FUTURE CHALLENGES FOR MONETARY STATISTICS IN A CHANGING ENVIRONMENT

Comments on Rethinking Monetary Analysis and Statistics

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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.
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