This note explains how purchasing power parity (PPP) exchange rates for 2011, which became available in 2014, will be used in estimating poverty in the world and across nations.

PPP exchange rates are computed on the basis of an extensive collection of price data around the world, conducted under the auspices of the International Comparison Program (ICP), an independent statistical program with a Global Office housed within the World Bank's Development Data Group. The ICP began in 1968 as a small research project and evolved into a global statistical initiative with several subsequent benchmark rounds. The PPPs have been used in the World Bank's poverty monitoring since the World Development Report 1990 – using the 1985 ICP benchmark results – and then with time, incorporating the subsequent ICP benchmark rounds of 1993, 2005, and now 2011. PPP exchange rates are used to compare household consumption and income with a common global poverty line expressed in US dollars, since nominal exchange rates do not accurately capture differences in costs of living across countries.

When the PPP exchange rates change, we have to update our estimates of the relative cost of living across countries. This has implications for our estimates of both the level and composition of global poverty. Both the 1993 and 2005 PPP exercises necessitated changes to the original dollar-a-day global poverty line, and affected our measurement of global poverty.

Every time new PPP exchange rates become available, important questions arise about their relevance for the poor, since PPPs are computed for the 'average' basket of goods consumed in a country, whereas we know that the poor do not consume the average basket, but only some basic goods. Their expenditure on luxuries, for instance, is close to zero. So should we use the PPPs as they are, or do we need to adjust the weights on goods to create a new set of indicators especially relevant to the poor?

After a lot of in-house research and consultation with an international panel of experts, below are some preliminary decisions about the methods that will be used and our plan of action.

1. **To use the new 2011 PPP exchange rates or to estimate exchange rates by using the 2005 PPP indicators with consumer price inflation adjustments from 2005 to 2011.** On examination, we agreed that the 2011 PPP exchange rates are an improvement over previous rounds on most dimensions. Hence, the Bank will adopt the 2011 PPP exchange rates to make international comparisons of living standards at the individual and household level, including for poverty estimates.

2. **Re-weighting goods for the poor.** Previous investigations suggested that this would make a relatively marginal difference to the final poverty estimates. Moreover, for many countries, we would not have enough micro data to be able to make these changes anyway. Hence, we have decided against this option.

3. **Poverty line.** What is important is to hold the global poverty line constant in real terms. Since we have declared one of our twin goals using this poverty line as the yardstick, this yardstick must be held unchanged. But there are competing ways of defining what it means to hold the line constant, and even for a given definition, there are multiple ways one might estimate the value. One concept, which is currently our focus, is to ensure that the new line commands the same purchasing power in 2011 as in 2005 in the group of countries that were used to set the $1.25 line. There are other ways of defining a line that is constant in real terms. Our preliminary investigations suggest that, for the 2011 PPP-exercise, the incidence of poverty is not too sensitive to these variations, nor is it likely to cause a major break in the global incidence of poverty in 2011. While we continue to examine competing thoughts on how best to hold the value of the poverty line constant in real terms, our initial range of estimates suggest that the global poverty line of 1.25 in 2005 dollars will rise to somewhere between 1.75 and 2 dollars for 2011. We shall have the precise number over the next two months.

4. **Variations in cost of living within each developing country – in particular, between urban and rural areas.** While ICP data collection seeks to be nationally representative, it is not always possible to achieve the spatial coverage that would be desired. This may necessitate additional adjustments to cost-of-living comparisons within countries before incomes or consumption expenditures are converted to US dollars. A technical working group, co-chaired by Ana Revenga and Francisco Ferreira, will advise me on the specific changes that are needed. This working group will report back over the summer, enabling me to share the Bank’s new global poverty numbers both in aggregate and by country, by the Annual Meetings in Lima.

While the global poverty monitoring process is useful for international comparisons and for assessing progress towards global targets, the poverty numbers and profiles based on each country’s own national poverty line are critical for
improved program design and relevant for country- and grassroots-level discussion. The national poverty lines and profiles therefore have a lot of relevance to inform policy and improve country-level dialogues.

**Timeline.** We will resolve the remaining data issues, update the value of the global poverty line and have the first country-level poverty estimates by July. The final estimates will be ready by early September and will be published as part of the [Global Monitoring Report](#) to be released at the October 2015 Annual Meetings.

This will still leave open some big questions for the long run, all the way up to 2030, our target date for the end extreme poverty. To measure success on this goal, we will have to track what is happening in terms of the 1.25 dollar line, corrected for PPP shifts. However, this is not the only form of poverty that matters. Lines can be drawn at other levels, we can track relative and absolute poverty.

We should also be mindful of the fact that poverty has many dimensions, some of which are not well captured by our current approach. In future years, updating the 2005 $1.25 line with new PPP data may lead to a global poverty line that defies common sense as a measure of basic needs. Should that happen, what method should be used to take account of new PPP data that will come in future years? For such questions I plan to set up a task-force of experts to advice on the right course of action over the next decade and a half.

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