

# Understanding money markets via surveys

Peter Neudorfer<sup>1</sup>

## Introduction

Euro area statistics, conducted and published by the European Central Bank (ECB) in cooperation with other Eurosystem members, are in general based on national aggregates that are compiled by National Central Banks (NCBs) on basis of their own sources. Consequently the ECB fulfils its statistical function on basis of data collection processes, which do not imply any direct contact to any reporting agents. This principle has proven as an efficient and effective method for all statistical needs for monetary policy purposes. The large number of reporters in the euro area is one rational behind handling the data collection via the intermediate step of national compilers. In addition the reporting requirements in the area of monetary statistics are following (international) standards, which implies that their scope and details are quite stable over time.

In an increasing (although still small) number of cases DG Statistics in the ECB has adopted an alternative data collection approach in order to fulfil specific analytical user needs, that reach beyond traditional monetary statistics. More precisely the ECB also started collecting and processing micro data that are directly retrieved from individual economic agents. This data may for instance represent the micro basis of information that NCBs so far only provide to the ECB in form of aggregates but the data may also result from the design and operation of specific surveys by the ECB addressing individual reporting agents. A prominent example is the "Euro Money Market Survey" (MMS), which is already in operation for more than a decade. As in similar endeavours<sup>2</sup> the basic idea is not necessarily to cover a complete reporting population in order to derive an exhaustive measure of economic activities. Instead the information goal is rather capturing the essential qualitative developments that characterises the behaviour of the economic agents selected for the survey. Features like also covering non-traditional statistical elements (e.g. off-balance sheet activities) or the sole focus on qualitative assessments illustrate why surveys are characterized by a high flexibility in selecting the sample of reporting agents. In theory the latter could always optimally match the eventual information goal. The challenge is, however, to retrieve ex-ante the necessary knowledge how to select the sample.

As illustrated below the MMS exemplifies this typical trade-off between the flexibility of meeting a specific information target on the one side and providing resilient quantitative indicators that can be extrapolated to aggregate assessment on the other.

<sup>1</sup> Directorate General Statistics, European Central Bank, peter.neudorfer@ecb.europa.eu.

<sup>2</sup> E.g. the "Bank Lending Survey" (BLS), the "Survey on the Access to Finance of SMEs in the euro area" (SAFE), the "Survey on Correspondent Banking in euro" [see ECB website for reference] or the (non-published) "Market Intelligence Survey" (MIS). Not all initiatives are (directly) operated or supported by DG-S.

## Main features of the "Euro Money Market Survey"

The aim of the (so far annual) MMS is to collect information on the euro interbank money market activities during the 2nd quarter of a year, thereby only including transactions denominated in euro and explicitly excluding transactions of banks with (non-bank) customers, inter-group flows and transactions with Central Banks. More precisely it records the turnover (broken down by maturity and market structure) in the:

- unsecured market;
- secured market (repos / reverse repos);
- OTC market (various types of swaps, FRA);
- short-term securities market.

Furthermore the survey also collects qualitative information on efficiency of market segments, changes in the liquidity and the breakdown of transaction by location of counterparty and trading systems.

In principle the MMS could be based on statistical sampling, e.g. at least for the euro area based on the frame of the Monetary Financial Institutions (MFIs) contributing to the monthly euro area Balance Sheet Item (BSI) statistics. The correlation between BSI inter-MFI positions and unsecured market activities as measured in the MMS would support this approach. Unfortunately the high variance of transactions other than unsecured market segments across the involved institutions has, at least so far, hampered the design of a statistical sample. In addition it became apparent that several banks outside the euro area and even beyond the EU play an important role in money market activities denominated in euro.

Consequently, the MMS reporting population depends on the voluntary participation of market participants,<sup>3</sup> a feature that the MMS shares with several similar initiatives. This implies a continuous change in the composition of the population of respondents, which in turn unfortunately also means that it is not possible to extrapolate data to the overall market volume or inversely to assess coverage rate of the MMS.

The attempt to survey all "relevant" players in the EU has led to a stepwise increase in the number of participating institutions ("total population") during the last decade: The 2012 round for instance comprised 172 credit institutions across Europe (all but one resident in the EU). In order to be able to compare findings with those of previous studies and to analyse long-term trends in the euro money market, a "constant panel" of 105 banks is applied for all money market studies dating back to 2002.

The "*Money Market Survey*" was launched in 2001 has since then been conducted annually (covering transactions during the 2nd quarter of a year). Every second year a comprehensive "*Money Market Study*" is being published. High level

<sup>3</sup> In the case of the MMS the participants are selected by NCBs on basis of their knowhow on the presence of individual banks on (local) markets. The response to the respective invitations is quite satisfying. The participating banks receive feedback on their share in the total results.

results are distributed via ECB press releases and aggregated results (indices) can be retrieved via the ECB's Statistical Data warehouse (SDW).

## Way forward

The financial crisis during the last years has significantly increased the demand for information that allows a deeper understanding of various aspects of financial activities, which evidently also includes a better analysis of the money market. While the MMS is overall recognised as a unique data source on short term transactions, the need for more frequent – at least quarterly – results became evident. A respective pilot project, based on a subset of the annual participants and on a reduced questionnaire, started in Q3 2012.

From a methodological perspective plans exists to revisit the definition and management of (constant) panels, in particular to (better) control for shifts in business models, mergers, etc. among the survey participants. Furthermore the issue of statistical sampling and grossing up may be revisited.

Last but not least, as more surveys on specific financial markets topics may step by step broaden and deepen the collection of micro data, the question may be raised to which extent the linking of survey results would create synergies and thus increase the analytical power of the retrieved micro information.

## References

ECB, Euro Money Market Study, December 2012.

ECB, Euro Money Market Survey, September 2012.