



INTERNATIONAL COMPARISON PROGRAM (ICP) HIGHLIGHTS OF THE ICP2017 RESULT GOVERNMENT FINAL CONSUMPTION EXPENDITURE (GFCE)

What is GFCE?

01

The Government Final Consumption Expenditure (GFCE) is the sum of **Individual Consumption Expenditure by Government (ICEG)** and **Collective Consumption Expenditure by Government (CCEG)**.

02

Government Final Consumption Expenditure includes goods and services which are paid by government and which commercial enterprises provide directly to the public.

03

ICEG is predominantly expenditure on health and education, apart from housing, recreation and culture, and social protection incurred by government on behalf of households.

04

Whereas CCEG refers to the expenditures of the services that provides to the community as a whole, such as the general public service, defence, public order and safety, economic affairs, environmental protection, and housing and community amenities.

05

A comparative analysis of per capita real GFCE and its components provides useful insights into how governments play different roles in economies.



Household
Consumption



Machinery &
Equipment



Construction



Housing
Rental



Housing
Volume



Government
Compensation



Health



Education



Purchasing Power Parities (PPPs) for GFCE

Definition of PPP

PPP is the amount of currency units required to purchase a common basket of goods and services in an economy that can be purchased with one unit of the reference currency in the reference economy.

Importance of PPP

PPP is important because it allows economists to compare two different economies, primarily the economic productivity and the standard of living among nation. It seeks to equalize currencies to determine the value of a basket of goods.

Illustration 1 of the Comparison of Goods Between Hong Kong and Malaysian



- ❑ Illustration 1 shows that a common basket of good that are worth HK\$250 in Hong Kong dollars, if converted to Malaysia ringgit, its cost will RM141.43.
- ❑ In terms of PPP's, the PPP's is RM 0.5657 per Hong Kong dollar.

Since the 2005 International Comparison Program (ICP), the reference economy in Asia and the Pacific has been Hong Kong, China and reference (or numeraire) currency has been the Hong Kong dollar.

The main reasons for this choice are:

- (i) Hong Kong, China has a broad-based economy where prices are available for many products;
- (ii) it has a strong statistical system for compiling both prices and the economy's accounts; and
- (iii) the Hong Kong dollar is well-recognized in the region, relatively stable, and rarely influenced by market fluctuations.

Source: http://167.172.231.121/currency-converter/hong-kong-dollar-hkd_myr-malaysian-ringgit.htm/1

The PPP formula calculation = 100



Exchange rates, as market exchange rates, are used to convert the currency of one economy into other countries



$$\frac{\text{PPP for Malaysian ringgit} = \text{RM}141.43}{\text{HK}\$250} = \text{RM}0.5657 \text{ per Hong Kong Dollar}$$

HK\$ = Hong Kong dollar, PPP = Purchasing Power Parity, RM = Malaysian ringgit

Summary of PPP

PPPs can be used to convert expenditure aggregates expressed in local currencies into real aggregates, which can then be compared with the price levels of another country. Suppose the PPPs for Malaysians are deemed to have the same purchasing power as that of one Hong Kong dollar. This PPPs can then be used to convert the GDP of Malaysia in Hong Kong dollars. PPPs ratios help in making more comparable of living standards in different countries.

References:

1. ICP DOSM NEWSLETTER DOSM/BPHPP/6.2022/Series 49
2. 2017 ICP; Purchasing Power Parities and Real Expenditure: A Summary Report
3. 2017 ICP; Purchasing Power Parities and Real Expenditure: Results and Methodology
4. Forex, http://167.172.231.121/currency-converter/hong-kong-dollar-hkd_myr-malaysian-ringgit.htm/1



Table 1: Present PPPs and Exchange Rates results for GFCE, 2017 (Hong Kong, China = 100)

Economy	PPPs (HK\$ = 1.00)	Exchange Rates (HK\$ = 1.00)
Viet Nam	733.48	2,870.44
Indonesia	550.85	1,716.98
Laos	236.96	1,071.64
Cambodia	183.79	519.75
Mongolia	61.22	313.06
Malaysia (17 th)	0.23	0.55
Singapore	0.13	0.18

Source : 2017 ICP; Purchasing Power Parities and Real Expenditure: Results and Methodology

- Most countries in the Asia Pacific region have bigger differences between their PPPs and exchange rates.
- Singapore and Malaysia, however, recorded smaller differences between PPPs and exchange rates, as shown in Table 1.
- In most of the economies, PPPs for GFCE are quite low as compared to exchange rates.
- PPPs for government expenditure are largely driven by the wages in the government sector.

- This is because a major component of government expenditure is government compensation in the form of wages and salaries to government employees.
- Despite adjusting for differences in productivity level of government employees in different economies, PPPs for government in developing economies tend to be low, and Price Level Indexes (PLIs) are accordingly low.
- This means that real government expenditures in these economies would be systematically higher than their nominal expenditures.
- Besides that, table 1 shows that the PPPs and exchange rate for Malaysia ranked number 17th as compared to other countries.
- Malaysia has a higher real expenditure than nominal expenditure attributable to Malaysia's lower price levels relative to another country.

Price Level Indexes (PLIs) for GFCE

Price Level Indexes (PLIs), measured as the ratio of PPPs to exchange rates, are indicators of the general price levels measured relative to a reference economy or the region as a whole.



A PLI greater than 100 means that when the national average prices are converted at exchange rates, the resulting prices tend to be higher on average than prices in the base economy.



For examples, a PLI of 110 for an economy indicates that prices in that economy are on average 10% higher than the prices in the reference economy, whereas a PLI of 90 indicates that the prices are lower by 10% on average.



References:

1. ICP DOSM NEWSLETTER DOSM/BPHPP/6.2022/Series 49
2. 2017 ICP; Purchasing Power Parities and Real Expenditure: A Summary Report
3. 2017 ICP; Purchasing Power Parities and Real Expenditure: Results and Methodology
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Table 2: Present PLIs results for GFCE, 2017 (Hong Kong, China = 100)

Economy (Highest)	PLIs (HKG = 100)	Economy (Lowest)	PLIs (HKG = 100)
Hong Kong, China	100	Sri Lanka	17
People's Republic of China	77	Bhutan	19
Singapore	75	Mongolia	20
Taipei, China	53	Laos	22
India	50	Myanmar	24
Malaysia (9th)		42	

Source : 2017 ICP; Purchasing Power Parities and Real Expenditure: Results and Methodology

- Table 2 shows PLIs with Hong Kong, China as reference economies, with PLI = 100.
- It may be seen that the PLI for all other economies is below 100, with the People's Republic of China, PLI ranked record is 77 followed by Singapore 75.
- The lowest PLI of 17 was recorded in Sri Lanka, followed by a PLI of 19 for Bhutan and 20 for Mongolia.
- The PLI for **Malaysia's** was 42 (Hong Kong, China = 100), these PLI are ranked ninth in the region. If Malaysia's PLI is lower than 100, then the country is relatively inexpensive compared to other countries.
- The calculation formula PLIs :-

$$\frac{\text{PLIs for Malaysia :-}}{\text{Exchange Rates}} \rightarrow \frac{0.23}{0.55} = 42$$

- PLI for government expenditure are lower than PLIs for Gross Domestic Production for most economies, reflecting relatively low salaries of employees in low income economies.

Expenditure per Capita (HK\$) – per capita real GFCE

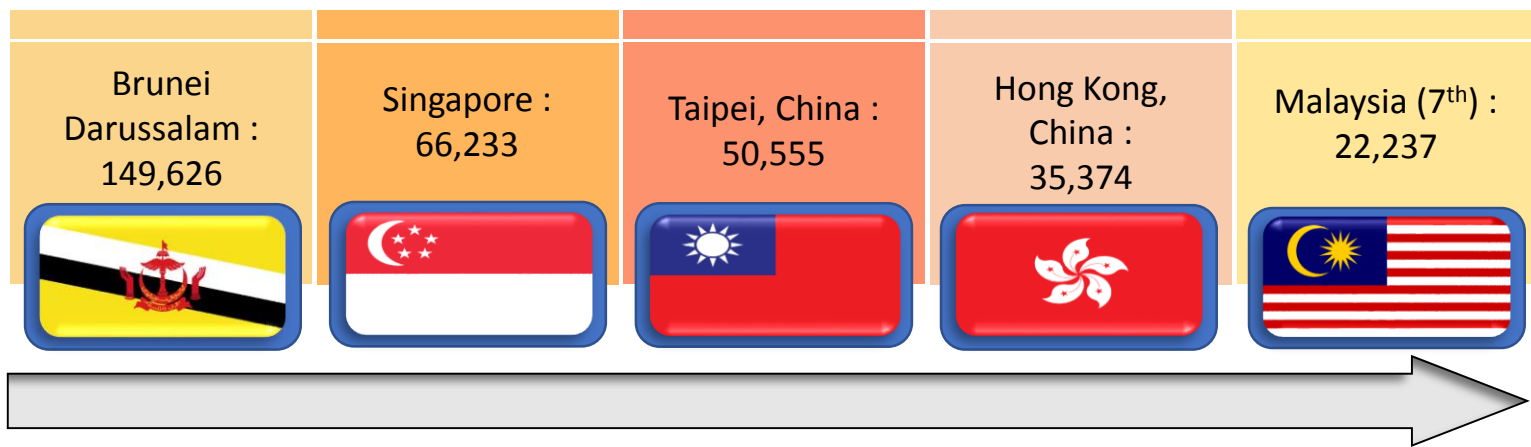
- In terms of per capita real GFCE, Brunei Darussalam recorded the highest with HK\$149,626, followed by Singapore with HK\$66,233. Brunei Darussalam's per capita real GFCE is almost 17 times that of region's average per capita real GFCE. **Malaysia's** per capita real GFCE was HK\$22,237 as shows in Exhibit 1.
- Meanwhile, the per capita real GFCE index of the Brunei Darussalam was higher at 1,680, followed by Singapore at 744. For **Malaysia**, the per capita real GFCE index is 250 and ranked seventh. Malaysia's may be considered as middle-income economies.

References:

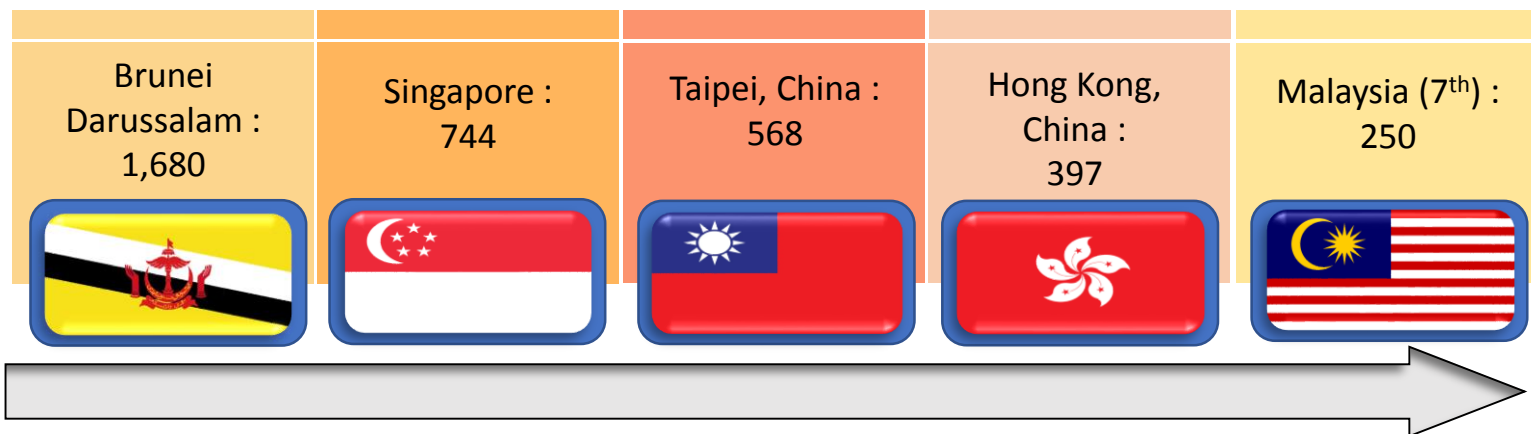
1. ICP DOSM NEWSLETTER DOSM/BPHPP/6.2022/Series 49
2. 2017 ICP; Purchasing Power Parities and Real Expenditure: A Summary Report
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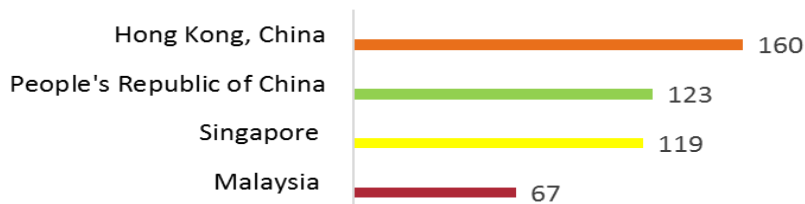
Exhibit 1 : Expenditure per Capita (HK\$) – per capita real GFCE



Expenditure per Capita Indexes – per capita real GFCE index



Price Level Indexes for Gross Domestic Product and its Major Components, 2017



- PLIs for GFCE are quite low for most economies despite adjusting for productivity levels.
- PLIs for GFCE are higher than the regional average, not only for the high income economies of Hong Kong, China and Singapore but also for the People's Republic of China, which belongs to upper-middle income group.
- The PLIs GFCE for **Malaysia's** was 67 (Asia and Pacific = 100), and their ranked income group is middle-low income.
- PLIs for government expenditure are generally low due to low salaries for government employees, and government compensation in the form of wages and salaries is a major component of government.

References:

1. ICP DOSM NEWSLETTER DOSM/BPHPP/6.2022/Series 49
2. 2017 ICP; Purchasing Power Parities and Real Expenditure: A Summary Report
3. 2017 ICP; Purchasing Power Parities and Real Expenditure: Results and Methodology
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