Integrating Purchasing Power Parities in the World Bank's Classification of Countries by Income Level

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The World Bank's classification of countries by income level is widely used for analytical purposes, to generate useful categories according to the level of a country's economic capacity or development, allowing for the tracking of progress vis-a-vis established thresholds over time. Countries are classified into four broad and widely-recognized categories: low income, lower middle income, upper middle income and high income.

From a statistical perspective, given their broad and highly visible influence, these classifications require stable, high quality time series with a high degree of cross-national coverage and comparability, conceptual rigor, and data quality. They rely on a broad macroeconomic indicator, Gross National Income (GNI) per capita with specific adjustments to mitigate the impacts of inflation and market volatility. Thresholds are fixed in real terms, updated annually for world inflation, and the underlying measures of GNI per capita are converted to a common currency using exchange rates.
Purchasing Power Parities (PPPs), which account for price level differences across countries, are widely believed to be a more relevant metric to reflect wellbeing in cross national comparisons than exchange rates. While their collection and compilation require intensive multilateral efforts, considerable progress in the stability and frequency of PPPs has been achieved in recent years via investments in the International Comparison Program (ICP). They are worthy of consideration in a re-examination of the World Bank's classification methods.

This paper will explore methodological and practical issues in integrating Purchasing Power Parities in the World Bank's classification of countries by income level. It will examine potential scenarios and impacts and assess data quality risks. It will conclude by highlighting considerations for a way forward for the future advancement of these measures.