



**STATISTICAL OFFICE OF
MONTENEGRO**

METHODOLOGICAL GUIDELINES

PURCHASING POWER PARITIES

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METHODOLOGICAL GUIDELINES

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Legal basis

The legal basis for the implementation of the Purchasing Power Parities (PPP) survey is provided by the [Law on Official Statistics and Official Statistical System of Montenegro](#) (Official Gazette of Montenegro No 18/12, 47/19 and 23/25), the [Annual Plan of Statistical Survey, Regulation \(EC\) No. 1445/2007 of the European Parliament and of the Council](#) of 11 December 2007 establishing common rules for the provision, calculation and dissemination of Purchasing Power Parities, and [Commission Regulation \(EU\) No. 2015/1163](#) of 15 July 2015 implementing Regulation (EC) No. 1445/2007 as regards the list of basic headings used for Purchasing Power Parities.

METHODOLOGICAL GUIDELINES

Aim and purpose of statistical survey

Purchasing Power Parities (PPPs) are an effective tool for cross-country comparisons of gross domestic product (GDP). Since it includes the price influence, it provides one of the most accurate indicators of the economic situation in a country. The main purpose of PPPs is to convert national accounts aggregates, such as gross domestic product (GDP), into internationally comparable volume aggregates. PPPs are also applied in the analysis of relative price levels between countries.

The production of PPPs is a multilateral exercise involving the National Statistical Institutes of the participating countries, Eurostat and the OECD.

Observation unit

Eurostat is responsible for the annual calculation and dissemination of purchasing power parities PPPs. The project covers the 27 EU Member States, the United Kingdom, three EFTA Member States (Iceland, Norway and Switzerland), as well as nine candidate countries (Turkiye, North Macedonia, Montenegro, Serbia, Abania, Bosnia and Herzegovina, Moldova, Ukraine and Gergia).

Each participating country collects a sufficient number of prices for each selected product and service, in order to ensure a reliable average price per product and service, taking into account the market structure of the country. Prices are collected in the capital city, in outlets that are representative of specific groups of products and services, and are considered to reflect national average prices.

The product sample used for PPP calculations is selected from the complete set of final goods and services that constitute GDP. Participating countries collect price data covering consumer goods and services, government services, and capital goods.

Definitions

Purchasing power parities (PPPs)

Purchasing power parities (PPPs) are a method of converting national currencies into a common currency that equalizes the purchasing power of different national currencies. This means that a certain amount of national currency is converted into a common currency using PPPs, corresponding to the amount needed to purchase the same basket of goods and services in all countries.

In their simplest form, PPPs represent the ratio of the prices of individual products and services in expressed in national currencies between countries. For example, we know that today a certain amount of money can buy fewer goods than it could a month ago, and certainly much less than a year or several years ago. The purchasing power of one euro is lower due to price increases. In other words, the same amount of money has less purchasing power because the price level of the goods and services we buy today is higher than it was a few months, a year, or several years ago. In their simplest form, PPPs represent the ratio of the prices of individual products and services in national currencies between countries.

Purchasing Power Standard (PPS)

Purchasing Power Parities (PPPs) are currency conversion rates used to convert economic indicators from national currency into an artificial common currency called the Purchasing Power Standard (PPS). The PPS equalises the purchasing power of different national currencies and enables meaningful volume comparison between countries.

The main impact on GDP per capita measured in PPS, are the size of GDP estimated using the expenditure approach, the level of consumer prices and the size of the population. The Purchasing Power Standard (PPS) is an artificial currency unit that eliminates differences in price levels between countries. One PPS buys the same volume of goods and services in all countries, allowing for meaningful volume comparison of economic indicators across countries.

Price level indices (PLI)

Price level indices provide a comparison of the countries' price levels relative to the EU average. If the price level index is higher than 100, the country concerned is relatively expensive compared to the EU average and opposite.

Actual Individual Consumption (AIC)

Actual individual consumption refers to all goods and services actually consumed by households. It includes consumer goods and services purchased directly by households, as well as services provided by non-profit institutions and the government for individual consumption (e.g. health and education services).

Method, timing and sources of data collection

Method of data collection

Prices are collected in the capital and its surrounding areas. Data collection takes place over a three-year period through six separate surveys, with two surveys conducted each year. For surveys covering consumer goods and services, data sources include retail outlets (mini-markets, supermarkets, kiosks, and specialised stores), entrepreneurs, public enterprises, the internet, Consumer Price Index data and other relevant sources.

Services produced by the general government are considered non-market services and, as such, do not have economically significant market prices. In the absence of market prices, the standard practice is to value these services in national accounts at cost, or based on input prices. This convention is also applied in the calculation of PPPs for collective services provided by the government.

Countries report employee compensation, including social contributions, for a sample of occupations within these collective services. These compensation figures are then used in the PPP calculations as price estimates for collective services provided by the government.

Housing is treated separately. In most countries, a survey of actual rentals is carried out annually. Depending on data availability, two approaches are used to compare rents and expenditures for this purpose: the price approach and the quantitative approach.

For education services, a volume-based approach is applied, using the number of students relative to the total population, with quality adjustments based on PISA results.

For investment goods and services, two surveys are conducted: one for machinery and equipment, carried out every two years, and one for construction, carried out annually.

Prices for machinery and equipment are obtained from producers, importers, distributors or actual purchasers. Construction prices are collected using a set of standard construction projects, covering different types of buildings and civil engineering works.

Timing of data collection

Price collection is a continuous process and is carried out as follows:

- **Household consumption** - This area includes six surveys covering different components of household consumption, conducted over a three-year cycle (two surveys per year).

- I survey: Food, drink and tobacco;
 - II survey: Personal appearance;
 - III survey: House and garden;
 - IV survey: Transport, hotels and restaurants;
 - V survey: Services;
 - VI survey: Furniture and health.
- **Government consumption** - This includes an annual survey of the compensation of public sector employees as well as an annual education database.
 - **Gross fixed capital formation** - Surveys on machinery and equipment are conducted every second year, while the construction survey has been carried out annually since 2010. Expenditure weights and auxiliary data are reported on an annual basis.
 - **Expenditure weights and auxiliary data** - Reported on an annual basis.

Data collection

For the purposes of prices collection, MONSTAT engage interviewers (price collectors). Prices are collected in Podgorica, most often through visits to retail outlets. Price collectors receive instructions from the project coordinator regarding data collection, along with a list of detailed products specifications and a list of representative outlets where price collection is to be carried out. The methods used for price collection vary depending on the type of product or service and may include telephone interviews, internet websites or special questionnaires.

The price survey for construction projects is more complex and requires the engagement of external construction experts to conduct the survey and provide price estimates for a selected sample of construction projects. The same approach applies to the machinery and equipment survey. Data on rents and the employee compensation are usually obtained from existing sources within the institution or from other government institutions.

Classifications

PPPs are produced in accordance with the final expenditure classification of the European Standard of Accounts (ESA 2010). PPPs are classified by type of final expenditure - actual individual consumption expenditure (AIC), actual collective consumption expenditure and capital

expenditure - and, in the case of actual individual consumption expenditure, by purchaser: households, non-profit institutions serving households (NPISHs) and general government. The prices underlying the calculation of PPPs follow the definitions, concepts, classifications and accounting rules of ESA 2010.

Confidentiality and obligation to protect individual data

All data collected in the field, as well as data obtained from other sources, constitute official confidential information and are regulated by Articles 53–60 of the Law on Official Statistics and the Official Statistics System ('Official Gazette of Montenegro', Nos. 18/12, 47/19 and 23/25). Pursuant to Article 59, access to confidential official statistical data is restricted to persons

performing tasks and duties within the producers of official statistics, and only to the extent necessary for the production of official statistics. Persons performing tasks and duties within the producers of official statistics are required to sign a Declaration on Compliance with the Principle of Confidentiality.

Obligation to provide data

In accordance with the Law on Official Statistics and the Official Statistics System (Official Gazette of Montenegro Nos 18/12, 47/19 and 23/25, Article 36), reporting units are obliged to provide accurate and complete data free of charge, in the content and format determined by the producer of official statistics, and within the deadlines set out in the Annual Plan of Statistical Survey.

Publication

EUROSTAT publishes two annual releases in June and December each year:

- Gross Domestic Product and Actual Individual Consumption per capita in Purchasing Power Standards (PPS); and
- Price Level Indices for household final consumption expenditure.

Following the official release by EUROSTAT, MONSTAT publishes a compilation of the above-mentioned press releases, which are available at the following link:

[Purchasing Power Parities](#)

Other Methodological materials

Detailed methodological explanations on purchasing power parities are available on Eurostat's PPP website, as well as in the [Eurostat-OECD Methodological Manual on Purchasing Power Parities \(2023 edition\)](#).

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