0. Opening remarks

The 1st Meeting of the 2011 ICP Results Review Group was held on November 19, 2013 at the World Bank in Washington, DC. The meeting was organized in four sessions: I. Poverty issues arising from the current set of ICP results; II. Comparison of 2011 benchmark results with 2011 extrapolated figures; III. Consistency between 2005 and 2011 ICP results; and IV. Preparation for the Special Task Force meeting. The agenda is attached in Annex 1.

In attendance were the World Bank Senior Vice President and Chief Economist, the Acting Director of the World Bank Development Data Group, Technical Advisory Group chair, co-chair, and experts, and the Global Office. The list of attendees is attached in Annex 2.

Kaushik Basu, World Bank Senior Vice President and Chief Economist, welcomed attendees and reminded them of the importance of the ICP results to the users’ community, especially the poverty experts at the World Bank. The objective is to achieve the highest PPP data quality. Kaushik sought out suggestions on the future path, such as producing results every two years, to avoid sudden jolts in poverty numbers. The group was urged to find the best solution to improve the PPP estimates without violating scientific methods. Michel Mouyelo-Katoula, ICP Global Manager, also welcomed the attendees and thanked them for their participation.

1. Discuss poverty issues arising from the current set of ICP results

Grant Cameron, Acting Director, Development Data Group stated that the future of the ICP was yet to be determined. New methodologies had been introduced in the 2011 round, and this affected the comparison between the 2005 and 2011 rounds. Currently, the Eurostat-OECD conduct a rolling benchmark program that produces price indices that are extrapolated and back-cast to achieve time consistency over three years, which in turn result in much smaller jumps in numbers and more consistency with the CPIs. The concept of fixity - to maintain the regional results - was explained for better clarity on linking the regions in the ICP 2011 round.

Nada Hamadeh, ICP Team Leader, presented graphs showing the ratio of World Development Indicators (WDI) PPPs to ICP PPPs. The graphs depicted a downward bias with the WDI-extrapolated PPPs being mostly larger than the ICP PPPs. Even in the case of Eurostat-OECD, PPPs extrapolated from ICP 2005 were larger than those from the ICP 2011. The downward bias was noted as peculiar and it was questioned whether it was due to the USA GDP deflator/CPI.
Additional graphs of 2011 real expenditures showed the results from various simulations conducted to estimate the effect of using various methods on the results. Applying the CAR method to the 2005 results showed a 10% decrease in the PPPs for Asian countries and 8% for African countries. Several simulations were conducted as well to view the various outcomes of linking China through Asia versus linking China directly to the world.

Shaohua Chen, Senior Statistician, clarified that the poverty team uses numbers directly from the 2005 benchmark, not the WDI-extrapolated figures. She indicated that the current PPP estimates raised many concerns from the poverty perspective.

In an effort to understand China’s claim that their higher prices were deleted but that no lower prices were removed as outliers, Yuri Dikhanov, Senior Economist/Statistician, explained the process of eliminating outliers within Asia and in the global linking.

2. Compare the 2011 benchmark results with 2011 extrapolated figures

Nada reviewed the results from the simulations conducted, noting that they were still work in progress.

*Extrapolated 2011 PPPs*

- **Simulation 1:** Re-compute 2005 PPPs using the CAR method and extrapolate to 2011 using the WDI approach
  → Finding 1: Asia-Pacific countries’ PPPs decreased by 10%, Africa countries PPPs decreased by 8%, while Latin America countries’ PPPs increase by 2%

- **Simulation 2:** Re-compute 2005 PPPs for China with adjustment for rural as suggested by Angus/Alan (PPP decrease by around 10%) and extrapolate to 2011 using WDI approach
  → Finding 2: China’s 2011 extrapolated PPP was 3.80 instead of 4.18

- **Simulation 3:** Combine simulations 1 and 2 – Apply CAR to 2005 PPPs and adjust for rural coverage for China and extrapolate to 2011 using the WDI approach
  → Finding 3: China’s 2011 extrapolated PPP was 3.42 instead of 4.18 (very close to the current 2011 benchmark PPP estimates)

*2011 ICP draft results*

- **Simulation 4:** Apply the 2011 agreed methods, as decided by the TAG, especially CAR and fixity and check the results of the global aggregation before CAR and fixity
  → Finding 4: The application of CAR and fixity does not have a large impact on the results (1-2%)

- **Simulation 5:** Instead of linking using all countries pricing the Global Core List, link using 18 Ring countries only (as in 2005) using their Global Core List prices
  → Finding 5: Choosing 18 Ring countries versus all countries to link does not have a large impact on the results (max. of 1.2% for Asia)

The meeting recommended that the same simulations were conducted for the Household Consumption aggregate, and that validation focuses on the countries with the highest poverty count and those with the highest deviation from the WDI-extrapolated PPPs. To confirm the quality of the 2011 ICP, one check would be to examine the consistency with the CPI at the basic heading level.
3. Review the consistency between 2005 and 2011 ICP results

**PLIs**
Mizuki Yamanaka, Statistician, presented comparison tables and charts for linked PPPs, exchange rates and PLIs. A list of countries with change in currencies between the rounds was also displayed. PLI charts revealed ratios between the two rounds for GDP and the main aggregate level. The poverty team was interested in the cases where the household consumption price level went down, indicating that the poverty in the country went down, while the GDP price level remained similar to the 2005 round, making real GDP appear plausible. It was requested to check the reason why the household consumption PLIs of rich countries moved up, while those of poor countries moved down in some regions. To address these issues, it was suggested that the following be conducted: (i) a simulation of 2011 global results using the extrapolated 2005 linking factors; and (ii) analysis of the difference in regional PPPs and PLIs between the ICP 2011 and 2005.

**Linking Factors**
Marko Rissanen, Statistician, presented an analysis on linking factors by focusing on the variation of factors within region, between regions, and between 2005 and 2011 ICP benchmarks. It was noted that, on average, variation was slightly lower in 2011 than in 2005, and that the overall pattern was similar between the benchmarks. However, 2011 linking factors have a few doubtful cases for all regions, which need to be analyzed. Regarding the magnitude of regional linking factors to the US, it was noted that the unweighted average between 2005 and 2011 was very similar for Latin America, slightly lower for Asia and Western Asia, and slightly higher for Africa. In addition to potentially implausible regional linking factors identified, linking factors for housing (2 basic headings) and government compensation (3 basic headings) needed further analysis.

Regarding the impact of the “Ring” approach of 2005, and the global core list approach of 2011, it was noted that, on average, the selection of countries did not significantly affect the 2011 linking factors. This was tested by comparing 2011 linking factors calculated using (i) all countries and (ii) only “Ring” countries. However, the impact of the “Ring” list was not tested. It was agreed that 2005 linking factors will be extrapolated to 2011, using base country CPIs to US during the period, and these extrapolated linking factors will be compared to actual 2011 linking factors. This test would indicate whether the 2005 linking factors overestimated the price levels of Eurostat-OECD. Further, this could explain some of the concerns raised by the World Bank poverty team.

**National Accounts**
Virginia Romand, Consultant, and Michel presented an analysis on per capita GDP expenditures data that compared the results from two benchmark years (2005 and 2011). The focus was on the nominal and real changes in GDP and final consumption expenditures by households underlining the variations in the top ten largest countries in the world as well as within each region. Those countries require special attention to better understand their data variations. In this context the largest changes in the country’s quintiles in nominal and real terms were highlighted by regions. Additionally, to address ICP-related poverty issues, the nominal and real variations of GDP and final consumption expenditures in terms of PPPs and in US dollars were presented for the 20 countries with the largest poor population.

4. Prepare for the Special Task Force meeting (November 21-22, 2013)
Michel stated that the ICP Executive Board mandated that simulations must be conducted, but those results would not be shared with the Special Task Force. The Special Task Force would review technical
and political aspects that China requested to be considered. The Special Task Force meeting would address all issues described in their Terms of Reference.

5. Summary of conclusions

- Comparison of the 2011 benchmark and extrapolated results: simulations will be conducted for the Household Consumption aggregate, with specific focus on the countries with the highest poverty count and those with the highest deviation from the WDI-extrapolated PPPs;
- A simulation of 2011 global results with the extrapolated 2005 linking factors will be run;
- The analysis of the difference in regional PPPs and PLIs between the ICP 2011 and 2005 will be conducted;
- The 2005 linking factors will be extrapolated to 2011 and compared with actual 2011 linking factors;
- National Accounts: A more thorough analysis of per capita GDP expenditures data, nominal and real, will be carried out.
Annex 1. Agenda

ICP Result Review Meeting, November 19, 2013

0. Opening remarks
1. Discuss poverty issues arising from the current set of ICP results
2. Compare the 2011 benchmark results with 2011 extrapolated figures
3. Review the consistency between 2005 and 2011 ICP results
4. Prepare for the Special Task Force meeting (November 21-22, 2013)

Annex 2. List of Participants

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<tr>
<th>Name</th>
<th>Organization</th>
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<tbody>
<tr>
<td>1 Aten, Bettina</td>
<td>Bureau of Economic Analysis</td>
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<td>2 Basu, Kaushik</td>
<td>Sr. Vice President and Chief Economist, DEC, World Bank</td>
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<td>3 Brannon, Morgan</td>
<td>Consultant, World Bank</td>
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<td>4 Cameron, Grant</td>
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<td>10 Hon, Vivian</td>
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<td>11 McCarthy, Paul (via phone)</td>
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<td>12 Mouyelo-Katoula, Michel</td>
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