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(Neuchâtel, 14-16 June 1999)

**REPORT OF THE JUNE 1998 CONSULTATION ON THE
EUROPEAN COMPARISON PROGRAMME
WITHIN GROUP II**

Note prepared by the Secretariat

INTRODUCTION

1. The Consultation on the European Comparison Programme (ECP) within Group II was held in Vienna from 3-5 June 1998 at the invitation of the Austrian Central Statistical Office (ACSO). It was attended by Albania, Austria, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Estonia, Finland, Hungary, Italy, Latvia, Lithuania, The former Yugoslav Republic of Macedonia, Moldova, Poland, Romania, the Russian Federation, the Slovak Republic, Slovenia, Switzerland, the United Kingdom and Ukraine. Representatives of the Statistical Office of the European Community (Eurostat), Organization for Economic Cooperation and Development (OECD), the World Bank and the Interstate Statistical Committee of the Commonwealth on Independent States (CIS/STAT) also attended.

2. The provisional agenda was adopted.

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3. The meeting elected Mr. Alfred Franz (Austria) as Chairperson.

ORGANIZATION OF THE MEETING

4. The following topics were discussed at the meeting:

- (a) Presentation of the results of the overall ECP 1996;
- (b) Reports on the comparison work in the ECP/ICP regions, experience from 1996 Round;
- (c) Specific harmonisation efforts during the 1996 Round: New methodology for the comparison of housing rents; present treatment of the non-market services (NMS);
- (d) The new harmonised family of classifications and its interdependence with ECP/ICP;
- (e) Organisational changes within the Eurostat-OECD PPP Programme: grouping, role of the "lead countries"; rolling benchmark approach, time schedule of surveys for the 1999 Round;
- (f) Future methodology for the NMS;
- (g) Treatment of net foreign trade balance;
- (h) Calendar for all Groups of the ECP 1999;
- (i) ECP and the "EURO".

5. The discussion was based on papers prepared by Austria, Eurostat, OECD, World Bank and country notes from Albania, Bulgaria, the Czech Republic and Former Yugoslav Republic of Macedonia.

RECOMMENDED FUTURE WORK

Publication of 1996 ECP results

6. The meeting emphasised that it is important to publish the ECP results covering all the groups of countries as quickly as possible. The meeting proposed that the ECE should assume responsibility for the publication of the results as in previous rounds. Given that ACSO, Eurostat and OECD expect to publish their results in the next few months, the meeting agreed that the overall ECP results also ought to be published before the end of 1998. If

necessary, the amount of explanatory text could be reduced in order to speed up the publication. ECE was asked to consult with the other international organisations to find ways of facilitating the process of publication.

7. The meeting agreed that it would be desirable for the organisations concerned to issue a joint press release at the appropriate time. It was also stressed that the results must be consistent between the publications of various organisations involved.

Future consultations

8. Participants emphasised that future meetings and consultations were highly desirable in view of the proposed new organisation of the ECP work within the Eurostat-OECD PPP Programme and the proposed timetable of actions for the ECP 1999 round. Many participants expressed concern about the time constraints required by the reorganisation of the work.

9. The meeting recommended that a Joint Consultation with all the international and national statistical offices directly involved in the calculation of the 1999 round PPPs should be organised in the Autumn of year 2000.

Future work

10. The meeting recommended that the following text be included in the programme of work of the Conference:

- (a) ECE should assume responsibility for the publication of the 1996 ECP results as in previous rounds and if possible publish the overall ECP results before the end of 1998. ECE should consult with the other international organisations to find ways of facilitating the process of publication.
- (b) A joint Consultation with all the international and national statistical offices directly involved in the calculation of the 1999 round PPPs should be organised in the Autumn of year 2000.

CONCLUSION

11. A more detailed summary of the main conclusions reached at the meeting is presented (in English only) in the Annex.

12. The meeting adopted the report at its closing session.

ANNEX

**Consultation on the European Comparison Programme
within Group II
Vienna, 3-5 June 1998**

Summary of the main conclusions reached at the meeting

1. Provisional results for the Group I countries were presented by the OECD. For the first time they also covered Mexico, the Czech Republic, Hungary, Israel, Poland, the Russian Federation, the Slovak Republic and Slovenia. Eurostat was responsible for the results for 19 of the Group I countries, including all the member countries of the EU, for whom some provisional results were already published. It was explained that some difficulties were being experienced in assuring that the results for a few countries, such as the Russian Federation, Slovene and Turkey, which participate in more than one group, were consistent between the groups. The meeting took note of the results, bearing in mind that they would be subject to some further revisions before they were finalized.
2. The Austrian Central Statistical Office presented the results for the Group II countries. In contrast to previous years, the results for Group II were calculated using a multilateral method in order to ensure consistency with the methodology used by Eurostat. Some progress as well as problems encountered were explained, in particular the difficulties experienced in calculating PPPs for non-market services.
3. The meeting was informed that the work within group III countries started in 1994 and the results were published in March 1998. The publication contains data for 1994, 1995 and 1996 (preliminary) including the CIS countries except Ukraine, Mongolia and Turkey. The work has been carried out by OECD in cooperation with the CIS Statistical Committee, Goskomstat of Russian Federation and the Turkish Statistical Office .
4. The meeting discussed at some length the most appropriate way in which to link together the results for the three groups of countries. Some participants advocated the use of a simple and transparent method using a link country. Others argued for the use of an overall multilateral procedure. It was suggested that some analysis should be made of the advantages and disadvantages of different methods of linking.

5. It was agreed that it was important to publish results covering all three groups of countries as soon as possible: that is for all countries participating in the OECD-European- CIS comparison.
6. The meeting proposed that the ECE as the international organisation which covers all three groups should assume responsibility for the publication of the results as in previous rounds. It was suggested that the ECE should consult with all the international and national statistical offices directly involved in the calculation of PPPs (in particular Eurostat, OECD and the Austrian Central Statistical Office) on the most appropriate way in which to integrate the results for the various groups into a single set of European Comparisons.
7. It was agreed that the results for Group I countries will also be presented and published according to the ICP expenditure classification.
8. The Austrian Central Statistical Office presented a paper on the treatment of non-market services in the calculation of PPPs for 1996 within Group II. The meeting was reminded that in December 1997 it had been agreed that PPPs for non-market services should be based on input prices without any adjustments for estimated differences in productivity between countries. This change was needed especially for candidate countries, in order to conform with the methodology used by Eurostat and also by the OECD. On the other hand, it produced some incomparabilities with results for previous rounds in which a productivity adjustment was applied for Group II countries.
9. A second and more general paper by Austrian Central Statistical Office addressed the question of the alternative possibilities available for calculating PPPs for non-market services. While participants agreed that, in principle, the PPPs should be based on data relating to the outputs of non-market services, it was also generally accepted that this would not be feasible in the foreseeable future. In this situation, second best methods have to be used instead.
10. One method commonly employed is to use data on input prices or quantities combined with an assumption that productivity levels are the same for non-market services across all countries. An alternative is to assume that the PPPs for non-market services is the same as for the rest of the economy (i.e. to use a general "reference" PPP for non-market services).

11. Participants recognised that, in the absence of information on outputs of non-market services, whatever method is used is liable to produce biased estimates, depending on the 'realism' of the assumption underlying the method of estimation. In some cases, such biases may lead to results which may appear implausible in the case of particular countries.

12. After a lengthy discussion it was agreed by the participants that for the time being there is no way of avoiding the use of assumptions even though they may sometimes lead to biased results. It was stressed that it is important to explain the nature of the problem to users.

13. Despite its limitations, most participants favoured continuing with the method now used, which is relatively simple and easy to explain. They also stressed that the same method must be used for all countries, although some other participants disagreed with this, arguing that the use of the same method does not necessarily lead to results which are comparable between countries when their economic circumstances are different. Moreover, these participants expressed their concern that some numerical results for 1996 appear so anomalous that the whole PPP exercise is exposed to undesirable criticism.

14. It was agreed that it is essential to continue to experiment with alternative assumptions and methods to see if better ways of estimating PPPs for non-market services can be developed. It was emphasized that continuing with the existing method does not mean that it is accepted as satisfactory, but that there is no other method available which can be demonstrated to be superior at the present time. Research on this topic should be continued in order to try to develop improved methods.

15. The meeting was informed about the new harmonized family of classifications and its interdependence with ECP on the basis of papers prepared by OECD. Countries were invited to submit comments to OECD on the proposed revised classification of individual consumption expenditure of households by basic headings.

16. The implementation of 1993 SNA (or 1995 ESA) and the implications for the ECP were discussed on the basis of a paper presented by OECD. The new 1993 SNA differs in a number of ways from 1968 SNA. Some conceptual differences between the two versions that affect the recording of national expenditure and the differences between their underlying classifications of goods and services, government expenditure and industry were identified.

17. The representative of CIS Statistical Committee informed the participants about the progress made in the implementation of 1993 SNA by the CIS countries. Most of the new SNA concepts have been implemented in close cooperation with the OECD. However, there are still some exceptions which concern the FISIM and the treatment of hidden economy. CIS countries are still treating FISIM as recommended in the 1968 SNA and their estimates for the hidden economy do not explicitly include illegal activities.

18. The meeting was informed by Eurostat about the organisational changes of the work within the Eurostat - OECD PPP Programme: the creation of four groups of countries, the role of the "lead countries", and the rolling benchmark approach. Eurostat pointed out that the reorganisation of the Eurostat comparison should be regarded as a purely administrative matter and not a methodological one, although some participants expressed doubts about it.

19. It was explained that the reorganisation is necessary because of the enlargement of the group of countries coordinated by Eurostat to 29. This is considered too large a group to use the same common list of items and to organise meetings effectively. It is believed that the reorganization of the ECP work will improve the field work which will also lead to better and timely results. Candidate countries will be distributed over the proposed four groups.

20. At the high level meeting on PPPs in Lisbon which took place in May 1998, the idea of the reorganisation was discussed and agreed in principle with a final decision to be taken in September 1998. It is expected that the new organisation will be implemented in the spring of 1999. It was pointed out that the composition of the groups is meant to achieve better results based on shorter lists of goods and services.

21. The confidentiality rules in force with regard to data collection will be strictly followed.

22. The role of national statistical offices will remain the same. It was explained that the "lead" countries will coordinate and check data within the groups.

23. It was also explained that the central processing and dissemination of the results will be done only by Eurostat, including the updating of the results, and the fixity principle used in the past will be retained. Some participants expressed concern about fixity in the context of a wider group of comparisons.

24. Eurostat's representative summarised the findings in the Castles' Report which evaluates the joint Eurostat - OECD PPP Programme. Mr. Castles' report underlined the importance of using PPPs for international comparison and expressed concern about inadequate financing. The report makes some constructive criticisms and suggestions about difficult areas, such as non-market services.

25. The World Bank explained their work programme in the field of PPPs at a world level. They are considering the possibility of working with the statistical offices of the Russian Federation and the CIS now that the OECD is no longer actively involved with most CIS countries. The representative of the World Bank also presented a paper in which it is shown that it is preferable to convert the net foreign balance by PPPs rather than exchange rates.
