



## Updating Benchmark PPP for Non-Benchmark Years: A Cost Effective Alternative to the Conventional Full-Scale Exercise

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Conducting an ICP exercise annually would be resource intensive and it would still come out with a significant time lag. The current method in estimating annual PPPs for non-benchmark years therefore is to extrapolate benchmark PPPs using time series national accounts data based on movement and/or changes in GDP deflators versus the numeraire or base country. This extrapolation method is simple and straightforward. However this methodology results in sizable differences and distortions when compared with benchmark estimates, and their magnitude get only bigger as the extrapolation series moves further away from the benchmark year. Among the primary reasons for these differences are the following: (1) national GDP deflators use differing baskets of goods and services across countries; (2) index numbers used in PPP computations and GDP deflators are different. Given these limitations of the current extrapolation methodology, the paper explores the possibility of computing PPPs just for major /capital cities and using a smaller number of products (a subset of products selected to provide maximum efficiency of the estimate) to estimate PPP for non-benchmark years. The ICP (2005 and 2011) provides a rich data source from which capital city prices could be extracted and PPPs for the capital cities could be computed. The capital cities to national average ratio would be then used to convert the PPPs obtained in the update to the national PPPs. Another correction would be made to compensate for going from the subset of the products priced to the full set. This was the methodology implemented in 2009 Asian PPP Update. Such a short-cut methodology provides a compromise between the statistical problems associated with extrapolating PPPs from a benchmark and the costs of conducting a full benchmark survey.

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