

The use of central bank databases for macroprudential analysis

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Introduction

The framework for the monetary and banking statistics of the European System of Central Banks during the preparations for the EMU and during the initial years of EMU's existence focused on delivering statistics needed to conduct monetary policy. The approach was very aggregative, and main efforts were directed towards reliable and harmonised statistics for the whole euro area, even statistics at a country level were used with caution. Now, with experience of financial crisis for almost six years, Eurosystem has been forced to place much higher priority on financial stability concerns, which has had a direct impact on data requirements. Before the crisis data needs for financial stability purposes were mostly satisfied by supervisory data collected and analysed in different forums. Now the setting has changed and many euro area central banks are involved e.g. in macroprudential policy decision making. Many central banks have also increased their role in prudential supervision.

Implementation of the macroprudential and/or prudential policy decision making into central banks normal procedures has increased demand for data relevant in support for financial stability analysis. The global financial crises highlighted the need for better data for the monitoring and managing of the build-up of risks to financial stability. The work to fulfil data gaps identified in this area is performed and coordinated at international level by G20 and Financial Stability Board, as well as by the ECB, European Systemic Risk Board and the European Supervisory Authorities.²

There are many advantages to be reached when using individual banking information in addition to aggregate level information, when central banks are monitoring financial stability or conducting macroprudential tasks. There is for instance a risk that aggregated series might hide a serious development in the same part of the banking industry. Institutional data is also essential when discussing the development of systemically important institutions required from the future Single Supervisory Mechanism. In many countries, the banking sector is also quite concentrated, and a quick scanning through the development of the most important banks already gives a relevant picture of the whole MFI-sector.

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² A recent ECB Occasional Paper (2013) illustrates the work carried out by the European bodies.

What kind of data for macroprudential analysis

The Bank of Finland has started a process producing a common quarterly risk assessment together with the Finnish Supervisory Authority for macroprudential policy decision making. An important element in this new process is to optimize the use of all relevant information collected by the Bank of Finland and to combine information collected by the Finnish Supervisory Authority.

Referring to the databases of the MFIs, the aim is to use data collected from systemically important banks operating in Finland. We have chosen four to the six largest banks to be monitored at the institutional level in addition to aggregate statistics produced monthly. As the banking level data is confidential, the access rights to this part of the risk assessment are highly restricted.

In addition to using the balance sheet and interest rates data of the banks for macroprudential policy purposes, information from the Centralized Securities Data Base and later from Security Holding Statistics will be included in the package for monitoring financial stability purposes. Also the enhanced RIAD will include for instance information on eligible assets and close links.

When monitoring more granular data, we must be much more selective than in the case of aggregated data. There is a danger to have too much detailed information. The so called instrument approach used in macroprudential analysis can be helpful when selecting indicators to be followed since choosing instruments gives us hints what indicators should be followed. The instrument based approach starts from the instruments available for policy makers and the indicators are used to indicate that these chosen instruments are within the given boundaries. The main focus is in systemic risk aspects.³

At the Bank of Finland, we are monitoring

- a) excessive credit growth and leverage of systemic important banks
 - measures of credit cycle (growth rate of loans; stock and new),
 - interest rates,
 - housing loans,
 - loans to non-financial corporations,
 - leverage ratios (loans to assets)
 - measures of sectoral concentration
- b) excessive maturity mismatch and market illiquidity
 - liquidity coverage ratio,(liquid assets to total assets or short term liabilities),
 - net stable funding ratio (loans and other long-term assets to long term funding)
 - Loan-to-deposit ratios
 - Lending spreads

³ See e.g. Committee on the Global Financial System (CGFS) report No 48/December 2012.

Conclusions

One of the unambiguous lessons from the crisis is that dangerous imbalances can be built underneath a seemingly peaceful macroeconomic surface. Inflation can be stable, output can appear to be at potential, but things may still not be quite right. Sectoral booms may lead to an unsustainable composition of output – for example, too much housing investment. Or financial risks may build up because of the way real activity is funded, for instance, excessively leveraged financial institutions, excess household indebtedness, excess maturity mismatches in the banking system or turn to off-balance-sheet products with large tail risks.

Despite progress over recent years, the development and implementation of macroprudential policies are still at an early stage. In the area of systemic risk monitoring, efforts have focused on closing data gaps and on developing better indicators and models to assess systemic risk. It is clearly seen that we need to adapt with more flexibility to changing requirements in data collections, both macro and micro data should be available, and collection systems should be able to respond also to ad hoc needs. Central banks have to improve on the communication of their statistics both internally and externally. And the issue of coordination and cooperation is crucial, within the central bank itself and at the national and international level. Cooperation between central banks and supervisors is of key importance and needs to be strengthened. Limitations on data sharing between the two organisations need to be reduced or removed, partly in order to be able to respond to some international statistical initiatives.

References

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