



Integration between CPI and ICP Activities in Western Asia

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Introduction



Introduction

- ▶ Differences between CPI and PPPs:
 - ▶ PPPs are spatial price relatives computed through the ICP and allowing the spatial comparison of the purchasing powers of different local currencies;
 - ▶ The computation of PPPs requires collection of prices for a comparable basket of goods and services;
 - ▶ The CPI is a temporal indicator which measures inflation and cost of living in a single country;
 - ▶ The computation of the CPI requires the collection of prices for a representative basket of goods and services in each country;
- ▶ Similarities between CPI and ICP:
 - ▶ Both CPI and ICP require price collection for a specific basket of goods and services;
 - ▶ Both follow the COICOP classification;
 - ▶ Both can be used in research on poverty, sub-national price comparisons, compensation indices and salary scales, etc.

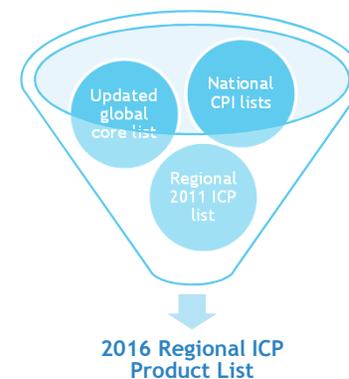


Meaning and Scope of the Integration of CPI-ICP Activities in Western Asia Region

Use of CPI lists for the construction of a regional product list

Western Asia implemented a regional PPP production round in 2016 consisting of actual data collection of HHC and non-HHC surveys;

A regional household consumption product list was constructed by incorporating national CPI product lists, the updated global core list, and the 2011 regional product list;



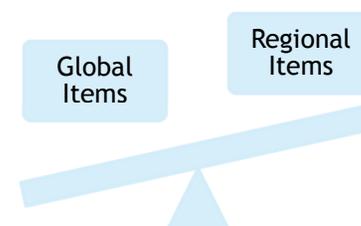
Total number of items	632
Common global items	428
Region-specific items	204

109 items common with 2011

95 newly added items

Use of CPI lists for the construction of a regional product list - cont'd

Global items constitute the major share of the total items in the regional list, ensuring and facilitating the linking of Western Asia PPP results with those of other regions for global comparison;



- ✓ The integration between the CPI and ICP activities in the construction of the 2016 regional product list increases representativeness and comparability of items in the regional product list across countries;
- ✓ This activity paved the way for the implementation of a regional PPP production round and the production of more frequent PPPs.

Use of CPI data in the production of PPPs

- ▶ Western Asia continued the production of annual PPPs in the interim period between the 2011 global round and the 2016 regional round;
- ▶ For the last 3 years, PPPs were computed through a scenario of actual data collection for 2016 and data retrapolation for 2014-2015;
- ▶ The retrapolation of HHC data was performed using quarterly national CPI data for projection of quarterly HHC prices for non-reference years;
- ▶ CPI was used at *product level* when the ICP item was matched in the CPI list, at *basic heading level* when the ICP product was not available in the CPI list, and as *average of closely related items* when the basic heading to which the product belongs was too heterogeneous;
- ▶ Non-household consumption prices were collected by member countries or retrapolated using the appropriate price indices.

Use of CPI data in the production of PPPs - cont'd

- ▶ However, for the new strategy developed to be followed in Western Asia for the 2017 cycle and beyond:
- ▶ **Non-household consumption data:** Actual collection on an annual basis;
- ▶ **Household consumption data:**
 - ▶ Extrapolation/ retrapolation using detailed quarterly CPI;
 - ▶ Actual collection of Fast Evolving Technology (FET) items;
 - ▶ Provision of actual prices for items with available prices, such as electricity, fuel, water supply, communication services, etc.

Use of CPI data in the production of PPPs - cont'd

- ▶ The benefits ensuing from this activity include:
 - ▶ Sustaining the regular production of PPPs without undergoing a full round with actual data collection for a complete list of 632 items;
 - ▶ Sustaining the regular estimation of annual expenditures at the level of the GDP and its aggregates;
 - ▶ The construction of a continuous PPP time series;
 - ▶ Improving the quality and reliability of annual PPP computations with the incorporation of more actual prices as input data;
 - ▶ Reducing member countries' time, budget, and human resources constraints tied to data collection.

CPI-ICP harmonization in the production of sub-national PPPs

- ▶ Western Asia saw the need for the production of sub-national PPPs because of the following differences between regions of the same country:
 - ▶ Inflation level differences;
 - ▶ Consumption pattern differences;
 - ▶ Cost of living and income per capita differences;
- ▶ The UAE was chosen as pilot country for its unique federal structure of seven Emirates, the variation of consumption patterns across the country, and the difference in the prices of goods and services between Emirates;
- ▶ Sub-national PPPs for 2015 for the UAE were successfully computed;
- ▶ National projects are currently implemented in Egypt and Sudan and other countries have expressed interest in undertaking sub-national PPP production.

CPI-ICP harmonization in the production of sub-national PPPs - cont'd

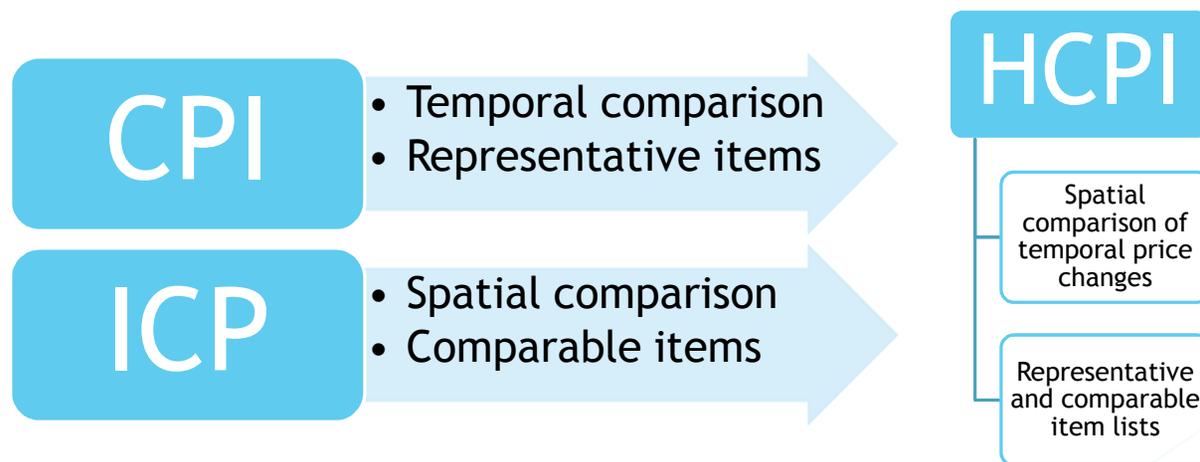
The sub-national PPP computation methodology employed in the UAE consisted of:

- ▶ Development of a new national household consumption product list integrating the different sub-national CPI lists;
- ▶ Development of SPDs for each item to guarantee consistency and comparability in the different sub-national regions;
- ▶ Development of the global non-household consumption surveys to take into consideration national differences and ensure national representativeness;

 *The UAE fully implemented household and non-household consumption surveys by conducting actual data collection.*

Use of the ICP for regional/ sub-regional CPI harmonization

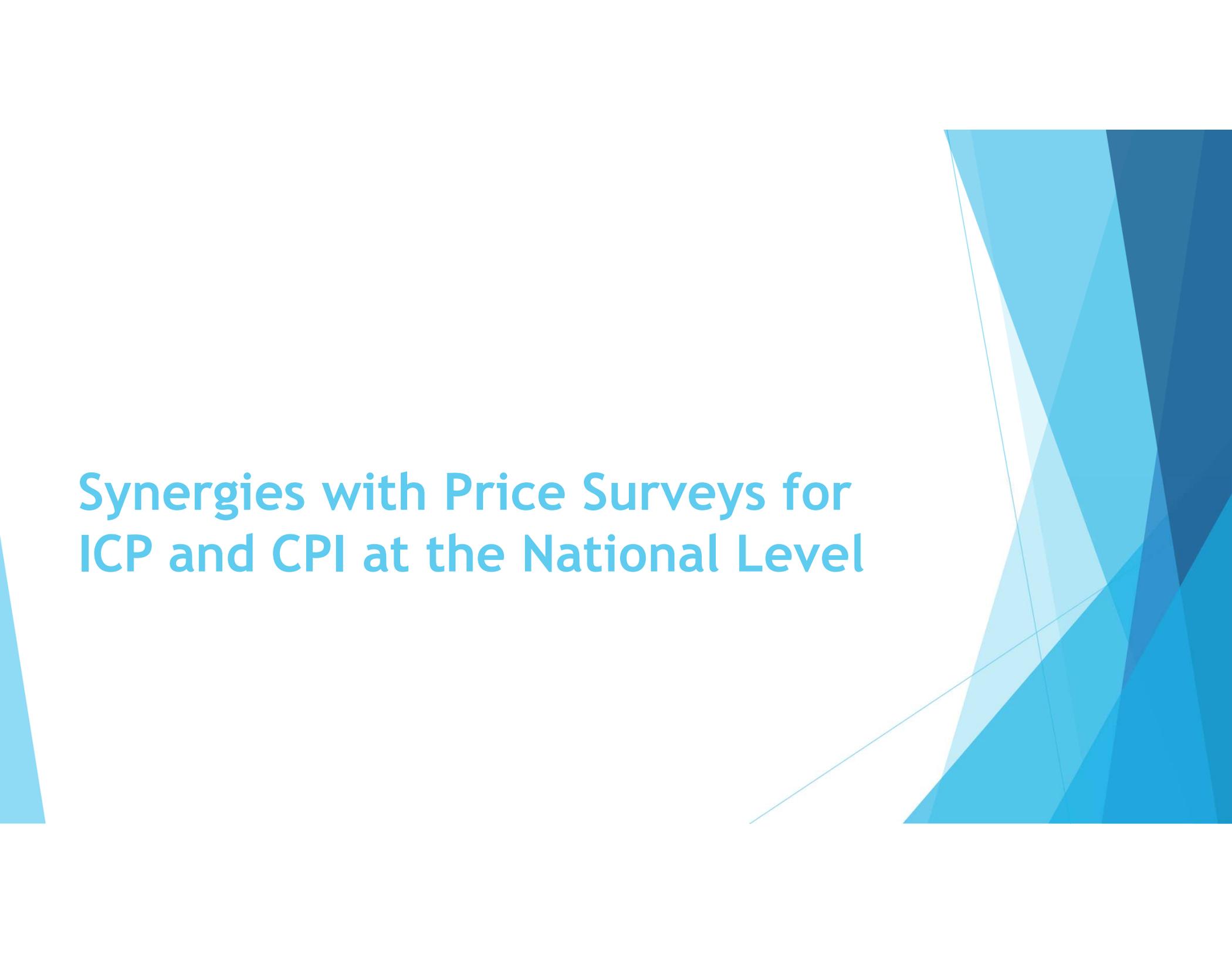
- ▶ The production of HCPIs facilitates the comparison of inflation levels between different countries and enables the measurement of inflation on a sub-regional/ regional level;
- ▶ While the CPI is a temporal indicator and PPPs are spatial indicators, the HCPI provides a spatial comparison of the temporal changes in prices across countries;



Use of the ICP for regional/ sub-regional CPI harmonization - cont'd

- ▶ In the development of the HCPI lists, national CPI lists classified according to ICP basic headings were compared and incomparable items were eliminated;
- ▶ Weights used for the computation of the index - *basic heading and category weights* used for the computation of the national indices and *country weights* used for the computation of regional/sub-regional indices - are shares out of GDP expenditures estimated using MORES from the ICP;
- ▶ The strategy followed by Western Asia in this activity involves increasing the overlap between member countries' national harmonized product lists by gradually introducing new products from the regional ICP list into the national HCPI lists;
- ▶ However, only “important” items according to ICP importance matrix will be added to CPI/HCPI lists.

Synergies with Price Surveys for ICP and CPI at the National Level

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Synergies with Price Surveys for ICP and CPI at the National Level

- ▶ Some member countries have introduced a subset of new items from the regional ICP list to be priced alongside the CPI, hence reducing data collection efforts and costs in the next ICP rounds;
- ▶ The collection of prices for these items will take place on a quarterly basis, but will not enter in the calculation of the CPI, thus maintaining the CPI's national representativeness;
- ▶ As a result, regular PPP production will be more accurate as it will rely less on extrapolation.

Synergies with Price Surveys for ICP and CPI at the National Level - cont'd

- ▶ The practice of annually conducting ICP special surveys acts as a foundation for countries to build on in developing their own special indices, such as a construction index or a machinery and equipment index;
- ▶ **Oman** has incorporated all ICP private education and rentals survey items along with their specifications within their national CPI list;
- ▶ **Palestine** has developed a construction and roads cost index through a survey whose items overlap with the ICP construction survey;
- ▶ **Qatar** has developed a machinery and equipment index based on the ICP M&E survey, with basic heading weights obtained from MORES and is working on developing a construction price index.

Synergies with Price Surveys for ICP and CPI at the National Level - cont'd

- ▶ The integration of CPI and ICP activities at the national level does not only lead to the improvement of national statistical practices, it also guarantees the sustainability of PPP production on an annual basis;
- ▶ Annual PPP production in Western Asia will be achieved through a combination of collection and extrapolation/ retrapolation of household consumption prices using the detailed national CPI, and actual annual collection of non-household consumption prices;
- ▶ This integration will lead to the synchronization of data collection activities between CPI and ICP, thus reducing cost, time, and additional efforts placed into the collection of price data for the ICP.

Statistical Capacity Building - Data Collection and Validation



Statistical Capacity Building

- ▶ Multi-dimensional statistical capacity development through:
 - ▶ Construction of the regional ICP product list;
 - ▶ Formulation of structured product descriptions;
 - ▶ Learning to identify nationally important items within the regional product list;
 - ▶ Developing survey framework for the different surveys, improving the coverage of outlet and market selection, establishing focal points with data providers and improving data collection methodology;
 - ▶ Improving data quality by developing more reliable validation tools practiced through the multiple intra-country and inter-country training sessions and validation rounds conducted for the collected and extrapolated/retrapolated HHC and non-HHC price data.

Statistical Capacity Building - cont'd

- ▶ Palestine has invested the capacities built from participation in the ICP for improving the national CPI and reducing the efforts needed for ICP data collection through:
 - ▶ Development of a single common database divided into common CPI and ICP items, CPI-specific items, and ICP-specific items;
 - ▶ The same team performing data collection for CPI and ICP;
 - ▶ The use of the same equipment for data collection of CPI and ICP;
 - ▶ Construction of an illustrated catalogue for national CPI items;
 - ▶ Application of ICP data validation rules on the national CPI.

Challenges and Opportunities

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Challenges and Opportunities

▶ Challenges:

- ▶ ICP items cannot always be included in the national lists (preserving representativeness);
- ▶ Without overlap of items in CPI and ICP lists, data collection for ICP is costly and time consuming;
- ▶ Achieving overlap between CPI and ICP product lists takes time;

▶ Opportunities:

- ▶ The update of the CPI list presents an opportunity for introducing subsets from the ICP regional item list;
- ▶ Other ICP surveys can be incorporated within the national CPI lists (education and rentals items with their SPDs).

Suggestions for Other Countries

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Suggestions for Other Countries

- ▶ At the national level, a good starting point for integrating CPI and ICP would be the update of national CPI baskets:
 - ▶ Items from global and regional ICP lists can be incorporated into the national CPI lists, thus saving future efforts and costs in data collection;
 - ▶ Each country could start incorporating some ICP SPDs into their matching items within their national CPI lists (if they do not contradict with their own item specifications);
- ▶ At the regional level, there are numerous opportunities for integrating CPI and ICP activities through the implementation of projects which sustain the production of regular PPPs and harmonize methodologies, such as the projects undertaken in Western Asia.

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Thank you!