BANK OF ENGLAND

The G20 Data Gaps Initiative

Promoting the use of the data: what next?

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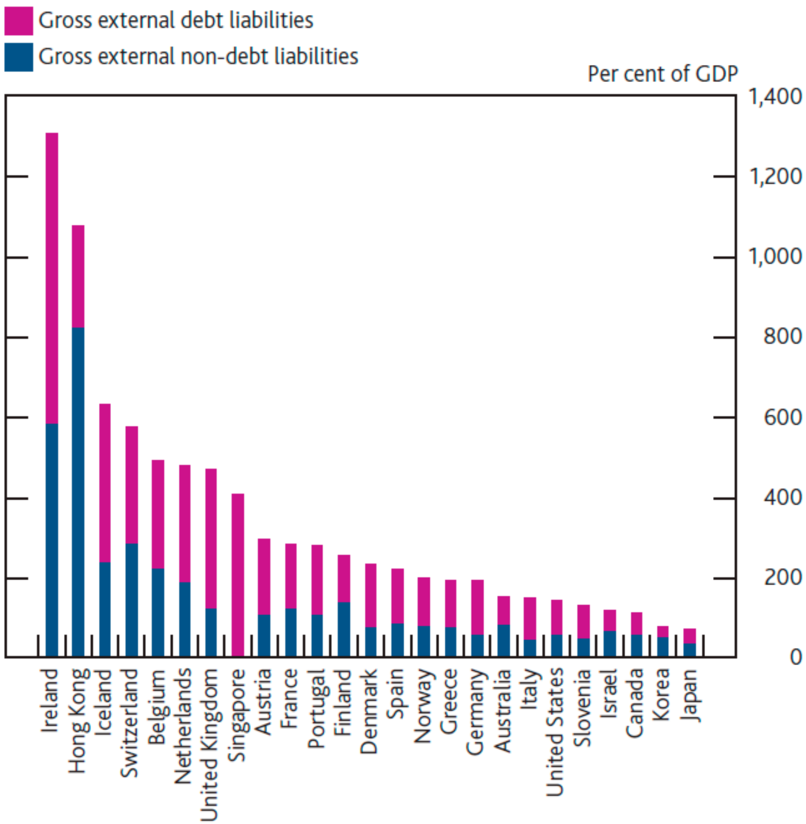
Typical use of the data to date

- **"The role of external balance sheets in the financial crisis"**
- Bank of England Financial Stability Paper No 24 (Oct 2013)
- Al-Saffar, Ridinger and Whitaker
- Including 24 country comparisons
  - Leverage of the national balance sheet was an indicator of subsequent vulnerability
  - Especially countries that also experienced strong domestic credit growth (where fuelled by "savings glut" net capital inflows)
  - Bank's balance sheets were critical in the transmission mechanism
  - High gross external interbank debt (the "banking glut") and maturity and currency mismatches contributed to foreign rollover risk

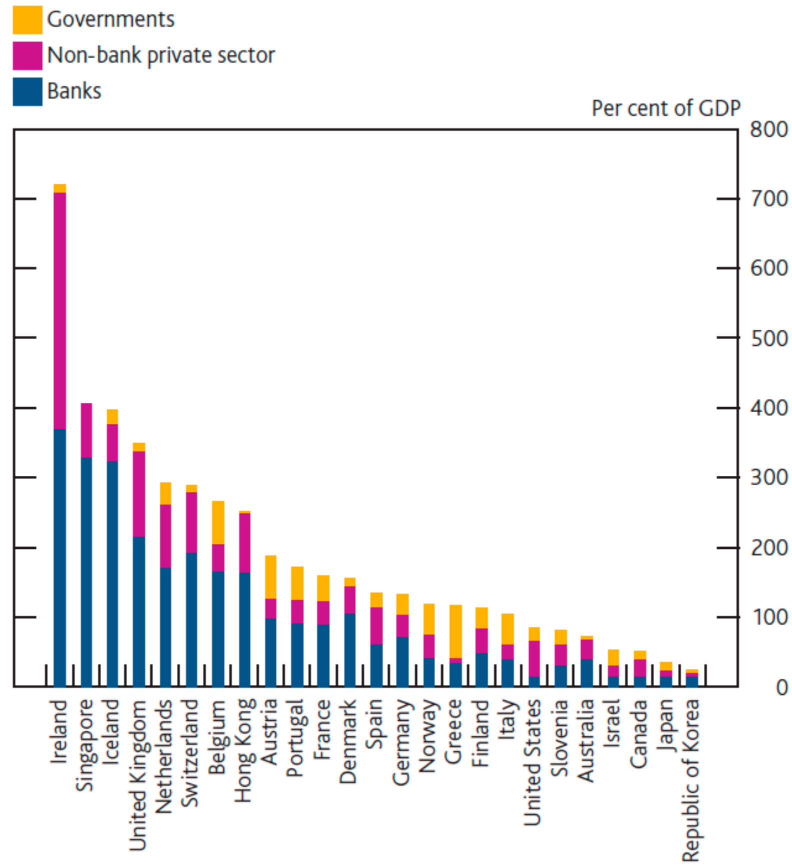
The role of external balance sheets in the financial crisis

Chart 5 Composition of gross external liabilities in 2007



Sources: IMF, Lane and Milesi-Ferretti (2010) and QEDS.

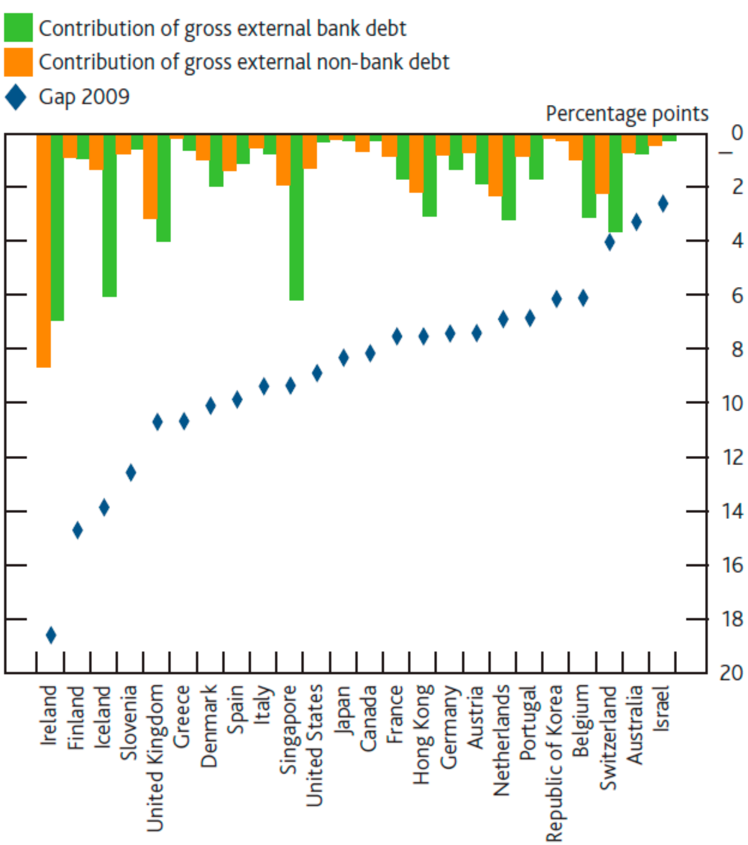
Chart 6 Gross external debt by sectors in 2007



Sources: IMF, Lane and Milesi-Ferretti (2010) and QEDS.

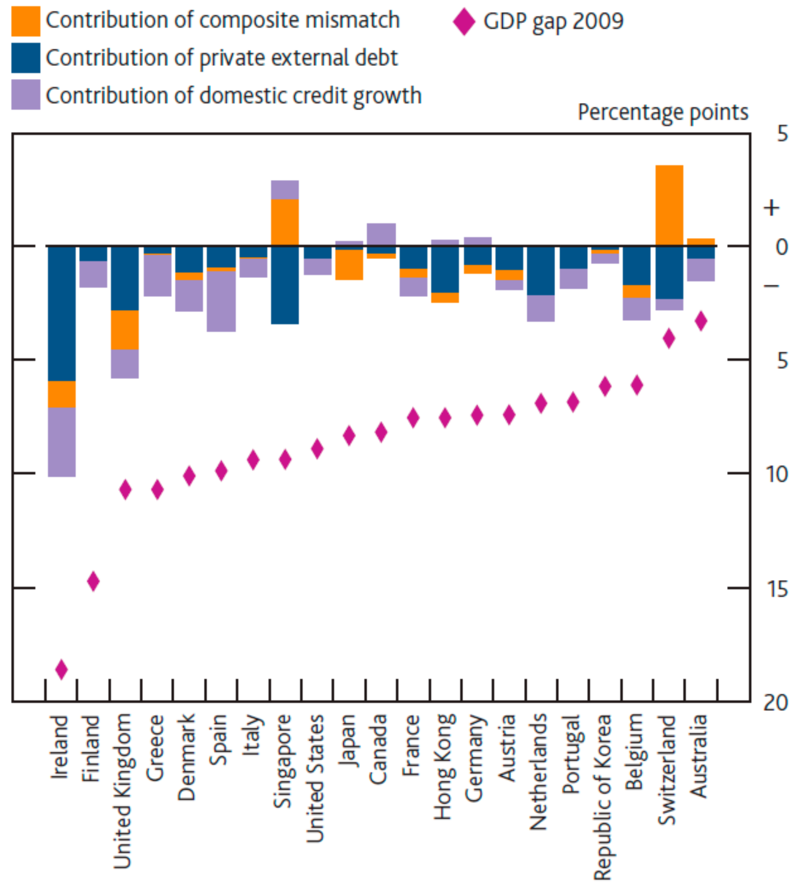
The role of external balance sheets in the financial crisis

Chart 13 Estimated contributions of bank and non-bank external debt to output losses



Sources: IMF and authors' calculations.

Chart 17 Estimated contributions to output losses



Sources: IMF and authors' calculations.

The role of external balance sheets in the financial crisis

- Conclusions include:

  "A key goal of [the G20 Data Gaps initiative] is to promote the compilation of more comprehensive measures of external balance sheets and link them to domestic sectoral accounts, with data on non-bank financial institutions a particular priority"

  Quoting Robert Heath (2013), "Why are the G20 Data Gaps Initiatives and the SDDS Plus relevant for financial stability analysis?", IMF Working Paper No WP/13/6.

  "This paper finds that high non-bank private sector external debt was associated with subsequent large declines in GDP. But the available data sets do not distinguish between the external positions of the non-bank financial sector and other parts of the non-bank private sector."

  Quoting BIS (2012) "Improving the BIS international banking statistics", CGFS Paper No 47.

What have been the most useful initiatives for the BoE?

- Informing BoE views on priorities for the IMF's 2014 Triennial Surveillance Review
  - Development of multilateral surveillance and spillover analysis?
- Most important DGIs conceptually probably:
  - #4 Aggregate leverage and maturity mismatches
  - #8/9 Global network connections and systemically important global financial institutions
  - #10/11 International banking statistics
- Support IMF emphasis in Robert Heath's presentation on:
  - Financial interconnections: Global flow of funds
  - Financial stability: Cross border linkages
- But there is a increasing problem or paradox with granular data sharing if we go to the next level

What are the key limitations to development?

- Policymakers, analysts and politicians are demanding increasingly granular breakdowns
- In a concentrated banking market those breakdowns quickly become disclosive
  - In the context of UK monetary policy (the only statutory statistical information power available to the Bank of England) this includes “Big Six” bank by bank analysis of market shares, interest rates charged
- Statutory obligation (against criminal penalties) is not to disclose externally identifiable information that “relates to the business or other affairs of any person” (schedule 7, Bank of England Act 1998)
  - Except “for the purpose of enabling or assisting the Bank to discharge its functions as a monetary authority”
  - Or to enable or assist specified **UK** institutions to discharge specified functions (eg Financial Conduct Authority, Office for National Statistics)

International disclosure for financial stability

- Banking Act 2009, section 246:
  - The Bank **may** disclose information that it thinks relevant to the financial stability of individual financial institutions or one or more aspects of the financial systems **of the UK**
  - Only to the Treasury, Prudential Regulation Authority, Financial Conduct Authority, Financial Services Compensation Scheme manager
  - And any authority in a country or territory outside the UK which exercises functions similar to those of the Treasury, Bank of England, Prudential Regulation Authority or Financial Conduct Authority in relation to financial stability *(the BIS is appointed our managing agent for this purpose)*
  - And the European Central Bank is specifically named
- This section overrides a contractual or other requirement to keep information in confidence

Where does this become a problem?

- Locational international banking statistics data to date
  - UK based banks' transactions with, for example, Hong Kong residents are dominated by two institutions
  - Disclosure of UK-HK data breaches the "three bank rule" for non disclosure
- Since the financial crisis and withdrawal of marginal players, many more locational pairs with the UK are dominated by just one or two institutions
  - Specific request for permission to waive confidentiality to allow publication is refused
- Within the EU, disclosure of regulatory data is restricted by CRD4 to purposes of prudential control
  - With current disclosure standards applicable to banks, this is calling into question how much further we can go
  - **What could and should be done?**