Linking Government with Productivity Adjustment

ICP Global Office

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Background

The ICP 2011 round introduced adjustment for productivity differentials at the global level. At the regional level:

- Africa (AFR), Asia and the Pacific (ASI) and Latin America and Caribbean (LAC) used productivity adjustment
- Commonwealth of Independent States (CIS), Eurostat-OECD (EUO) and Western Asia (WAS) did not use adjustments for productivity differentials

Note: The process for estimating regional and global productivity adjustment factors (PAFs) is covered in a separate note
The application of productivity adjustment factors in linking entailed the following steps:

- **STEP 1:** Linking factors for the 3 compensation BHs were calculated using wages of public workers and regional BH PPPs without productivity adjustment, following the “standard” approach for estimating linking factors.

- **STEP 2:** Within each region, geometric means of global PAFs and regional PAFs were computed; the regional PAFs were used as applied by the regions.
ICP 2011 Approach [2]

- **STEP 3:** Regional PAF adjustments were estimated as a ratio of the GM of the global PAFs over the GM of the regional PAFs, both from STEP 2, and the ratios were subsequently normalized relative to EUO.

- **STEP 4:** Regional PPPs, without PAF, were multiplied by the LFs from STEP 1, and the linked BH PPPs were subsequently multiplied by the normalized ratio of global and regional PAFs from Step 3.

These steps ensured that the regional fixity is maintained.
ICP 2017 Approach

The ICP 2011 approach for linking government with productivity adjustment is being followed in the ICP 2017, without modifications.

- Underlying datasets for estimating productivity adjustment factors (PAFs) have been updated, including for the year 2011.
THANK YOU