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Future Challenges for Monetary Statistics in a Changing Environment. Comments on "Rethinking Monetary Analysis and Statistics"

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1 Introduction

Mr Ibrahim´s presentation reviews the implications for the statistical work of the increased interdependence between monetary policy and financial stability in a context of increasingly sophisticated and interconnected global financial markets. Firstly, the presentation identifies in some detail existing statistical gaps in this connection affecting the granularity of data, its coverage, timeliness and degree of harmonisation. It then reviews whether current statistical initiatives suffice to fill the identified gaps. And finally, it suggests some guiding principles for future statistical work.

Mr. Ibrahim's presentation is very comprehensive and authoritative, and there is not much to disagree with. Therefore, I will focus my comments on five specific points that aim to complement it with the Euro system's experience and perspective.

In Section 2 of this article, I will address the consequences of the increased interconnection between monetary policy and financial stability in the context of the monetary policy strategy of the Eurosystem. My thesis in this regard is that I do not see the need for central banks to choose between the two polar strategies to deal with bubbles and financial imbalances -"pricking bubbles pre-emptively" and "mopping-up after"- which were discussed in the academic literature that preceded the global financial crisis. Going forward, central banks will have to make a more flexible use of both policy modes, depending on specific circumstances. That flexibility is, however, very demanding in terms of information requirements. In Section 3, I will review the information requirements that arise from the "leaning against the wind" mode, and will go through some gaps identified at the beginning of the crisis in the case of the euro area. In Section 4, I will review the information requirements that arise from the "mopping-up after" mode of monetary policy, with examples taken again from recent experience in the euro area. In Section 5, I will refer to statistical requirements arising from macro-prudential policy. Finally, I will comment on the importance of some features of the institutional framework.

2 Increased interconnection between monetary policy and financial stability

I agree with Mr Ibrahim that one of the lessons from the crisis is the increased interconnection between monetary policy and financial stability. In my view, however, the increased interlink does not imply that monetary policy should be the first line of defence against financial instability. Firstly, the objective of price stability must remain paramount and great care is needed to make sure that it is not jeopardised by the risks of confusion and the communication challenges that may arise if (against Tinbergen's principle) monetary policy were to become overburdened with multiple objectives. Secondly, real-time identification of misalignments and financial imbalances continues to be a very difficult task. And thirdly, interest rates may be too bold an instrument to deal with specific financial stability imbalances.

These are all elements that cemented the pre-crisis consensus that central banks should remain focused on their primary objective of preserving price stability and act only afterwards to counter

the fallout, limiting collateral damage and ensuring financial stability ex-post. Having said that, it is also clear to me that the "Great Recession", from which advanced economies have not yet recovered, has challenged this view in a fundamental way. For it has been a powerful reminder of the enormous welfare costs that financial instability inflicts on societies and of the difficulties of monetary policy to counter episodes of severe financial turmoil. Also, from today's perspective, it is clear that the long period of stable, non-inflationary growth experienced by the global economy during "The Great Moderation" made us forget that the vulnerabilities that lead to macroeconomic instability emerge and build up precisely during good times, characterized by excessive optimism. With the benefit of hindsight, we may conclude that these elements, at the root of the previous mopping-up consensus, were not well calibrated.

The implication going forward is that monetary policy will need to take a flexible attitude and place itself between those two polar strategies: pricking bubbles preventively or mopping-up after. In keeping with its mandate to preserve price stability over the medium- to long-term, monetary policy will have to take more into account the endemic pro-cyclical characteristics of the financial system and of boom-bust cycles in asset prices, while avoiding the perils of short-termism (for instance, by avoiding fixed, short-term policy horizons for monetary policy) and the temptations of excessive fine-tuning and of asymmetric responses during upswings and downturns.

Under some circumstances, exceptional as they may be, the central bank may consider that the case for leaning against the wind of the financial cycle is strong enough and, accordingly, decide to act preemptively and counter medium and long term risks associated with the emergence of macro-financial imbalances, in particular when those risks arise from the banking system. On other occasions, the central bank may decide that it is appropriate to remain focused on its primary objective of preserving price stability and act only to mop up the fallout of the bubble burst.

From the point of view of the statistical task, the option of keeping flexibility is very demanding. Making sure that monetary policy can choose effectively which strategy is optimal on a case-by-case basis involves large information requirements.

3 The information requirements of the "leaning-against-the-wind" mode

The "leaning-against-the-wind" mode requires that misalignments and macro-financial imbalances are identified well in advance. For that to be feasible the central bank would need to have at its disposal, inter alia:

- Comprehensive aggregate information on monetary and financial variables, particularly on credit aggregates;
- Exhaustive data on asset prices, including housing prices, which have played such a prominent role in the crisis my country is still going through;
- Micro data on households and non-financial corporations, since on many occasions aggregate information is not enough to fully appraise emerging risks;
- Also, monitoring structural changes the financial system is undergoing at each point in time entails specific challenges concerning information requirements.

While the above may look, at first glance, like the minimum standard "shopping list", the fact is that the crisis has revealed many "information gaps". Mr. Ibrahim has mentioned many of them in his

presentation, such as shadow banking. But the truth is that when the global financial crisis started in 2007 there were many others, at least in the case of the euro area. For instance:

- Data on securitization or on credit lines were not widely available at the start of the crisis;
- Data on real estate prices were scarce and sometimes of sub-standard quality;
- Few central banks had comprehensive individual data at their disposal on non-financial corporations (comprising balance sheets, income statements, employment and salaries, financial ratios, etc.) such as those available in Spain from the Central Balance Sheet Data Office Survey, which covers around 2000 companies;
- Even fewer countries conducted state-of-the-art surveys on households finance, such as the one conducted by Bank of Spain since 2002, that allows linking incomes, assets, debts, and consumption at the household level.

The Eurosystem is catching up on many of these fronts, and some of the existing gaps have been, or are in the process of being, filled. For example, detailed information on securitization is now available, and the Eurosystem is developing a household wealth survey in all euro area countries that follow a methodology similar to the Spanish Survey on Household Finance. In some cases, such as the last one I mentioned, the collaboration between economists and statisticians is a prerequisite to obtain the best results.

Closer collaboration would also be beneficial to fill the gaps that exist in the availability of "soft data" coming from surveys to credit institutions (such as the Bank Lending Survey that the ECB conducts quarterly since 2003 with the aim of improving our understanding of bank lending behavior in the euro area) or to non-financial corporations (such as the survey on the access to finance of small and medium-sized enterprises, which is being conducted in cooperation with the European Commission since 2009). The demand for this soft data has increased enormously since the crisis started.

4   The information requirements of the "mopping-up-after" mode

The information requirements of the "mopping-up after" mode are perhaps better understood in relation to the non-conventional measures that central banks in developed countries have adopted in response to the crisis, either to combat incipient deflation risks or to repair essential pieces of the transmission mechanism that had become blocked. In the context of the Eurosystem, central bank liquidity provision policies became prominent since the outbreak of the financial tensions in August 2007, whose effects were felt with particular virulence on the interbank markets, which stopped functioning as efficient liquidity distribution mechanisms in 2008. The sovereign debt crisis has prolonged that situation over time.

The Eurosystem responded by increasing the supply of liquidity in order to meet the system's gross liquidity needs directly, broadening the range of acceptable collateral in monetary policy operations and lengthening the terms at which liquidity was supplied to the market. As a result, its consolidated balance sheet has expanded unprecedentedly, as has been the case in other advanced countries.

Non-conventional monetary policy was uncharted waters and, as the crisis unfolded, many new information requirements arose. To mention just a few:

- Risk management considerations have made it necessary to collect information on the solvency situation of individual counterparties;
- Individual bank data were also required to assess the damage caused by the crisis to key components of the monetary transmission mechanism and to analyze the effectiveness of some of the non-conventional measures, in particular the two 3-year VLTROs of December and February;
- Access to ad-hoc information about cross-exposures was crucial as well in the case of the Lehman bankruptcy;
- Also, in the case of Greece, assessing the risks to financial stability involved in the restructuring of the country´s debt required detailed knowledge of who held what.

A common theme in all of the above is that more granular data, sometimes even at the level of individual institutions, were needed. Some initiatives in this way had been already taken before the crisis, like the Centralized Securities Database that contains security-by-security data to help provide agile answers to ad-hoc requests and will be soon complemented with similar data for the holdings of securities, or the project to compile a detailed register of financial institutions including data on groups and interlinkages. Other initiatives are still under study, such as harmonized information on loans obtained from credit registers.

5 The statistical requirements arising from macro-prudential policy

Another lesson from the financial crisis has been the need to address systemic risks through macro-prudential policy, which complements traditional macroeconomic policies (which have not paid enough attention to financial stability considerations) and micro-prudential policies (which have failed to provide a holistic view of risks brewing in the global financial system). The idea is to combat the so-called fallacy of composition (i.e. if each individual bank is sound, the whole banking system must be sound), since during crisis periods correlations across assets and banks' balance sheets can increase sharply, creating systemic risk.

However, macro-prudential policy is still in its infancy. Its framework (including a more precise definition of its objectives), its toolbox and the way it interacts with other policies are not completely settled yet. Learning by doing will be the rule.

But what seems clear is that this new policy will place additional demands on statistics. The presentation provides many examples of such demands, also putting due emphasis on the dynamic nature of the information requirements in this field.

I agree that some of the principles put forward at the end of the presentation can be useful guides for future statistical work in this regard. There is a risk that the difficulty to define users' requirements ex-ante makes us arrive at a wrong trade-off between the intrinsic value of information and the cost of its collection. The granularity of the data required and the need to focus on interconnections increases enormously the amount of information which is needed for a forward-looking assessment of risks to financial stability. Also the need to keep up with the

evolving financial environment, subject to continuous structural change, poses formidable challenges.

6 The importance of the institutional framework

The rediscovered inter-linkages between monetary policy and financial stability should lead to closer collaboration, also in the field of information-sharing, between macro-prudential and monetary authorities, which do not always coincide. Indeed, at the international level the institutional framework is very diverse. According to IMF data (see Graph 1), only in 40% of the cases are central banks responsible for macro-prudential policy. Other institutions that have macro-prudential mandates are: separate regulators or supervisors, financial stability councils/committees or even ministries of finance.

In the EU, the European Systemic Risk Board (ESRB) –which was created as a consequence of the financial crisis and is part of the European System of Financial Supervision (ESFS) – is the independent EU body responsible for macro-prudential oversight of the financial system within the Union. Both national central banks (NCBs) and the ECB participate in the ESRB, with the ECB ensuring the ESRB´s secretariat. Some NCBs are bank supervisors, have a national mandate for financial stability and/or implement macro-prudential policies but not the ECB, whose Statute – however– explicitly mentions the task of contributing to financial stability, a task which needs to be carried out without prejudice of the primary objective of maintaining price stability over the medium-term in the euro area as a whole. Also, as an important financial authority, the ECB devotes substantial efforts to promote European financial integration and stability.

The new arrangement keeps the close involvement of central banks in macro-prudential policy, given their expertise in monetary and macro-financial issues, their privileged position in the surveillance of the banking and financial system and their reputation for professionalism and independence in many countries.

To allow the full set of synergies to be reaped, and in line with the lesson from the crisis of increased interdependences between monetary policy and financial stability, information sharing among the different institutional actors will need to be enhanced substantially. This is even clearer when we understand that there is an intrinsic discrepancy in some key concepts to compile the information required for macro-prudential policy and monetary analysis as Mr. Ibrahim points out: consolidated versus solo basis or detailed data versus big aggregates. In this field also we will have to learn by doing and I am sure that the principles that Mr. Ibrahim put forward at the end of his presentation can provide useful guidance in this respect.

Graph 1

SHARE OF TOTAL NUMBER OF MACROPRUDENTIAL MANDATES ACROSS 21 COUNTRIES

- Central Banks
- Separate Regulators/ Supervisors
- Finacial Stability Council/Comittee
- Ministery of Finance
- Others

Source: 2010 IMF Survery of 21 countries that use explicit, or implicit, macroprudential mandates