Jürgen Stark: Press briefing on new monetary and financial statistics

Introductory remarks by Mr Jürgen Stark, Member of the Executive Board of the European Central Bank, for the presentation of four new/enhanced datasets on monetary and financial statistics, Frankfurt, 27 June 2011.

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Ladies and Gentlemen,

I would like to welcome you to this press briefing on monetary and financial statistics, which is dedicated to the presentation of *two new and two extended sets of statistics*. We are in an environment of continuous financial innovations and changes in the financial landscape. The ECB is determined to keep the monetary and financial statistics fit for use in that changing environment.

The extended sets of statistics improve the existing balance sheet and interest rate reporting by "monetary financial institutions", which means primarily banks representing the money-issuing sector. These datasets are at the centre of *our monetary analysis*.

The new statistics refer to detailed quarterly balance sheet information from financial vehicle corporations engaged in securitisation, often called securitisation vehicles, and from insurance corporations and pension funds. The new datasets close some gaps in the harmonised balance sheet reporting of the growing sector of euro area financial intermediaries outside the money issuing sector.

These improvements and new developments are the result of very significant efforts undertaken by statisticians at the ECB and in the national central banks of the Eurosystem. The work was carried out in close collaboration with policy-makers, analysts and the financial industry. In my view, this process brought about a proper balance between the benefits of the data for monetary policy and the burden of collecting it from respondents. As policy-makers, we need timely data, and the data must be harmonised across country borders, so that it can be readily aggregated at the euro area level.

The new statistics fit in well with the much used term "lessons learned from the financial crisis". At the same time, the new developments are the outcome of a process that has been pursued pro-actively and with a longer-term view, rather than re-actively and with a focus on the recent crisis. Indeed, the development process started before the financial turmoil that escalated into a genuine crisis. The process involved the euro area as well as other EU countries. It was motivated by the need to fill gaps caused by the ongoing financial innovation and by structural changes within financial products and the financial sector.

The analysis forming the basis for monetary policy decisions depends crucially on the quality and breadth of coverage of the available statistics. Not least the frequently cited deficiencies of the Greek statistical system (with respect to both methodological and institutional aspects) have reminded us of the importance of reliable, accurate and timely statistics for the functioning and credibility of our whole system.

I am pleased that the new developments in monetary and financial statistics will contribute, in particular, to the research agenda of the ECB's Governing Council for enhancing monetary analysis. As you know, the ECB attaches a high importance to this. Last year, we published a comprehensive scientific compendium on the enhancement of monetary analysis, and I presented these results at a press briefing.[1]

Allow me to mention three key examples to illustrate the improvements the new data bring.

1 See Papademos, L.D. and Stark, J. (eds.), *Enhancing Monetary Analysis*, ECB, Frankfurt am Main, 2010.

First, the new data will shed more light into the relatively opaque *shadow banking*. A major aspect of financial innovation is linked to the securitisation of financial assets by, in particular, the banking sector, and to the financial vehicles created outside the banking sector for this purpose. The lack of good statistical information on securitisation gained increasing relevance over the last decade and became particularly obvious in the financial crisis.

In order to provide for a consistent monitoring of *securitisation*, the ECB has now introduced new quarterly balance sheet statistics that cover "financial vehicle corporations engaged in securitisation". The aggregated total assets of such special-purpose vehicles in the euro area stood at €2.3 trillion in the first quarter of 2011. This represents about one tenth of the total assets of all non-bank financial intermediaries. And together with the reporting of investment funds established in 2009, which also includes hedge funds, the ECB statistics now cover a large part of the shadow banking system within the euro area.

In addition to balance sheet reporting for securitisation vehicles, a consistent monthly reporting by Monetary and Financial Institutions (MFIs) has also been developed. This makes it possible to assess how the securitisation of loans granted by MFIs can actually have an impact on the growth rates of MFI lending to households and non-financial corporations. That is a step forward for our monetary analysis. To give you a concrete example: taking into account the impact of securitisation, the annual growth of MFI loans to non-financial corporations turned positive already in October 2010, some months ahead of what had been shown by the figures available in the previous version of the statistics.

Second, we now have detailed quarterly data on the balance sheet of *insurance corporations and pension funds*. Currently, their assets account for about one third of all assets of non-bank financial intermediaries within the euro area. That is of course already a sizeable figure, but in view of our ageing societies, those institutions can be expected to be of further increasing significance for the economy and the entire financial system. Already today, insurance and pension fund technical reserves, which represent the claims that households have vis-à-vis life insurance companies and pension plans (other than social insurance schemes), account for around 30% of households' total financial wealth. These new data therefore are important not only for the ECB, but will be highly relevant for many other uses.

Furthermore, as institutional investors with a significant portfolio in securities, insurance corporations and pension funds will be monitored for monetary policy and financial stability purposes. In view of the desirable further development of these statistics, we have started a close cooperation with the European Insurance and Occupational Pensions Authority (EIOPA). This should help to further improve the statistics, while minimising the costs for the industry through the compilation of aggregated data based on supervisory returns.

Third, the *improved interest rate statistics* allow a deeper analysis of the transmission channels of monetary policy. One specific improvement sheds more light on how the external financing conditions of small and medium-sized non-financial enterprises compare with those of large corporations. This is particularly relevant for the euro area, given its rather more bank-based funding system as compared with the more market-based funding system in the United States.

For example, figures on interest rates for new loans to non-financial corporations show that interest rates on new loans of up to €250,000 have indeed been far higher than interest rates on loans of over €1 million. On average, they were more than 140 basis points higher for small and medium-sized enterprises and 90 basis points higher for sole proprietors. This is important information which enhances our analysis of the financing conditions as these rates serve as a proxy for loans to small and medium-sized enterprises, as well as to "sole proprietors" (e.g. doctors or architects).

Overall, I am pleased to see that these new developments and the new datasets in the euro area monetary and financial statistics keep them fit for policy and analysis purposes. Actually, we are coping well with the current challenges. In particular, not least due to the specific role we assign to money in our monetary policy strategy, I see a self-reinforcing virtuous circle in action. Enhancements in monetary and financial statistics make it possible to keep track of financial innovation, thereby facilitating an enhanced monetary analysis and thus ensuring an effective policy decision-making process. The enhanced monetary analysis and its use in the policy-making process, in turn, identify necessary improvements to the statistics, thereby closing the circle.

Nevertheless, there is no reason to be complacent. Important innovations in the financial sector will continue to occur. We thus need to invest in flexible tools and methods so as to further adapt our statistics and analysis to changes both in the financial sector and in its interaction with the real economy. In this respect, a better international standardisation in the reporting and registration of individual financial products, transactions and financial institutions will be crucial. The ECB is closely involved in discussions at the International Monetary Fund (IMF) and the Financial Stability Board (FSB).

Worldwide convergence and standardisation will allow a swift and flexible adaptation of monetary and financial statistics to financial innovation without creating an unnecessary reporting burden. We need to express data requirements in a more business-friendly way and we should be open to automation (e.g. based on International Financial Reporting Standards (IFRS) or supervisory reports). Another potential for improvement lies in the re-use of micro-data, such as credit registers, for statistical purposes. The processes initiated within the framework of the G20 initiatives on data gaps might also provide an adequate forum for the very important and complex work ahead of us.

Thank you very much for your attention.

Now, Aurel Schubert, the ECB’s Director General Statistics, will present more details on the four datasets and stand ready to answer your questions.

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EUROSYSTEM

Keeping monetary and financial statistics fit for use

Aurel Schubert
Director General Statistics

Frankfurt am Main, 27 June 2011

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Reasons and objectives of new statistics

Keep statistics "fit for use":

- **enhanced monetary analysis requires detailed data**
- **support for other ECB analyses requires more comprehensive data (e.g. *financial stability*)**
- **financial innovation requires continuous updates to statistics**
- **growing non-bank financial sector requires improved statistical coverage of these institutions (e.g. *"shadow banking"*)**

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New euro area monetary and financial statistics

- Improved statistics on the balance sheets of monetary financial institutions (MFIs)
- New statistics on MFI securitisation and financial vehicle corporation (FVC) balance sheets
- Improved statistics on MFI interest rates
- New statistics on insurance corporations and pension funds balance sheets

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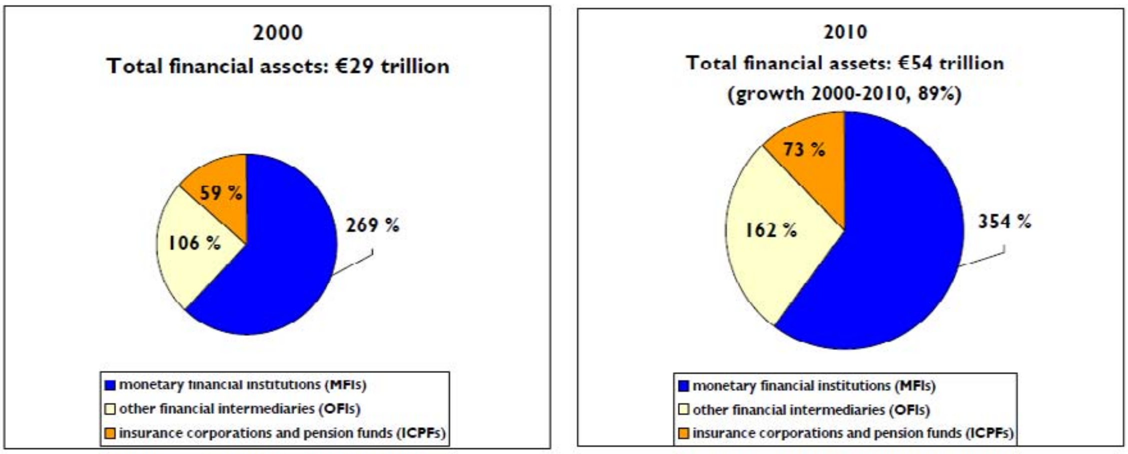
The euro area financial sector

Euro area financial sector balance sheets as a percentage of nominal GDP



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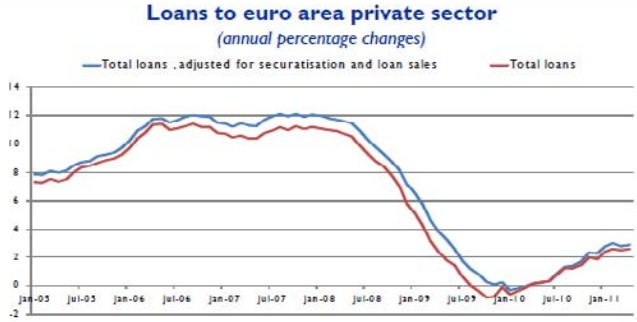
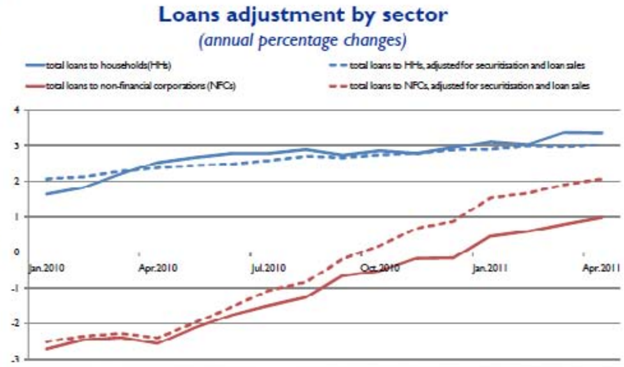
MFI balance sheets: loans and securitisation

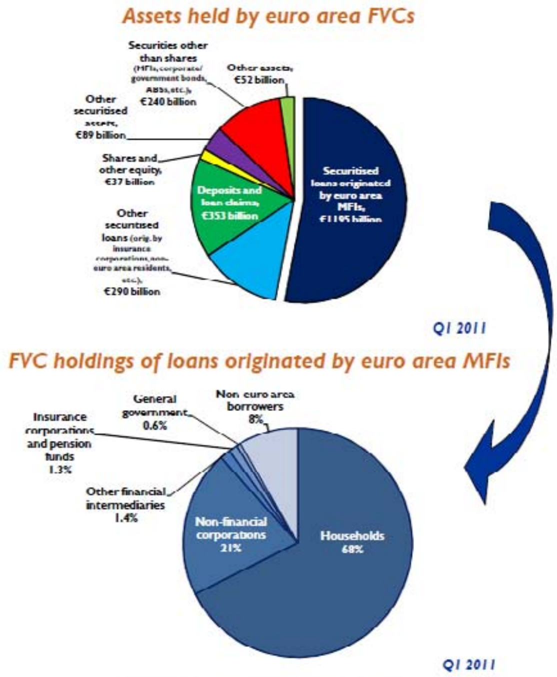
- **MFIs (banks) securitise loans to transfer credit risk and to obtain new funding for lending**
- Securitisation and the related loan derecognition from MFI balance sheet have an impact on measured MFI loan **transactions**
- Similar effects are due to transfers to e.g. **"bad banks"**
- **New harmonised data** make it possible to identify effects and to adjust MFI loan series
- **Recent trend:** compensating effects for loans to households (HHs) and non-financial corporations (NFCs)





FVC balance sheets: assets

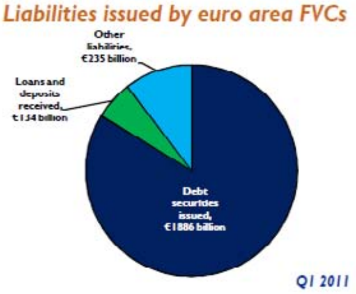
- **FVCs are entities set up for the purpose of securitisation ("securitisation vehicles")**
- **Euro area FVCs' balance sheets total around *€2.3 trillion*** (approx. *one tenth of the euro area non-bank financial sector*)
- **Euro area FVCs mainly hold loans securitised by euro area banks**
- **Euro area banks use euro area FVCs for almost all their loan securitisations**
- **Underlying assets are mainly loans to households (68%) and non-financial corporations (21%)**



FVC balance sheets: liabilities

- **Primarily financed through the issuance of debt securities,** backed by the underlying assets (RMBS, CMBS, etc.)
- **FVCs in four countries account for approx. 80% of total size** of the sector's issuance in the euro area
- **Recent trend: retained securitisation,** i.e. securities issued by FVCs are held by originating banks and used for Eurosystem refinancing operations

Liabilities issued by euro area FVCs



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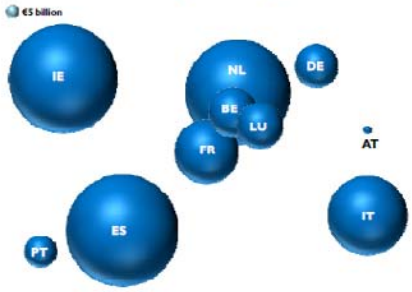
Debt securities issued by FVCs by euro area country



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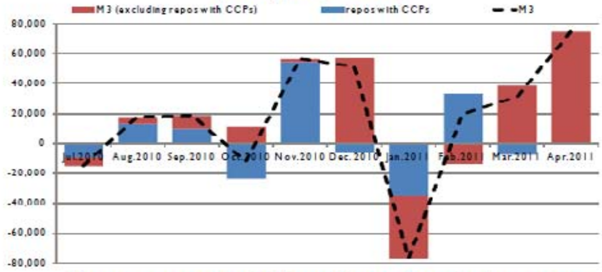
MFI balance sheets: repos and CCP business

- **Central (clearing) counterparties (CCPs) are intermediaries for secured inter-MFI lending**
- CCPs belong to "money holding sector"
- Transactions with CCPs are **part of M3 and of loans** to "other euro area residents"
- **Significant impact on recent M3 and loan developments**
- **New data allow a better analysis of M3 and credit developments**

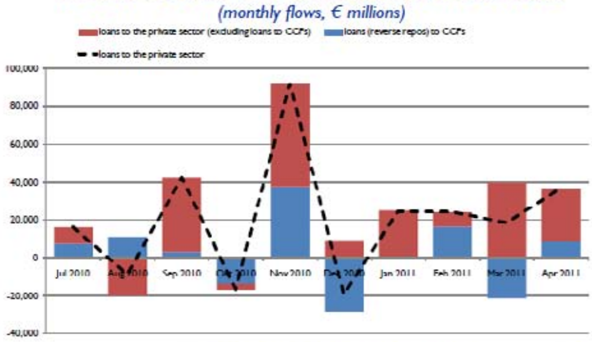
Repos with CCP and M3

(monthly flows, € millions)



Reverse repos to CCP and loans to private sector

(monthly flows, € millions)



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MFI interest rates: new breakdowns

Households:

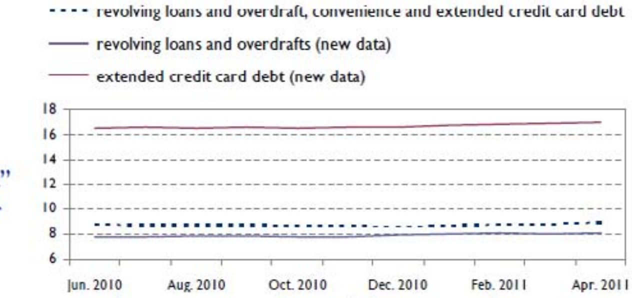
- **High interest rates for extended credit card credit** as compared with interest rates on revolving loans and overdrafts.
- Separation of "revolving loans and overdrafts" from "extended credit card credit" and "convenience credit card debt" (the latter at 0% rate).

Non-financial corporations:

- **Interest rates on small loans** (used as a proxy for loans to small and medium sized enterprises, SMEs) **and on loans to sole proprietors are far higher than interest rates on large loans.**
- Indirect monitoring of financing costs of SMEs.

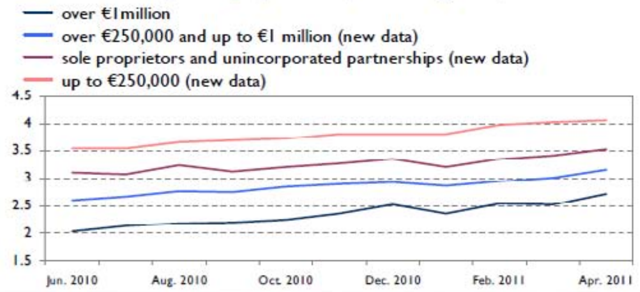
Loans to households

(percentages per annum; period average rates)



Loans to non-financial corporations

(percentages per annum; period average rates)



MFI interest rates: secured loans

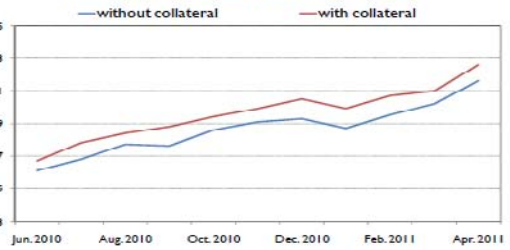
Mixed behaviour of interest rates for loans with collateral / guarantees:

- **Interest rates on new collateralised loans to non-financial corporations** are in some categories higher than those on loans without collateral
- (Possibly due to a selection bias, i.e. banks are more likely to ask for collateral where corporations have a lower rating)
- Due to the provision of collateral, **new collateralised consumption loans to households** have far lower interest rates than loans without collateral

Loans to non-financial corporations

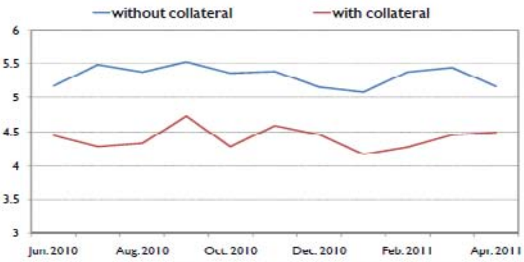
Over €250,000 and up to €1 million

(percentages per annum; period average rates)



Loans to households for consumption

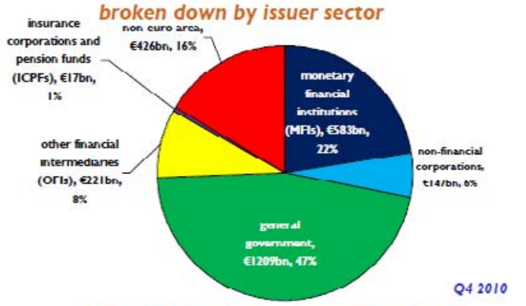
(percentages per annum; period average rates)



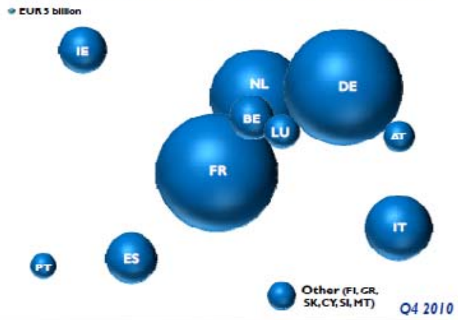
ICPFs: sector size and assets

- **ICPFs represent a third of euro area non-bank financial sector**
- **ICPF assets: provider of funding for government, non-financial corporations and financial intermediaries**
- **ICPFs in three countries account for about 70% of total size of the sector in the euro area**

Investments in securities by euro area ICPFs (€2.6 trillion); broken down by issuer sector



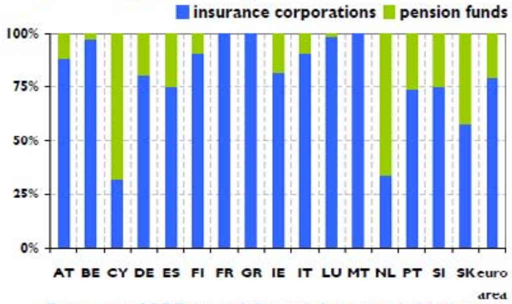
Total ICPF sector by euro area country



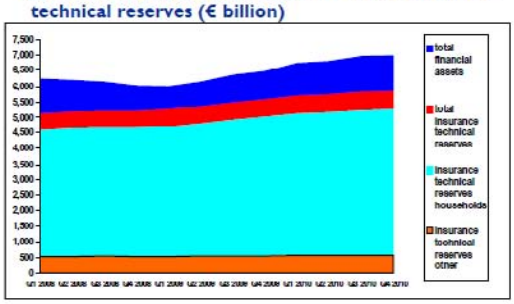
ICPFs: sector composition and liabilities

- **Insurance corporation account for approx. 80% of the total ICPF balance sheet**
  - *Life insurance (predominant) (other types: non-life and reinsurance)*
- **Pension funds** account for approx. 20% of total ICPFs (important in the Netherlands and Cyprus)
- **Households are main "owners" of ICPF reserves, which account for approx. 30% of households' gross financial wealth**
- **Insurance technical reserves: a split by insurance schemes and pension plans is also available (annually)**
  - *Life insurance: unit-linked and non-unit linked*
  - *Pension plans: defined benefit, defined contribution and hybrid schemes*

Total IC and PF assets, broken down by sub-sectors (percentages; Q4 2010)



Euro area ICPFs' total financial assets and insurance technical reserves (€ billion)



Conclusions

- New statistics will enhance monetary analysis, as well as other ECB analyses, including for financial stability purposes
- Amended monthly ECB press releases on MFI balance sheet statistics and MFI interest rate statistics
- New quarterly ECB press releases on FVC and ICPFs
- Euro area and selected euro area country data available on ECB's website (Statistical Data Warehouse; Eurosystem Joint Dissemination Framework – end of summer)

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Conclusions

Next ECB Press Releases:

- Monetary developments: 30 June (May 2011 data)
- MFI interest rate statistics: 7 July (May 2011 data)
- ICPF statistics: 13 July (first quarter 2011 data)
- FVC statistics: 18 August (second quarter 2011 data)

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