

**IMMEDIATE
ATTENTION**

SM/10/187
Supplement 1

July 12, 2010

To: Members of the Executive Board

From: The Secretary

Subject: **Republic of Korea—Report on the Observance of Standards and Codes—
Data Module—Response by the Authorities**

Attached for the **information** of the Executive Directors is the response by the authorities to the report on the observance of standards and codes for the Republic of Korea (SM/10/187, 7/12/10).

It is expected that this report will be posted on the Fund's external website after July 19, 2010.

Questions may be referred to Mr. Enoch (ext. 35372) and Ms. Mesias (ext. 37956) in STA.

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities.

Att: (1)

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Department Heads

INTERNATIONAL MONETARY FUND

REPUBLIC OF KOREA

**Report on the Observance of Standards and Codes (ROSC)—Data Module
Volume II**

Response by the Authorities

July 8, 2010

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I. GENERAL COMMENTS

Bank of Korea

The ROSC mission of the International Monetary Fund (IMF) has proved to be very helpful in reviewing and improving the quality of statistics compiled and disseminated by the Bank of Korea (BOK).

The BOK concurs with most of the concluding recommendations made by the IMF. Some of the recommendations have already been implemented and have contributed to improving our statistical framework, and others will be followed up in the future development of our statistical systems.

Regarding Active-X, as mentioned in the report, the BOK plans to resolve the problem by 2012, when state-of-the-art browser-free access will be introduced. The BOK will make full use of all available systems of cooperation among the related agencies to maintain data consistency during the migration process towards the new methodology such as *BPM6* or *SNA 2008*.

We are also pleased to inform you that we approve the posting the entire ROSC-Data Module document to the IMF's website.

Detailed responses concerning each set of statistics are set out below.

Statistics Korea

It was useful for the Statistics Korea (KOSTAT) to cooperate with the IMF's mission team to review the quality of the CPI in compliance with the international standards. While preparing the 2010 rebase of the CPI, the KOSTAT implements your recommendations by establishing the action plans as follows.

Ministry of Finance and Economy

During the IMF Mission's visit to Korea, we had the pleasure to be given the opportunity to review the quality of our government finance statistics by considering compliance with international standards.

The MOSF will continue its efforts in improving the government finance statistics, especially placing emphasis on the Mission's recommendations to be supplemented at the earliest possible time.

However, we hope you understand that statistics can vary from country to country due to wide differences in every respect of society of their own.

For instance, following to the IMF manual, although it is recommended to compile the general government statistics by the end of June in the following year, given the situation of

Korea such as the period of budget account settlement of local governments (submit to the local council at the end of June in the following year), it is realistically difficult to disseminate the general government statistics by June.

Nevertheless, the MOSF is committed to meeting the IMF standard, and we expect your understanding of our continuous efforts.

In terms of disclosure of this report, we agree to make it public if our opinion stated in Volume II is attached as it is.

In addition, it would be greatly appreciated if you consider that using the ROSC data modules for ranking the data quality of member countries is inappropriate when they are published.

II. PLANS FOR FUTURE STATISTICAL DEVELOPMENT

A. National Accounts

Regarding the Denton Method after reviewing its feasibility and some technical issues, the BOK is to consider using it for the original data in order to adjust quarterly estimates to agree with annual benchmark estimates as for the seasonally adjusted data.

The BOK has been undertaking developmental work on the National balance sheet for the last few years and the results of the work will be released in the near future. Consequently, the estimates for consumption of fixed capital can then be derived using the Perpetual Inventory Method (PIM) once the capital stock data from the National balance sheet statistics are available.

The BOK does not consider that the non-observed economy (NOE) is a major issue in the Korean national accounting system, so will not take any specific actions to estimate the NOE for the time being. However, the BOK will keep trying to capture the scale of the NOE as far as possible using a variety of approaches such as expanding self-survey samples within service industries and developing new source data.

Also, the BOK is conducting a pilot test to compile the supply-use tables (SUT) directly. Therefore, the statistical discrepancy between GDP by production activities and GDP by expenditure could be removed at the time of use of a SUT framework.

Currently, the BOK analyzes the differences between the initial estimates and the revised estimates for a short time period quarterly and annually, while a revision study for a long time series has only been undertaken once in 2006. In the future, the BOK will undertake similar revision studies periodically.

B. Consumer Price Index

Access the Korean Statistical Information System (KOSIS): The KOSTAT establishes the new data-base system for international users to open it by the end of 2010. After then, they access the KOSIS free of charge without downloading additional software.

Carry forward for seasonal products: The statistical techniques could vary from country to country upon cultural, environmental, and social wide differences. As Korea has four distinct seasons, the KOSTAT uses the carry-forward method for seasonal products which possess clear seasonal patterns. In particular, agricultural products could not be replaced with any other products. Since the KOSTAT has thoroughly reviewed the consumption patterns and market distribution for seasonal products to revise the CPI every five years, the KOSTAT concludes the carry-forward is practically the best method for them. To prepare the 2010 rebase of CPI, the KOSTAT studies various methodologies for seasonal products.

Consult widely users: About statistical methodologies and major changes for revising the CPI, the KOSTAT consults the National Statistics Committee (NSC) which consists of the Ministers, the Governor of the Bank of Korea, and professionals in academic field. Considering your recommendations, the KOSTAT will discuss them with the NSC for 2010 rebase of the CPI.

Assess the feasibility of farming and fishing households: Because the fishing households account for less than 1 percent of total Korean households, the KOSTAT does not include them in the CPI. After the KOSTAT examines and compares expenditure patterns of the Farm Household Economic Survey and the Household Income and Expenditure Survey, the KOSTAT will decide whether to include the farming households in the CPI or not.

Change weights from a five-yearly to a three-yearly: While revising the weights and items of the CPI every five years ending in 0 or 5, the KOSTAT will change only weight of CPI every five years ending in 3 or 8 from 2013. Like regular revision of the CPI, the KOSTAT will hold the NSC and evaluate the effects of change.

C. Producer Price Index

Compiling Korean Central Product Classification (KCPC) is undertaken by the Statistics Korea, which has recently been pursuing this project through discussions with the organizations concerned. The application of KCPC to the PPI will be feasible only after the Report on Mining and Manufacturing Survey, the elementary data for the estimation of PPI weightings, is itself performed by KCPC. Implementing the KCPC for the 2010 PPI rebase in 2013 remains problematic because there is no possibility in sight of compiling Report on Mining and Manufacturing Survey according to the KCPC.

The BOK uses carry-forward for imputing temporarily missing prices for both regular and seasonal products. The BOK was already aware of the weaknesses in this, so it is involved in a study of appropriate methods of imputing missing prices for both regular and seasonal products.

To remove the upward bias that results from use of an arithmetic average, the BOK compiles a supplementary index calculated using a geometric mean. There may well be pros and cons in changing the component products and formulae so the BOK is going to review the influence of such a move. And, once chain index PPI is compiled, the problem of upward bias derived from use of an arithmetic mean will disappear.

The BOK compiled an experimental chain Laspeyres index in 2009, and will continue to do so for the next few years. During the period of experimental compilation, it will counter the effects of substitution bias and assess the reliability.

In metadata documentation, it will be explicitly noted that products included in the PPI are classified by the Korean Standard Industrial Classification (KSIC) and so on.

D. Government Finance Statistics

Periodicity and Timeliness: As the period of budget account settlement of the Korea's local governments is after June in the following year, it is difficult to disseminate the general government statistics including local governments by June. Therefore, given the situation of Korea, it is considered that disseminating the statistics by November of the following year is realistically acceptable.

Consistency: The Korean government is processing the task reconciling the range of government debt and fiscal balance, and it will be completed at the end of this year. Based on this statistical reforming work, the identical range will be applied from 2012 when statistics are compiled according to the *GFSM 2001*.

Data Accessibility: Following the SDDS, as the Korean government has in principle disseminated the central government statistics by the end of next month and the general government statistics by the end of November of the following year, it is unnecessary to publish release calendars. However, for users' convenience, release calendars of fiscal statistics will be provided in future.

Metadata Accessibility: Metadata of the general government are posted on the website. Additionally, as it will be published through the '2010 Korea's Integrated Fiscal Balance' booklet during the third quarter of 2010, accessibility to the general government metadata will be enhanced.

E. Monetary Statistics

The BOK has so far recorded all Foreign Exchange Stabilization Fund (FESF) flows and stocks in the central bank accounts. However, after 2012, with the implementation of the *BPM6*, the *GFSM 2001* and the *SNA 2008*, all FESF flows and stocks will be included in the central government accounts in the monetary statistics, BOP, IIP, GFS and the National accounts and treated consistently at all stages.

In the BOK balance sheet, all marketable financial instruments are recorded at book value, and assets and liabilities denominated in foreign currencies are revalued twice a year, at the

end of June and December. The accounting treatment is consistent with the BOK's accounting policies and cannot be varied for monetary statistics purposes unless the accounting policies are changed.

The BOK is working on combining the accounts of the commercial & specialized banks and the nonbank depository corporations into the Other Depository Corporations Survey (ODCS). In the ODCS, the BOK will present claims on the BOK, and liabilities to the BOK on the assets and liabilities side, respectively, and will also try to introduce regular cross-checking procedures of positions between the BOK and the ODCs, as well as positions among the ODCs.

The name of "reserve money" has already been changed into "monetary base". Financial instruments included in broad money will be aligned with the following *MFSM* defined instruments - *Currency in circulation, Transferable deposits, Other deposits, and Securities other than shares* - in the relevant statistics.

The BOK will draw up measures to withdraw the SDDS flexibility option.

F. Balance of Payments Statistics

The BOK has compiled data only for foreign branches of domestic banks on reinvested earnings. However, it has compiled annual experimental data on all transactions on reinvested earnings. The BOK plans to disseminate them in 2012 when migrating to the *BPM6* is scheduled.

The BOK has compiled data only for certain enterprises such as airlines and shipping companies on foreign currency transactions of enterprises through accounts held abroad. However, it intends to carry out sample surveys on foreign currency transactions of enterprises with relatively large sums held in accounts abroad, and disseminate the data in 2012 when migrating to the *BPM6* is scheduled.

The BOK plans to estimate data on trade credits of affiliated enterprises using the proportion of trade credits between affiliated enterprises, which can be obtained from the direct investment survey, to the trade credits of all enterprises. The BOK is going to publish them in 2012 when migrating to the *BPM6* is scheduled.

Regarding short-term loans of affiliated enterprises, the BOK has already reclassified them as other capital in direct investment.

Regarding the basis of recording of income transactions, the BOK has partially adopted the accrual basis to be consistent with the *Balance of Payments Manual*. It also plans to take further steps to improve the current method.

The BOK will make full use of all available systems of cooperation among the related agencies to maintain data consistency during the migration process towards the new methodology such as *BPM6* or *SNA 2008*.

The BOK has so far recorded all FESF flows and stocks in the central bank accounts. However, after 2012, with the implementation of the *BPM6*, the *GFSM 2001* and the *SNA 2008*, all FESF flows and stocks will be included in the central government accounts in the monetary statistics, BOP, IIP, GFS and the National accounts and treated consistently at all stages.