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

Nada Hamadeh and Hanan AbuShanab
The World Bank Group
IAOS 2016, Abu Dhabi, UAE
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.

  - 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

- 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

- 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

- 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

Source: OECD Statistics Brief, March 2011
Improving PPP Uses

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

• Quarterly updates [http://go.worldbank.org/EJYM7QI020](http://go.worldbank.org/EJYM7QI020)
  – Highlights in every issue new papers or articles using PPP data

• Research using PPPs [http://go.worldbank.org/AC52LWPRA0](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](http://go.worldbank.org/7HVKK5WWZ0)
  – Provides links to media article using PPP data
THANK YOU