

## **What are the Purchasing Power Parities (PPPs)**

Purchasing Power Parities (PPPs) are indicators that illustrate differences in price levels across countries. The indices expressed in currency units indicate how much a particular quantity of goods and services costs in different countries.

PPPs can be used as currency conversion rates to convert expenditures expressed in national currencies into an artificial common currency (the Purchasing Power Standard), thus eliminating the effect of price level differences across countries.

In their simplest form, PPPs are price relatives that show the ratio of the prices in national currencies for the same good or service in different countries. For example, if the price of a litre of a particular soft drink in France is €2.30 and in the United States is \$2.00, then the PPP for this soft drink between France and the United States is 2.30 euros to 2.00 dollars or 1.15 euros to the dollar. This means that for every dollar spent on this soft drink in the United States, 1.15 euros would have to be spent in France in order to obtain the same quantity and quality - or, in other words, the same volume - of this soft drink.

In their more complex form, PPPs refer to the various levels of aggregation that compile the GDP, but they are still price relatives. At higher levels of aggregation, the price relatives refer to increasingly elaborate assortments of goods and services. Therefore, if the PPP for GDP between France and the United States is 0.97 euros to the dollar, it can be inferred that for every dollar spent on the GDP in the United States, 0.97 euros would have to be spent in France to purchase an equivalent volume of goods and services

## **Purchasing Power Parities (PPPs) Surveys**

Purchasing Power Parities (PPPs) Surveys are conducted in all European countries in accordance with Regulation (EU) 1445/2007 of the European Parliament and of the European Council (<https://eur-lex.europa.eu>). The statistical work is carried out within the framework of Eurostat's European Comparison Programme and it is coordinated by Eurostat as well as the OECD. The countries included in the comparison are the 27 EU Member States, the United Kingdom, 5 EU candidate countries, 1 Western Balkan country and 3 countries of the European Free Trade Association (EFTA). The National Statistical Institute of each country is responsible for the collection of national price data, while Eurostat is responsible for the calculations and publication of the results for the 37 European countries.

Purchasing Power Parities Surveys, as international statistics, are funded by the European Union, in accordance with its funding rules.

## **The purpose of Purchasing Power Parity Surveys**

The purpose of Purchasing Power Parity Surveys is to produce price indices that will allow international comparisons of prices of goods and services.

PPPs measure the value of money in a national economy based on the volume of goods and services that can be purchased in its currency. This gives a clearer illustration of the per capita production of a country's domestic economy than a simple conversion of the value of Gross Domestic Product (GDP), taking into account only the exchange rate. To achieve this, it is necessary to convert the amounts into a common currency unit.

Purchasing power parities are mainly used:

- To convert national accounts aggregates into comparable volume aggregates. In particular, PPPs can be used to compare the Gross Domestic Product (GDP) of different countries without the figures being distorted by differing price levels in those countries.

- To analyze relative price levels across countries. For this purpose, the PPPs are divided by the current nominal exchange rate to obtain a Price Level Index (PLI), which expresses the price level of a given country relative to others.

The European Commission uses per capita GDP, expressed in PPPs, as a basis for allocating funding from the Structural Cohesion Fund to eliminate the inequalities between and within the 27 Member States.

### **Methodology of Purchasing Power Parity Surveys**

The Purchasing Power Parity Surveys, conducted by ELSTAT, focus on monitoring the prices of products (goods and services) intended for the consumption needs of private households, for the individual consumption expenditure of general government, as well as for the gross fixed capital formation (capital goods and services).

The prices related to the consumption of private households are collected by means of six special surveys, two of which are conducted twice a year, and the Housing Rent Survey which is carried out annually. The survey samples are determined in collaboration with the MS, the OECD and Eurostat, in order to be consisted of comparable and representative goods and services, based on the MS expenditure patterns.

The prices related to the individual consumer expenditure of general government are collected through the Salary Survey on specific occupation categories of General Government and the survey in Health, in which hospital prices are collected, related to specific medical services and products.

The prices related to capital goods and services are collected through the Construction Survey, which is conducted annually for the collection of prices for the construction of specific types of buildings and civil engineering works, as well as with the Equipment goods Survey, which is conducted every two years for the collection of prices for equipment products purchased by manufacturers, importers, or other categories of actual purchasers.

Furthermore, in addition to the collected prices, annual expenditure data at basic headings of level of aggregations of the National Accounts are provided to Eurostat. The above data are transmitted to Eurostat which is responsible for evaluating, calculating and disseminating the results of the Purchasing Power Parity surveys.

More information regarding the PPP methodology and relative results are available on Eurostat website at [EUROSTAT> Purchasing Power Parities](#).