

Uses of Purchasing Power Parities to better inform policy making and poverty measurement

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Purchasing Power Parities (PPPs) Users

- International organizations
- Policymakers
- Researchers and Academia
- The Private Sector

United Nations Uses of PPPs

- **Sustainable Development Goals (SDGs)**
 - **Goal 1:** End poverty in all its forms everywhere.
 - **Goal 7:** Ensure access to affordable, reliable, sustainable and modern energy for all.
- **UNDP's Human Development Report**
 - Human Development Index (HDI).
 - Inequality-adjusted Human Development Index (IHDI).
 - Gender Development Index (GDI).
- **UN Educational, Scientific and Cultural Organization (UNESCO)**
 - The relative value of funding provided annually for education.
- **United Nations International Children's Emergency Fund (UNICEF)**
 - The number of children living in poverty, among other indicators.

The World Bank Uses of PPPs

■ World Development Indicators

- Size of the economy.
- Poverty rates at international poverty line.
- Shared prosperity.
- Health systems.
- Energy dependency, efficiency and carbon dioxide emissions.
- Price levels.

Other International Organizations

- **International Monetary Fund (IMF)**

- World Economic Outlook (WEO).
- Quota subscription of member countries.

- **The European Commission**

- Investment for growth and jobs goal through **The Structural Funds** and **The Cohesion Fund**.

- **Organization for Economic Cooperation and Development (OECD)**

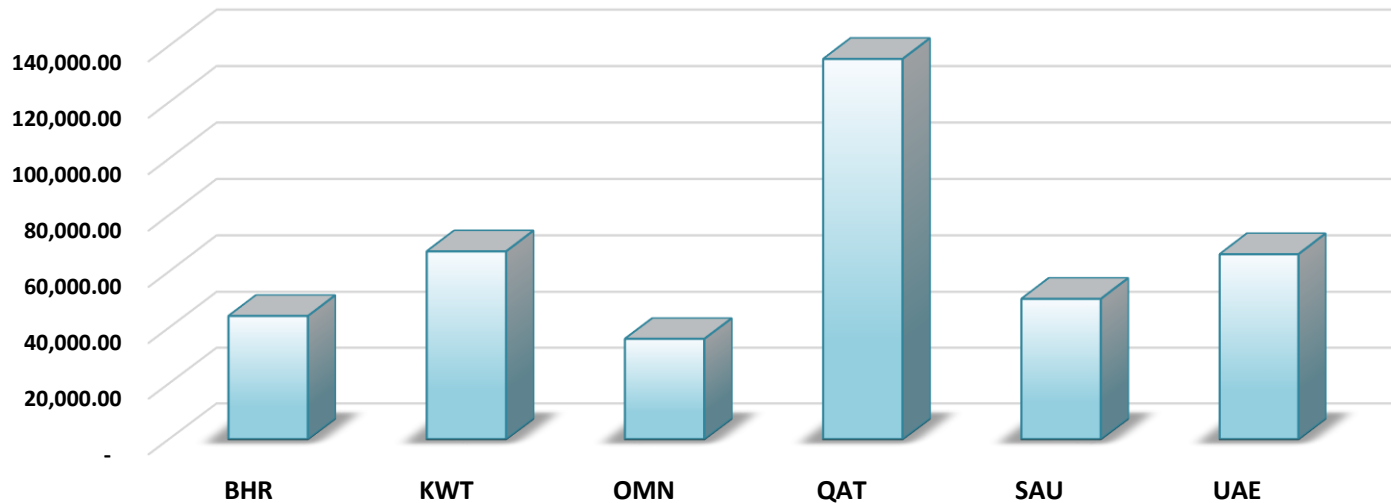
- Aggregation of the real GDP and its components for the OECD region.
- Research and policy analysis by comparing cross-country macroeconomic aggregates.

Policy-Making Uses

- PPPs are used in analyzing a wide variety of topics that involve national, bilateral, regional and global comparisons. The analysis is valuable for policymakers.
- Following is a sample of different topics and their policy implications.

Real GDP & Cost of Living Comparisons

GDP per capita, PPP (constant 2011 international \$)- 2015



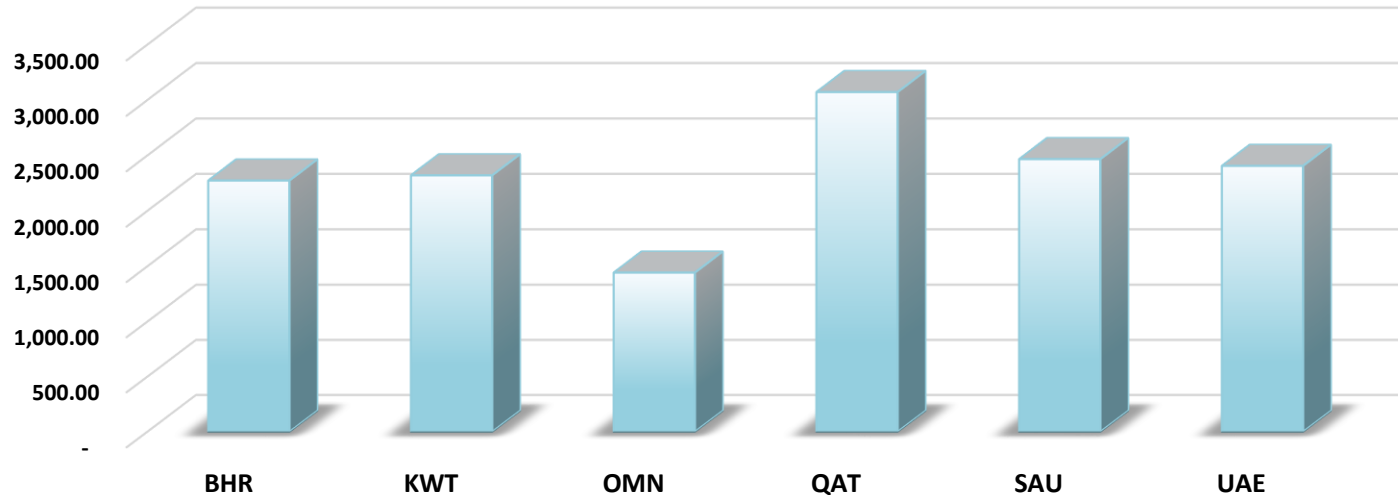
- Growth rate differentials and contributing factors.
- Relative size and structure of the economy.
- Implications for national aid eligibility and poverty count.
- Wage pressure and competitiveness implications.
- Effects of variation in costs on economic well-being.

Global Poverty & International Income Inequality

- **Global poverty** measurements rely heavily on PPPs. Continuous production of PPP data is important for updating global poverty measures and monitoring SDG progress.
 - Guides development policy focus at the local, national and regional levels.
 - Improves identification of the poor and the viability of global poverty goals.
- Rising **income inequality** has increasingly become a major concern. PPPs are (one of the methods) used to convert the incomes in different countries to a common measure.
 - Improving growth models and forecasting the future allocation of global income.
 - Implications for social and political stability, migration flows and geopolitical impact.

Health & Education

Health expenditure per capita, PPP (constant 2011 international \$)-2014



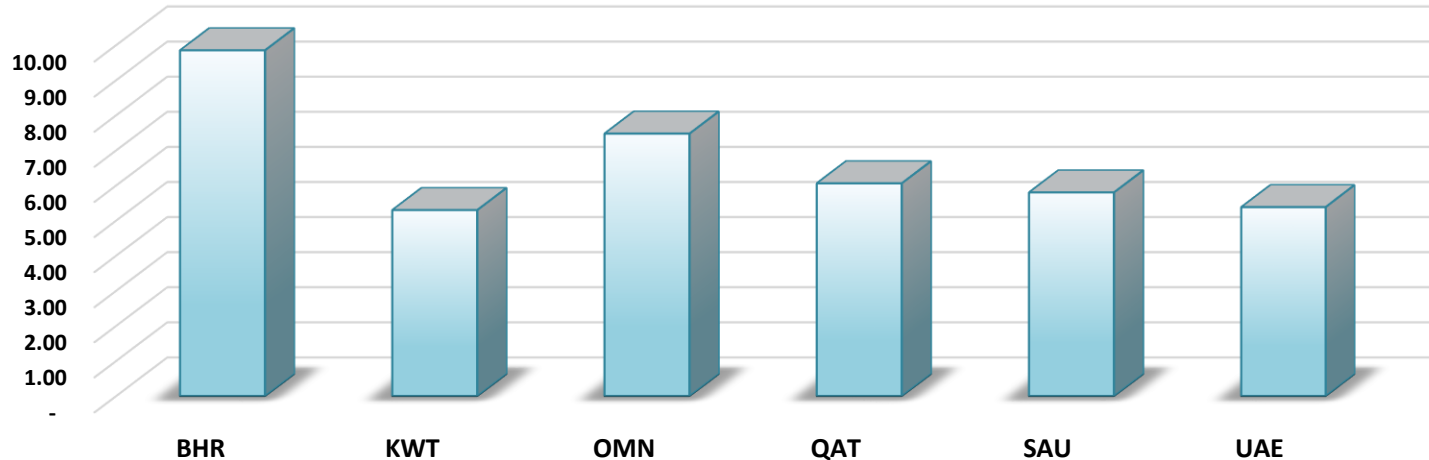
- Education and health have direct influence on the levels of poverty and inequality.
- Sustained economic growth is closely linked to education.
- Effects of high cost of health care.

Productivity, Competitiveness, Trade & Investment

- Comparing the competitiveness and efficiency of production systems across countries
 - PPPs infer productivity differences across countries.
- Cross-country price data reveals an interesting feature; the positive correlation between levels of development and the price of services relative to tradable goods.
 - Distortions to the price of tradable capital goods as a barrier to development.
- PPPs can be an instrument to compare cross-country investment costs, such as labor and material costs.
 - Barriers to attracting foreign investments


Energy Efficiency

Energy intensity level of primary energy (MJ/\$2011 PPP GDP)-2012




- Improvements in energy efficiency bring social, economic and environmental benefits.
- Address costs, availability and environmental impact of energy use.
- Improved efficiency, health, industrial productivity and product performance.
- Wealth creation and social development.

Words of Wisdom when Using PPPs




Recommended uses

- To make spatial volume comparisons of GDP (size of economies), GDP per hour worked (labour productivity), actual individual consumption (AIC) per head (economic well-being)
- To make spatial comparisons of price levels
- To group countries by their volume index of GDP or AIC per head and/or their price levels of GDP or AIC



Uses with limitations

- To analyse changes over time in relative GDP per capita and relative prices
- To analyse price convergence
- To make spatial comparisons of cost of living
- To use PPPs calculated for GDP and its component expenditures as deflators for other values as, for example, household income



Not recommended uses

- As precise measures to establish strict rankings of countries
- As a means of constructing national growth rates
- As measures to generate output and productivity comparisons by industry
- As indicators of the undervaluation or overvaluation of currencies
- As equilibrium exchange rates

Improving PPP Uses

- Improved quality and reliability
- Consistency over time
- Transparency
- Increased openness
- Better advocacy

Useful Links

- Quarterly updates <http://go.worldbank.org/EJYM7QI020>
 - Highlights in every issue new papers or articles using PPP data
- Research using PPPs <http://go.worldbank.org/AC52LWPRA0>
 - Lists and provides links to all new papers using PPP data
- PPPs in the media <http://go.worldbank.org/7HVKK5WWZ0>
 - Provides links to media article using PPP data

A world map composed of a grid of small dots, with the text "THANK YOU" centered over it. The map is rendered in a light gray color, and the text is in a bold, black, sans-serif font. The background is white, and there is a teal-colored bar in the top right corner.

THANK YOU