Opening remarks

Stephen Cecchetti[1]

Good morning ladies and gentlemen. It is my great pleasure to welcome you to Basel and to the Bank for International Settlements for the fourth conference of the Irving Fisher Committee on Central Bank Statistics. The high turnout this year, with representatives from every region in the world, is a clear sign of the success of the Committee's activities as well as a signal of the value you all place in the variety of services we at the BIS provide. On behalf of my colleagues in the Monetary and Economic Department, where the Committee Secretariat is located, I would like to thank you for your participation in this conference as well as for your contributions to other IFC activities.

The conference theme chosen, "Measuring Financial Innovation", could not be more topical. In many ways it is long overdue. Financial innovation affects virtually every aspect of central bank operations, including traditional macroeconomic stabilisation policy, prudential regulation and supervision, and payments systems. I welcome all of your efforts to develop measures that track financial innovation and then assess its impact on the operation of central banks, financial markets and private financial institutions; as well as on mechanisms for economic growth and development.

In thinking about the work of the Irving Fisher Committee, and this conference in particular, I am reminded of the fact that monetary policy is about numbers. Traditional macroeconomic stabilisation policy requires central bankers to do things like set interest rates or exchange rates. And prudential supervision is about setting limits on the balance sheets of financial institutions. In all cases, what we need is numbers, so financial policy starts with financial statistics.

Looking a bit further, we can say that it is impossible for policymakers to achieve their objective – which I take to be low, stable inflation; high, stable growth; and a stable financial system – without understanding the nature and evolution of the financial system. To see why, we need look no farther than the monetary policy transmission mechanism. In order to adjust their operational instruments to meet their broad goals, monetary policymakers need to understand how their actions influence the economy. And since the financial system is the central bank's point of contact and influence, financial innovations have a direct impact on the size and timing of policy adjustments.

It is my strongly held view that, by improving the efficient operation of the economy, financial innovation is nearly always a good thing. Looking at developments in the mature economies, we see important changes since the mid-1980s. Prior to that, payment streams and risks tended to come bundled together. Bonds were sequences of coupons with a principal payment at maturity. Today bonds can be stripped so that coupons and principal can be purchased separately. More generally, it is normally possible to purchase or sell virtually any payment stream with any risk characteristics. This ability to separate financial instruments into their most fundamental pieces – the financial analogue to particle physicists separating atomic nuclei into protons and neutrons – has had profound implications for the way in which risk is bought and sold. Today, risk is much more likely to go to those people who are most able to bear it. The result is that we can insure virtually anything and engage in many

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activities we wouldn't have undertaken in the past. And, as a direct consequence of these financial innovations, for some time many economies have been more stable.

In emerging market economies, there have also been important changes. Some of these represent the development of financial arrangements that already exist in mature countries. Mortgage finance and consumer credit are examples of these. But while securitisation has been taking hold in the United States and Europe, micro-credit has developed in places as different as Bangladesh and Bolivia. And in Islamic countries, there have been important advances in providing financial services that meet the requirements of Shari'a.

As these various financial systems evolve, we need to insure that statistics keep pace. This is a tall order, but one that I am pleased to see you facing head on.

Before closing I would like to take the opportunity to thank Mr Jan Smets, the Chairman of the Irving Fisher Committee, for his leadership over the past three years. I understand that this conference marks the end of your term as Chairman. We all owe you our thanks for your leadership and the work that you have done, including the introduction of a proper governance structure for the Committee. As we all know, on any committee it is the Chair who does the real work. This is especially true of the organisation of a conference like this one, with contributions from 26 central banks on topics that include housing finance, securitisation and derivatives. I trust that you and all the participants will enjoy the conference at the same time that you help both the users and the compilers of statistics meet the challenges that the welcome (and largely unstoppable) innovations in the financial system inevitably create!

Thank you.