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Session 4 – Financial market participants as users of economic statistics*

Economic statistics at the service of financial markets' participants

Introduction

1. For several years, the world and in particular Europe has been experiencing a major crisis. This crisis first took the form of a financial crisis and then became one of sovereign debt. It is now a crisis of the real economy with unprecedented unemployment rates in the European Union. The sovereign debt crisis remains worrying and has been the subject of the agreement reached on 31 January 2012 by the European Council on the treaty on stability, coordination and governance in the euro zone. At the same time, more attention is now put on the situation of the real economy, and in particular on growth and employment. These changes increase the need for the participants in the financial markets to get information that helps them to evaluate risks; to analyse the situation and trends in the economy; and to try to optimise their performance.
2. In order to assess a specific situation, in particular an economic crisis, it is clear that a number of elements must be taken into consideration, most of which not being statistical. We will not address these latter aspects. Instead, we will endeavour to explain that this development of the crisis and the perception of the changes by political leaders and public opinion have not been without consequences on the European statistical system.
3. Initially, the crisis heightened demand for financial statistics which were more detailed and more rapidly available. It thereby furthered a tendency already evident at the time of the revision of the European System of Accounts, whose financial component increased considerably. It also triggered great demand for new statistics intended to enhance the supervisory framework for the financial institutions and the management of monetary policy.
4. Secondly, the debt crisis in Europe, and notably in Greece, created more demand for statistics on public finances. At European level, this demand led to the adoption of new regulations to strengthen the supervisory powers of the Commission, which required the creation of a Eurostat Directorate entirely dedicated to such matters.

5. Thirdly, growth-related issues have once again become a focal point. The budgetary stringency imposed by the debt crisis may undermine growth: since budgetary revenue is itself linked to economic activity, the danger of a deflationary spiral is always present, with negative consequences in terms of increased unemployment and social problems. Steering the economy therefore calls for the ongoing monitoring of statistics on economic activity, such as gross domestic product and employment statistics.

A required balance and coherence between financial and non-financial statistics

6. This succession of exogenous shocks to the European statistical system calls for reflection on a global framework to sustainably ensure a satisfactory balance between financial and non-financial statistics. A statistical service is a large-scale organisational structure which requires a certain amount of stability, and frequent adjustments inevitably impact negatively on its performance. This is particularly true at a time when the statistical services of the Member States are seeing their resources cut as a result of budget austerity.
7. Financial and non-financial statistics have always been closely linked. The finance sector, which by nature is a major statistics user, could not do without non-financial statistics; conversely, stakeholders in the real economy rely heavily on financial statistics. This is true for both short-term analyses, where financial and non-financial indicators both contribute to the analysis of the economic situation, and longer-term analyses. Thus, statistics which relate to economic activity, such as employment statistics, have a direct influence on developments in the financial markets. Conversely, financial statistics can be used to analyse changes in activity: for example, statistics on property loans are an advance indicator for the building sector.
8. However, the national accounts certainly offer the best illustration of complementarity between financial and non-financial statistics because the accounts framework requires global coherency between both types of statistics. In the euro zone, for instance, quarterly accounts are the most remarkable example of efficient cooperation between Eurostat and the European Central Bank, and between non-financial statisticians and financial statisticians.
9. Over time, a certain balance had been achieved between financial and non-financial statistics, with a gradual shift towards more financial statistics. This balance was heavily undermined by the global crisis. Efforts were focused mainly on developing and strengthening financial statistics, with special emphasis on issues relating to risk measurement and the rapidity of data availability.

10. The necessary balance between financial and non-financial statistics must be based on a global economic analysis. At global level, the need for savings to equal investment calls for complementarity between the two types of analysis. This relationship can also take the form of a necessary alignment between private savings and the sum of private investment and public deficit. At global level, some countries contribute to world savings mainly through investment: this is the case for Asian countries, while European countries and the United States contribute through their public deficits. As the distribution of savings between countries does not match the distribution for investment and deficits, some countries generate financing capacity and others financing needs. Net capital flows are therefore directed from countries with the capacity to finance to those in need of financing.
11. Thus, despite the very great volatility of the capital markets, financial flows are subject to strong trends dependent on influences outside the financial sphere. For example, since the free movement of capital tends to equalise financial conditions in all countries, differing investment levels can be explained above all by non-financial factors such as the competitiveness of businesses. Likewise, a country's savings depend largely on the behavioural habits of its households, the changes in real income and its concentration. This global analysis thus offers a coherent framework in which financial and non-financial statistics can find their rightful place.

Outline analysis of the needs of financial markets' participants

12. In practice, it is not easy to achieve coherence between financial and non-financial statistics, in particular because in the field of financial statistics, special emphasis is laid on the rapidity of obtaining data with limited revisions in frequency and size. However, this observation must be qualified in the light of users' needs.
13. To do so, one may classify the most useful indicators for the participants in the financial markets into several categories. On the one hand, some statistics which are necessary for financial and monetary analysis are of microeconomic nature, or relate to prices or rates. For this category of statistics, either rapidity is essential; or their data collection is more often made by professional associations; or specific confidentiality problems exist. In these areas, public statistics are not always competitive. They are sometimes replaced by non-official statistics from private bodies.
14. On the other hand, the public statistical system remains indispensable when it comes to macroeconomic statistics consisting mainly of statistics on flows or stocks, since no

private agent can have access to all the resources needed for developing the financial statistics of a country or a region.

15. In order to meet the needs of the participants in the financial markets and of analysts, Eurostat publishes in cooperation with the ECB and the European Commission Directorate General for Economic and Financial Affairs (DG ECFIN), many macroeconomic indicators in the main areas of analysis (the Principal European Economic Indicators – PEEIs – are presented in the Status Report on Information Requirements in EMU) at

http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/EFC_REPORT_2010/EN/EFC_REPORT_2010-EN.PDF

In particular, these macroeconomic data relate to:

- consumer price indicators;
 - quarterly national accounts, covering a first GDP flash estimate, and then a GDP release with more breakdowns, households and company accounts, government finance statistics;
 - business indicators including for example industrial production index, production in construction, turnover for index retail trade and repair, and turnover index for other services;
 - labour market indicators, including unemployment and job vacancy rates, employment and labour cost index;
 - external trade balance indicators, intra and extra Monetary Union and intra and extra EU;
 - housing indicators, comprising residential property price index, house sales and building permits;
 - Finance operators also need to know the essential trends in economic activity such as GDP, private final consumption and investment in volume. Other important data that we make available, in cooperation with the ECB and DG ECFIN, are government deficit and debt, three-month interest rate, long term government bond yields, euro-dollar exchange rate and economic sentiment indicator.
16. An improvement programme for PEEIs has been developed in relation to the timeliness of the data, the harmonisation of revision policies, and further progress in terms of methodology and communication.

17. The issue of timeliness of the financial indicators is related to the issue of the statistical sources used for their compilation. The data collected on a compulsory basis by the public supervisory authorities as part of their responsibility to monitor the financial institutions are good quality data and are usually rapidly available. But they are insufficient and are becoming increasingly so. Indeed, in the majority of countries, financial intermediation is performed more and more frequently by non-resident agents. This means that financial statistics can no longer be based solely on the data supplied by the resident financial institutions.
18. Under no circumstances should we underestimate the importance of the material difficulties to which surveys are subject, and the constraints they entail for statistical systems. Data collection will still take some time. However, the use of the most modern technologies will help to accelerate data collection. Data verification is also a difficult exercise, again particularly for financial statistics, since the extreme diversity of the financial instruments and the volatility of the markets render ineffective the controls which depend on stable developments.
19. The users of financial statistics must therefore also be aware that deadlines will never go below a certain minimum threshold. However, as regards accuracy and reliability, the situation is more promising because progress can still be achieved in terms of cooperation between financial and non-financial statisticians.

The need for a wider perspective

20. In order to evaluate the sustainability of the economy, a broader and longer term perspective is required. This wider approach is also used by many investors and analysts. The European Union has put in place a long term development strategy, the so-called Europe 2020, in order to promote a smart, sustainable and inclusive growth. Under Europe 2020, the trends in innovation, research and development and competitiveness, environment and green growth, education, employment and social cohesion are analysed.
21. In the context of this strategy, it is important to mention the monitoring of public finances with the Excessive Deficit Procedure for which Eurostat has received extended powers of control. Also, an alert mechanism has been set up to detect and correct macro-economic imbalances in the form of the Macro-economic Imbalances Procedure based on a scoreboard of indicators relating to external imbalances and competitiveness as well as internal imbalances. The consistency of these tools, put at the disposal of decision makers and users, is enhanced at European level in the form of the European Semester which

develops an integrated analysis on fiscal policy, macro-economic imbalances, financial sector issues and growth-enhancing structural reforms.

New tools for a modern statistical communication

22. Our efforts relating to the availability and coherence of statistical indicators must be supported by further improvements in terms of accessibility and communication. Part of the necessary adaptation effort has already been taken up by Eurostat in support to National Statistical Institutes. The most modern communication tools have been mobilized at the service of the most demanding users including financial markets' participants. Eurostat makes its statistical data widely available on its website. We have developed cooperation with Google in order to further facilitate the search for statistical data. Eurostat is now present on Twitter, and has developed applications for mobile devices.
23. These developments allow finding very quickly information on key indicators, for instance the inflation in the euro zone, the production index for the construction sector or the minimum wage in the different countries. These new tools are welcomed by users as showed in feedback information on the numbers of website page views, data extractions, web articles and app downloads.
24. This effort will be pursued because Eurostat considers the improvement of the quality of its services is a permanent challenge. In the specific area of financial statistics, Eurostat intends to go further and explore new ways of improvement in cooperation with the European Central Bank.

Exchange of experience between statisticians and financial markets' participants

25. Exchange of experience between statisticians and participants in the financial markets is a direction that should be explored vigorously. This will allow statisticians to better understand the transactions and the statistical needs of financial markets. Statisticians have to play a pedagogic role in explaining their sources and methods, the interest but also the precautions that are needed in the use of their data, and in expressing their methodological views concerning data which do not belong to official statistics. It is also their task to communicate on the diversity of their data. Some of these data may be insufficiently known or used. Eurostat organizes several meetings and workshops, which financial markets' participants are welcome to attend. We consider that conferences such as today's conference clearly contribute to this much needed mutual enrichment effort.