

ICP 2021 Cycle: TAG Meeting

Calculating Annual PPPs Beyond the Benchmark Year

Outline

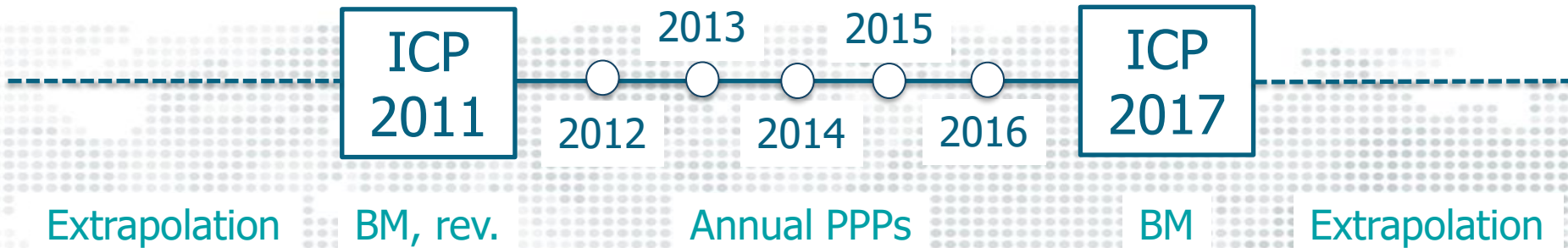
- **Background**
- **Annual PPP approach (Inklaar and Rao)**
- **Annual PPPs beyond the benchmark year**

Background: Pre-ICP 2017



- WB World Development Indicators (WDI) and IMF World Economic Outlook (WEO) extrapolated PPPs based on the most recent ICP benchmark (BM)
- Extrapolation at level of GDP (GDP deflators) and HHC (CPIs)
 - Relative inflation to U.S.
- New BMs + extrapolations (once released) replaced all previous datapoints

Background: ICP 2017



- Introduced a new annual PPP approach
- Applied for years between ICP 2011 (revised) and ICP 2017
- For years before 2011 and after 2017 WDI applies GDP / HHC level extrapolation
 - Pre-2011 and post-2017 PPPs updated regularly in WDI
 - *Exception:* Eurostat-OECD PPPs for all years updated regularly in WDI
- Published annual 2012-16 PPPs: GDP and HHC (WDI) | 6 headings (ICP)

Annual PPP approach (Inklaar and Rao) [1]

Key features

- Uses all available data
 - Benchmarks results | “interim” regional results | extrapolation indices at available level | national accounts expenditures at available level
- *In principle* possible to release results at the same level as for the BM years
 - *In practice* only selected headings were released
- Maintains fixity of all regional results (as available)

Annual PPPs approach (Inklaar and Rao) [2]

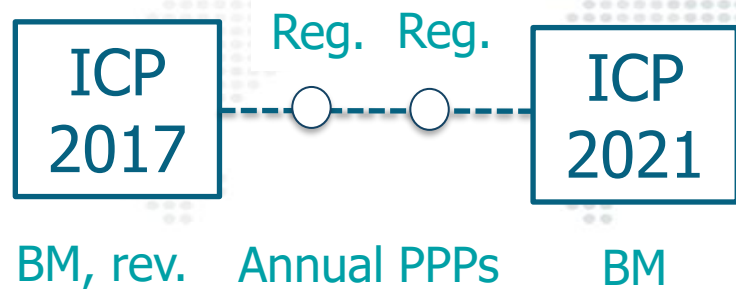
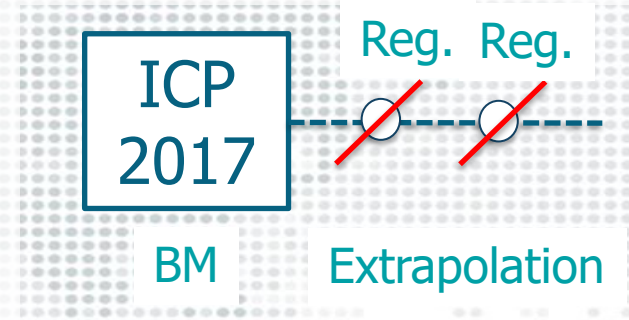
- BM PPPs extrapolated and retroplated at the basic heading (BH) level
 - Ideally requires BH level extrapolation indices
 - In practice, most detailed available extrapolation indices used + gap-filling and 'inheriting' to BH level
- Extrapolated and retroplated BH PPPs weighted based on distance from the BM and averaged geometrically
- Reference PPPs estimated separately for each year (incl. MERs)
- Productivity adjustment applied separately for each year

Annual PPPs approach (Inklaar and Rao) [3]

- Annual BH PPPs aggregated using standard approach (GEKS)
 - Ideally requires BH level national accounts expenditures
 - In practice, most detailed available national accounts expenditures used + gap-filling (borrowing structures from BM years)
- Fixity applied using standard approach (CAR)
- *Challenges*: obtaining data, countries switching regions, dual-participation countries, etc.

PPPs Beyond the Benchmark Year: Current Situation

- PPPs beyond most recent benchmark year (2017) are extrapolated at the level of GDP and HHC
- PPPs for Eurostat-OECD are updated regularly (base region), but other interim regional results beyond 2017 are not incorporated, since they are not linked to U.S.



- Regional interim results can only be incorporated when 2021 BM results become available
- Previous BM results for 2017 are revised
- Interim PPPs for 2018-2020 are calculated using the Annual PPPs Approach
- 2017-2021 PPP series are replaced in WDI

PPPs Beyond the Benchmark Year: Some thoughts [1]

- **Use Annual PPP Approach beyond the benchmark year?**
 - Modification: No retropolation of PPPs as 2021 results are not available yet, only extrapolation from 2017 onwards
 - National account detailed expenditures gap-filled based on 2017 structures (where not available)
- **Benefits:** Incorporates interim regional results | Provides full set of results
- **ICP Revision Policy:**
 - When 2021 results are published and 2017 results are revised, interim PPPs for 2018-2020 are revised based on Annual PPP Approach
 - 2017-2021 PPP series are replaced in WDI

PPPs Beyond the Benchmark Year: Some thoughts [2]

- **Operational considerations:**
 - Requires timely extrapolation indices | expenditures
 - Requires more efforts & coordination among IACG and countries
 - Release timing and update frequency
 - WDI currently publishes extrapolated PPPs for 2018 and 2019, and will release extrapolated PPPs for 2020 in July 2021
 - WDI extrapolated PPPs are updated throughout the year
 - If the Annual PPP Approach is adopted for calculating PPPs beyond the benchmark year, at which point in time do we publish the revised PPPs for 2018, 2019 and 2020 in the WDI?



THANK YOU