

FUTURE CHALLENGES FOR MONETARY STATISTICS IN A CHANGING ENVIRONMENT

Comments on *Rethinking Monetary Analysis and Statistics*

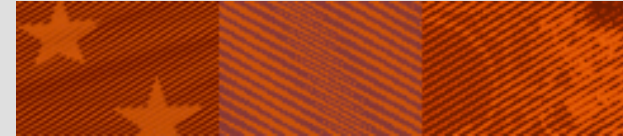
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2012 SIXTH ECB STATISTICS CONFERENCE “CENTRAL BANK STATISTICS AS A SERVANT OF TWO SEPARATE MANDATES: PRICE STABILITY AND MITIGATION OF SYSTEMIC RISK”.

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THE PRESENTATION



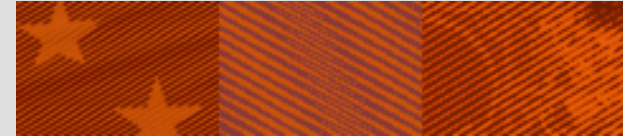
- **Starting point, identification of some lessons from the “Great Recession”, in particular:**
 - **increased interdependencies** between monetary policy and financial stability.
- **From there, the presentation proceeds as follows:**
 1. **Identify statistical gaps** affecting: granularity of data, coverage, timeliness and degree of harmonisation.
 2. **Review** whether current statistical initiatives enough to fill the identified gaps.
 3. **Propose guiding principles** for the statistical work going forward.
- **Presentation: very comprehensive and authoritative, not much to disagree with.**

COMMENTS: FOCUSED ON FIVE SPECIFIC POINTS THAT BRING TO BEAR THE EUROSISTEM EXPERIENCE AND PERSPECTIVE



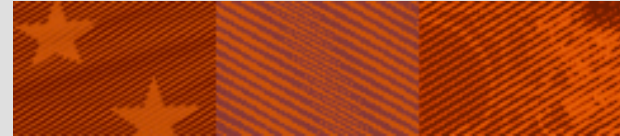
- 1. Consequences of the increased interconnection between MP and FS in the context of the monetary policy strategy of the Eurosystem.**
 - Thesis: **not necessary to choose** between polar strategies -“leaning against the wind” and “mopping-up after”-, but **more flexible** use going forward of both policy modes.
 - **Flexibility is, however, very demanding** in terms of information requirements.
- 2. Review information requirements arising from the “leaning against the wind” mode.**
- 3. Same for the “mopping-up after” mode of monetary policy.**
- 4. Statistical requirements arising from macro-prudential policy.**
- 5. Implications of the institutional framework.**

THE “GREAT RECESSION” HAS INCREASED INTERDEPENDENCIES BETWEEN MONETARY POLICY AND FINANCIAL STABILITY.



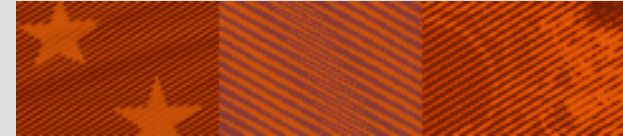
- But monetary policy **should not be the first line of defence** against financial instability.
 - Price stability remains as the overriding target and monetary policy **should not be overburdened** with multiple objectives.
 - Real-time **identification** of misalignments and financial imbalances continues to be **a very difficult task**
 - **Interest rates may be too blunt** an instrument to deal with specific financial stability imbalances.
- These arguments cemented the **pre-crisis consensus**: central banks should remain focused on price stability and **act only afterwards** to counter the fallout.
- The enormous welfare costs of the “Great Recession” **have put into question** some of the arguments that supported the previous **mopping-up consensus**.

MONETARY POLICY WILL NEED TO TAKE A FLEXIBLE ATTITUDE.



- 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** and the temptations of **excessive fine-tuning** and of **asymmetric responses** during upswings and downturns.
 - Under some circumstances, **the case for leaning against the wind** of the financial cycle might be strong enough.
 - On other occasions, it might be appropriate to remain focused on preserving price stability and **act only to mop up** the fallout of the bubble burst.
- The option of **keeping flexibility is very demanding** in terms of statistical requirements
- Choosing effectively on a case by case basis **what strategy is optimal** involves large information requirements.

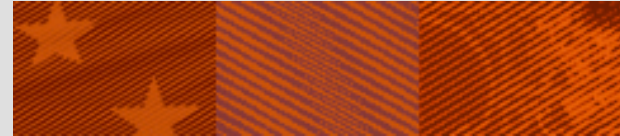
THE INFORMATION REQUIREMENTS OF THE “LEANING-AGAINST-THE-WIND” MODE



•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:

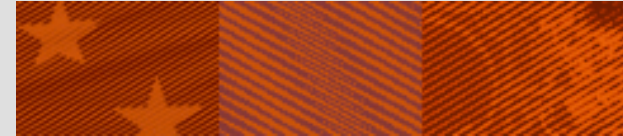
- Comprehensive aggregate information on financial variables, particularly **credit aggregates**;
- Exhaustive data on **asset prices, including housing prices**;
- Micro data on households and non-financial corporations**;
- Also monitoring **structural changes in the financial system**.

THE CRISIS HAS REVEALED MANY “INFORMATION GAPS”.



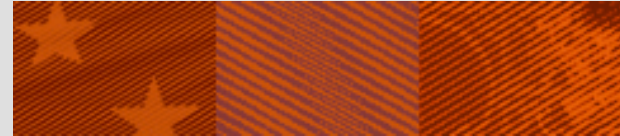
- For instance, in the euro area:
 - **Data on securitization or on credit lines** were not widely available at the start of the crisis;
 - **Real estate prices** were scarce and sometimes of sub-standard quality;
 - Few central banks had at its disposal comprehensive **individual data on non-financial corporations**;
 - Even fewer countries conducted state-of-the-art **surveys on households finance**.
- The Eurosystem is in the process of filling some of the existing gaps
 - Detailed information on **securitization** is now available ;
 - Is developing a **household wealth survey** in all euro area countries;
 - Is using intensively “**soft data**” coming from **surveys to credit institutions or to non-financial corporations**.

THE INFORMATION REQUIREMENTS OF THE “MOPPING-UP AFTER” MODE.



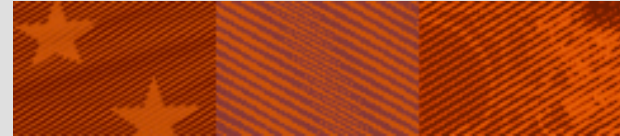
- Central banks have adopted **non-conventional measures** in response to the crisis.
- Non-conventional monetary policy was **uncharted water**. Many new information requirements arose.
 - **Risk management considerations** have made it necessary to collect information on the **solvency situation of individual counterparties**;
 - Access to ad-hoc information about **cross-exposures** was crucial in the cases of the bankruptcy of **Lehman** and of **Greece**;
 - Information on the **assets of individual banks** to correctly evaluate the effect of non-conventional measures.
- A common theme is that **more granular data** was needed:
 - some initiatives already taken: CSDB, detailed information on securities holdings, register of financial institutions with close-links information.

MACROPRUDENTIAL POLICY: A NEW POLICY DIMENSION.



- **Another lesson, the need to address systemic risks through macro-prudential policy:**
 - complements traditional macroeconomic and micro-prudential policies.
 - combats the so-called **fallacy of composition**, taking care of systemic risk.
- **Macro-prudential policy still in its infancy:**
 - **Learning by doing** will be the rule
- **The new policy will place additional demands on statistics:**
 - risk of not getting the right balance between value of the information and cost of its collection, given difficulty to define ex-ante users' requirements
 - granularity and focus on interconnections increases the amount of information needed for forward-looking assessment of risks
 - keeping up with the evolving financial environment poses formidable challenges.
- **Need for some principles to guide future statistical work.**

INTERLINKAGES CALL FOR COLLABORATION AND INFORMATION-SHARING BETWEEN THE MACRO-PRUDENTIAL AND MONETARY AUTHORITIES



- **Diverse panorama at the international level (Gráfico)**
- **The new arrangements keep the close involvement of central banks in macro-prudential policy, given:**
 - expertise in monetary and macro-financial issues,
 - privileged position in the surveillance of the banking and financial system
 - reputation for professionalism and independence
- **To allow the full set of synergies to be reaped, information sharing among the different institutional actors will need to be enhanced substantially.**
 - some key concepts are different to compile relevant information for macro-prudential and monetary analysis.

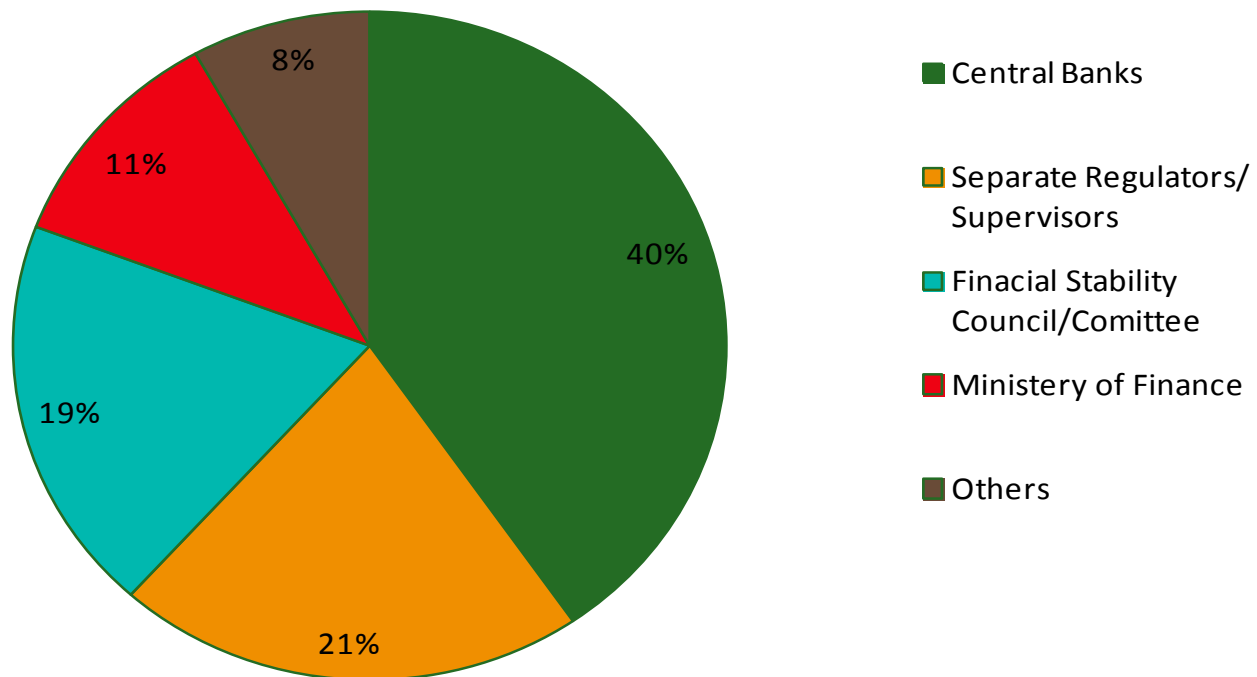


THANK YOU FOR YOUR ATTENTION

WHO RUNS MACROPRUDENTIAL POLICY?



SHARE OF TOTAL NUMBER OF MACROPRUDENTIAL MANDATES ACROSS 21 COUNTRIES



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