

The European Statistical System's reaction to the statistical consequences of the financial crisis

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1. Introduction

The ongoing financial crisis has generated a number of challenges for official statisticians. Financial, economic and political actors turned to statistics to describe the situation and to detect, assess and forecast these phenomena. Official statisticians have therefore been confronted by an increased number of requests for relevant statistical data in a timely and reliable fashion. The reaction of statistical authorities has been under scrutiny, as well as their capacity to face these challenges.

Unfortunately, the reaction capacity of traditional statistical production processes is very often limited by their rigidity and resource constraints. Moreover, the worldwide nature of the crisis has underlined the global dimension of economic and financial phenomena, the integration of financial markets and the speed of circulation of the information. All these aspects call for a global statistical vision. In addition, a rethinking of the conceptual macroeconomic paradigm underlining the framework for producing macroeconomic statistics could be initiated by the crisis. Hence, the main statistical consequence of the crisis is the recognition of the limits of the traditional approaches to statistical production and the importance of going beyond them.

The European Statistical System (ESS) has acknowledged these challenges and has started to speed up the changes already under way and rethink the production of official statistics through the modernisation of its business architecture.

2. The European Statistical System's reaction to the financial crisis

The exceptional evolution of the financial markets and its consequences on the real economy required the ESS to deliver an urgent and coherent reaction. The crisis has several statistical dimensions: statistical consequences on key selected statistical domains with special relevance at the European level (eg public finance); prompt availability of key short-term economic indicators for monitoring the impact of the crisis and the impact of the measures to counteract it; deepening of methodological issues; international coordination; and communication at different levels. The ESS's reaction to the crisis therefore had to be multifaceted to deal with all these different aspects. The overall framework for action has been fixed around three axes:

- the ESS Action Plan on the accounting consequences of the financial crisis
- the regular production of key short-term economic indicators
- a critical analysis of methodological and practical aspects related to statistical production.

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ESS Action Plan

The challenge: A key aspect of the ESS's reaction has been to ensure the appropriate and proper consideration of the statistical consequences of the financial crisis on key statistics used in the European Union for administrative purposes and for the assessment of public finance. In this domain, based on national accounts public finance statistics, it was important to ensure the consistency across time and countries of the statistical treatment of bank and other market support operations in full respect of the European System of National and Regional Accounts (ESA 95) rules.

The ESS's reaction: The ESS Action Plan on the accounting consequences of the financial crisis has been created and implemented to achieve this target and to support it by strengthening coordination among European statistical authorities and enhancing communication to users' and stakeholders.

The activation of the ESS Action Plan has proved to be successful in: streamlining the reaction of the ESS to the financial crisis, creating awareness of the statistical consequences, strengthening coordination and communication and, finally, supporting the ESS actions to handle the response to the crisis.

Lessons learnt: Some elements of the ESS Action Plan have proven to be more relevant than others, as events have unfolded. In particular, during the ongoing financial crisis, a broad range of major public sector initiatives aimed at stabilising financial markets and rescuing individual financial institutions have been implemented. While, to date, there are some common aspects to the initiatives, each national case has unique features which require careful analysis by statistical authorities. The diversity and complexity of national schemes grows each week as new difficulties are identified and addressed. Further specific technical investigations are then required to ensure the consistency of the statistical treatment of existing and possible new cases. Therefore a "case law" record, built on specific cases analysed on a case by case approach, has gradually taken precedence over the initial approach to fix general broad principles. Nevertheless, the exchange of views between statistical experts has led to accumulated knowledge and corporate opinions that are relevant for the case-oriented approach. Further, the existing statistical instruments in this field (procedures of the Excessive Deficit Procedure associated to the EMU Stability and Growth Pact) have proven to be robust and have provided the necessary background to deal with the majority of cases brought about by the financial crisis.

Principal European Economic Indicators (PEEIs)

The challenge: One of the key aspects of the financial and economic crisis is to monitor the evolution of the situation through appropriate (existing) indicators and to monitor the impact of the measures undertaken to counteract the effects of the crisis itself.

The ESS's reaction: To meet these requirements, the ESS offers, through the PEEIs, a continuously updated overview of the effects of the crisis in EU member states and at the European level, notably from the macroeconomic point of view.

The PEEIs are key short-term macroeconomic indicators available in a harmonised way for EU member states, the euro area and the European Union (and, when available, major economic partners), disseminated via the PEEIs' website (a modern approach to the dissemination of statistical indicators). The PEEIs project is an example of a cooperative and forward-looking approach to statistics.

Since its inception in 2003, its aim has been to establish a dialogue between users and producers to identify the best set of indicators needed for economic and monetary policy purposes at the European level, complemented by quality requirements (notably timeliness) and a methodological background. Short-, medium- and long-term objectives supported by

continuous monitoring and concrete implementation plans formed the framework for the PEEIs.

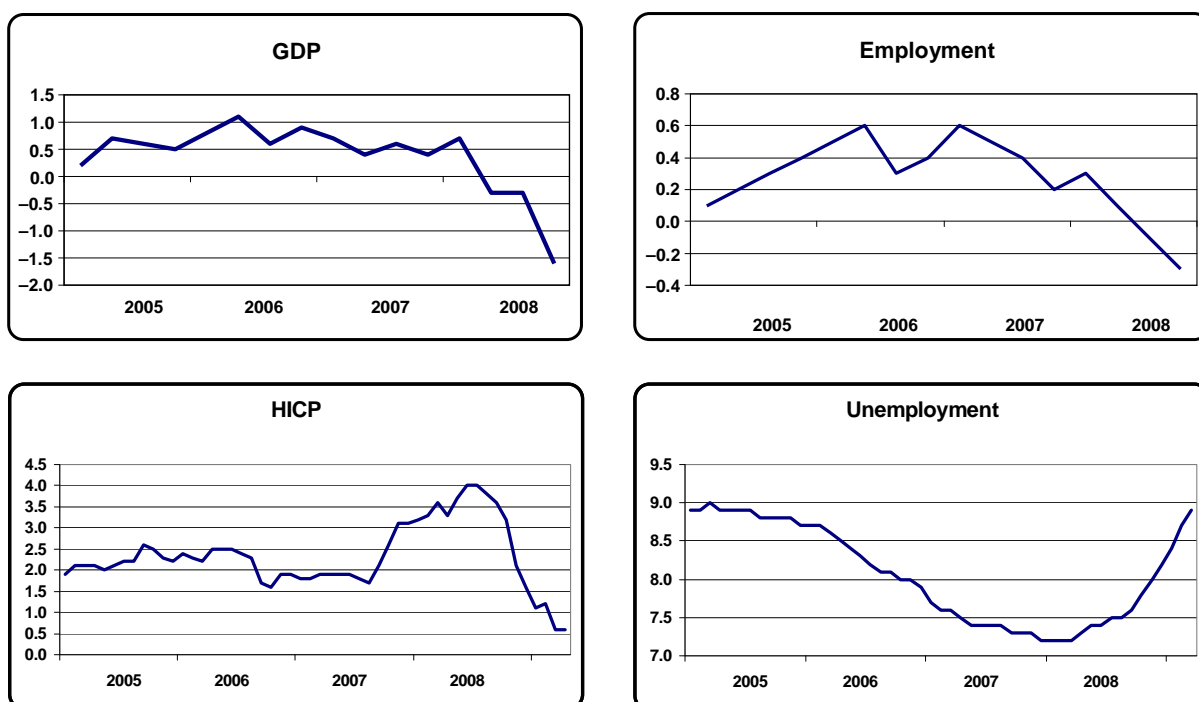
The PEEIs have successfully evolved over time and have, to a large extent, anticipated several requirements that became relevant during the crisis. Improvements in the timeliness and quality of the traditional macroeconomic indicators have been complemented by the development in recent years of housing statistics and integrated quarterly financial and non-financial accounts for institutional sectors (two key sets of indicators in the financial crisis context).

Because of their flexibility and efficiency in tracing economic movements, the PEEIs have been highlighted as one point of reference for the development of the Principal Global Indicators, the coordinated initiative of the Inter-Agency Group on Economic and Financial Statistics (BIS, ECB, Eurostat, IMF, OECD and the World Bank).

Lessons learnt: The PEEIs offer a relatively complete macroeconomic short-term view of the economy in an adequate timely fashion. Nevertheless, the financial crisis has highlighted some limits in this set of indicators, namely: the coherence of the global message emanating from different indicators; a rebalancing between timeliness, reliability and accuracy; and the lack of an adequate coverage of financial and housing indicators. The initiatives undertaken by the ESS are heading in the right direction (eg housing statistics) but have to be enhanced by the development of integrated financial indicators and by strengthening the coherence efforts between key indicators.

Figure 1

**Selected PEEIs: Gross Domestic Product (quarterly),
Employment (quarterly), Harmonised Index of Consumer
Prices (monthly), Unemployment (monthly) – euro area:
percentage change on previous period, seasonally adjusted**



Communication

The challenge: The crisis called for an enhancement of communication between statistical authorities, policymakers and European institutions. At the same time, statistics were under the scrutiny of users.

The ESS's reaction: Communication has been paramount in the ESS's reaction to the financial crisis. Initially, efforts were concentrated on the implementation of the necessary actions to inform EU member states and international organisations about the ESS Action Plan in view of its full endorsement and implementation. Communication of the ESS Action Plan has been supported by a communication strategy set up and implemented by Eurostat. The strategy focused on different categories of users, information targets and dissemination tools, including a section dedicated to the financial turmoil on the Eurostat website. Finally, Eurostat actively participated and promoted international activities in relation to the statistical consequences of the financial crisis in strict cooperation with other international institutions, such as the Inter-Agency Group on Economic and Financial Statistics.

3. A modern business structure for the production of official statistics

The challenge: The financial turmoil has highlighted the need to transform the production system of official statistics into a modern and efficient tool, flexible enough to cope with increasing new requirements, time constraints, limited resources, communication aspects, the expected forthcoming new regulatory framework for financial markets and new rules for company accounting.

The ESS's reaction: The ESS has acknowledged these challenges and has started to speed up the changes already under way and rethink the production of official statistics through the modernisation of its business architecture.

Such a project establishes a vision for the next decade on the statistical production method in the European Union that goes beyond the current approach (a so-called “augmented stovepipe” model), which is no longer fully adapted to the changing environment – as demonstrated by the crisis – and emphasises the improvement of efficiency through a systematic collaboration between the different partners of the statistical system (new European systems method to statistics).

The vision of a modernised statistical production system is based on a holistic approach, rather than a fragmented one, and will imply replacing the current stovepipe model with a model which relies on the integration of datasets and the combination of data from different sources. At the country level, statistics for specific domains will no longer be produced independently from each other; instead they will be produced as integrated parts of comprehensive production systems (the so-called data warehouse approach) for clusters of statistics. These systems would be based on a common (technical) infrastructure, applying, as far as possible, standardised IT tools and making use of all available data sources of an appropriate quality. The direct implication of this approach would be that European statistics would no longer be produced domain per domain but would instead be produced together in an integrated fashion (horizontal integration). In addition, synergies would be developed within the ESS, and joint structures, tools and processes could be established or further developed through collaborative networks, involving both the national statistical authorities and Eurostat (vertical integration).

Several elements of the proposed integrated model imply a change in the professional paradigm of statistical offices from “data collectors” to “re-users of data”. The implementation of the European statistical systems method relies on three components:

- i. the first component remains Community legislation, which will continue to be mainly output-oriented and minimum standards for the production of statistics in a particular area should be set
- ii. the second component concerns complementing product harmonisation by process harmonisation through the promotion of methodologies based on common tools
- iii. the third component is the promotion of common values and the sharing of knowledge throughout the ESS (use of the intelligence and know-how available in the system – ie the human capital of the ESS).

This strategic direction will be complemented by improved communication both with users and stakeholders.

References

European Council and Commission (2003): *Joint report on eurozone statistics and indicators*.

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