



Data Gaps Initiative and its Contribution to Financial Stability Analysis



Global Conference on the G-20 Data Gaps Initiative

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Introduction (1)

- ❖ It has now been five/six years since the outbreak of the global financial crisis.
- ❖ A central question is how the crisis has changed the way we think about macroeconomic policy:
 - ❖ Conference at IMF in April 2013 on rethinking macro-policy.
- ❖ The relative roles of monetary policy, fiscal policy, and macro-prudential policy are still evolving.

Introduction (2)

- ❖ But it is clear now that under the calm macroeconomic surface of the so-called Great Moderation risks were rising in:
 - ❖ Asset prices bubbles, sectoral imbalances, financial risks, and potential cross-border contagion.
- ❖ The consequence has been an increased focus on financial stability both nationally and internationally
 - ❖ Within IMF the IMF Financial Surveillance Strategy has been agreed by the Executive Board
- ❖ This presentation focuses on four key themes in the Strategy that:
 - ❖ Support the analytical underpinnings of macro-financial risk assessments and policy advice.

Understanding Interactions Between Macro-prudential, Macro-economic, and Micro-prudential Policies (1)

- ❖ While macro-economic policies (monetary/exchange rate and fiscal) aim to achieve price stability and economic growth, and micro-prudential policies address risks of individual institutions
- ❖ the experience from the global crisis has demonstrated that financial stability cannot be assured without a macro-prudential approach.
- ❖ Various datasets emerging from the DGI recommendations support the intersection of analysis between the macro-prudential, macro-economic, and micro-prudential.

Understanding Interactions Between Macro-prudential, Macro-economic, and Micro-prudential Policies (2)

- ❖ The *sectoral accounts* (# 15) provide an overview of the whole economy and allows for the construction of many indicators of vulnerability that the global crisis highlighted:
 - ❖ household debt to income, the relative shift in activity of financial institutions, such as from banks to non-banks, sectoral imbalances, and
 - ❖ provide a tool for analyzing the link between the real and financial economies, a link that was highly potent during the global crisis.

- ❖ The global crisis also highlighted the potential vulnerabilities of the distributional effects of economic development
 - ❖ Looking at averages in the household sector may mask vulnerabilities at different income strata (# 16).

Understanding Interactions Between Macro-prudential, Macro-economic, and Micro-prudential Policies (3)

- ❖ Of other datasets:
 - ❖ As has been evident in the aftermath of the crisis, in particular where fiscal dominance is significant, the perception of misleading or even just poor *government finance data* (# 17 and 18) can...
 - ❖ have a significant negative impact on financial stability.
 - ❖ Further, the often close ties between the government and the financial sector can lead to a negative sovereign-bank feedback loop.
 - ❖ To monitor the soundness and health of financial institutions, *financial soundness indicators* (# 2) were developed specifically to meet financial stability policy needs.
 - ❖ And the crisis also threw up concern over institutions in the tail causing system-wide disturbances when they failed (# 3).

Understanding Interactions Between Macro-prudential, Macro-economic, and Micro-prudential Policies (4)

- ❖ Domestic monetary conditions, such as credit to GDP ratios, are relevant for macro-prudential, macro-economic and micro-prudential policy makers so:
 - ❖ *Monetary and financial statistics* have been and continue to be an integral dataset of macro-economic statistics.

- ❖ *And there is the link to asset price developments,*
 - ❖ with exposure to real estate (property) prices a common factor in many financial sector crises over many years, yet remarkably:
 - ❖ Reliable data on real estate prices (# 19) has traditionally been lacking, both residential and commercial prices.

Deepen the Understanding of the Nature and Implications of Cross-border Linkages and Spillovers (1)

- ❖ It was transmitted loud and clear during the global crisis and its aftermath that the world has become increasingly interconnected.
- ❖ In short, the breadth and depth of cross-border linkages, financial in particular, took many policy makers by surprise.
 - ❖ they need to understand cross-border interconnections and explore them from various perspectives.
- ❖ In looking at cross-border linkages, in addition to the traditional focus on resident-based data, to undertake appropriate risk analysis, data on a consolidated basis (# 13) are needed.

Deepen the Understanding of the Nature and Implications of Cross-border Linkages and Spillovers (2)

- ❖ *The BIS's International Banking Statistics, IMF's Coordinated Portfolio Investment Survey (# 10, 11, and 14), along with the International Investment Position (# 12) are essential to understanding cross-border financial linkages.*
- ❖ *Also, foreign direct investment (IMF's Coordinated Direct Investment Survey) is an important channel through which cross-border financial linkages are established*
- ❖ *Global Systemically Important Financial Institutions (G-SIFIs) (# 8 and 9) are a special class of institutions.*
 - ❖ *when these institutions get their investment strategy wrong it has been shown to have global economic and financial repercussions.*
- ❖ *The global crisis stimulated interest in trends in official holdings of foreign currency as*
 - ❖ *shifts in these holdings can impact international financial market conditions.*

Implications of Regulatory Reform

- ❖ Following the global crisis regulatory requirements have been strengthened, particularly for deposit-takers.
- ❖ To monitor the impact of on-going and planned regulatory reforms on domestic economies and on the international monetary system, *good data are needed*.
- ❖ In particular there is a need to identify and monitor unintended regulatory spillovers, including
 - ❖ With regard to shadow banking (# 4),
 - ❖ Too-important-to-fail financial institutions (# 8 and 9), and
 - ❖ Over-the-counter (OTC) derivatives (# 5).

Functioning and Deepening of Financial Markets and Access (1)

- ❖ Well functioning and well-managed financial deepening can:
 - ❖ Engender greater resilience and capacity to cope with external shocks, enhance policy effectiveness and support growth.

- ❖ While a number of the recommendations in the DGI will support the analysis of the functioning of financial markets, such as the sectoral accounts and monetary and financial statistics
 - ❖ two in particular are worth noting:

- ❖ Securities markets help support diversification of funding sources...
 - ❖ so the work to improve the availability of data on securities markets (#7) is part of a wider effort to promote securities markets in support of financial deepening.

Functioning and Deepening of Financial Markets and Access (2)

- ❖ Structured products can be complex:
 - ❖ were investors misled by issuers of structured products (# 6), so causing a misallocation of financial resources and market disruptions when the true nature of the instruments became apparent.
- ❖ Also, consistency in identifying counterpart to financial transactions - the Legal Entity Identifier initiative.
- ❖ Access to basic financial services is an indication of financial inclusion and to monitor this ...
 - ❖ the IMF annually undertakes a *financial access survey*

Improving Communication of Official Statistics (1)

- ❖ Attention to communication is important...
 - ❖ particularly when assessing financial stability, critical data may be available but not widely known to policy makers.

- ❖ PGI website (# 20) promotes comparable data sets for G-20 economies, and economies with systemically important financial sectors.

Improving Communication of Official Statistics (2)

- ❖ The importance of disseminating key datasets to the public to improve the functioning of markets is a central tenet of the IMF's data standards initiative.
- ❖ Following the global crisis, the IMF Executive Board endorsed the establishment of the Special Data Dissemination Standard Plus (SDDS Plus), with the purpose of
 - ❖ building on the SDDS to guide member economies, especially those with systemic financial sectors, on the provision of key economic and financial data to the public in support of domestic and international financial stability
- ❖ The SDDS Plus draws significantly upon the G-20 DGI.

Conclusion

- ❖ Further details: IMF Working Paper 13/6

“Why are the G-20 Data Gaps Initiative and the SDDS Plus Relevant for Financial Stability Analysis?”

Thank you