) of the Russian Federation and the State Institute of Statistics of Turkey. However, there are changes in the organisation of the work as compared to the previous round. Major responsibility for the work, i.e. calculation of the PPPs and publication of the results, falls with the CIS-STAT and Goskomstat of Russia. The OECD provides methodological and 'moral' support and funds the meetings of CIS countries. World Bank provided some modest financial assistance.
10. During the last two years the work was focused on methodological issues to ensure the methodological consistency of the CIS comparison with the comparison within the Eurostat-OECD Programme. Common lists for three types of lists have been reconciled and agreed on by the CIS countries; these are the lists for consumption goods, investments and construction projects. The CIS countries have started pricing the lists.
11. Work has been also undertaken on the classification of the GDP expenditures. It is carried out with the support of the OECD. The revised OECD classification of expenditure on GDP has been accepted with minor modifications. It is expected that the CIS-STAT and Goskomstat of Russia will finalise a document on the classification and circulate it to countries for data collection by the end of this year. A methodological document concerning non-market services is also under preparation.

12. On the whole, all CIS countries have implemented the 1993 SNA and the GDP data are comparable. However, there are some problems with the exhaustiveness of the GDP figures due to the estimation of the Non-Observed Economy (NOE). A recent seminar on NOE held in Sochi, the Russian Federation, revealed that though all CIS countries include some estimates of the NOE, there is still some concern about the coverage of the estimates. There are some deviations from the standard definition of the GDP and the production boundary; according to the 1993 SNA, the GDP should include the goods produced by households for own final consumption.
13. It was further felt that the gross output of general government could be underestimated. Government Finance Statistics (GFS) in most CIS countries is still not compiled in accordance to the IMF Manual on GFS. As a result it is quite difficult to estimate the consumption expenditures of the general government. The CIS-STAT is planning to write to countries in the near future to explain how to deal with the issue.
14. In the discussion that followed participants commented on the ECP Reform and on the consequences for the countries since it was launched by Eurostat. It was noted that the ECP Reform was largely an administrative reform covering 31 of the 53 countries participating in the current round. Some participants thought that, as such, it had increased the bureaucratic burden citing as an example the paperwork required for contracts. Others argued that there are technical implications and that the Reform had already generated promising results: the work has started effectively; the validation process has been speeded-up, and the product lists have been well balanced and include more generic specifications. It was also noted that after the transitional phase of the ECP reform, during which the country coverage is extended to include countries at different stages of economic development, and during the switch from the existing GDP classification to the ESA 95 /SNA 93 is done, the quality of the results from the ECP will significantly improve.
15. Also in the discussion, participants agreed on the desirability of retaining 'fixity', though no decision was reached on the level of detail at which final results should be published. Interest was shown in the research undertaken by Eurostat on the use of scanner data which it was felt could improve the quality of results.

Item 4: Methodological developments

General methodology

Presentation by: Eurostat

16. The Eurostat representative provided an overview of the calculation methodology currently used by Eurostat. This included an explanation of the procedures used to collect consumer prices, the use of the Quaranta table to check the prices collected and the adjustment of survey prices to national annual average prices. It was pointed out that different collection and checking procedures were employed in the case of housing, medical goods and services, compensation of employees, equipment goods and construction projects. The ECP Reform did not include these areas of the comparison and they were still co-ordinated centrally. The overview finished with an explanation of how 'fixity' was obtained.
17. In the ensuing discussion, it was observed that the Ryten report in its recommendation on data checking made no reference to the Quaranta table as employed by Eurostat and the OECD. This was probably due to the fact that neither organisation were consulted by Ryten when researching the report. It was also observed that despite loss of additivity the

EKS was still the aggregation method preferred by Eurostat and the OECD since it provided PPPs that were close to the Fisher PPPs that would be derived from the bilateral comparison between any two countries participating in the comparison. The EKS was the means of imposing transitivity on a set of intransitive Fisher PPPs. In doing so it took account of both direct and indirect comparisons between pairs of countries. The differences between the resulting EKS PPPs and the original Fisher PPPs depended on the degree of homogeneity among the group of countries being compared

18. Participants were informed of the Joint OECD/ World Bank meeting to be held in January 2001 in Washington to review recent methodological developments. The meeting will discuss the practical as well as the theoretical aspects of these developments.

Classification

Presentation by: Eurostat and the OECD

19. The Eurostat representative made a brief presentation of the GDP expenditure questionnaire to be used for the 1999 round. The questionnaire had already been sent to the countries co-ordinated by Eurostat. It was noted that the household expenditure was defined according to COICOP, that is in line with the 1993 SNA/1995 ESA, while government expenditure and capital formation still followed the 1968 SNA/1979 ESA. In this respect, the questionnaire was in a transitional phase. The current version was approved for use at the Eurostat meeting in May 2000, where it was recognised that in the absence of an approved breakdown (list of basic headings) for the ESA 95 aggregates other than final individual consumption expenditure, nothing better could be done at the time.
20. The Eurostat representative indicated that a revised questionnaire would be prepared for circulation in time to collect additional data for the calculation of the definitive 1999 results in 2001. He also pointed out that following the switch to the ESA 95 classification, there would no longer be a need to produce and publish separate “SNA 68/ESA 79” and “ICP” results. Consequently, just one set of ESA 95 results would be published.
21. The OECD representative presented the revised Classification of Expenditure on GDP developed by the OECD. It is meant to be used for the OECD-Eurostat PPP Programme as from the 2002 round. The revisions aim to align the list of basic headings with the classifications contained in the 1993 SNA and the 1995 ESA. The final consumption expenditures of households, NPISHs and government are classified by purpose following respectively COICOP, COPNI and COFOG 98, and gross fixed capital formation is classified according to CPA96 which classifies products by activity in line with NACE Rev 1. In addition basic headings are classified by type of product, namely: consumer good (non-durable, semi-durable and durable), capital good, consumer service and government service (individual and collective).
22. With regard to the individual consumption by households, which is defined by the 1993 SNA/1995 ESA as the sum of the individual consumption expenditures of households, NPISHs and government, the revised classification is structured so that the summation can be done at the lowest level of aggregation feasible. To achieve this it has been necessary to disaggregate the individual consumption expenditure of NPISHs which previously had been treated as a single aggregate. It was stressed that the classification is not yet final. The new treatment of non-market services incorporated in the revised classification is still under discussion and Eurostat and the OECD are still considering whether a further reduction in the number of basic headings would be beneficial.

23. In the discussion that followed, it was observed that the revised classification is clearer than before. However, it would benefit from an explicit reference to the cost of transfer of ownership. Concern was expressed that expenditure on the renovation of non-residential buildings could be difficult to estimate separately. The issue of housing services provided by government was also raised. These are now recognised as individual services. Though they are identified as such in the revised classification, they are still treated as collective services in the Eurostat questionnaire. Eurostat was urged to modify its questionnaire accordingly. The point was also made that PPPs for final consumption expenditures of households is not consistent because exchange rates are used as PPPs for non-resident consumption instead of domestic PPPs. It was noted, however, that this inconsistency is offset at the GDP level because (negative) non-resident consumption is a part of (positive) exports where PPPs are also based on exchange rates. The change of the treatment of non-resident consumption within household consumption expenditure would require that also the measurement of PPPs for net exports is revised.
24. The CIS-STAT representative informed the meeting that the revised classification and underlying list of basic headings will be used in the CIS comparison, though with small modifications.

Treatment of health, education and housing

Presentation by: Eurostat and the OECD

25. This agenda item was discussed on the basis of a paper submitted by the OECD and a presentation from Eurostat. It was pointed out that the measurement of PPPs for non-market services has always been problematic in international comparisons. The topic has been discussed at many meetings. One method commonly employed is the input-price approach which uses prices of inputs to estimate PPPs. However, it does not give satisfactory results when the countries being compared are at different stages of economic development. On the other hand, the alternative method, namely the quantity approach, which estimates volumes directly using selected quantity indicators of inputs in combination with some assumptions for differences in productivity levels, has not proven itself to be more suitable. Both methods provide results that are counter intuitive and, in the continuing absence of information on the outputs of non-market services, Eurostat and the OECD prefer to use the input-price approach.
26. The SNA 93 and ESA 95 set a new principle for classifying expenditures on the basis of 'who pays'. This requires that the PPPs for health, education and housing are estimated in line with the new classification framework.
27. With regard to government consumption expenditures on health services, three categories can be identified: health benefits and reimbursements, production of health services and receipts from sales (to be deducted). It is suggested that the first category of expenditures be deflated by the PPPs that are based on market prices. The production of health services is based on an input price approach and the measurement requires data on all components of the production account.
28. Receipts from sales, which did not exist in the old PPP classification, become more and more important in many countries. Though the item is 'negative', its PPPs should be the same as those for its positive counterpart which is included in household consumption expenditures, which means that PPPs should in principle be based on market prices.

29. It was explained that the same logic as for the estimation of health services applies to education. As in the case of private hospitals, prices to measure PPPs for private education are rarely available. Therefore, the use of PPPs is based on the input price method.
30. Government housing services were not shown separately in the old classification because they were not considered to be individual services. It was pointed out that this might have resulted in double accounting in some transition economies. In the new classification, housing services are shown as one single category in government consumption expenditures, which may contain housing allowances as well as provision of housing services, especially in transition economies. The same PPPs should be applied for both, household and government expenditures. It was also mentioned that the measurement of volume for housing is still under discussion within the Eurostat Dwelling Service Task Force. Finally, it was noted that countries that are using market rents in their national accounts have some difficulties in measuring the PPPs, particularly for small houses.
31. The survey on salary costs and the rents questionnaires were briefly presented by the Eurostat representative. The survey is undertaken in the context of the European Comparison Programme, and is intended to help establish purchasing power parities for salary costs. The 1999 questionnaire, which is used by all countries co-ordinated by Eurostat, covers both hospital costs and public sector salary costs. The proposed list contains several occupations. Countries are asked to record data for as many of these occupations as can be identified within their administrations. Precise ISCO'88 definitions are provided to help in the identification of the occupations. It was noted that generally Eurostat gets good results from countries. Participants were asked to comment on the survey and share any problems that they have encountered with it.
32. The countries co-ordinated by Eurostat are asked to provide each year details about rental costs and appropriate weighting factors for a number of accommodation types which are then used to establish PPPs for the basic headings concerned. For the 1998 exercise, Eurostat requested the provision of additional quantity/quality indicators. The same applies for the 1999 survey. It was noted that the 1999 questionnaire definitions were not revised as planned. However, it is expected that the definitions will be revised for the 2000 survey.
33. The CIS-STAT representative informed the meeting that the CIS Statistical Committee is working on a document for the measurement of non-market services, which will be distributed to the CIS countries. The document recommends the input-price approach for measurement of non-market services. It was noted that some strange results in earlier rounds could be explained with mistakes in the estimation of government expenditures. It also stressed that the inclusion of the housing services in one single category in government consumption expenditures is highly appreciated. It was noted that housing allowances still exist in some of the CIS countries. However, if the accounts are reconciled there should not be any problems with double accounting.
34. In the discussion that followed it was noted that housing benefits received by households should be called allowances instead of subsidies.
35. It was also noted that though the important topic of non-market services has been revisited many times at various meetings, no solutions have been found yet. The Castle report suggested that the secretariats of Eurostat and OECD should accept the use of the input approach and more prices should be collected. Eurostat has done some work in this area. The OECD has refined the method believing it will give better estimates than in the past.

36. Several participants raised questions concerning the salaries' survey conducted by Eurostat. For some countries it may be difficult to supply data on occupations in defence sector. This is partly due to the fact that they are not members of NATO and partly to the fact that the definitions are often unknown to respondents. In addition, in some countries the conscripts are paid in kind. Other participants noted that they have problems with job specifications. Often the salary definitions provided by Eurostat are not well understood by the respondents in the countries (e.g. "agricultural scientists"). In this context, it was suggested that the description of the occupations is more precise otherwise participating countries may have problem vis-à-vis their national job classifications. The Eurostat representative reminded the meeting that the Salary survey questionnaire now comes in two parts – the second of which includes lengthy text definitions, including precise ISCO'88 codes.
37. With regard to the rents questionnaire, the Eurostat representative noted that countries, which do have information on market rents, should use the price approach. It was noted that in some transition countries the rents market is still not developed. Therefore, these countries will submit only the quantity questionnaire. Countries which are able to supply both types of information should complete both questionnaires and return them direct to Eurostat. It was also pointed out that for some countries information on the age structure of the housing will only be available after the next housing census is carried out.
38. Several participants noted the importance of quality indicators concerning housing. In this context, it was noted that the discussion on what should be considered as 'price' and what as 'volume' is quite interesting. It was also mentioned that some quality indicators are not equally important for all countries in Europe (for example, central heating is not that important for the Southern countries).
39. Concluding this item, participants noted that in recent years there has been significant progress with the refinement of the Eurostat questionnaires for Salary Costs and for Rents, but that regular review is necessary in these important but complex and evolving areas.

Treatment of construction and investment goods

Presentation by: Russian Federation, Eurostat and Bulgaria

40. The paper from the Russian Federation described how the comparison of construction will be effected in CIS Countries and Mongolia. Construction projects will be priced using the input prices adjusted to take account of overheads, preliminary expenses, profits, taxes and architect fees. The input prices will be collected by questionnaire from the countries and then used by Goskomstat-Russia to price the construction projects. The method used is different from the bill of quantities approach used by Eurostat and the OECD. It is based on the methodology applied in the Russian Federation and a number of CIS countries for calculating price indices for capital investment projects. The key feature of the method is the breaking down of the full set of inputs used in construction into technologically homogeneous groups and pricing a set of representative components of these groups.
41. Eurostat representative informed the meeting about the 2000 annual survey of equipment goods and construction. Eurostat has sent to the countries co-ordinated by Eurostat the list of bills of quantities to be used for the 2000 exercise, including definitive, detailed text definitions. A revised version of the Pricing Guidelines for Construction and Civil Engineering projects has also been sent recently.

42. It was explained that the Eurostat Working Group on Construction and Civil Engineering decides on the content of the list of standard construction projects, for which prices are to be collected by technical experts. For the time being, the list of projects contains 15 different construction and civil engineering projects. For the price collection, the components of a standard construction project are detailed in bills of quantities. Bills of quantities are defined in great detail to facilitate the exact identification of the content, supported where necessary by appropriate explanations of materials used and technical drawings.
43. With regard to equipment goods, the list of items includes about 150 items. An important development in the 2000 survey is the inclusion of prices for second-hand goods as well as their definition.
44. A paper from Bulgaria described some problems with the price survey of construction works conducted in the country. The paper also considered the price survey on equipment goods and the survey on public sector salary costs.
45. Bulgaria is pricing ten construction projects that are recommended by Eurostat. The approach used by the technical experts includes the observation of a representative group of firms engaged in construction works on the territory of the country. A specific data-base has been developed to organise the information collected from the separate sources. The 'factor cost' method was selected as the best one for obtaining internationally comparable price data.
46. Several issues were raised concerning the survey of construction works. It was pointed out that the 1999 list of bills of quantities took into account different weather conditions of participating countries by including different variants of thermal insulation. However, it was suggested that a wider variety of insulating materials should be included in the list.
47. It was also noted that the seismic tension of construction was not taken in account in the proposed list of bills of quantities. In the case of Bulgaria, that would increase the total price of a given construction project by 10 to 30 per cent. It was suggested, therefore, that some investigation is carried out on the issue. However, the Eurostat representative noted that as far as seismic tension is concerned, Eurostat does not have extra funding to investigate the issue. It is expected that countries do it with their own resources. If no change is to be made to the Bills of Quantity, countries for which this type of reinforced construction is typical or obligatory wondered how they should interpret the figures reported to them. It was explained that if construction practices are different then the differences in the nature of the expenditure would appear as part of the volume difference and not the price difference
48. Other problems encountered by technical experts is that the materials related to elementary components in the bills of quantities are not used in practice any more since new, modern ones are available on the market. In this context, it was noted that there is a need for updating the bills of quantities taking account the suggestions made by countries at the Paris meeting held in June 1999.
49. Concerning investments goods, it was noted that second-hand machinery and equipment is quite important in transition countries. Most producers in these countries still prefer to invest in second-hand machinery because of their lower prices.
50. In response to the question concerning thermal insulation, it was explained that the definitions of bills of quantities proposed by Eurostat should be interpreted with some flexibility. The general rule to be followed is that when national standards do not match

with the definitions, the components should be priced according to the national standards, which are closest to the dimensions/compositions indicated in the definitions.

51. With regard to the method used by the CIS countries to measure construction, some participants felt that it may distort the comparability with the other European countries which use a different approach. The method applied by the CIS countries is seen as a step backward in comparison to the input approach employed by the other countries. It may also create problems for comparing the CIS countries with the rest of the ECE countries. However, it was pointed out that though the cost comparison has certain limitations, for the time being this is the only method that the CIS countries can use. It was also pointed out that there are no significant differences at the level of productivity between the CIS countries.
52. Switzerland informed the meeting about the feed back received from construction experts on the problems they had had when pricing the bills of quantities for Eurostat. In reality, when a house for example is built, there are many small works around the main construction and it is not clear from the bills of quantities whether these should be priced as well. It was pointed out that the guidelines include a list of what should or should not be priced. The list is based on a survey of construction experts undertaken by OECD. It was suggested that further clarification could be sought from the experts themselves at the next Eurostat meeting.
53. It was also mentioned that unfortunately the PPP experts are not in a position to answer questions raised by construction experts in specific countries. Therefore, it was suggested that technical meetings are organised differently in future to include also if not construction experts, at least some experts which are responsible for the overall comparison. In this context participants welcomed the Eurostat initiative to circulate analytical tables with the results of annual surveys not only to the members of the construction and equipment working parties but also the representatives at the PPP working party.
54. It was further noted that expenditures on gross fixed capital formation is an important component of GDP. If sufficient resources are not available for work in this area, the quality of the overall GDP results may be jeopardised.

Review of basic headings and number of products to be priced

Presentation by: Eurostat and the OECD

55. Eurostat will adopt COICOP-PPP for the calculation and publication of the 1999 PPPs for individual consumption expenditure of households. This switch to COICOP-PPP, the current draft of which comprises 199 basic headings, presented a suitable opportunity to establish what would be the optimal number of basic headings and the optimal number of products to be priced. Three sets of simulations were carried out to evaluate the effect that a reduction in the number of basic headings and a reduction in the number of products would have on PPPs. The simulations were carried out survey by survey using price and expenditure data collected for the 1996 comparison. Before the simulations could be undertaken it was first necessary to convert the prices and expenditures from CHGS-PPP, the classification presently employed, to COICOP-PPP.
56. The first set of calculations carried out using the 117 basic headings at COICOP-PPP level 3 provided PPPs close to those obtained when using the 199 basic headings at COICOP-PPP level 4. The second set of calculations showed that reducing the number of

products covered in the surveys by a large amount generally has an insignificant effect on the overall PPPs for the survey. The third set of calculations showed what would happen if both basic headings and products were reduced. Again, the effect on the PPPs was considered to be marginal at the overall level for the majority of countries. It was emphasised that the calculations could not show whether or not the PPPs obtained with a smaller number of basic headings and/or a smaller number of products were more or less accurate than those obtained using the full complement of basic headings and prices. They could only show the extent to which the various sets of PPPs differed.

57. Participants were informed that the results of all simulations were presented at the May 2000 meeting of the Eurostat Working Group on Purchasing Power Parities, which provoked a lively discussion. At the meeting, it was agreed that in the discussions to be held between OECD and Eurostat on the appropriate number and grouping of the basic headings, the starting point would be COICOP-PPP level 3. Any further disaggregation below that level would need to be carefully justified. In this context it was proposed that the first consumer price survey of 2001 ("Food; beverages; tobacco") be conducted along these lines.
58. The OECD paper was prepared to complement the document in which Eurostat presented the findings of its simulations to the Working Group. It attempts to clarify a number of issues raised in the Eurostat document and, more specifically, considers the possible effects of reducing the number of basic headings and items priced on Survey 2001-I: Food, Beverages and Tobacco.
59. The OECD agrees with Eurostat that it is appropriate to consider whether the number of basic headings should be reduced and whether the number of product priced should also be reduced. To this end it undertook its own simulations similar to those of Eurostat but without first converting the price and expenditure data to COICOP-PPP. The results of the various reductions were compared at the analytical level and not at the overall survey level, since it was felt that this was the only way to determine whether or not a loss in reliability arising from the reductions requires PPPs to be published at more aggregate levels.
60. The conclusions that the OECD drew from its simulations were: ex post reductions in the number of products priced of between 20 and 40 per cent can be made without an appreciable loss of reliability in the PPPs of most analytical categories; ex poste reductions do not show how to effect an ex ante reduction, but they do show that, if equi-representativeness is to be ensured, it is not just a matter of selecting products that all or most participating countries can price; reductions in the number of basic headings should not be achieved by mechanically moving up from one level of aggregation to the next, reductions should be considered on a case by case basis (basic heading by basic heading, survey by survey, country by country); reductions in basic headings and reductions in products priced are not necessarily complementary aims, reducing the number of basic headings increases their heterogeneity which implies that more rather than less products should be priced if there is not to be an appreciable loss in reliability.
61. With regard to the length of the product lists, the OECD view is that it has grown not to increase product coverage at the basic heading level as suggested in Eurostat document, but to ensure country coverage at the BH level. The reason that the list has increased is because of the 'new comers' (new countries) which are extremely different. With the convergence that is taking place in Europe and the need to use generic specifications to provide overlap between the three groups, it is considered timely to reconsider the feasibility of reducing the number of products priced without a serious loss of reliability.

62. In the discussion which followed, participants agreed that the change of classification was a suitable opportunity for reviewing the number of basic headings, although some participants expressed reservations about reducing their number, particularly if this was achieved mechanically. It was felt that a reduction might lead to a more manageable number but that this should be undertaken with care. The representative of the Russian Federation informed the meeting that the CIS countries will collect prices for definitions drafted by reference to basic headings at COICOP-PPP level 4.
63. Several participants stressed that though it is practical to keep the number of items priced low, the reduction in the product lists should also be done very carefully. It was pointed out that the ECP reform, which made product lists more manageable, would facilitate a careful reduction in product lists. A number of participants who had attended the Eurostat Working Group in May pointed out that no decision had yet been reached on the number of basic headings to be used or the number of items to be priced in the forthcoming Food survey. It was argued that the issue of reductions required further discussion. In response, the Eurostat representative encouraged participants to react to the Eurostat report of the Working Group findings in writing as soon as possible.
64. It was also pointed out in the discussion that the simulations did not take into account that the country coverage of the comparisons had been significantly enlarged and that this had increased heterogeneity. The ECP Reform has ensured that the overlapping of prices within each of the three groups is strong, but whether the overlapping between the groups is equally as strong is debatable. In this respect it was suggested that now might be a suitable occasion to review the method currently used to establish PPPs at basic heading level to ensure that it is still optimal.

Item 5 and 6: Completion of “1999” round of ECP, Management and financial implications of continuing the ECP

Presentations by: ECE, Eurostat and the OECD

65. The ECE secretariat presented a paper concerning the organisation of the ECP. The paper also considered some management and financial implications of continuing the ECP.
66. At its last meeting in March 2000, the UN Statistical Commission recommended that the next round of the ICP be postponed by at least one year. It also made some recommendations in light of the serious reservations regarding the quality, timeliness, credibility and transparency of the ICP as identified in the Castles and Ryten reports. However, the Conference of the European Statisticians (CES), which was held in June 2000, agreed that the ECP should proceed as planned, in close co-operation with Eurostat and OECD.
67. The paper further described the reaction in Europe to the evaluation of the ICP, which started a few years ago. Eurostat launched the ECP Reform in January 1999 with the aim to improve the quality of PPPs for EU Member States. The Reform consisted of a radical reorganisation including the creation of three groups of countries each headed by a Lead country. Appropriate funding was made available to support the Reform.
68. The OECD-Eurostat PPP Programme was reviewed in 1997. Further discussions concerning the quality of the results were held at various other meetings. A research programme was set up to investigate various issues such as: the estimation PPPs for housing and non-market services; the reclassification of expenditure on GDP in line with the 1993 SNA/1979 ESA; the effects of reducing the number of basic headings and products priced; and the introduction of inter-temporal consistency between comparisons.

69. It was noted that all countries, except Albania, that participated in ECP 1996 are also involved in the 1999 round of comparisons, though the co-ordination of the groups differs from that in the previous round. Thirty-one European countries are co-ordinated by Eurostat. The OECD co-ordinates its seven non-European Member countries plus Israel, Ukraine and the Russian Federation. In addition, the OECD in collaboration with the Statistical Office of Slovenia has undertaken work with Croatia and The former Yugoslav Republic of Macedonia.
70. The CIS Statistical Committee and the State Committee of the Russian Federation on Statistics have undertaken work to compare the CIS countries and Mongolia with data for 2000. The work is seen as a continuation of the comparisons done by OECD with data for 1994, 1995 and 1996. The OECD provides financial and methodological support for the current comparison.
71. With regard to continuing the ECP comparison several issues were considered: the new country groupings and the combining of their comparison results, the timetable for completion of the round and the publication of final results. Another issue considered was the year of comparison – 1999, 2000 or both. The countries co-ordinated by Eurostat will have undertaken comparisons for both 1999 and 2000, while those co-ordinated by the OECD will have undertaken a comparison for 1999 only. The comparison for the CIS countries and Mongolia will be for 2000.
72. Eurostat presented a draft publication of the PPPs and their associated price and volume indices for its 1998 comparison of EU Member States. The publication is similar to previous ones, though it has been enriched by the inclusion of a number of additional charts and graphs.. The draft publication also includes a list of Eurostat, OECD and United Nations publications where PPPs and related information can be found.
73. Eurostat informed the meeting that it is planning to prepare a second publication with 1998 results, which will cover all EU countries and the Candidate Countries. Participants were also informed about the preparation of a comprehensive CPI Manual to replace the existing ILO manual on CPIs.
74. A paper by the OECD secretariat described the work that has been undertaken to compare China and the OECD. Over the next few years, China will participate on an experimental basis in the OECD PPP Programme. The total GDP of seven major cities in China will be compared with the total GDP of the 30 OECD Member countries. China's experience in international comparison work is limited to the 1993 ESCAP comparison. The results of this experimental bilateral comparison will be published separately, most probably towards the end of 2002 or the beginning of 2003.
75. It was noted that this bilateral comparison faced a number of problems, such as the comparability and representativeness of the products priced, the measurement of housing, the treatment of non-market service, and the estimation of expenditure weights. It was also pointed out that China has a major problem with the estimation of Non-Observed Economy. In this context, the meeting was informed that the OECD in collaboration with the National Bureau Statistics had written up the sources and methods used in the national accounts of China. The NBS is carefully reviewing its national accounts data. Improvements are implemented, though slowly.
76. A second paper by the OECD secretariat considered the issue of combining the results of different country groups co-ordinated by Eurostat, the OECD and the CIS-STAT and Goskomstat of the Russian Federation. Fifty-two countries participated in the ECP 1996.

Of these countries, only Albania is not included in either 1999 or 2000 comparisons that have been undertaken. However, there are three new comers to the Programme, these are Cyprus, Malta and China. Overall, 44 countries have participated in the 1999 comparison and 43 countries will have participated in the 2000 comparison.

77. For the users of PPPs data, it is important to have results for all countries for the same year, either 1999 or 2000, and preferably for both years. One possibility is to combine the results for all countries in mid-2001 when the results for the various country groups participating in the 1999 comparisons become available. It was suggested that CIS countries and Mongolia, whose comparison uses data for 2000, should provide detailed GDP expenditure data for 1999 and back date the price data collected for the 2000 comparison to 1999. Another option would be to extrapolate the 1996 PPPs to 1999.
78. Neither the representative of the CIS-STAT nor the representative of Goskomstat of the Russian Federation thought either of the options were feasible. It was suggested that it would be more straightforward to have 2000 as the year for the comparison. For countries not participating in the 2000 comparison, their PPPs for GDP could be updated using implicit price indices of GDP.
79. The importance of 'fixity' was stressed. It is essential that when the groups of countries are combined it is done in such a way that the relationships between countries within the groups remain unchanged.
80. The ECE secretariat made a presentation on the analysis of the trends in relative GDP per capita which was published in the recent ECE publication *International Comparison of GDP in Europe, 1996. Results of the European Comparison Programme*. The analysis of trends is based on a projector of relative GDP per capita that is used to extrapolate the results of the 1996 ECP round forwards to 1998 and backwards to 1990. Two main methods, the rolling benchmark method and global extrapolation were used to extrapolate the 1996 ECP benchmark year results. The rolling benchmark method was used to update ECP comparison results for each level of aggregation up to GDP. The global extrapolation method was used for estimating at the level of GDP only.
81. Participants were further informed that to test the consistency of the projector series with the ECP benchmarks, it was examined how well projector growth rates were able to predict growth rates as given by the various ECP rounds. Several charts showing the results of regressions of the projector growth rates against the ECP growth rates over the three years from 1993 to 1996 and over the period 1990-1996 were demonstrated. It was also explained that with the knowledge that the projectors do a reasonably good job of representing movement in the ECP results, the trends evident in the projector series over the 1990-1998 period were also analysed. The correlation of individual series with associated pattern series were also demonstrated.
82. In the discussion that followed, it was noted that there are two issues which need to be decided with regard to combining the groups results: what year should be used for combining the results, and how the PPPs for the Candidate Countries would be calculated. Concerning the first issue it was suggested to have two volumes with different country coverage – for 1999 and 2000. Concerning the second issue, it was pointed out that with effect from January 1999 the 13 candidate countries were now being co-ordinated by Eurostat. Prior to January 1999, those countries which were co-ordinated by OECD had been actively participating in surveys organised for 1996, 1997 and 1998, whereas countries formerly co-ordinated by Austria had not participated in surveys since 1996. A full set of survey data for all countries would not be available until completion of the 2001 surveys – requiring a compromise solution to be found for the inclusion of these countries in the 1999 and 2000 annual exercises.

83. The meeting agreed that it is important to preserve 'fixity' when results are published by the various international organisations and have only one set of results for each country. The issue of timeliness of publishing the results was also mentioned. Some participants felt that a delay of three years is too long when politicians and journalists are eager to receive the data. It was also noted that the users of PPPs data like to have the results, as well as the sources and methods used to obtain them, clearly and adequately explained.
84. During the discussion, participants agreed that it is important that the overall ECP results covering all countries in the ECE region are published soon after Eurostat and the OECD finalise the results for the countries co-ordinated by them. It was also proposed that the ECE secretariat should assume responsibility for the publication of the overall ECP results as in previous rounds and that the secretariat should consult with the other international organisations to find ways of facilitating the process of publication.
85. Participants recommended that the results of both 1999 and the 2000 comparisons be published. The representatives of the CIS Statistical Committee and the State Committee of the Russian Federation on Statistics agreed to ascertain the availability of price and expenditure data for 1999 for the CIS-Mongolia group. Similarly the OECD representative agreed to ascertain the availability of price and expenditure data for 2000 for Croatia, The former Yugoslav Republic of Macedonia, Russian Federation and Ukraine
86. There was a general agreement that the results for 1999 and 2000 should be presented with the Euro as the numeraire currency and the EU 15 as the reference country or base. Some participants noted that the users in their countries prefer data in US dollars.
87. With regard to future work, several participants emphasised the need for consultations on a regular basis. Such consultations are of particular importance for the co-ordination of the work between the secretariats of ECE, Eurostat, the OECD and the CIS Statistical Committee. They are also of interest to countries participating in the ECP.
88. It was suggested that a joint Consultation with all the international and national statistical offices directly involved in the 1999 comparison should be organised in the autumn of 2001 in Geneva.
89. Participants agreed that the new benchmark round of comparisons for the ECE region should be with data for 2002.

* * *