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REVISION OF THE PPP 1995 TO 2000 BY EUROSTAT

Submitted by Eurostat*

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1. Why do we need a revision?

Traditionally, PPP have been seen as snapshots in time, which, once established, are never revised. This snapshot theory, however, is not entirely correct. The overall PPP calculations depend on three forms of input, the price survey results, GDP weights and other input data. Of these, only price survey results have snapshot character.

GDP in national currency, GDP weights and other National Accounts related input data are subject to revisions in line with the national revision timetables for the National Accounts. These national revision timetables are not (yet) harmonised across the EU; however, annex B of the ESA95 regulation defines the points in time when certain information has to be delivered to Eurostat. The new PPP calculation and dissemination timetable is now fully in line with the regular data delivery timetable of the National Accounts. In addition, there are so called “big” National Accounts revisions which occur i.e. after major methodological changes. One of these major methodological changes is the switch from ESA-79 to ESA95. The introduction of ESA95, however, did not occur at once in all its parts and not in all countries at the same point in time. It was scheduled over several years, starting from 1995, and nearly all Member States have got derogations granted, which partly still stretch into the year 2005.

The step by step introduction of ESA95 and the different national timetables and derogations, consequently, led to a situation that the National Accounts related input data underlying the PPP calculations for years before 2000 relate in the individual Member States at different points in time to ESA79 or ESA95. This produced a multitude of little or big breaks in the timeseries and negatively effected the comparability of volume indicators over time or even between countries within one given year.

The situation is even more critical for the EUCandidate Countries, who had to manage the introduction of ESA95 partly coming from older National Accounts systems, as MPS, SNA68 or national systems. In addition the Candidate Countries did not yet fully participate in all price surveys during the period 1995 to 1998. Respective extrapolation, which had to be undertaken, should be reviewed as well .

For the majority of the ECP participants, the reference year 2000 can be seen as the first year where the PPP input data coming from the National Accounts are fully based on ESA95. Moreover, since the reference year 1999, all Candidate Countries fully participate in the price surveys according to the survey cycle. Eurostat, therefore, believes that this would be the right point in time to revise the years 1995 to 1999 in the light of ESA95 and bring them in line with the data for 2000¹. This would help to improve comparability over time and space of volume indicators, such as GDP per head in PPS, which play an important role in economic analysis. At the same point in time, inconsistencies and errors, detected in the process of reviewing the price and other input data and calculations for the years 1995 to 1999, will be corrected.

However, we also believe that such a revision exercise would not only look backwards. The lessons learned from an in-depth review, both at national and international level, will also provide valuable input into our future work, including design of questionnaires.

The revision work is guided by Eurostat and a task force of Member States, Candidate Countries and OECD.

¹ However, even the year 2000 will be touched by the revision to the extent that it depends on results of former years for cyclical surveys and if methodological decisions are taken to be implemented for all years under review.

2. The scope of the revision

The table below summarises Eurostat's plans concerning the scope of the revision. Generally, it is thought that a more detailed revision should only be undertaken for the years 1995 to 1999. Earlier years could, if it is considered to be necessary, be revised using rough methods such as ratios coming from the detailed revision of years 1995 to 1999 or implicit deflators coming from the ESA95 based National Accounts. In the case of some countries, even going back to 1995 in all detail may turn out to be too difficult, this may be particularly the case for the Candidate Countries. In the case of the latter it may be better to review only more recent year up to 1999 and use re-trapolation techniques at higher aggregated level for the year 1998 to 1995.

Price data/ expenditure aggregate/ input data	Initial analysis/ Action
Consumer price survey data	<ul style="list-style-type: none"> • normally the collected prices cannot be revised and are assumed to be the most reliable part of the PPP exercise • development of prices over time at basic heading level between survey years can be compared to CPI • comparison with implicit deflators of NA for PHC and breakdowns available
Capital goods prices	<ul style="list-style-type: none"> • considered to be a weak area, in addition in the past the NSI have not been involved • prices also cannot be re-collected, however, outliers could be corrected • correct treatment of VAT will be incorporated • comparison over time and with implicit deflators of NA, review of the data (Quaranta tables) by the TF and the NSI and comparison with available related indices, to identify outliers
GDP and expenditure weights	<ul style="list-style-type: none"> • use of ESA95 data, improvement of consistency within one year and between the years
General Government	<ul style="list-style-type: none"> • consistent provision of wage data by profession considered to be very difficult • compare wage data by profession over time and try to improve consistency • collect wage indices for overall General Government and at BH level

Price data/ expenditure aggregate/ input data	Initial analysis/ Action
Housing services	<ul style="list-style-type: none"> • considered to be a weak area with major impact on the results, probably to large extent responsible for volatility of PPP results • an Eurostat/ OECD questionnaire will investigate the differences in sources and methods used for dwelling services in NA and PPP • comparison over time and with implicit deflators of NA and HICP to identify outliers • task force will look into possibilities to change the methodology for dwelling services in PPP to be more consistent with NA and less volatile
CPI	<ul style="list-style-type: none"> • use of COICOP - ESA95 classification
population	<ul style="list-style-type: none"> • use of figure in line with the one used in NA; • allow for corrections after the last census, if any

3. Timetable for the revision

The various revision activities aim at publishing first revised results 1995 to 2000 by end-October 2003, probably at GDP level only, in form of a "Statistic in Focus" with a short methodological note.

Publication of revised data in a detailed paper publication with extended methodological part and production of a CD-ROM is foreseen for February 2004.
