

ICP Asia Pacific

Sixth Meeting of the Regional Advisory Board

21-22 August 2006

ADB Headquarters, Manila, Philippines

Highlights of Proceedings

Attendance:

Ms. Carmelita Ericta, Administrator, NSO, Philippines
Mr. Yonas Biru, Deputy Global Manager, ICP Global Office
Mr. Peter Harper, Deputy Australian Statistician, ABS
Mr. Huang Langhui, Director General, ISIC, NBS, China
Ms. Josephine Lau, Assistant Commissioner for Census and Statistics, Hong Kong, China
Mr. Sutomo Slamet, Deputy Director General, BPS, Indonesia
Mr. Ifzal Ali, Chief Economist, ADB
Mr. Bishnu Pant, Assistant Chief Economist, ADB
Mr. Vaskar Saha, Principal Statistician, ADB
Mr. Ajay Tandon, Economist, ADB
Mr. Timothy Lo, Statistician, ADB

Updates on the Global Level

1. The ICP Global Deputy Manager (DGM) reported on the status of activities in all ICP regions. The ICP-LAC is the first region to publish consumption PPPs and the remaining regions except CIS are scheduled to release preliminary consumption PPPs in Quarter4 (Q4) 2006 and Q1 2007. The RAB was also apprised on the progress of data collection for household and non-household consumption products.
2. Preliminary PPPs for GDP are scheduled to be released for four regions (Africa, Asia Pacific, Latin America and West Asia) between Q4 2006 to Q2 2007.
3. The Poverty Advisory Group (PAG) recommended computing poverty-PPP weights from household consumption surveys instead of GDP weights. This approach has been endorsed by the ICP Technical Advisory Group (TAG) and the Executive Board (EB) and is being piloted in Africa and the Asia Pacific Region (AP). The World Bank (WB) is assisting the AP Regional Office (RO) in deriving the weights relevant to the poor from household consumption surveys data. This has been completed for twelve countries. However, some issues have to be resolved in four countries before weights could be computed by the WB. The RO will take up these issues with the countries upon receipt of the nature of problem from the WB. For China, Mr. Huang has agreed to take up with the appropriate authorities, access to their household surveys data. The country's consent is needed before the WB will provide data to the RO.
4. The Data Access Working Group is charged with the responsibility of developing a policy for data access to ICP micro data holdings.
5. The UN Statistical Commission (UNSC) endorsed the recommendation of the EB to mainstream ICP and requested an evaluation of this round and submission of a proposal for

the next round for consideration at its thirty-eighth session in March 2007. In this regard, the GO is preparing to commission an independent evaluation of this round and preparedness for the next round.

Updates on ICP Regional Developments

6. The ICP Regional Coordinator (RC) presented the major activities in the AP region since the last RAB meeting. Data review workshops (DRW) were conducted in June/July 2006 for Q1 to Q4 data for household products (except health, education and dwellings) using Quaranta and Dikhanov tables, and the RO's data validation procedures. While a major improvement in the data has been achieved, a few data concerns/ issues are still to be addressed. Some of these are: wide divergence of prices across quarters; very high average price for some products as compared to the sub-regional average price; relatively very low CVs (< 10%) for many products; relatively low number of price quotations to represent national average prices; etc. To address these issues to further improve price parity, an additional DRW for five countries is scheduled on 11-15 September 2006. Singapore was invited to attend but has again expressed its inability to attend due to their heavy work commitment.

7. Price collection for health and education products was mainly done in 2006. Data validation for ten countries (received at the time of conducting the DRW) shows wide divergence in prices.

8. Countries were advised to engage domestic experts for construction and equipment price surveys that were conducted in the first half of 2006. Core Groups of experts associated with price data collection have been formed to assist the RO in data validation in the respective sectors.

9. The DRW for GDP Expenditure Weights held in May 2006 identified issues and strategies to address the concerns raised by countries in GDP weights estimation for 155 basic headings (BHs).

10. For the computation of Poverty PPPs, the AP region will use the methodology recommended by the PAG. In addition, the AP region will conduct a sensitivity analysis study which will involve additional price surveys of a poverty list from outlets patronized by the poor. A workshop organized on 16-17 June 2006 agreed on the poverty list and discussed the survey framework.

11. The four ring countries, namely, Hong Kong, Malaysia, Philippines and Sri Lanka conducted ring price surveys in Q2 2006 and a DRW was conducted on 26-29 June 2006.

12. An Expert group from TAG, ABS, WB, IMF, ADB and the National Bureau of Statistics (China) was constituted to recommend an appropriate methodology for extrapolating data with limited geographic coverage to national levels. The Group met on 19-20 June 2006 and recommended to use principal component analysis which will be useful both for extrapolating to higher level and deriving sub-national level estimates by countries.

Price Data Review

13. Data concerns that still to be resolved were presented to the RAB. China submitted semestral average prices some of which were found to be very high as compared to the regional and high income group averages. Pakistan's average prices for some products showed wide variations across quarters and had very low coefficients of variation (CVs) even when a large number of price quotations was collected. Likewise, Iran showed significantly divergent inter-quarter prices and average prices quite different from the sub-regional average. On the other hand, Indonesia reported very low number of price quotations which were deemed insufficient to represent national averages considering the size of Indonesia. Singapore also reported very high prices for some products while Bangladesh' CVs were very low in many cases. Fiji, Maldives and Mongolia also reported very high prices for some products but they have consistently confirmed their high prices which are due to their economic situation. To resolve these issues, the RO plans to conduct a special DRW on 11-15 September 2006.

14. The RAB suggested arranging bilateral discussions/field visits to Bangladesh, China and Pakistan rather than inviting them to attend the special DRW. The RAB Chair agreed to provide one senior Philippine price collector/statistician to assist China for this exercise. China agreed to refer this proposal for approval by the appropriate authority. China was also requested to submit their revised price data based on intra and inter-country data validation comments from the RO.

15. The GO agreed to explore the possibility of providing an International Consultant for the discussions/field visits. The RO will approach Bangladesh and Pakistan to get their consent. The RAB was also informed that Indonesia has agreed to collect additional price quotations for the computation of annual national average prices of ICP products and they were requested to submit revised price data including additional data collected by the first week of September 2006. ADB can not cover the bilateral visit in Iran as it is not an ADB member country. However, Iran can be invited to the DRW in Manila.

16. As Singapore has not participated in any DRW on consumption items, the RAB discussed the possibility of excluding it from the main PPP computation and opined that various estimates of Singapore may be included only as supplementary tables in the AP report. However, the Chair volunteered to have informal discussions with the Chief Statistician of Singapore since they will meet in the ASEAN heads of NSOs meeting on 24 August in Bali, Indonesia. The Chair will also try to invite them again to attend the special DRW or the conduct of a bilateral visit in Singapore. Depending on Singapore's decision, the RAB will decide on their continued participation in this ICP round. They are the only country not using ToolPack for data submission to the RO. The RAB noted though that Singapore participated in the GDP Weights DRW and the Construction and Equipment workshops; and submitted all the required price data.

Health and Education

17. For a variety of reasons – including those related to significant differences in financing modalities and quality of provision across and within countries - the health and education sectors are comparison-resistant and, hence difficult to price. To have credible real per capita GDP numbers for these sectors, price collection requires special attention to reflect the full cost of goods/services in the respective product lists. For health, the GO specifies four payment modalities: (i) purchased and paid for in full by households; (ii) purchased and paid for partly by the household and partly by the government; (iii)

purchased and paid for fully by the government; and (iv) reimbursement from private insurance companies.

18. Due to the difficulty in obtaining government prices for these sectors, the AP region is collecting prices paid by the consumer for health products and services from private outlets only. As recommended by the RAB, to collect the full price (or cost) of each health product and service should include any co-payments made by private insurance or by the government in addition to the price paid by the user. In the case of health products, these full prices collected from private outlets will be used for PPP computation for both household and individual government consumptions.

19. However, for health services, full prices from private outlets will be used for PPP computation for household consumption only. For individual government consumption the relative pricing of health services will be based on compensations of employees (CE) collected for the relevant employees from data already collected for some 50 government occupations. Reference PPPs (from government final consumption expenditures on hospital services) will be used for household final consumption expenditures for hospital services. The compensation of employees is a key element of pricing for government final consumption expenditures, with reference PPPs used for capital and other input cost components of producing these services.

20. A similar procedure will be followed for PPP computation of private and public education services.

21. The Deputy Global Manager agreed to discuss this approach with the GO for confirmation since the above approach is a departure from the present GO-recommended methodology. Refer to the attached GO guidelines.

22. The RAB opined that the pricing procedure needs to be consistent with what is followed in the national accounts.

Non-household Consumption Items

23. The RAB endorsed the formation of the core groups for Construction and Equipment to assist the RO in price data validation.

24. In a workshop convened by the RO, the countries reached a consensus to exclude the following items from government compensation data collection: *overtime payments; family allowances; head of household allowance; allowances for children's education; special duty allowance; acting allowance; language allowances; "hardship" allowances paid to employees working in remote or inhospitable areas; and "field allowances" or "active service" allowances paid to members of the armed forces serving abroad or engaged in hostilities.*

25. The primary reason for exclusion of the above items was: allowances that were provided to all employees should be included but those that depended on particular circumstances of the employee - e.g. how many children they have, or where they happened to be working, etc. - should be excluded. With the exclusion of family allowances in the compensation data, the employee is defined as a single person with no children.

Ring Comparison

26. The DGM, GO presented the ring methodology covering the following: (i) objectives of the ring program; (ii) ensuring price parity across ring countries; (iii) ring implementation plan; (iv) interface between ICP ring countries and OECD; and (v) methods to link Asian currency basket with the US\$.

27. The RAB was informed that the ring data are being validated and that validated data will be sent to the GO by September in accordance with the global timetable. While recognizing that the present Ring approach of linking regions for the global comparison was a significant improvement over the binary comparison approach in the past round of ICP, the RAB suggested that results from the regional comparison could be used for reviewing if the ring countries selected were indeed representative of the region in their prices.

Extrapolation Issues

28. While PPP computation uses 2005 as the reference year, not all price surveys were conducted in 2005. Construction and equipment surveys were conducted in early 2006, while some countries conducted health and education surveys both in 2005 and 2006. Furthermore, there are differences in product and temporal coverage for the household products price surveys which were supposed to be completed in 2005. An appropriate extrapolation methodology is also needed for deriving national level average prices from a limited geographical coverage.

Missing Quarters

29. In the AP region, five countries were unable to price all household products for four quarters. For the other 18 countries, the annual average prices can be computed from four quarters while the remaining five countries will have less than 4 quarters. This raises the issue of the computation procedure for annual national average prices. To address this, the RAB agreed that the estimation of missing prices should be contingent on the inflation rate in the country and the availability of reliable CPIs as deflators. More noise is introduced in the data if unreliable price deflators are used. Thus, the RAB took the view that estimation of missing prices should be attempted only if the general inflation rate is more than 5 % and reliable price deflators are available for the country.

30. Due to some problems, India and Pakistan could not conduct price surveys in Q1 2005 for household consumption products. Instead, they conducted Q1 2006 price surveys to have data for four quarters. The annual average prices for these countries could be based on Q2 2005 to Q1 2006 without making any adjustment in data due to time difference or Q1 2006 prices can be converted to Q1 2005 using appropriate deflators. The RAB noted that India covers April to March for computing national annual GDP estimates while Pakistan's GDP is compiled based on its fiscal year from July to June. If reliable deflators are available, the conversion of 2006 price data to the reference year for PPP computation of 2005 should be attempted. But in the absence of reliable price deflators, average prices will be computed using Q2 2005 to Q1 2006 price data.

Differences in temporal coverage of price surveys

31. The product lists for construction and equipment for the AP region were finalized only in early 2006. For consistency with the 2005 GDPs, mid-2005 prices should have been collected even if price surveys for these sectors were to be conducted in only one quarter in

2006. However, due to the difficulty in collecting mid-2005 prices in 2006, countries collected prices with reference to the actual period of collection, with countries conducting the surveys in different quarters in 2006. The RAB agreed that some work needs to be undertaken to determine whether relative prices in some of the bigger countries might have changed significantly between 2005 and 2006 due to different structures of construction and equipment expenditures. Notwithstanding this, calibration of 2006 prices to 2005 levels should only be done where inflation is more than 5% and reliable price deflators exist. Otherwise, prices should be left “as is”.

Extrapolation to sub-national/ national level average prices

32. The extrapolation methodology recommended by the Expert Group will use principal component analysis which will be useful for extrapolating lower level data to national levels and deriving sub-national level estimates. This will also enable the estimation of average prices at the national level from China’s 11-city price data.

33. The Australian Bureau of Statistics and the RO will undertake (21 August to 1 September) an exercise in China for splitting national level GDP expenditures data into the required 155 BHS levels.

Poverty PPP Compilation

34. A workshop held on 16-17 June 2006, with sixteen participating countries, finalized the product list for the pilot study on sensitivity analysis of poverty-PPP estimates following the PAG-recommended approach. China could not attend the workshop. The workshop provided guidelines on the framework for conducting price surveys for the poverty list from outlets patronized by the poor. The methodology requires expenditure weights from household consumption surveys which are available from the WB. However, concurrence of the countries is required for WB to share these with the RO. The RO has written to the countries of which eight countries have already agreed to data sharing.

35. The regional poverty-PPP estimates can be prepared using a regional currency. But in order to make the estimates more meaningful, these are to be linked to the US\$ (at PPP exchange rates) as a universally accepted currency. (The first Millennium Development Goal is expressed in terms of \$1-a-day poverty rates). To link the AP poverty estimates with the US\$, finalization of the ring comparison and release of OECD PPP data with 2005 reference period are pre-requisites. However, since these results are not likely to be released before Q2 2007, the AP region will only be able to release US\$ based poverty PPPs in Q3 2007. The RAB agreed that the AP region will not wait until Q2 2007 (which might be delayed further due to unavoidable circumstances) for the ring and OECD results. It should make efforts to finalize poverty PPPs in Q2 2007 based on a reference Asian currency. However, it recognized that in using a numeraire other than the US\$ (e.g. the Philippine Peso), there is always the risk of users converting poverty thresholds to the US\$ by using exchange rates which may lead to erroneous interpretations of the poverty PPPs and confusion when the US\$ PPPs are released. To avoid this situation, a note of caution should be explicitly mentioned. The AP region should also explore an alternative estimation methodology by using the bridge methodology for the global comparison or by using available data to link the AP regional estimates with the US\$. However, it must be cautioned that with this methodology poverty estimates may differ depending on how different the bridge methodology based estimates of the US \$ will be from the final results. This is partly due to

the fact that the distribution of individuals around any conceivable poverty line will differ from country to country.

36. The RAB noted ADB's concern on the timely release of poverty PPPs as a commitment to its donors.

Submission of ICP Price Data

37. Brunei, China, Iran and Pakistan have not submitted validated data in response to the latest comments by the RO, while China, India, Indonesia and Maldives have not marked the representativity of the products they have priced. Brunei, Fiji, and Pakistan have not sent their 2004 GDP expenditure weights.

38. The RAB acknowledged that new activities such as the use of ToolPack; new methodology for price surveys for construction and equipment; inter-active data validation process; and PPP-based poverty measures have considerably contributed to the workload of countries. In spite of these and current assignments of the national statistical offices (NSOs), the RAB appreciated the level of their commitment to the program, although there have been occasional lapses in meeting deadlines. In appreciation of their efforts, the RAB agreed to send a letter (to be signed by the Chair) acknowledging their unwavering support for ICP activities which has contributed to the progress of this round, and at the same time appeal to the concerned countries to exert more efforts for the timely submission of the program's requirements.

Timeline

39. The AP region originally planned to release preliminary PPPs in two phases – household consumption PPPs in Q4 2006 and the full GDP in Q1 2007. The RAB recommended one meeting for national coordinators and another for NSO heads prior to the release of each series. Considering the cost and administrative efforts at organizing four meetings given time constraints, the RAB deemed it more prudent just to have a single release, e.g., issue the preliminary full GDP in Q1 2007. Plans are to release final PPP-based GDP and poverty PPPs both in Q2 2007 while the final report is expected to be ready by Q3 2007.

40. The RAB acknowledged that the national coordinators and NSO heads meetings are crucial not only for the credibility of this round but also for the sustainability of future rounds. RAB members will also be invited to the meeting of NSO heads.

Dissemination of survey results/release by major categories

41. The RO has identified the following aggregation levels for publication based on preliminary average expenditure shares:

- All 17 major aggregates
- 19 of the 26 analytical categories
- 8 of the 61 groups

The proposed aggregation levels are acceptable as a starting point. However, final decisions on the level of detail could be made after an analysis of the results. The preliminary publication should contain significantly less detail than the final publication. The RAB agreed to send their comments on the aggregation levels.

42. The RAB requested the RO to prepare a communication strategy/plan on the release of the PPPs.

43. The RO proposed that participating countries should be categorized into three groups for publication. The three categories are: i) Core group, ii) Additional countries and iii) Supplementary not within the main publication. The “core group” will consist of countries where price characteristics are similar, resulting in robust PPP estimates. The “additional countries group” will be another set of countries where the estimated PPP may not be as robust thus influencing the PPP estimates of the “core” group when they are included in the PPP computation, given the economic situation of these countries. The “supplementary group” will include countries where data validation is incomplete or unsatisfactory and therefore, should not be part of the main publication.

Policy for Access to ICP Micro Data and Unpublished Results

44. The RAB particularly noted the provision that NSOs need to approve the release of their individual price observations or average prices to researchers. In this regard, it would be useful to know whether any non-approval is related to concerns about confidentiality or concerns about the reliability of the information. However, the RAB also noted that NSO approval is not required for the release of basic heading PPPs or expenditure weight information. However, in accessing these data, researchers should be made well aware of the quality limitations of data even at this level of aggregation, and as part of their undertaking the researches. Further, researchers should state that they understand these limitations and data will not be used in a way which is critical of the data provided by countries or of the ICP processes themselves.

45. The RAB members were requested to send their comments on the document provided by the GO.