Globalisation and the challenges for central banks' financial statistics[1]

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Monetary policy decision-making and the task of promoting the stability of the financial system require central banks to have comprehensive data and an up-to-date analysis of trends in the monetary economy and financial markets. The market has an abundance of data to offer on these topics, but it is hard to obtain an overall analytical picture of increasingly globalised and complex markets. Moreover, essential data needed for decision-making has to be acquired as cheaply as possible.

Statistical data provides the most reliable information base on which to assess the macroeconomy, the financial markets and financial market stability. Macroeconomic data is required on the development of monetary aggregates, credit and interest rates. Sectoral trends in savings and lending play an important role in analysing the state of the economy at any given moment. Financial market developments are monitored with the help of volume and prices on foreign exchange markets, financial instruments and

shares. Income and balance-sheet data on monetary financial institutions (MFIs) in turn provide a fundamental tool for analysing stability and systemic risk in the financial markets.

In addition to their own requirements, national central banks also cater to the needs of other economic agents, such as the financial sector as a whole and the general public, by publishing key statistical data on their area of responsibility.

Do central bank financial statistics adequately describe the global financial markets?

Globalisation is speeding up integration and mutual interdependency between countries and regions, markets and economic agents. Its effects are seen in the form of changes in the competitiveness of national economies, corporate structures, the competitive situation of banks and the financial behaviour of households. Combined with rapidly changing financial markets, globalisation thus increases decision-makers' need for data on which to base their decisions. Statistical problems caused by insufficient data generally accumulate in international capital movements. International capital flows are growing considerably faster than trade in goods and services.

There are risks relating to the globalising financial markets that could be realised very rapidly. The lack of systematic, up-to-date information has been highlighted, eg

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[1] This article is based on a joint paper written by the author together with Steven Keuning and published in the proceedings of the third ECB conference on central bank statistics in May 2006. Contributions to the conference were requested from prominent academics, central bankers and bank representatives. The aim was to provide a forum for a variety of views and interchange of ideas on central banks' current statistical output and the needs of the future in a global environment. Conference proceedings can be read on the ECB website (http://www.ecb.int/events/conferences/html/eastats3.en.html).

in connection with the financial crises in emerging economies during the past ten years. Problems have also emerged in assessing the global imbalance in savings and investments, and the investment of Asian central banks' foreign reserves and the current account surpluses of oil-producing countries. Moreover, hedge funds, complex financial derivatives and many other complicated new financial instruments that are not covered by traditional regulation increase the possibility of crises in the financial system. As concrete examples we could mention the strong increase in recent years in institutional investment in commodities and unlisted equity funds and the growing use of credit risk transfer instruments. It is demanding for central banks to monitor these new phenomena despite their importance to financial system stability, because there is hardly any systematic, reliable data available on them. Central banks must be able, however, to set soundly delimited objectives for statistical contents. Otherwise monitoring might place unreasonable cost burdens on data providers or the compilers of statistics.

Improving the statistical base is a demanding task

Thus, globalisation would seem to increase the pressures for augmenting the collection of data on new financial phenomena, but at the same time gives no cause for automatically discontinuing the old data requirements. This

being the case, the monitoring of new phenomena will most often require additional resources and involve additional costs. In response to the generally tighter expenditure conditions currently prevailing, central banks are nowadays attempting to use cost-benefit analysis to assess the importance of new data requirements before deciding to commence collection of new data from the market.

The use of cost-benefit analysis is made more awkward by the difficulties involved in measuring the benefits of new data. Above all, it is hard to assess how important these phenomena will be in the future from the perspective of decision-making on monetary policy and/or the stability of financial markets. It is also hard to assess the benefits for other actors, such as the financial sector itself. In general, actors in the sector consider it important to monitor eg the market share of their own products, which in turn requires an overview of the size of the market as a whole. Moreover, statistics – as a public good– rarely generate a direct financial return that would help in assessing their benefit.

New statistics can provide a good cost-benefit ratio if the users and providers work together closely enough in agreeing the new data requirements and statistical procedures. This cooperation needs to be particularly deep between central banks and the rest of the financial sector. In addition, in the case of global financial statistics, there needs

to be a degree of flexibility with regard to national procedures. Customary national practices cannot determine the importance of the phenomena in this case, and national borders are irrelevant when considering international financial markets. If national data requirements can be relaxed, it would be possible to achieve efficiency gains, eg within the euro area. In this case, the sample sizes for statistics based on sampling would be determined at euro area level instead of nationally as at present.

Would it be possible to combine the data requirements for monetary policy and financial system oversight and supervision?

Monetary policy is centralised in the euro area and the most important data-collection contents have been harmonised by regulations. The actual collection of data is, however, decentralised to the national central banks, and as a result the detailed content of reporting various considerably across euro countries. Many central banks still gather nationally relevant data in addition to the data required by the Eurosystem. This significantly increases the reporting burden, particularly on multinational banks, compared with a situation where they could report in a uniform way to each central bank.

Eurosystem statistics have developed rapidly in recent years. Under the division of labour between the ESCB (euro area and other EU coun-

tries) and Eurostat (Statistical Office of the European Communities), the ECB and the national central banks are responsible for Community monetary and banking statistics, financial market statistics and statistics on international capital movements, direct investment and foreign reserves.[2] Data on the euro area financial sector is still perceived to be insufficiently comprehensive and harmonised, eg in respect of insurance companies and pension funds, mutual funds, securitisation and loan collateral. The pressures to increase the monitoring of economic trends across the euro area as a whole are also seen in the ECB's ambitious initiative to develop sectoral accounting at euro area level that combines both real and financial accounting.

To date, harmonisation is even less advanced between supervisors, and reporting by monetary financial institutions comes under national legislation. Financial supervisors in the EU and elsewhere ask the financial sector for different types of data and in different forms. This is slowing down the process of financial services integration. Within the EU, there has been progress in coordination and harmonisation, with the updating of banks' capital adequacy calculation (Basel II) and the harmonisation of international financial

There are still some gaps in the data on the euro area financial sector.

[2] To avoid unnecessary duplication of work, the division of responsibilities for EU-level economic and financial statistics has been agreed in a joint memorandum of understanding between the ECB and Eurostat, last updated in 2003. See http://www.ecb.int/pub/pdf/other/mouecbeurostaten.pdf.

reporting standards (IFRS) for listed companies. These are major changes with implications for both financial system stability and financial reporting. Application of Basel II will commence in 2007, and the transition to IFRS accounting practices is already underway in a number of countries. The Committee of European Banking Supervisors (CEBS) has consistently sought to harmonise the reporting requirements for banks. It has driven two initiatives, one aimed at achieving a common reporting framework (COREP) for capital adequacy in line with the requirements of Basel II, and one aimed at establishing a standardised financial reporting framework (FINREP) for credit institutions that prepare IFRS financial statements. The CEBS has also decided to support the introduction of a new reporting language (XBRL – eXtensible Business Reporting Language) in connection with both frameworks.

These initiatives include numerous benefits, as for example a level competitive playing field throughout Europe for banks and other financial sector enterprises, because supervisors will as a result adopt common reporting frameworks. These will reduce banks' administrative costs and facilitate easier exchange of information between supervisors. Uniform data collection forms employing XBRL language will allow the combination of decentralised data collection with the possibility to use the collected

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data flexibly, in similar manner to a centralised database. This will enhance the cost-effectiveness of supervisory functions.

The challenge for central banks is how to combine the data requirements of monetary policy and supervision into a package that would minimise the cost burden on data providers. The burden should, moreover, affect different data providers equally, irrespective of where they are located. London, among others, is competing strongly with the euro area as a location for bank headquarters. It would not be desirable if administrative costs were to become the determining factor regarding location and influence banks to move outside the euro area, for example.

Increasing the common elements of data collection can be achieved through closer cooperation between central banks and supervisors. In discussions on this issue it has been suggested that financial institutions could gradually go over to providing unit and security-specific data in their reporting, because at this level the differences in perspective between monetary policy and stability monitoring do not yet apply. A general trend already discernible is the increased use of various sorts of registry data in the preparation of financial statistics. In addition to security-specific registries, many euro area countries also maintain loan registers with data on individual loans. This data can be used to

produce both aggregate statistics and the institution-specific data required by supervisors. Moreover, when considering reporting requirements, central banks can seek to ensure the data requested from financial institutions corresponds to the data used in the internal management systems of banks and other institutions. This will lead to considerable cost savings and help to ensure the data can be used in monitoring risks in the sector.

Sound administrative procedure in central bank statistics

There are several different agencies involved in preparing financial sector statistics. As well as central banks, supervisors and statistical authorities, many international organisations also require data from financial institutions. In most cases they also have the right to participate in the planning and preparation of financial statistics. The International Monetary Fund (IMF), Bank for International Settlements (BIS) and Organisation for Economic Cooperation and Development (OECD) each collect financial sector data for their own reasons, most often via the national central banks.

The International Monetary Fund plays an important role in co-ordinating international standards relating to important macroeconomic statistics. It is of central importance in promoting cooperation between international and national actors. The IMF also fosters the adoption of best practices in national statistical systems. The Bank for International Settlements is responsible for compiling statistics on cross-border business conducted by the banks, such as data on banks' country and credit risks. The OECD meanwhile publishes data on things such as international liquidity positions and international emissions.

The process of making data comparable between countries and suitable for aggregation often leads to supplementary requests for data and hence places additional burdens on data providers. There are also good grounds for asking whether the existence of so many participants causes a risk of overlapping decisions and unnecessary duplication of effort.

The avoidance of overlapping decisions and the use of mutually compatible concepts in financial statistics can be ensured by observing good administrative procedure and coordinated cooperation. In decision-making related to statistics, authorities do indeed endeavour to observe specific, generally explicitly expressed, principles. Many organisations have gone further and enhanced their own administrative procedures by publishing their own codes of practice, in which they undertake to observe agreed procedures. Common principles in these published codes of practice include the political independence of statistical compilation, an emphasis on the public nature of statistics, their clarity and comprehensibility, and cost-effectiveness.

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Particularly good governance is required in the compilation of statistics for use in administrative or political decision-making. Examples we could mention include the Maastricht Treaty's convergence criteria for joining monetary union and the statistics required by the euro area's excessive deficit procedure. These statistics are the responsibility of statistical authorities, but the latter could clearly benefit at the conceptual level from the expertise that can be provided by central banks.

Growing need for international cooperation and coordination

The key challenge for central bank statistics is how to manage under the pressures for change caused by globalisation. There are numerous new data needs, and central banks have to decide the extent to which they should set out to compile systematic statistics to meet these needs. They will also have to determine whether sample-based data collection and indicator-type data will suffice, which would make it possible to avoid the burden of having to collect comprehensive data.

Another key issue is which authority would be the most natural choice to bear responsibility for international coordination and the monitoring of new phenomena. The challenges of ever-broader globalisation can be met only through increased cooperation and constant dialogue between all involved parties.

The ECB could take the leading role within the Eurosystem, but in close cooperation with all other parties.

With globalisation bringing more intense competition between countries, administrative costs have also become a more significant issue. Compilers of statistics seek to minimise the reporting costs of data providers and maximise the exploitation of existing data. This can only work if they have unlimited access to all significant sources of data – naturally taking account of data confidentiality. Even so, quality statistics will inevitably involve some degree of administrative burden on business.