

# Statistical needs emanating from the financial crisis and the ECB's initiatives for more comprehensive financial statistics

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## Introduction

"There cannot be a crisis next week. My schedule is already full." (Henry Kissinger)

Producing monetary and financial statistics is a key responsibility of the ECB.<sup>3</sup> In this context, the ECB, together with the Statistics Committee of the European System of Central Banks (ESCB), has always made substantial efforts to keep pace with financial innovation, assessing the statistical impact of innovations at an early stage and starting necessary amendments to its statistics in a timely manner. This has allowed the ECB to accommodate ex ante a number of specific needs which have become even more apparent during the ongoing financial crisis. The integrated approach to monetary financial institution (MFI) securitisation data and statistics on financial vehicle corporations is a good example in this respect. At the same time, work is ongoing to close some newly identified gaps in the ESCB's statistics, to contribute to relevant global initiatives and to foster improvements in the transparency of the financial markets.<sup>4</sup>

The first part of this paper focuses on the "demand" side and describes the development in policymakers' needs, especially those geared towards financial stability analysis. The second part describes the "supply" side, ie initiatives that the ECB is taking to fulfil these needs and to contribute to more transparent financial markets. Finally, in the third part, the paper describes the steps taken by the ECB to support global initiatives.

## Statistical needs

The ECB's statistical framework has been subject to extensive development over the past 10 years, primarily to meet the requirements of the ECB's monetary policymaking. The MFI balance sheet statistics are crucial to both monetary and economic analyses and, hence, for assessing the risks to price stability. At the same time, they also support the financial stability analysis. The analysis of balance sheets has, among other things, provided an important "close to real time" insight into the behaviour of euro area MFIs. The financial crisis has heightened the importance of these statistics, with the monthly statistics on euro area MFI loans (by size, type, maturity and counterpart sector), credit conditions and banks' balance sheets being of particular importance. Moreover, the importance of the monthly MFI interest

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<sup>2</sup> This paper reflects the main contributions of Violetta Damia, Patrick Sandars and Richard Walton.

<sup>3</sup> Article 5 of the Protocol on the Statute of the European System of Central Banks (ESCB) and of the ECB together with Council Regulation EC no 2533/98 set out the ECB's responsibilities and regulatory powers concerning the collection of statistics.

<sup>4</sup> See also the paper in IPM 68, "Creating a statistical framework for the measurement of credit risk transfer – the ECB experience".

rate statistics (for 48 types of deposits and loans, harmonised across the euro area) has further increased over the past couple of years, in particular to assess the transmission of monetary policy decisions. Efforts are now being made to further advance their timeliness.

The crisis has also underlined the importance of harmonised information for the purposes of financial stability analysis to which statisticians are responding in close cooperation with regulators and supervisors. A wide range of macroprudential and microprudential data is required in this context. The identification of the causes of (in)stability in the financial system, as well as the role played by the systemically important institutions, necessitate the compilation of more harmonised statistics on a consolidated basis (at EU level), including the measurement of leveraged positions and maturity mismatches in the financial balance sheets, risk concentrations by counterparty sector as well as by investor and instrument, and bilateral exposures in key markets (notably, interbank). Statisticians are well placed to support this work in view of their extensive experience in dealing with harmonised data collections and in following the strictest confidentiality requirements. Moreover, exploiting synergies between data requirements for monetary policy and financial stability purposes is essential to contain the burden on respondents.

The financial crisis has underpinned the need for an extension of financial statistics, in particular a better coverage of the entire financial system. Initiatives to extend the traditional data on banks' balance sheets (which began long before the crisis) are now leading to a better measurement of securitisations, including separate statistics on securitisation vehicles, investment funds – including hedge funds – and insurance corporations and pension funds. In addition, the need has arisen to better understand the behaviour of non-financial sectors – for example the financing patterns of households. Finally, there is a strong interest in receiving aggregate data that throw more light on the interlinkages between economic sectors.

Another key consequence of the crisis is that users consider the traditional statistical aggregates no longer sufficient to explain the latest financial developments or to map the size and concentrations of (tail) risks. Thus, there is a new demand for micro data, eg information on securities holdings and loans and related provisioning and risk capital weighting. The crisis has also put the spotlight on valuation issues, especially the need to “look through” complex asset-backed and structured securities in order to obtain a better insight into underlying loan portfolios.

The origin of the crisis in the housing sector has also generated new user demands for high-quality non-financial statistics to be provided in as timely a manner as possible. In particular, key gaps have been identified in housing statistics, concerning not only sufficiently harmonised residential property prices, but also more comprehensive and timely data on housing finance (eg mortgage credit), structural housing indicators (eg house sales and building permits), housing capital stock and households' housing wealth.

## **ECB's statistical initiatives, including those aimed at an enhanced transparency of financial markets**

The ECB, together with the ESCB, is making considerable efforts to meet an ever growing demand for statistical information. In developing new data collections, including those to capture financial innovations, it is essential to be proactive and to anticipate the data needs long in advance, while recognising that new statistics are costly and take time to implement. To this end, the ESCB focuses on the reuse and/or extension of already existing reporting frameworks and data “warehouses”.

The ECB's main ongoing initiatives are summarised below.

1. A quite complete *coverage of the financial sector* may soon be achieved through the recent development of new statistics on investment and hedge funds<sup>5</sup> and off-balance sheet securitisation vehicles (so-called financial vehicle corporations). The ESCB worked closely with market associations and participants to understand the increasingly complex securitisation structures so as to create a statistical framework which both appropriately captures the phenomenon as perceived by the markets and is consistent with international statistical standards. Furthermore, new breakdowns within the MFI balance sheet statistics will provide separate data on collateralised loans which will, in turn, shed more light on exposures to households and credit risk more broadly.

2. The ECB, together with Eurostat, the euro area National Central Banks (NCBs) and the National Statistical Institutes (NSIs), meets the requirements for a comprehensive and consistent monitoring of economic and financial developments through the regular supply of integrated financial and non-financial *quarterly economic accounts of the euro area*. These institutional sector accounts (comprising both flow accounts and financial balance sheets) provide evidence on the impact of the financial crisis, in particular on profitability, financing and financial investment of the institutional sectors. The aim is for these data to be available after 90 days, including from-whom-to-whom information. The latter should enable the identification of interrelationships between sectors and may thereby provide the basis for a systemic risk map of cross-sector exposures in the euro area financial system.

3. The role played by systemically important institutions may necessitate the development of a *formal definition of "large and complex banking/financial groups"* and the compilation of harmonised financial statistics on a consolidated basis, including, to the extent possible, the measurement of: (i) leveraged positions and maturity mismatches in balance sheets; (ii) risk concentrations by counterparty sector as well by investor and instrument; and (iii) bilateral exposures in key markets (notably, interbank). At the same time, and with a view to containing the reporting burden, the ESCB and the Committee of European Banking Supervisors (CEBS) are building bridges between supervisory data and macro statistics.

4. Collecting new information from non-financial corporations and households may, in some cases, be the only feasible solution. While *small- and medium-sized enterprises* (SMEs) are of high relevance for the euro area economy, the available information, especially on the financing conditions of SMEs, is comparatively scarce, generally available only with a substantial time lag, often of a rather structural nature, and heterogeneous across euro area countries. To assess their financial situation in the context of the monetary policy analysis, the ECB and the European Commission have thus initiated a collaboration to regularly monitor the financing conditions of SMEs through a biannual survey across the euro area.

On *households*, the Eurosystem NCBs, in collaboration with a few NSIs, are currently in the process of running the first wave of the euro area Household Finance and Consumption Survey (HFCS). The HFCS will provide the Eurosystem with micro-level data on euro area households' demographics, holdings of real and financial assets, debts, consumption/saving, income, employment, future pension entitlements, intergenerational transfers/gifts and risk attitudes. Household-level information allows differentiated analyses of the economic behaviour of specific subgroups of the population: the recent financial and economic crisis proves that relatively small fractions of households – eg those highly indebted, the wealthiest, etc – can have a major impact on market outcomes. This new information dataset will, in turn, open new lines of research which are expected to provide an extremely valuable input into a number of policy areas of the Eurosystem.

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<sup>5</sup> Please see Regulation ECB/2007/8 (OJ L 211).

5. For “real-time” analysis, there is a need to flexibly and quickly apply new classifications and definitions. This is increasingly done by the ESCB with the support of *micro securities databases*. As the prime example, the Centralised Securities Database (CSDB) provides “golden copies” of security-by-security reference data that permit a flexible overview of outstanding amounts, new issues and related price and income information for most (ad hoc-demanded) categories of securities. Furthermore, these data enhance the availability and quality of related aggregate statistics, such as investment fund statistics, balance of payments/international investment position statistics and financial accounts. In addition, the ESCB is working to improve the information on securities holdings (preferably on a security-by-security basis), which will thus enable statisticians to flexibly and quickly provide a better overview of financial risks identified in financial sectors’ balance sheets and of exposures to non-financial sectors.

6. In addition, more *micro data on loans and credit lines are required*, including a better alignment of the content of national public and private credit registers, particularly concerning corporate loans. This would also serve to greatly improve macroprudential and financial stability risk assessments. Moreover, “looking through” asset-backed securities (ABS), in order to make available data on the underlying loans (at least some meaningful standardised classification of them) may also assist in reviving the ABS markets which comprise a significant share of the collateral accepted by the Eurosystem. In any case, it would facilitate the assessment of risk and the valuation of often illiquid instruments. The establishment of appropriate micro databases on loans or the expansion of existing credit registers may, moreover, require a substantial one-off investment and should therefore be carefully planned.

7. Finally, to enhance both transparency in financial markets and, ultimately, the quality of global statistics, several initiatives are being taken by the ECB. These include closely liaising with market associations responsible for improving transparency, especially in respect of securitisations. A particular need is to standardise and improve the quality of *securities reference data*. The ECB is promoting the development of a Securities Reference Data Utility,<sup>6</sup> which would standardise and store in a common database the reference data for securities provided by issuers. This would greatly improve their quality for public usage, which, in turn, would mean a great step towards the much-needed transparency of financial markets.

## ECB’s support of global statistical initiatives

In view of the global impact of the financial crisis and the specific G20 initiatives for early warning exercises, statisticians contribute to the global measurement of financial risks and to the development of early warning indicators, while also improving the communication of economic and financial data. The ECB supports these global statistical initiatives.

The ECB is chairing the Working Group on Credit Risk Transfer Statistics, mandated by the Committee on the Global Financial System (CGFS), which is working on proposals for an expanded set of regular statistics on credit default swaps that is intended, among other things, to provide a regular benchmark for the newly available, high-frequency, but lower coverage, information available from industry sources.

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<sup>6</sup> Please see the keynote address by Jean-Claude Trichet, President of the ECB, at the Committee of European Securities Regulators (CESR), 23 February 2009, available at: <http://www.ecb.europa.eu/press/key/date/2009/html/sp090223.en.html>

The recently launched “Handbook on Securities Statistics”<sup>7</sup> prepared by the BIS, the ECB and the IMF addresses a concern of the G20 about the need for better data on securities. The Handbook<sup>8</sup> develops a conceptual framework and serves to facilitate the production of relevant, coherent, and internationally comparable securities statistics for use in financial stability analysis and monetary policy formulation.

Globalisation and the accumulation of global imbalances require global statistics as a benchmark. The ECB supports the compilation of comparable and timely world aggregates (eg world quarterly GDP after 60 days) and a better communication of economic and financial indicators. The ECB is part of the Inter-Agency Group on Economic and Financial Statistics, which launched a new [Principal Global Indicators website](#) for economic and financial key indicators of the G20 economies, including data covering the euro area.

## Summary and conclusion

Central banks should closely monitor significant financial innovations and structural economic changes to ensure that their regular statistical frameworks remain fit for purpose. Moreover, they should increasingly apply “agile” data collection approaches that are able to meet fast-changing user demands. In particular, the availability of more micro data on securities and loans would enable statisticians to reveal developments that are hidden within existing aggregate data.

In addition to more granular, timely and interrelated financial statistics, the crisis has also underscored the need to improve other key short-term economic indicators (particularly concerning services, labour markets and housing). Moreover, in general, the further development of official statistics on housing should be given due importance.

The relevant international agencies should address such data gaps in a coordinated and efficient manner. In this context, European statistics are typically the result of an intensive harmonisation effort across 27 member states, and could thus provide a useful input to more globally harmonised data, particularly if other key players are involved at an early stage.

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<sup>7</sup> Please see: <http://www.ecb.europa.eu/press/pr/date/2009/html/pr090513.en.html>

<sup>8</sup> The Handbook provides guidance on how to classify securities within international statistical standards such as the *System of National Accounts 2008* and the *IMF Balance of Payments and International Investment Position Manual*, sixth edition.