Eighth European Central Bank Statistics Conference

Central Bank Statistics: moving beyond the aggregates

Session 1: Micro data for monetary policy making

Session 1 of the Eighth ECB Statistics Conference on micro data for monetary policy making was opened by **Mr Peter Praet (ECB)**, who emphasised that the increased need for micro data is not only a result of the introduction of non-standard policy measures. He stressed that there is also a need for more granular information on both stocks and flows in the context of the balance sheet adjustment process, as granular information would enable a deeper analysis of the impact that monetary policy decisions have on this process.

Mr Yannis Stournaras (**Bank of Greece**) underlined how after the financial crisis the role of micro data became crucial in capturing heterogeneous and complex phenomena. He focused mainly on the benefits of micro data for policymakers, but also touched on the risks connected with their use, which should not be underestimated. He recognised the complementary nature and partial superiority of micro data with respect to macro data by highlighting the positive contribution of granular data to the quality and timeliness of monetary policy analyses and decisions. Mr Stournaras presented specific areas where micro data can enrich the analysis and improve the quality of monetary policy decisions. The cases of the Household Finance and Consumption Survey, the Securities Holding Statistics Database and the recently approved Anacredit project featured prominently in his speech. On the other hand, Mr Stournaras recalled how, unavoidably, issues will arise in the migration process from macro to micro data. He identified two main areas of risk: the confidential nature of granular data; and the processing of large amounts of data, which requires new tools and skills to avoid a situation where too much data may lead to poorer and delayed information for the policymakers. In conclusion, Mr Stournaras outlined the challenges ahead when dealing with micro data, but at the same time the opportunities offered by them.

Mr Ulrich Bindseil (ECB) focused his presentation on the aspects of monetary policy implementation. Central banks' market operations have always been, by definition, microeconomic activities that both rely on and produce significant amounts of micro data (e.g. on securities, counterparties, trades, markets and valuations). He elaborated on how the ECB is particularly reliant on micro data in view of the unprecedented complexity and scale of its current money market operations, and presented the main types of micro data relevant for monetary policy operations. Especially relevant are not only the data on the eligibility of collateral and counterparties, which are determined by objective criteria, but also the characteristics associated with them, such as risk parameters related to each counterparty and the assets that are eligible. He listed some of the reasons for the increased importance of micro data in recent years, such as market fragmentation due to the crisis, along with higher data quality requirements for risk management, audit and analysis purposes. Furthermore, Mr Bindseil reviewed the current use of and trends in the micro data used by the ECB for its money market operations by selecting three areas: money markets, collateral eligibility, and micro data in the context of non-standard measures such as the asset purchase programmes. He mentioned the new collection of granular data on money markets for four market segments (secured, unsecured, forex swaps and overnight indexed swaps), which was initiated by the ECB on 1 July 2016 under the Regulation concerning statistics on the money markets and covers 52 reporting agents in the euro area.

DISCUSSANT

Ms Sharon Donnery (Central Bank of Ireland) opened her commentary by recalling the primary objective of monetary policy – to maintain the inflation rate below but close to 2% over the medium term – and the difficulty of pursuing such an objective. She supported Governor Stournaras' idea that monetary policy was traditionally based on aggregates rather than distributional issues, implying a complementary role for micro data. However, the recent crisis indicated that detailed distributional information is increasingly important in understanding the transmission mechanism of monetary policy decisions. In this respect, she recognised that initiatives such as the Household Finance and Consumption Survey, Anacredit and the Securities Holding Statistics showed how standardisation across countries greatly enhances the quality of the information available. These data initiatives will help our understanding of the responses to monetary policy actions and thus ensure a better coordination of macroprudential and monetary policies. Ms Donnery further elaborated on the current use of micro data presented by Mr Bindseil, for: monitoring and assessing the money market; dynamic monitoring, recording and assessment of collateral and counterparty eligibility for monetary policy operations; and the design, implementation and assessment of effectiveness of non-standard measures. She stressed the importance of money market statistical reporting considering that, in the pre-crisis period, the money market was not a well-researched topic for various reasons, including the absence of high-quality and comprehensive granular data. Ms Donnery underlined the importance of understanding how non-standard measures interact with other aspects of monetary policy and how beneficial the combination of information related to the asset purchase programs and money market statistical reporting data would be. She concluded by stating that granular data represent the future and policymakers should respond to challenges by further integrating them into evidence-based policymaking. Granular data represent a great opportunity for deepening our understanding of economic behaviours and identifying new sources of risk in a rapidly changing financial environment.

AUDIENCE QUESTIONS

The discussion started with some remarks from **Mr Peter Praet** on the regulatory changes in the banking sector and how, in this respect, the behaviour that we could expect in the past may not apply in the current circumstances. Therefore, it is crucial to study the balance sheets of banks on a granular basis and try to trace the flow of liquidity inside the bank by pairing the information on balance sheets with the information collected under the bank lending survey.

From the audience, **Mr Hans-Helmut Kotz (SAFE Policy Center)** questioned whether or not having more data necessarily implies a deeper and better understanding of underlying systems, and asked whether we should not focus instead on finding new theoretical approaches to data interpretation. All the members of the panel recognised the key role of models in interpreting micro data. In particular, Ms Donnery explained how the crisis has driven improvements that necessitate more information in order to understand more complex phenomena and better react to future risks. Mr Bindseil reminded the audience of the self-explanatory power of micro data, especially in the case of financial markets data where aggregates are prone to leading to incorrect conclusions.

Mr Aurel Schubert (ECB) asked the panel which additional datasets would be needed for the purpose of monetary policy. Governor Stournaras highlighted the need for more information in the context of current account surpluses and deficits. **Mr Praet** referred to the need for more data and analysis on the risk and uncertainty factors in order to mitigate the damage that uncertainty could generate in the long term; in fact the longer uncertainty lasts the more it is able to influence the behaviour of people and agents. Mr Bindseil indicated that the new data collection on money market statistics will need to be fully implemented and its potential fully exploited. Nevertheless, he wished to have more integrated and efficient data management systems with respect to monetary policy where available data can be generated in a relatively decentralised way.

Ms Daniela Iordache (EIOPA) shared with the audience the experience of EIOPA which, as a new institution, based its data governance on granular data principles. Recently it started collecting data under the Solvency II framework, but a full picture of insurance corporations is still not available. She pointed to the importance of understanding better the linkages between reporting institutions and, in particular, the key role of reference data such as the Legal Entity Identifier (LEI). She also found the development of adequate tools to improve policies and reach a full coverage of the insurance and pension sectors to be extremely important.

As a final question, **Mr Klaas Knot (De Nederlandsche Bank)** asked the panel if we should not prioritise and invest more time in improving current data instead of collecting new information. He warned of the danger in thinking that having more data would give us more control when there will always be risks that cannot be measured or anticipated.

The panel agreed to a certain extent with Mr Knot. However, they noted how today we undoubtedly have more information available than ever before, but granular data are needed to better understand monetary policy transmission. **Mr Stournaras** stressed the need for central banks, and authorities in general, to invest in adequate resources to support the production and analysis of granular data, and also to promote financial literacy and allow the public to benefit from the more detailed information.

In the spirit of Mr Knot's question, **Ms Donnery** concluded the discussion by claiming that today we are better informed, but we are also in an unprecedented situation regarding monetary policy and we should not make assumptions about things that we do not know.