

FOREWORD

For the last twenty-five years, Eurostat and the OECD have worked together comparing the price and volume levels of the GDPs of EU Member States and OECD Member Countries. The comparisons are made with purchasing power parities or PPPs. This common programme is called the "Eurostat-OECD PPP Programme". The first joint comparison was for 1980. It covered 18 countries. Subsequently, joint comparisons have been made for 1985, 1990, 1993, 1996, 1999 and 2002. During this period, the number of countries covered grew from 22 to 43. The next joint comparison will be for 2005. It will cover 45 countries.

The methodology that Eurostat and the OECD employ in their comparisons has been described in various reports and papers. But these reports and papers have tended to be either too general in their description of the Programme or too focused on specific aspects of the Programme. There has been no single document covering the Programme in detail from start to finish. The absence of such a document has been particularly trying to those involved directly in the implementation of the Programme. To rectify this omission, Eurostat and the OECD have prepared this manual.

The manual has three aims: first, to explain to those engaged directly in the Programme - that is, to practitioners in Eurostat, the OECD and the national statistical institutes of participating countries - the why and the how and the when of the international price and volume comparisons of GDP organised by Eurostat and the OECD; second, to enable these practitioners to brief their senior management and significant users - such as politicians, journalists, academics and the like - on the why and how of the Programme and, more importantly, to advise them on the use and interpretation of comparison results; and third, to provide a point of reference accessible to teachers, students and other members of the general public interested in PPPs and related statistics.

Central to the Programme is the issue of whether GDP comparisons across countries should be made with exchange rates or with PPPs. Eurostat and the OECD Statistics Directorate maintain that they should be made with PPPs, although this view has still to gain general acceptance. However, as the manual demonstrates, exchange rates are usually misleading on the relative sizes of economies as measured by their GDP. Analyses or projections based on exchange rate converted GDP are in danger of being flawed from the outset because the relative GDP levels of countries being used are likely to be incorrect. It is to be hoped that the manual, by detailing the sources and methods of the Eurostat-OECD PPP Programme, will foster a better understanding of PPPs and, in doing so, a greater use of PPPs in international comparisons of GDP and associated macro-economic aggregates.

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