

# International Comparison Program

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**[06.01]**

## **Proposed ICP Revision Policy**

*Global Office*



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# Proposed ICP Revision Policy

## 1. Background

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The motivation for proposing an ICP revision policy stems from user interest to compare ICP results from subsequent benchmark rounds.

ICP benchmarks produce results that include: real and per-capita real expenditures, Purchasing Power Parities (PPPs) and Price Level Indices (PLIs), and nominal and per-capita nominal expenditures for all participating countries. Results are published at the analytical level. The analytical level is the level of detail (i.e. GDP, main sub-components, categories, groups, and classes) for which the Global Office, OECD, Eurostat and Regional Coordinating Agencies agree to publish data in the ICP benchmark rounds. Results at various levels of detail below the published level - down to the basic heading level - for all countries are available to researchers through a data access process, as stipulated in the ICP Data Access and Archive Policy.

Comparing results from ICP benchmarks is complicated by three significant factors. First, the ICP is designed to provide a one-time “snapshot” rather than a time series. Second, the collection and estimation methodologies for some components are improved between rounds. Third, additional countries are included plus others shift from one region to another. This affects comparisons between countries because the multilateral results will differ depending on the countries included. In addition, National Accounts in virtually all countries are revised over time as additional data become available. For instance, the 2005 estimates of expenditure on GDP, and its major components, have been revised in most countries since the 2005 ICP results were released in December 2007; in the case of 22 countries, these revisions have been in excess of 10%. Additionally, analogous problems arise with revisions to population estimates.

At the September 2012 meeting, the ICP Technical Advisory Group (TAG) advised the Global Office that the 2005 benchmark results should be recomputed to reflect National Accounts revisions. In February 2013, the ICP Executive Board formally decided to adopt this approach, and indicated that a revision policy is necessary to ensure future revisions are applied transparently and consistently. This decision recognizes that successive ICP rounds will be treated by many users as a time series even though they are really one-time snapshots. As such, a formal revision policy is necessary to ensure the greatest possible data consistency in successive ICP rounds.

This paper proposes a revision policy that defines how data will be revised as future ICP rounds generate new benchmark data. It describes the triggers and guidelines for revising ICP benchmark results (real expenditures and PPPs), as well as the timing of revisions and the steps to be taken to communicate these revisions to users. Revisions to real expenditure benchmark results are necessary because of the revisions that countries make to their GDP estimates and population totals for the reference year after the benchmark results are published. Revisions to major sub-components of GDP may sometimes trigger a revision to the aggregated PPPs. In addition, revision to PPPs may be needed to improve the methodological consistency between two consecutive benchmark comparisons, or to correct errors in source data or results.

The paper concludes with a section describing the implications of revising ICP benchmark estimates on the PPP-based annual time series found in the World Development Indicator Database.

## **2. Triggers for Revising Benchmark Results**

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The proposed triggers for revisions are as follows:

### **2.1 Revisions in input data**

- Revisions in aggregate GDP estimates.
- Revisions in major sub-components of GDP.
- Revisions in population figures.
- Changes in countries' currency units.
- Correction of errors in source data or results.

### **2.2 New benchmark ICP methodology**

- Materially improved PPP computation and aggregation methods.
- Materially improved global linking approach.

## **3. Guidelines for Revising Benchmark Results**

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The following guidelines are proposed for revising benchmark results:

### **3.1 Historical revisions**

- The World Bank assumes that estimates of country prices and exchange rates used in the ICP benchmarks will remain unchanged.
- Revisions triggered by changes in a country's National Accounts estimates may require a revision to previous benchmark results, going back historically as far as necessary to incorporate the changes in the country's National Accounts time series. For example, revisions in a country's GDP from 2004 to 2011 would trigger a revision in the real and per-capita real expenditures in the 2005 ICP benchmark results. However, if the revisions spanned 2006 through 2011, the 2005 ICP benchmark results would not be revised.
- Revisions triggered by a new benchmark ICP methodology should not go beyond the last benchmark. For example, ICP 2011 uses improved methodologies so revisions could be done for the last benchmark 2005 results but not for the previous benchmark 1993-1996.

### **3.2 Geographical scope**

- Revisions to benchmark results should be made first to regional results then to global results, in order to preserve the consistency between datasets. Revised within-region PPPs will be the input to the estimation of between-region linking factors needed to determine global level PPPs.
- The World Bank is responsible for revising benchmark results at the global level (i.e. denominated in the global numeraire).
- If a particular region does not revise its regional results, the World Bank will revise and publish global benchmark results to take into account any revision in other regions.

### **3.3 Fixity**

- Revised global benchmark results must respect regional fixity - the convention whereby the price and volume relativities established between countries in a regional comparison are retained when the countries are included in the global comparison. Thus, linking processes should ensure that the global results respect regional fixity.

### 3.4 Classification level

- PPPs could be revised at various classification levels (GDP, main sub-components, categories, groups, or classes) depending on the level of detail of the National Accounts expenditure revisions. For example, revised expenditures at the class level will result in revisions to higher-level PPP aggregates (GDP, main sub-components, categories, and groups) through the aggregation process.

### 3.5 Categories of indicators

- **Real and per-capita real expenditures** will be revised when National Accounts expenditure data and/or population data are revised.
- **PPPs and PLIs** may be revised depending on the level of detail of the National Accounts expenditure revisions. When countries revise their expenditure data for main sub-components, categories, groups, classes, or basic headings, then PPPs (and resulting PLIs) may be revised at levels above the lowest level for which expenditures were revised.
- **Nominal and per-capita nominal expenditures** will be revised when National Accounts expenditure data and/or population data are revised.

### 3.6 Quality review

- At the global level, revised benchmark results should go through an expert review before results are published, to ensure quality of the results.

### 3.7 Publication of revised results

- Revised benchmark results should be published once they have been compiled and undergone the quality review process.
- Revised results should be released at the analytical level of the benchmark results, as established in the ICP Data Access and Archive Policy.

### 3.8 Consistency between published and unpublished datasets

- The World Bank provides researchers with a detailed dataset from benchmark ICP exercises, as stipulated in the ICP Data Access and Archive Policy. This dataset includes real and per-capita real expenditures, PPPs and PLIs, and nominal and per-capita nominal expenditures at all levels - down to the basic heading level. When revising ICP benchmark results, this unpublished detailed dataset may need to be revised to maintain the consistency between the published and the unpublished datasets. For example, if a revision of nominal and per-capita nominal expenditures is triggered, it may be desirable to reflect it at all levels - down to the basic heading level - depending on the World Bank's assessment of the need to do so.

## 4. Timing of Revisions

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- Real expenditures should be revised on bi-annual basis, which would be determined by the extent to which countries have revised their National Accounts since the last time the real expenditure estimates have been revised. The extent of revisions should be monitored over time using data in the international National Accounts databases.
- If there is no benchmark exercise, revisions to PPPs may not be needed.

## **5. Communication of Revisions**

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- The release of revised results should be made according to the ICP communication strategy.
- The schedule of revisions should be announced to stakeholders and users well in advance.
- A press release should inform users of the release of the revised benchmark results.
- Results should be made publicly available on the Internet, ICP portal, and all other pertinent sites.

## **6. Effect of ICP Benchmark Revisions on PPP annual time series in the World Development Indicators**

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- Revisions to PPP time series are triggered by: (i) new benchmark results, (ii) revisions to benchmark results, (iii) results of regional interim exercises, and (iv) new extrapolation method.
- Benchmark results and revised benchmark results are considered more accurate than extrapolated results.
- Results of regional interim exercises may be incorporated in the PPP time series if the results are deemed of sufficient quality by the team preparing the World Development Indicators.
- When the PPP extrapolation method is modified, the new method needs to be communicated to users well in advance.
- PPP time series in the World Development Indicators are updated on an annual basis by the World Bank.