

**Third Meeting of the ICP Task Force on Country Operational Guidelines and Procedures
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**A NOTE ON THE DISCUSSION ON IMPLEMENTING
THE ROLLING PRICE SURVEY APPROACH (RPSA) IN ICP 2020**

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At its 47th session in March 2016, the UNSC tasked the ICP with reducing the interval between its comparisons from six to three years by adopting the rolling price survey approach (RPSA) developed by Eurostat and the OECD and to introduce the approach during ICP 2020. The Task Force addressed the feasibility of employing the RPSA in ICP 2020 and the alternative means of carrying out the 2020 comparison if it was not feasible. Postponing ICP 2020 was not considered an option as it was recognised that to do so would jeopardise the Program's credibility with users.

The RPSA proposed for the ICP regions, other than the EU-OECD region which already employs the approach, is as follows. Prices for consumer goods and services for the reference year 2020 will be collected over three years - 2019, 2020 and 2021 – with one third of the product list being priced each year. Prices for other goods and services – housing, government services and capital goods – will be collected in the reference year 2020. Consumer products selected for pricing in a given year will be priced quarterly with their annual average prices calculated as the average of their four quarterly average prices. The annual average prices will be used to calculate basic heading PPPs for the year. Basic heading PPPs for the non-reference years 2019 and 2021 will be centred on the reference year 2020 with sub-indexes extracted from the CPI.

After the first comparison, that is after ICP 2020, the collection of consumer prices will become cyclical and continuous. Items surveyed in 2019, 2020 and 2021 will be resurveyed respectively in 2022, 2023 and 2024 with 2023 being the reference year. Comparisons will be made every three years as required by the UNSC.

The RPSA as applied in the EU-OECD region differs from that proposed for the other ICP regions in that the basket of consumer items to be priced is divided into six parts with two parts surveyed each year: one part in the second quarter, the other part in the fourth quarter. The prices collected are point-in-time prices and are adjusted to annual average prices using CPI sub-indexes. A proposal that other regions should collect point-in-time prices was not supported even though it would mean a significant reduction in response burden (a burden that the switch to three yearly comparisons increases substantially). It was considered more reliable to average prices collected quarterly, particularly in countries with high inflation.

It is not difficult for regions to change to the RPSA. It is merely a question of replacing one big survey by three smaller surveys. No changes in current ICP methodology are required.

Implementation is complicated by regions having to price the global list of core products as well as their own regional product list. Core products are essential to the global comparison. Comparing their prices across regions generates the coefficients that link the regions to produce the global comparison. The quality of the coefficients, and ultimately that of the global comparison, depends on the quality of the prices of the core products. To ensure the quality of the prices regions are required to have a harmonised approach to the pricing of the core products and, most importantly, to allow sufficient time for a rigorous inter-region validation of the prices collected. In other words, regions should collect and validate the prices of core products at the same time in line with an agreed global timetable. Implementation will require a stricter adherence to timetables than is presently observed. A suggestion that the prices of core products be collected by special survey was not taken up.

The use of CPI sub-indexes to move prices and PPPs through time is not new to the ICP, but its systematic employment as required by the RPSA is. In the RPSA described above CPI sub-indexes are used either to extrapolate or to reproject the basic heading PPPs of non-reference years to the reference year. The adjusted PPPs will be close to PPPs that would be calculated had prices been collected in the reference year if there is a strong correlation between the coverage of the sub-index and the coverage of the basic heading. The greater

the difference in coverage the weaker will be the correlation between them and the accuracy of the adjusted PPPs suspect.

This is an important consideration. A country's PPPs depend on the data of all participants and can be adversely affected by errors in the price data of others including those introduced by the poor matching of sub-indexes and basic headings. A key question when implementing the RPSA is do participating countries have CPIs with the depth to provide sub-indexes with a strong correspondence to the basic heading PPPs they are adjusting? The CIS region will not be adopting the RPSA because its countries do not have CPIs with the required range of coverage and it would cost too much to develop their CPIs accordingly.

On the feasibility of the ICP implementing the RPSA in 2020, it was concluded that it was not feasible and that it would be more realistic to introduce the approach in ICP 2023. First, the approach requires all regions to adopt it, but, besides the CIS, two other regions - Asia and the Pacific and Western Asia – have stated that they will not be applying the RPSA in ICP 2020. Only one region - LAC - has shown any enthusiasm for the approach. And Africa is still undecided. Second, it is too late to employ the approach. Preparatory work should have started in the first half of 2018 with price collection beginning in the first quarter of 2019.

The approach proposed for ICP 2020 is basically the same as that currently followed. All prices for all products (consumer goods and services, housing, government services and capital goods) will be surveyed in 2020. The whole basket of consumer products will be priced in each of the four quarters of 2020 with annual average prices calculated as the average of four quarterly average prices. Pricing consumer products in each quarter avoids the problems arising from ill matched CPI sub-indexes and basic headings. It also has the advantage that, by comparing prices between quarters, errors can be identified and rectified while prices are still being collected.

The CIS, Asia and the Pacific, and Western Asia will use the approach proposed. LAC will probably use it as well. EU-OECD will continue with the RPSA. Africa remains undecided.