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Working Party on National Accounts

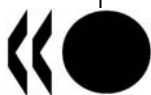
QUARTERLY NATIONAL ACCOUNTS AND ECONOMIC POLICY IN KOREA

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This document has been prepared by Min Woo KIM (National Income Statistics & Coordination Team, National Accounts Office, Economic Statistics Department - The Bank of Korea) and will be presented under item 6 of the draft agenda

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QUARTERLY NATIONAL ACCOUNTS AND ECONOMIC POLICY IN KOREA

I. Introduction

- The Bank of Korea was designated as an official institution for compiling the Korean national accounts statistics in 1957. The national accounts have since been compiled annually.
- Quarterly National Accounts of Korea have been compiled since 1968.
- In 1999, right after the foreign exchange crisis of 1997, Korea changed its monetary policy regime and introduced an inflation targeting system. Under inflation targeting, there has been growing interest in the promptness of economic indicators to facilitate preemptive policy implementation.
- In 2005, the Bank of Korea started compilation of an 'Advance' estimate. This was not entirely a model-based estimate, but a result of compilation of existing information, based on the survey, and monitoring of industrial activities, and on various quantitative data sources.
- In 2008, as an extension, the Bank of Korea decided to estimate a 'Flash' estimate, the close to real-time estimate of quarterly national accounts, due to the need for their internal use in monetary policy decision-making. It was decided to carry out this Flash estimate to meet, for the urgent need for prompt GDP statistics with a minimum time lag, amid the heightened economic uncertainty in global financial markets originally triggered by the US sub-prime mortgage meltdown.

II. Compilation of Quarterly National Accounts in Korea

1. *Flash estimate*

- The compilation of the Flash estimate is completed within five days of the end of the reference quarter.
- Flash estimate is compiled based mainly on monthly data of the first two months of the reference quarter, various daily collected data (for example, exports, imports, traffic of freight transportation vehicles, and etc.), for the last month of the quarter, and compilers' judgmental extrapolation based on many streams of official and unofficial source data and the results of time series models.
- The Flash estimate is provided only to the Monetary Policy Committee and not disclosed to the public, mainly because it is still at the 'trial and error' stage.

2. *Advance estimate*

- The compilation of the Advance estimate is completed and announced to the public within 28 days of the end of the reference quarter. In addition to the basic resources used for the Flash estimate, the provisional corporate financial statements are drawn on as source data. And the compilers' judgmental extrapolations for the last month of the reference quarter are modified when there is other additionally acquired information.

3. *Preliminary estimate*

- The compilation of the Preliminary estimate is completed and released within 70 days of the end of the reference quarter. There is also some additional information added to the source data for the Advance estimate. For example, information is incorporated from quarterly final corporate financial statements, that gathered by individual industrial associations and government agencies, and that from various quarterly statistics produced by the National Statistical Office(Statistics Korea).
- The magnitude of the revision in the growth rate of GDP stood at around 0.1 to 0.4%p from the first quarter of 2008 to the second quarter of 2010. This seems to represent a relatively stable movement in the magnitude of the revision, in that it stayed mostly below 0.1%p.
- However, from the second quarter of 2009 to the first quarter of 2010, the period of recovery just after the sharp recession, the magnitude of the revisions grew a little bit larger than usual, running at about 0.3 to 0.4%p.
- Overall, there does not seem to be any form of systematic bias shown up in the revisions. It was also found that the main source of revisions were the modification of source data and the addition of new information.
- The Bank of Korea sets out brief but clear-cut guide on revision policy for the quarterly national accounts on the cover of the press release.

Table 1

History of Revisions From Flash to Preliminary Estimate

		Estimates(%)						Difference(%p)					
		Percent change from previous quarter			Percent change over previous year			Percent change from previous quarter			Percent change over previous year		
		F	A	P	F	A	P	A-F	P-A	P-F	A-F	P-A	P-F
2008	1q	0.7	0.7	0.8	5.7	5.7	5.8	0.0	0.1	0.1	0.0	0.1	0.1
	2q	0.9	0.8	0.8	4.9	4.8	4.8	-0.1	0.0	-0.1	-0.1	0.0	-0.1
	3q	0.6	0.6	0.5	3.9	3.9	3.8	0.0	-0.1	-0.1	0.0	-0.1	-0.1
	4q	-5.5	-5.6	-	-3.3	-3.4	-	-0.1	-	-	-0.1	-	-
2009	1q	0.2	0.1	0.1	-4.2	-4.3	-4.2	-0.1	0.0	-0.1	-0.1	0.1	0.0
	2q	2.3	2.3	2.6	-2.5	-2.5	-2.2	0.0	0.3	0.3	0.0	0.3	0.3
	3q	2.8	2.9	3.2	0.5	0.6	0.9	0.1	0.3	0.4	0.1	0.3	0.4
	4q	0.2	0.2	-	6.0	6.0	-	0.0	-	-	0.0	-	-
2010	1q	1.8	1.8	2.1	7.8	7.8	8.1	0.0	0.3	0.3	0.0	0.3	0.3
	2q	1.4	1.5	1.4	7.2	7.2	7.2	0.1	-0.1	0.0	0.0	0.0	0.0

III. Issues and Reconciliation for the Flash and Advance Estimate

1. Statistics vs. Forecast

- Do the Flash or Advance estimates indeed belong to statistics? or are they just forecasts?
 - Flash or Advance estimates can be still called statistics, because, though there are some elements which could be regarded as forecasts, they still depend on the source data and a reasonable inference of the current economic situation based on various quantitative and qualitative information.

2. Accuracy vs. Rapidity

- The Flash or Advance estimate is premised on the sacrifice of statistical accuracy.
 - A rapid but a slightly inaccurate estimate is much better for the economy as a whole, than the accurate statistics after a long time lag, considering the increasing uncertainty about economic conditions in a globalized world.

3. Transparency vs. Policy Priority

- It is problematic that why is the Flash estimate provided only to monetary policy committee.
 - As the Flash estimate is just at the stage of trial and error, its public release should be put off until its statistical stability is clearly proven. Nevertheless, it is desirable for the public good to provide it to those who are engaged in monetary policy.

4. Extra burden vs. User friendly

- The compilation of the Flash or Advance estimate is certainly an additional burden to compilers, which might cause a lack of precision in statistics.
 - User satisfaction is also one of the elements in evaluating the quality of statistics.

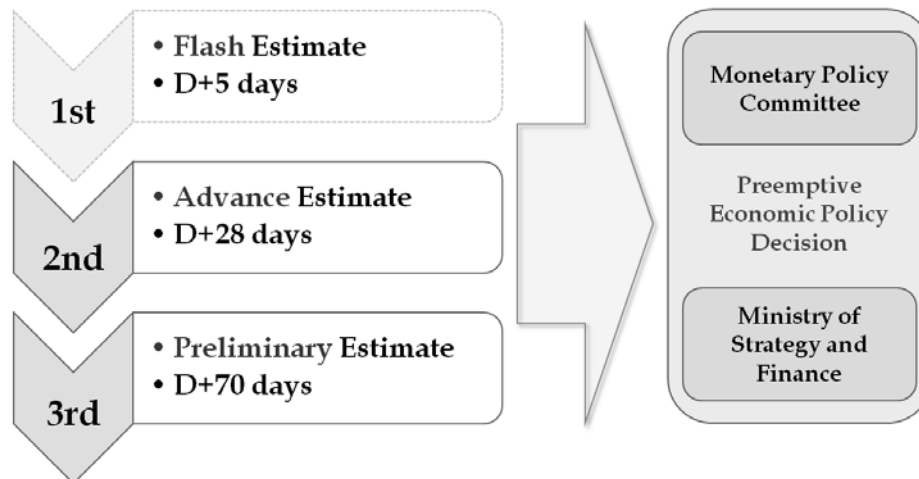
IV. Policy Achievements of the Practices

- The effectiveness of the Flash and Advance estimates has been enhanced due to the increasing importance of more up to date macroeconomic statistics since the global financial crisis. One-step ahead policy considerations are crucial for preemptive policy implementation. The Flash and Advance estimates have made it possible to reduce the time lag between the turning point in business cycle and counter-cyclical policy measures.
- When the Flash or Advance estimates are statistically proven, the policy authorities can implement policy with confidence and persuade the people why a particular policy should be put in place at a certain time.
- Especially in the case of the Advance estimate, which is compiled under more stable conditions and released to the public, the needs of both domestic and international users are evaluated as being sufficiently satisfied.

- Finally, Flash and Advance estimates have contributed to improvement in the effectiveness of preemptive economic policy measures and confidence in them.

Figure 1

Quarterly National Accounts and Economic Policy



V. Way Forward

- The Bank of Korea is trying to raise the precision of the Flash or Advance estimate.
 - Less model
 - Less judgment
 - More source data
 - Statistical infrastructure and capacity still be primary priority
- The Bank of Korea is also trying to develop a monthly GDP indicator.