



## EUROSTAT QUALITY PROFILE

<b>Indicator (definition)</b>	<b>Price convergence between EU Member States:</b> Coefficient of variation of comparative price levels of final consumption expenditure by private households including indirect taxes.
<b>Eurostat Unit</b>	C1 National Accounts - Methodology and Analysis
<b>Other Commission DGs</b>	DG ECFIN; DG MARKT
<b>European Statistical System Working Group (WG)</b>	WG on Purchasing Power Parity European Comparison Programme
<b>Date</b>	2 May 2007

**1. Overall assessment of accuracy and comparability** (Description of quality grades under the following link: [http://circa.europa.eu/Members/irc/dsis/structind/library?!=/general\\_information/quality\\_profiles/annex\\_enpdf/EN\\_1.0\\_&a=d](http://circa.europa.eu/Members/irc/dsis/structind/library?!=/general_information/quality_profiles/annex_enpdf/EN_1.0_&a=d))

A     
  B     
  C     
  Indicator to be developed

Data is collected from reliable sources applying high standards with regard to the methodology.

### 2. Objective and relevance of the indicator:

Price convergence indicator is derived from the Comparative Price Level Indices (PLIs) to show whether or not the price levels are coming closer together in Europe. PLIs are calculated as the ratio between Purchasing Power Parities (PPPs) and nominal exchange rates (to euro). The relative dispersion of price levels is measured by the coefficient of variation of the PLIs, i.e. the spread around its mean value. If the coefficient of variation of the comparative price levels for the EU decreases/increases over time, the national price levels in the Member States are converging/diverging.

### Restriction of the indicator's relevance and other characteristics which may lead to restrictions in using it in monitoring and reporting

The indicator underlying the price convergence indicator, i.e. the PPP, is constructed primarily for spatial comparison and not for comparison over time. This poses a certain restriction to over-time analysis. It is important to stress that the indicator does not primarily represent the price convergence / divergence of individual products. It only shows the convergence / divergence for aggregate price levels of the countries. The two cannot be regarded as being the same.

In its current composition the indicator gives a significant weight to goods and services for which price convergence is not necessarily expected in the Internal Market (e.g. housing).

Inclusion of non-tradable goods and services limits pertinence of the indicator for policy monitoring.

### 3. Data availability: details

(t<sub>1</sub>: earliest reference year available; t<sub>2</sub>: latest reference year available in May 2007)

	Member States	Candidate Countries	US and Japan	EEA-EFTA <sup>1</sup>
t <sub>1</sub>	1995- 15 MS 1995- 25 MS	-	-	-
t <sub>2</sub>	2005	-	-	-

<sup>1</sup> While being a member of the EEA, Liechtenstein has complete or partial exemptions from several statistical requirements due to its size. Thus, Liechtenstein is excluded from this overview as most of the data for structural indicators are missing.

Comments (including information on time series): Data for the period 1995-2000 have been revised to incorporate all new developments in the methodology and to harmonise some aspects that were not fully harmonised.

#### 4. Overall accuracy

High

PPPs are calculated by Eurostat in strict collaboration with the OECD in the framework of the European Comparison Programme (ECP) whose aim is to make annual volume comparison of the main national accounts aggregates.

Accuracy of the indicator is ensured during the harmonisation of the compilation process. Prices are collected by the National Statistical Institutes of each country, under the co-ordination of Eurostat. Eurostat is responsible for developing the methodology and procedures employed, in collaboration with the participant National Statistical Institutes, and assumes final responsibility for the results which are published.

Accuracy is restricted in so far as the PPPs methodology establishes that the surveys are carried out mainly in the capitals of the countries and at the specific month fixed by Eurostat. As a consequence of that, it is necessary to apply spatial and temporal coefficients in order to arrive at the national annual average prices, which enter the PPP calculations.

Restricted

(sources, errors,  
methodology, etc.)

#### 5. Comparability across countries

High

Restricted

Not applicable

Not applicable as it is expressed only for country groups.

#### 6. Comparability over time

High

The PPPs / PLIs underlying the convergence indicator have specifically been designed for cross-country comparison and not for comparison over time. However, this restriction does not reduce the comparability of PLI dispersion (convergence/divergence) of country group(s) over time.

Restricted

#### 7. Development perspective for improving the quality of this indicator (including as far as possible an indication of the burden on Member States and respondents.)

Development work is underway to produce the indicator for tradables only. These works are undertaken by the Commission and have no cost implications for the Member States.

#### 8. Contribution to the coherence of the set/potential to qualify for an integrated policy analysis

**Relevant European legislation:** Purchasing Power Parities are not currently governed by a legal act (data is provided under a gentlemen's agreement). A draft regulation of the European Parliament and of the Council concerning the production of Purchasing Power Parities [COM(2006) 135 final; 2006/0042 (COD)] has been prepared and is currently undergoing the regular legal procedures. The adoption of the regulation is expected in summer of 2007.

Link to the draft regulation:

<http://europa.eu.int/eur-lex/lex/LexUriServ/LexUriServ.do?uri=CELEX:52006PC0135:EN:NOT>

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