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**THE INTERNATIONAL COMPARISON PROGRAM
2004
“What’s New?”**

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Introduction

1. International comparisons of economic activities between countries are essential for three basic reasons: official statistics are used to guide policy decisions; to foster and enable investors to decide where and how much to invest; and to ensure markets operate efficiently.
2. National Statistical Offices are keenly aware of the essential role official statistics play in evidence-based policy making and devote much of their resources to meet those needs. The other two uses of statistics are often overlooked by National Statistics Offices, but are crucial to a wide breadth of users. Direct investment is essential for economic growth. Investment decisions are based on many economic factors, including those measures that provide indicators of the rate of return on the investment. The emergence of the global market economy means that the prices for many goods and services are now based on the supply and demand situation across countries. As a result, markets will operate most efficiently when there is a basis to compare volumes or quantities and criteria such as production costs between countries.
3. Central to these three primary uses of official statistics is the need to convert data across countries in to a unit that accounts for different exchange rates. The reason exchange rates cannot be used directly can be simply explained by comparing the value of the US dollar to the Euro now and a year ago. The Euro is now worth \$1.08 dollars compared to \$.91 a year ago. Does this mean the European economy has become 18 percent larger than that of the US in one year?
4. A measure of **purchasing power parity** is central to any statistical or economic analysis of national statistics for effective policy decisions, wise investment, and efficient markets. The question for the statistician, is how to determine purchasing power parity across countries.
5. A basic measure to describe a nation's economy is the Gross Domestic Product which can be computed using different methods. One approach is to consider the summation of the purchases of all goods and services that occurred over a period of time. From a statistical point of view, the population would be the totality of all quantities purchased multiplied by the purchase price. To compare the different economies, one could remove the price effect by comparing the volumes or quantities purchased in each country. In a perfect world, this would be done by selecting a random sample of purchases across countries with probabilities proportionate to size and converting the expenditures to quantities purchased. This would be done by using the relationship between the prices in each country to derive the relative purchasing power that is independent of the exchange rates.

6. The International Comparison Program attempts to do this by defining a market basket of goods and services that can be priced across countries: the resulting average prices are used to obtain measures of purchasing power parities.
7. The ICP in European and other OECD countries has produced robust PPPs for a number of years using this concept. However, the program has been less successful in other parts of the world, with results that are difficult to explain.
8. A thorough analysis of the program, carried out in 1998 at the request of the UN Statistical Commission, revealed several problems with the execution of the ICP. The purpose of this paper is to review those shortcomings and present what action is taking place to overcome them.

Shortcomings with the Previous Round of the ICP

9. Six major areas of concern were identified:
 - i. There was no central organizing body to ensure the work was done consistently across the different regions of the world. In short—no one was in charge.
 - ii. Funding was inadequate to ensure that sufficient effort went into the price collection and determination of the expenditure weights and that they were consistently measured.
 - iii. There was no documentation that described how problems were handled, and how the data were reviewed and analyzed once they were delivered by the national offices.
 - iv. The regions were given a list of goods to price that was inflexible to their local situation and often unrepresentative of their economy.
 - v. Instructions on the proper methodology to follow were inadequate. The previous ICP Handbook included very little guidance on how to determine the expenditure weights, how to determine what to price and how to obtain the national prices central to the comparison.
 - vi. All of the above led to a degree of distrust between the countries and the international organizations about whether the correct procedures were followed by everyone.
9. The remainder of this paper presents a general overview of steps taken to strengthen the program, changes in methodology aimed at improving data quality, and the timetable for the 2003- 2004 round of the global ICP.

What's new?

10. **Governance** A formal structure encompassing global, regional and national management has been established to coordinate the ICP. The Global Office,

located in World Bank Headquarters in Washington D.C, reports to an Executive Board consisting of eminent statisticians and economists from around the world. The Board members and their affiliation are shown in Annex 1. The Board held its first meeting on February 27-28, 2003. Its remit is to set the strategy for the ICP and to define its scope and coverage. The Board will be advised on technical matters by the Technical Advisory Group. This group is in the process of being formed with an announcement to be made shortly. The ICP Council will represent donors, as well as users from academia, the media and researchers and provide a vehicle for ICP practitioners to communicate program progress and uses.

11. A strength of this round is the formal regional governance that has been established. Each region will be responsible for coordinating the effort across the countries they represent. Regional and National Coordinators will be collaborating on product lists that are representative for their region. The Global Office will ensure procedures are consistent across the regions. The report to the UN Statistical Commission summarizes the infrastructure and progress within each region.
12. **Funding** Regional and global trust funds have been established. It is estimated the 3-year program will cost about \$37.5 million, of which \$30 million of cash and in-kind pledges have been made. The fund raising effort is still underway for the outstanding funds. If the required budget is not reached, the Executive Board will consider reducing the scope and coverage of the program rather than pursuing an unsustainable program.
13. **Documentation** Memoranda of Understanding are being prepared between National and Regional offices that define data to be submitted, what data are shared, how data problems are handled, the scope of the country's program and the timetable for data delivery. Similar Memoranda of Understanding between the Global and Regional offices are also being drafted.
14. **Preparation of the Price List** With regards the list of goods and services to be priced, coordinators will attempt to integrate the ICP with each country's CPI as fully as possible, thus using a "bottom-up" approach to compilation. In order to ensure consistency across regions, each Regional Coordinator will be provided with a master list of products with all combinations of product descriptions, packages, availability, etc. A final list will be agreed upon in collaboration with the individual countries. In this way, while each region is given flexibility to determine the goods to be priced, it will do so following the same procedures as other regions.
15. **An updated ICP Handbook** A major section part of the handbook will address fundamental issues such as determining the basic headings for which expenditure weights will be needed and the items to price within each. The experience obtained from the Eurostat-OECD work will provide much of the background for the handbook. The handbook will be on the web and updated as needs dictate.

16. **Training and Communications** Periodic meetings will be held that bring the Regional Coordinators together to share experiences, issues and problems. The purpose is to establish trust between the Global and Regional Offices and to ensure consistent methods are followed by all. Similarly the Regional and National offices will convene regularly.
17. **Advocacy and dissemination of information .** One of the main goals for this round is transparency of all activities. To this end, an ICP website is being developed that will answer users' needs and provide a portal for ICP practitioners. The minutes of the Executive Board meetings and a timetable of events will be available on the public domain for example. A project planning module with a summary of the progress in each region and a "hotline" page, where problems or questions can be raised and the answer or solution made available to everyone, will form part of the practitioners' domain.
18. Advocating the ICP and the uses made of PPPs is also an essential goal for this round. Literature and events are planned to disseminate information about the program to a wide audience, including businesses, corporations, governments and central banks. Forums such as the PARIS21 group will be used to spread the message among country statisticians and users. Links with statistical capacity building will also be made.
19. **Tool Pack.** A data processing system has been developed that will form the backbone of the ICP from data entry through the aggregation to the final PPPs. This will ensure consistent data handling, editing, and analysis procedures. It will also provide an audit trail that follows how data are updated during the process.
20. **New Methodology.** A group of technical experts convened in Washington DC during mid 2002. A major conclusion reached by this group was that a "Ring" approach should be used to link PPPs across regions for the global comparison instead of relying on the traditional "bridge" procedure. In effect, some countries within each region will be asked to price two lists. One list will represent their region, while the other list will be used to price items that can be used to link across regions. In one sense, the ring comparison is a mini ICP. Another effect is that the averages of multiple countries will be used to link regions vs relying upon only one country.
21. Another recommendation reached by the expert group is that the comparison be based on national, annual average prices. This is significant for countries where the CPI may only represent the capital city. The goal is that the average prices represent the country as a whole. Furthermore, the average price is to represent the entire year to make them consistent with the prices underlying the GDP.

The Timeline

22. A meeting of the Regional Coordinators, held March 24-28, 2003, reviewed the timetable of events leading up to price collection. A detailed timeline was presented to the Executive Board and will appear on the ICP website with the Board minutes. The goal is to start price collection by April 2004 which will continue into early 2005. The data edit, analysis and initial evaluation of basic heading PPPs will be underway in 2005. The final PPPs will not be published until the expenditure weights are determined in 2006. During the 2005-06 periods, a review of the process will be implemented so that in 2007 planning can begin for the next round. The goal is for the ICP to become a sustainable part of the overall system of economic statistics: therefore, plans need to be in place for it to continue.
23. The Executive Board adopted the plan. Where possible, the time given to the regional coordinators will be limited to provide more time for the country offices to do their work.

Summary

24. The International Comparison Program is the most complex statistical endeavor ever attempted. It poses unique challenges to provide statistical methods that can be carried out in practice by countries that differ in size, cultures, capabilities, and diversity in goods and services available to their population. We are confident that the spirit of cooperation seen so far will prevail and that the data will be consistently collected and provide statistically defensible results.

Annex 1**ICP Executive Board Members****Members**

Dr. Ifzal Ali	Asian Development Bank
Ms. Shaida Badiie	World Bank
Mr. Len Cook	Office for National Statistics, Great Britain
Mr. Yves Franchet	Eurostat
Mr. Enrico Giovannini	OECD
Mr. Carlos M. Jarque	Inter-American Development Bank
Mr. K.K. Jaswal	Ministry of Statistics and Programme Implementation, India
Dr. Henock Kifle	African Development Bank
Professor Ben Kiregyera	Uganda Bureau of Statistics
Mr. Li Xiaochao	National Bureau of Statistics, China
Mr. Koffi Nguesssan	ENSEA
Mr. José Antonio Ocampo	ECLAC
Mr. Jacob Ryten	Statistics Canada
Mr. Vladimir L. Sokolin	Goskomstat of Russia
Ms. Mervat Tallawy	ESCWA
Mr. Dennis Trewin (Chair)	Australian Bureau of Statistics
