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Why statistics matter

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Why statistics matter

More care should be taken in presenting important statistics, says Steve Hanke, editorial adviser to Central Banking.

Error and uncertainty in economic data renders it noisy. As the noise in reported data increases, it interferes with the detection and interpretation of movements in the true value of the underlying data. Indeed, a noisy series is especially problematic when it is used to design, implement and interpret monetary policy.

Improved accounting standards and more timely and frequent reporting improve transparency, reduce errors and uncertainty and resulting noise. Homage should be paid to the principle of linguistic monogamy – one meaning for one word. Unfortunately, in practice, linguistic polygamy abounds. This creates mega noise – more than one distinct time-series of data purporting to report the same thing.

Indonesia is but one country where definitional polygamy has created problems that have caught some analysts wrong footed. Indonesia presents two time series for reserve money – one reported on the International Monetary Fund’s Special Data Dissemination Standard and another on Bank Indonesia’s website balance sheet. The accompanying table summarises the items that are included for the accounting of reserve money for both the IMF’s SDDS reporting and Bank Indonesia’s website balance sheet.

Bank Indonesia, therefore, reports two different series for reserve money. And the gap between the series can be very large. Indeed, it was in the June-July 2004 period. According to Bank Indonesia’s balance sheet presentation, reserve money increased by Rp7.9 trillion and Rp19.1 trillion in June and July 2004, respectively. This amounted to month-over-month changes for June and July of 5.38% and 12.27%. The Fund’s SDDS presentation for the same two months of 2004 showed an entirely different, if not alarming, picture Reserve money grew by Rp34.6 trillion (23.45%) in June and Rp3.96 trillion (2.17%) in July.

Table 1: Turning on the pump

	IMF/SDDS	BI website balance sheet
Cash in vaults	✓	✓
Currency in circulation	✓	✓
Banks’ demand deposits	✓	✓
Private enterprise deposits	✓	✓
Demand deposits in foreign currency	✓	
Deposits in BI overnight facility	✓	

These large differences occurred during the electoral season. The IMF-SDDS reserve money figures show that Bank Indonesia turned on the money pump in June 2004, one month before the country’s first-ever direct presidential election. Bank of Indonesia’s presentation injects noise into the system, noise that should be eliminated by solely embracing the Fund’s SDDS template. It’s time to start practicing linguistic monogamy. □