Philip R Lane: 20 Years of ESCB statistics - what's next?

Speech by Mr Philip R Lane, Governor of the Central Bank of Ireland, at the Ninth ECB Statistics Conference "20 years of ESCB statistics: What's next?", Frankfurt am Main, 11 July 2018.

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It is a pleasure to take part in this conference: the financial statistics produced by the European System of Central Banks (ESCB) provide the data platform that is necessary for informed policy making by central bankers. This panel is dedicated to the new data challenges for financial stability, which has expanded in importance in terms of the mandates of central banks, especially since the crisis.

There are multiple dimensions to the preservation of financial stability and the restoration of financial stability in the aftermath of a crisis shock. The ex-ante conduct of micro-prudential and macro-prudential policies can do much to preserve financial stability and build resilience against systemic shocks. Once a crisis hits, the ex-post conduct of liquidity policies is a unique role of central banks in managing a crisis and supporting the return of the financial system to normal conditions in its aftermath.

Of course, the inter-connections across financial systems imply that financial stability policies have to be implemented with due attention to international and global financial conditions. At the level of the EU and the euro area, there is much scope for coordination through the work of the European Systemic Risk Board (ESRB) and the various policy levers of the European Central Bank (ECB). However, there is much less scope for global coordination in managing financial stability risks, even if the Bank for International Settlements (BIS), Financial Stability Board (FSB) and the International Monetary Fund (IMF) help to build a common understanding of the common risks facing the international financial system and there are some supra-national policy supports available.

At the same time, the extent of data sharing at an international level is quite limited. While the BIS data hub facilitates the international sharing of firm-level data on systemically important financial institutions among a small group of supervisors, this is an exceptional case: there is no similar degree of data sharing for smaller banks or other types of financial firms.

In similar fashion, European Market Infrastructure Regulation (EMIR) has been a big step forward in providing data on interest rate swaps and other derivative positions. Through the ESRB, it is possible to obtain an EU-wide view of the operation of these markets: but there is no corresponding data matrix at the global level. It will be important that the EMIR dataset can be linked to other datasets to understand the total balance sheet exposures. The adoption of common identifiers, such as the Legal Entity Identifier (LEI), across the various granular data initiatives is critical to facilitate these linkages.

Another challenge posed by globalisation is the dual roles played by multinational firms in production and in the international financial system.[1] It is increasingly difficult to interpret national economic and financial accounts, given the mis-match between the global-level integrated activities of international firms and the residency-based concepts that underpin national accounting. In particular, the scale of cross-border intra-firm transactions is a severe challenge in working out the implications of observed balance of payments flows. The wide spread use of special purpose entities in the financial transactions of multinational firms further adds to the difficulty in accurately capturing the underlying trends. At European and global levels, developing a shared understanding among statisticians of the international activities of multinational firms is a high priority due to the threat to the relevance of statistics. The statistical system will also need to become more agile, as the activities of multinational firms evolve at a rapid pace and the underlying rules and manuals can take several years to catch up.

So, from a financial stability perspective, in identifying next steps for ESCB statistics, an important priority is to continue the painstaking work to develop sufficient momentum and trust across jurisdictions to enable more data sharing at a global level across these various dimensions.

Let me turn to the data requirements for effective macroprudential policymaking. In particular, let me focus on borrower-based measures such as loan-to-value (LTV) or debt-to-income (DTI) ceilings that can help improve the stability of mortgage markets. Since risks are concentrated in the higher-risk tail of the distribution of mortgage loans, it is very helpful to have granular, loan-by-loan data in calibrating borrower-based measures. In particular, a full risk assessment requires a capacity to match loan data with borrower characteristics such as income level, employment status, household composition, non-mortgage debts and other financial assets and liabilities. In relation to gaining an overview of the aggregate debts of a household, it is important to highlight the value of a comprehensive consumer credit register.

Since loan balances and individual-level characteristics fluctuate over time, it is preferable to have updated data on each loan, rather than just at the date of origination. Such a granular and up-to-date data file requires a statistical capacity to match across different data sets, such that cooperation between financial statisticians and the guardians of administrative data (such as tax authorities) is highly desirable. Of course, it is necessary to set up robust procedures, in order to ensure the reconciliation of data privacy rights and the policy value of an integrated data file.

Let me turn the financial stability risks associated with the property sector. Boom-bust property cycles have proven to be an important source of financial instability, such that it is essential to have reliable data on developments in property-related lending and in property prices. In relation to understanding the exposures of banks to the property sector, the rollout of AnaCredit should facilitate a much improved understanding of the distribution of exposures and the inter-connections across banks via the property sector.[2] Implementation of the ESRB recommendations on closing real estate data gaps will further help, especially in capturing non-Bank funding of the sector.

In relation to property price indices, best-practice methods in the measurement of residential property prices are well understood but there remains an important challenge in improving the calculation of price indices for commercial property prices. This is inherently trickier in view of the intrinsic heterogeneity of the commercial property sector. The ongoing existence of data gaps in commercial property prices in various countries is a significant barrier to a full analysis of the risks posed by the commercial real estate sector. Given the substantial correlations in property prices across countries, there are material negative international spillovers from inadequate measurement in individual countries: it is in the collective European interest to develop comprehensive property price statistics across all member countries.

In terms of the financial stability agenda, progress is also needed in developing a uniform, pan-European approach to analysing the balance sheets of investment funds. In particular, it is necessary to know the leverage and liquidity positions of funds (including synthetic leverage) in order to trace out the potential dynamics of disorderly market events or redemption runs. Given the increase in the relative importance of investment funds in the financial system, there is a mis-match between the effort paid to collect high-quality banking data and level of information available for the funds sector.

Finally, the spillover and contagion dynamics that are a central feature of full-blown financial crises can only be properly understood if more is done to measure the inter-connections across different financial entities and different sectors of the financial system. For instance, there has been a significant improvement in the monitoring of shadow banking at European and global levels, as captured by the reports published by the ESRB and FSB. At the same time, the matrix of who-to-whom linkages remains sparsely populated, both across sectors and across borders. An improved statistical understanding of inter-connectedness would be very helpful for financial stability policymakers.

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[1] See Stefan Avdjiev, Mary Everett, Philip R. Lane and Hyun Song Shin (2018), "Tracking the International Footprints of Global Firms," BIS Quarterly Review (March), 47–66.

[2] More generally, the granular, detailed data collected by AnaCredit has transformative potential for a wide range of financial stability topics.