New Purchasing Power Parities: ICP 2017

Why in News

Recently, the **World Bank** has released new **Purchasing Power Parities** (PPPs) for **reference year 2017**, under **International Comparison Program** (ICP) that adjusts for differences in the cost of living across economies of the world.

International Comparison Program

- It is the **largest worldwide data-collection initiative,** under the guidance of the **United Nations Statistical Commission** (UNSC).
- The **main objectives** of the ICP are to:
  - Produce PPPs and comparable **Price Level Indices** (PLIs) for participating economies.
  - Convert volume and per capita measures of **Gross Domestic Product** (GDP) and its expenditure components into a common currency using PPPs.

Purchasing Power Parities

- It is the rate at which the currency of one country would have to be converted into that of another country to buy the same amount of goods and services in each country.
- The PPP exchange rates are constructed to ensure that the same quantity of goods and services are priced equivalently across countries.

- PPP exchange rates are used to convert the national **poverty** lines from some of the poorest countries in the world to determine the **Global Poverty Line.**
    - For **poverty estimation in India,** the **Tendulkar committee** computed **poverty lines** for 2004-05 at a level that was equivalent, in PPP terms, to Rs 33 per day.
        - **Poverty Line:** The conventional approach to measuring poverty is to specify a minimum expenditure (or income) required to purchase a basket of goods and services necessary to satisfy basic human needs and this minimum expenditure is called the poverty line.

Price Level Indices

- It is the ratio of a PPP to its corresponding market exchange rate.
- It is used to compare the price levels of economies.

Gross Domestic Product

- It is the single standard indicator used across the globe to indicate the health of a nation's economy.
- It is the sum of private consumption, gross investment in the economy, government investment, government spending and net foreign trade (difference between exports and imports).

Key Points

- **India is a co-chair of the ICP Governing Board** along with Statistics Austria **for the ICP 2017 cycle.**
    - India has participated in almost all ICP rounds **since its inception in 1970.**
    - The **Ministry of Statistics and Programme Implementation** is the **National Implementing Agency** (NIA) for India, which has the **responsibility of planning, coordinating and implementing** national ICP activities.
- The ICP 2017 results, revised results for 2011 and estimates of annual PPPs for the period 2012-2016 are **available on the ICP website and the World Bank's Databank and Data Catalog.**
- The **next ICP comparison** will be conducted for r**eference year 2021.**

- **Global Status:**
    - **Values:**
        - Globally, **176 economies participated** in the 2017 cycle of ICP.
        - The PPPs of Indian Rupee per USD at GDP level is now 20.65 in 2017 from 15.55 in 2011.
        - The Exchange Rate of USD to Indian Rupee is 65.12 from 46.67 during the same period.
        - The PLI of India is 47.55 in 2017 from 42.99 in 2011.
    - **Rankings:**
        - In 2017, India retained and consolidated its global position, as the third largest economy and accounted for 6.7% of global GDP in terms of PPPs.
        - China was at first position with 16.4% and the USA at the second position with 16.3%.
        - India is also the third largest economy in terms of its PPP-based share in Global Actual Individual Consumption (AIC) and **Global Gross Fixed Capital Formation** (GCF).
- **Regional Status (Asia-Pacific):**
    - Regionally, **22 economies participated** from the Asia-Pacific.
    - In 2017, India retained its regional position as the second largest economy and accounted for 20.83% of Regional GDP in terms of PPPs.
    - China stands first with 50.76% and Indonesia is at third position with 7.49%.
    - India is also the second largest economy in terms of its PPP-based share in Regional AIC and Regional GFCF.

Actual Individual Consumption

It consists of goods and services actually consumed by individuals, irrespective of whether these goods and services are purchased and paid for by households, by government or by non-profit organisations.

Gross Fixed Capital Formation

- It refers to the net increase in physical assets (investment minus disposals). It does not account for the consumption (depreciation) of fixed capital.
- GFCF is not a measure of total investment because only the value of net additions to fixed assets is measured and all kinds of financial assets as well as stocks of inventories and other operating costs are excluded.

Source: PIB