Purchasing Power Parities and the Real Size of Arab Economies
A Comprehensive Regional Report Covering PPP Results for the Years 2011 to 2019
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Committed to the 2030 Agenda, ESCWA’s passionate team produces innovative knowledge, fosters regional consensus and delivers transformational policy advice. Together, we work for a sustainable future for all.
Purchasing Power Parities and the Real Size of Arab Economies
A Comprehensive Regional Report Covering PPP Results for the Years 2011 to 2019
Acknowledgments

The International Comparison Programme (ICP) is managed by the global ICP office at the World Bank under the auspices of the United Nations Statistical Commission.

In the Arab region, the 2017 ICP cycle was managed and implemented by the regional ICP office located at the Economic and Social Commission for Western Asia (ESCWA), led by Majed Skaini, ICP Regional Programme Manager, with the assistance of Sadim Sbeiti, Research Assistant, and the former assistance of Jala EL Akoum, Research Assistant, under the guidance of Juraj Riecan, Director of the Statistics Division, and with the support of Wafa Aboul Hosn, Chief of the Economic Statistics Section. This report, including the regional results and associated analysis, was prepared by Majed Skaini and Sadim Sbeiti.

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Foreword

At such times of global uncertainty, exacerbated by the COVID-19 pandemic, with some world economies undergoing stagnation and financial crisis, people recognize the importance of purchasing power parity (PPP) conversions given that prices may vary significantly across countries, while most official market exchange rates remain fixed, thus not reflecting the real relative value of currencies and their purchasing power across different countries.

The importance of the International Comparison Programme (ICP) lies in producing reliable PPP estimates employed in measuring the real sizes of economies, thus enabling spatial comparisons of economy sizes, total and per capita income, individual material well-being and price levels, and providing crucial data for informed decision-making and evidence-based policies.

The present report provides indicators and comparative analysis of the real sizes of 12 Arab economies that participated in ICP under ESCWA leadership, namely Bahrain, Egypt, Iraq, Jordan, Kuwait, Morocco, Oman, Qatar, Saudi Arabia, the State of Palestine, the Sudan and the United Arab Emirates. The commitment of this group of countries has enabled ESCWA to succeed in developing a fully integrated price statistics programme, under the framework of which ICP is consolidated with regular work on the consumer price index to produce PPPs on an annual basis and develop other harmonized price indices.

In this group of countries that constitutes around 84 per cent of the economy of the Arab region, Saudi Arabia retains its ranking as the biggest economy in both real and nominal terms. However, even though the United Arab Emirates appears to have the second biggest economy in nominal terms, PPPs reveal that in real terms Egypt takes on the second place in economy size. When comparing globally, and in contrast to what exchange rates reflect, PPPs show that the average individual material well-being for this group of countries appears higher than world average individual material well-being.

These countries vary significantly in terms of economic structures, income levels, degrees of well-being and costs of living. When it comes to per capita income, there are stark differences among them. Cross-country income differences are particularly noticeable between Gulf Cooperation Council countries and other Arab countries. Exchange rate conversions suggest that income inequality within this group of countries has been growing over time, whereas the opposite is revealed when real comparisons are made using PPPs, as the direction is inverted to reflect closer movement to income equality over time.

Today, PPPs are gaining more importance in achieving sustainable development, shared prosperity and dignified lives. Among many other uses, PPPs enable the measurement of progress towards the achievement of the Sustainable Development Goals by entering into the computation of indicators under 8 of the 17 Goals.

Rola Dashti
Executive Secretary
ESCWA
The 12 ESCWA member States in the present report comprise around 84 per cent of the Arab economy, and make up around 4.2 per cent of the global economy.

In contrast to what exchange rates show, the average individual material well-being for the 12 countries is higher than the average global well-being.

Compared with world economies in 2017, Egypt ranked as the least expensive country followed by the Sudan in third place.

Qatar ranked as the second richest country globally in 2017 after Luxembourg, followed by the United Arab Emirates in eighth place.

Four ESCWA member States were ranked in the top 15 countries worldwide in terms of per capita investment in 2017, namely Bahrain, Kuwait, Qatar and the United Arab Emirates, with Qatar ranking first at both the regional and global levels.

Kuwait, Qatar and Saudi Arabia were ranked in the top 15 countries worldwide in terms of per capita government spending in 2017.
Saudi Arabia retains its position as the biggest economy across the years in both real and nominal terms, constituting over 30 per cent of the collective economy of the 12 countries.

Egypt replaces the United Arab Emirates as the second biggest economy when measured in real PPP terms, in contrast to the reverse ranking reflected through exchange rate conversions.

All 12 countries witnessed an improvement in individual material well-being over the period 2011-2018, with the largest improvement observed in Qatar.

Bahrain witnessed the highest increase of 45 per cent in per capita investment between 2011 and 2018, whereas the Sudan witnessed the highest decline of 63 per cent.

Per capita spending on construction in Kuwait spiked by 72 per cent between 2011 and 2018, but Qatar retained the top rank in the region across the eight years.

Price levels varied widely between countries in 2019, with Qatar reaching 150 per cent of the regional average compared with the Sudan at 33 per cent.
Executive Summary

The present report sets out the results of the International Comparison Programme (ICP) for the Arab region for the years 2011-2019, along with analysis of major results and key findings. It includes an introduction of ICP, its outputs and their importance, and tables of ICP results from a global perspective for the years 2011-2017 and from a regional perspective for the years 2011-2019.

ICP is one of the biggest global statistical initiatives worldwide. Since its inception, it has gone through different stages, developing from a small project to a permanent statistical work programme conducted regularly. ICP provides comparable price and volume measures of gross domestic product (GDP) and its aggregates between countries and regions. Purchasing power parities (PPPs) are the main output of ICP. They convert different currencies into a common currency, while equalizing their purchasing power by eliminating price level differences, thus showing the real purchasing power of each currency and allowing for reliable cross-country comparisons.

The Economic and Social Commission for Western Asia (ESCWA) is the implementing agency of ICP in the Arab region. It supervises and guides its member States in implementing ICP-related activities and is responsible for computing PPPs and other ICP outputs for the region. A total of 12 Arab countries participated in the latest global ICP round under ESCWA leadership, namely Bahrain, Egypt, Iraq, Jordan, Kuwait, Morocco, Oman, Qatar, Saudi Arabia, the State of Palestine, the Sudan and the United Arab Emirates. ESCWA has positioned the Arab region as a pioneer in the field of ICP and price statistics in general. It has consolidated the Programme within a fully integrated price framework with other regular statistics work programmes.

PPPs are highly valued not only for their increased uses in comparative economic analysis and welfare estimations, but also for monitoring progress towards the achievement of the Sustainable Development Goals (SDGs) and The 2030 Agenda for Sustainable Development. PPPs enter into the computations of indicators pertaining to targets under eight SDGs, namely SDG 1, no poverty; SDG 2, zero hunger; SDG 3, good health and well-being; SDG 4, quality education; SDG 7, affordable and clean energy; SDG 8, decent work and economic growth; SDG 9, industry, innovation and infrastructure; and SDG 10, reduced inequalities.

Sizes of economies are better compared when measured in real PPP terms. Observing the group of 12 Arab countries that the present report focuses on and which constitute around 84 per cent of the economy of the Arab region, Saudi Arabia leads the group as the biggest economy across the years in both real and nominal terms. As for the second biggest economy, whereas the United Arab Emirates appears to occupy that position in nominal terms, results show that in real terms, when PPPs are used instead of exchange rates, Egypt steps ahead as the second biggest economy in the Arab region.

Price level differences are noticeable between Arab countries. In general, Gulf Cooperation Council (GCC) countries are more expensive. One notable exception is the State of Palestine, which is one of the most expensive countries in the region, along with Kuwait, Qatar and the United Arab Emirates. At the other end of the spectrum, Egypt and the Sudan are the least expensive of the 12 ICP-participating Arab countries. In 2019, there was a significant gap between the most expensive and least expensive countries in the Arab region, where the price level of Qatar was 150 per cent of...
the regional average, while that of the Sudan was 67 per cent lower. The price level in Saudi Arabia, however, hovers around the regional average. At the global level, when comparing with world economies in 2017, Egypt ranked least expensive followed by the Sudan in third place.

In terms of real per capita income, Qatar, which ranked first worldwide in 2011, ranked second in 2017 after Luxembourg. The United Arab Emirates also made it to the top countries with the highest per capita income globally, scoring eighth out of 176 in 2017.

Moving to individual material well-being, best measured by real actual individual consumption, all 12 Arab countries witnessed an improvement from 2011 to 2018. The largest improvement in individual material well-being was observed in Qatar, where real per capita actual individual consumption more than doubled over that period.

In the Arab region, per capita spending on investment - represented by per capita gross fixed capital formation - is remarkable. In the 2017 global comparisons, four ESCWA member States were classed among the top 15 countries with the highest per capita investment expenditures worldwide, namely Qatar, the United Arab Emirates, Kuwait and Bahrain, with Qatar scoring the top place at both the regional and global levels. Between 2011 and 2018, Arab countries have experienced fluctuations in their per capita spending on investment, with some countries witnessing increases in their per capita investment expenditures opposed by decreases in others. The most significant increase was witnessed in Bahrain, where real per capita investment expenditures in 2018 rose by around 45 per cent compared with 2011. In contrast, the Sudan witnessed a 63 per cent decrease in real per capita investment expenditures between 2011 and 2018. Focusing on construction in particular, the Sudan remains the country with the largest decline in real per capita spending, with a 71 per cent decrease from 2011 to 2018. However, per capita spending on construction in Kuwait rose by 72 per cent over the eight-year period, with Qatar preserving the top rank in per capita construction spending in the region throughout the period.

All ICP results are now accessible to users on the ESCWA database. Users will also have access to an online PPP tool, which they can employ to convert between currencies of the 12 countries or into United States dollars to observe their real relative purchasing powers.
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<th>Definition</th>
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<tr>
<td>AIC</td>
<td>actual individual consumption</td>
</tr>
<tr>
<td>BMat model</td>
<td>Bayesian maternal mortality estimation model</td>
</tr>
<tr>
<td>CPD</td>
<td>country product dummy (method)</td>
</tr>
<tr>
<td>CPD-W</td>
<td>country product dummy-weighted (method)</td>
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<tr>
<td>CPI</td>
<td>consumer price index</td>
</tr>
<tr>
<td>ESCWA</td>
<td>Economic and Social Commission for Western Asia</td>
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<tr>
<td>FAO</td>
<td>Food and Agriculture Organization of the United Nations</td>
</tr>
<tr>
<td>FISIM</td>
<td>financial intermediation services indirectly measured</td>
</tr>
<tr>
<td>GCC</td>
<td>Gulf Cooperation Council</td>
</tr>
<tr>
<td>GCL</td>
<td>global core list</td>
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<tr>
<td>GDP</td>
<td>gross domestic product</td>
</tr>
<tr>
<td>GEKS</td>
<td>Gini-Éltető-Köves-Szulc (method)</td>
</tr>
<tr>
<td>GFCF</td>
<td>gross fixed capital formation</td>
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<tr>
<td>HCPI</td>
<td>harmonized consumer price index</td>
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<tr>
<td>HHC</td>
<td>household consumption</td>
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<tr>
<td>ICP</td>
<td>International Comparison Program (International Comparison Project prior to 1990)</td>
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<tr>
<td>LCU</td>
<td>local currency unit</td>
</tr>
<tr>
<td>MORES</td>
<td>Model Report on Expenditure Statistics</td>
</tr>
<tr>
<td>n.e.c.</td>
<td>not elsewhere classified</td>
</tr>
<tr>
<td>NPISHs</td>
<td>non-profit institution serving households</td>
</tr>
<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
</tr>
<tr>
<td>PLI</td>
<td>price-level index</td>
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<tr>
<td>PPP</td>
<td>purchasing power parity</td>
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<td>SDGs</td>
<td>Sustainable Development Goals</td>
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<tr>
<td>SNA</td>
<td>System of National Accounts</td>
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<tr>
<td>UNESCO</td>
<td>United Nations Educational, Scientific, and Cultural Organization</td>
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<tr>
<td>XR</td>
<td>exchange rate</td>
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</table>