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Statistical Developments Arising from the Global Crisis

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STATISTICAL DEVELOPMENTS ARISING FROM THE GLOBAL CRISIS

I. INTRODUCTION

1. At its meeting in 2008, the Committee had an initial discussion of the implications for macroeconomic statistics of the then current financial market instability. Since last year's meeting, the IMF Statistics Department (STA) has been involved in four major initiatives related to the global crisis. These are the Seventh Review of the Fund's Data Standards Initiative; the creation of the Inter-Agency Group on Economic and Financial Statistics; the launch of the Principal Global Indicators (PGI) website; and most importantly for the future work of the Committee, a report on the Financial Crisis and Information Gaps for the Group of Twenty (G-20) Finance Ministers and Central Bank Governors.
2. This note updates the Committee on these developments and highlights issues that have potential implications for the Committee's work. There are issues for discussion at the end of the paper.

II. SEVENTH REVIEW OF THE DATA STANDARDS INITIATIVE

3. In December 2008, the IMF Executive Board discussed the Seventh Review of the Fund's Data Standards Initiative. Executive Directors took this opportunity to have an initial consideration of the impact of the global crisis on economic and financial statistics, and took the view that the financial turmoil had highlighted the importance of high quality macroeconomic and financial statistics for policymakers and markets. They also saw merit in identifying relevant additional financial indicators that could be included in the Special Data Dissemination Standard (SDDS) on an encouraged basis. They asked for specific proposals in this regard within a year, along with a proposal for an appropriate transition period to allow countries to develop systems to provide the new indicators.
4. STA is presently preparing the follow-up paper requested for Executive Board discussion. Among the financial indicators being considered to be included in the SDDS are quarterly International Investment Position data, as a prescribed item, and external debt on a remaining maturity basis, as an encouraged item. SDDS coordinators are being consulted.

III. INTER-AGENCY GROUP ON ECONOMIC AND FINANCIAL STATISTICS

5. Also in December 2008, the Fund established the Inter-Agency Group on Economic and Financial Statistics (IAG) comprising the Bank for International Settlements (BIS), the European Central Bank (ECB), Eurostat, the Organization for Economic Co-operation and Development (OECD), the United Nations (UN), and the World Bank. The purpose of the IAG, which the IMF chairs, is for the international agencies represented to take a global and coordinated view of economic and financial data needs in the wake of the global crisis. Duplication of effort among international agencies is to be avoided as far as it is possible.

6. The IAG has had three meetings (all in 2009): in February, in June, and in July (immediately following the Users Conference (see paragraph 15)). A fourth meeting is scheduled for mid-November. The focus of the meetings has primarily been on two main issues, i.e., improving communications of official statistics (specially through the creation of the PGI website), and addressing information gaps.

IV. PRINCIPAL GLOBAL INDICATORS (PGI) WEBSITE

7. Among the main messages that have emerged from the global crisis are the need for timely and higher-frequency real and financial indicators, and the need to promote data in more innovative ways. With this in mind, in April 2009 the IAG launched a website of key economic and financial data for the systemically important economies represented in the Group of 20: the Principal Global Indicators (PGI) website. The website is available at <http://financialdatalink.sharepointsite.net/default.aspx>.

8. This website provides predetermined tables of statistics and links to national websites, for central banks, regulatory agencies and national statistical offices of G-20 economies, as well as to the National Summary Data Page of G-20 economies that subscribe to the SDDS. The links to relevant websites include those of the constituent agencies of the IAG. The website has been receiving a significant number of “hits” per day.

9. The IAG is presently considering enhancements to the site. It is working to introduce a layering approach to the indicators presented, with a “top level” of 15-20 indicators, from which the user would access a second level of more detailed and internationally comparable data, and perhaps a third layer of data that are nationally relevant but not necessarily internationally comparable. Also, there is seen to be a need to give greater prominence to cross-country indicators. In this work the IAG also agreed to incorporate the data series identified by the UN/Eurostat *Ottawa Conference on Timeliness, Methodology and Comparability of Rapid Estimates of Economic Trends*.¹

10. The IAG is working to complete the revamping of the PGI website by the end of this calendar year.

V. INFORMATION GAPS AND THE REPORT TO THE GROUP OF 20 FINANCE MINISTERS AND CENTRAL BANK GOVERNORS

A. Identification of Information Gaps

11. In the early months of 2009, arising from consultations with users in their agencies, the IAG reviewed the areas of economic and financial statistics where the global crisis might

¹ The Ottawa Conference had a rich set of papers that are available on the UNSD website <http://unstats.un.org/unsd/nationalaccount/workshops/2009/ottawa/ac188-2.asp>

have revealed data gaps. It provisionally concluded that while the global crisis was not the result of a lack of proper economic and financial statistics, there were four areas that might require further work: the financial sector, balance sheet data of non-financial sectors, house prices and housing-related data, and ultimate risk/credit transfer instruments.

12. In February 2009, the Director of STA, Ms. Adelheid Burgi-Schmelz set out the work of the IAG in her presentation to the heads of national statistical agencies of G-20 economies in the informal meeting on “Official Statistics and the Impact of the Global Financial Crisis,” organized at the time of the 40th annual session of the United Nations Statistical Commission in New York. The presentation generated a lively discussion on the issues facing statisticians, with a strong focus on the need to strengthen data timeliness, identify and address gaps, and improve the communication of official statistics.

13. In April 2009, the Group of Twenty (G-20) Finance Ministers and Central Bank Governors Working Group on Reinforcing International Co-operation and Promoting Integrity in Financial Markets called on the IMF and the Financial Stability Board (FSB) to explore information gaps and provide appropriate proposals for strengthening data collection and report back to the Finance Ministers and Central Bank Governors (G-20 Report). This call was endorsed by the IMF’s International Monetary and Financial Committee (IMFC) in the same month.

14. In May, STA provided an informal briefing to the IMF’s Executive Board to keep the Board apprised of the Department’s response to the global crisis. This included both a discussion of the PGI website and of the data gaps identified by the IAG. From the comments made by Executive Directors, the IAG’s analysis appeared to find resonance.

15. In July, the FSB and the IMF organized a Users Conference at IMF Headquarters in Washington. The papers and presentations, and the summary of key points made at this conference are available at: www.imf.org/external/np/seminars/eng/2009/usersconf/index.htm. International experts on financial stability and statistics from primarily G-20 economies and international agencies attended. The purpose of the conference was to solicit views of users on which data gaps were most relevant in the build up to the global crisis, and to inform the staff of the IMF and the FSB Secretariat as they prepared the G-20 Report.

16. After the Users Conference, FSB and IMF staff have worked on the report, consulting IAG members and the experts who attended the July conference among others. While there are differences in emphasis, there has been a broad consensus over where the gaps lie and the report translates the broad consensus into recommendations for improvements. It is scheduled to be on the agenda of the meeting of G-20 Finance Ministers and Central Bank Governors on the weekend of November 7 and 8, 2009 in Scotland.

B. Report to the Group of 20 Finance Ministers and Central Bank Governors

17. There are four main themes that have emerged from the discussions that are inter-related.

- *The build-up of risk in the financial sector:* The global crisis demonstrated both the difficulty of capturing, and the importance of, sound indicators of the degree and location of leverage or excessive risk-taking within the system, particularly as regards unregulated or lightly regulated institutions and instruments (the “shadow banking system”) but also liquidity, credit, and tail risks within the regulated sector. Related is the issue of a better understanding of where risks actually lie across institutions and markets given the growth of risk transfer instruments.
- *Cross-border financial linkages:* There are important international financial network connections that have developed and are not captured by available information. For instance, the continued rapid growth of systemically important global financial institutions has increased the importance of cross border network links in national financial stability analysis, but information on these systemically important institutions’ networks is lacking. Related is a lack of information on “crowded trades” whereby large financial institutions—banks and nonbanks—invested in the same asset class and/or funded themselves in markets where the supply of funding was subject to common directional risks.
- *Vulnerability of domestic economies to shocks:* Data availability to monitor the behavior and exposures of economic agents within the domestic economy needs strengthening. Such data are relevant to ascertaining (1) the vulnerabilities embedded in the balance sheet positions of financial institutions, governments, nonfinancial corporates, and the households sectors; (2) conditions in markets to which several of these sectors are exposed, such as the real estate markets; and, (3) the financial and real sector linkages within an economy.
- *Improving communication:* Moreover, the crisis has demonstrated a need to improve the communication of official statistics. The need for more timely data compilations and releases is another important lesson of the crisis. Some data that could have been useful in monitoring events during the crisis only became available with a lengthy time lag.

18. The G-20 report turns these main themes into specific recommendations. It is proposed in the report that FSB and IMF staff report by June 2010 on the actions taken up to that date together with a concrete plan and timetable for addressing each of the outstanding recommendations. At its meeting in mid-November the IAG will be reviewing the outcome from the G-20 meeting of Finance Ministers and Central Bank Governors and the possible ways forward.

C. Recommendations Affecting the Committee

19. Given that one of the main themes to emerge is cross-border financial linkages, the relevance of the work of the Committee is self-evident. The recommendations of a cross-border nature are set out below, focusing first on those of direct relevance for the work of the Committee.

Coordinated Portfolio Investment Survey (CPIS)

20. The CPIS was one of the first projects of the Committee, with the first survey in 1997, and annual surveys since 2001. It is recognized that the CPIS provides a wealth of information on cross-country financial linkages, and covers many important financial centers. As was demonstrated in a paper for last year's meeting, "Data Provision to the IMF for Surveillance Purposes" (BOPCOM-08/28), CPIS data provide valuable information to analysts: the paper showed that CPIS data shed important light on the contrasting pattern between current account developments and exposures to US financial assets.

21. However, the global crisis has highlighted the drawbacks of the survey.

- Timeliness: the data are only available in about 11-12 months after the end of the year;
- Periodicity: more frequent periodicity than annual data would be welcome by users.

22. Further, coverage of economies has continued to improve, but some important gaps still exist. Also, the crisis has resulted in growing interest in the sectoral destination of portfolio investments, to gain an idea of the nature of the assets being held by investors. For instance, there was increased interest in whether asset claims on the United States were in the form of government securities, financial sector securities, etc.

23. This analysis has led to a call for the IMF to continue to work to improve the coverage of G-20 countries and significant financial centers in the CPIS, and, with BOPCOM, to strive to enhance the frequency and timeliness of the CPIS data, and consider other possible enhancements, such as the institutional sector of the foreign debtor. In short, it is recognized that the CPIS is an important data source, and the G-20 report is calling on the Committee to look to ways to make the survey even more relevant for users.

24. In 1994 and in 1999, the Committee set up CPIS task forces to look respectively into the modalities of the survey, and the way forward following the pilot exercise. Given a decade has now passed, the IMF could consider establishing a new CPIS task force, to advise STA and the Committee on improvements that could be made to the CPIS to enhance its usefulness, focusing on the recommendations from the G-20 report in particular.

International Investment Position (IIP) data

25. In *BPM6*, the Committee has given a higher profile to the IIP. As Committee members are aware, the IIP is an important data source for understanding the linkages between the domestic economy and the rest of the world. The number of countries reporting this dataset to the IMF has increased sharply over the past decade, but with just 118 reporting countries in 2009, coverage is still incomplete. Frequency and timeliness of reporting generally lags that of the transactions data in the balance of payments.

26. The crisis has increased attention on important vulnerabilities on both sides of the external position. For a number of economies, international assets turned out to be a source of weaknesses, such as arising from the quality of assets held. Further work on compiling data on countries' gross external assets would be a major step forward, following the increased focus on liabilities over the past decade.

27. *BPM6* helps address some of the user needs by providing a more detailed sectoral breakdown, including identification of the nonbank financial institutions; standardized reporting for the currency composition of international assets and liabilities; information on the impairment of cross-border loans; and supplementary (voluntary) detail on the remaining maturity of international assets and debt liabilities, so supporting liquidity analysis.

28. This analysis has led to a call to continue to increase the number of reporting countries, including of quarterly data, and for the enhancements to the IIP to be adopted by G-20 economies as soon as feasible.

29. The Committee has a separate paper to discuss on the coverage of IIP statistics, "International Investment Position: Expanding Coverage and the Development of World Tables" (BOPCOM-09/19). This paper describes progress and sets out a strategy to increase the number of IIP reporters. Also, IMF staff could be asked by the Committee to come back in a year's time with a further paper that discusses the promotion of quarterly IIP reporting and of the enhancements to the IIP discussed in paragraph 27 above.

D. Other recommendations relating to external sector statistics

30. While not directly relevant to the Committee's work, there are some other recommendations relating to external statistics that may be of interest to Committee members.

31. There are two recommendations regarding the *BIS international banking statistics* (IBS) that are similar in intent to the CPIS, in the terms of strengthening an existing valuable data source.

32. Further, a key lesson demonstrated by this global crisis is that the interconnectedness of *systemically important global financial institutions* has significant implications for global

and domestic financial stability. It is considered that more needs to be done to monitor these interconnections and to assess their implications in order to improve the understanding, and enable a closer monitoring, of the allocation of risks internationally.

33. The crisis has highlighted the lack of data on *cross-border exposures of nonfinancial corporates*. “Onshore” corporates, both financial and nonfinancial, used offshore entities to raise finance and provide implicit guarantees, and the extent of exposure was unknown to policy makers. In some emerging markets, authorities were unaware of significant corporate exposure to exchange rate derivative products because these were booked outside of their jurisdictions. For instance, small and medium firms that were highly concentrated in exporting businesses in some instances acquired foreign exchange exposures through derivatives contracts booked on foreign markets. Data deficiencies were mostly in relation to cross-border transactions. This analysis led to a call on the IAG to investigate the issue of monitoring and measuring cross-border, including foreign exchange derivative, exposures of nonfinancial, and financial, corporations.

34. The importance of monitoring the activities (stocks and flows) of *nonbank financial institutions* (NBFIs) has again arisen in the global crisis. A number of recommendations in the G-20 Report would strengthen coverage of NBFIs within existing initiatives. In addition, in October 1998, the G-22 report on transparency and accountability recommended that “a working party comprising private sector representatives, international groups, and national authorities be formed as soon as possible to examine the modalities of compiling and publishing data on the international exposures of investment banks, hedge funds, and other institutional investors.” This recommendation reflected the growing significance of such investors in international markets. The intention was to model this collection on BIS IBS, but it was not taken forward. It is proposed for the IAG to reexamine the idea.

VI. QUESTIONS FOR THE COMMITTEE

- Views of Committee members on the crisis-related work described above are welcome.
- Do Committee members agree to set up a task force on the CPIS to consider improvements that could be made to the CPIS to enhance its usefulness, focusing on the recommendations from the G-20 report in particular?
- Do Committee members agree that IMF staff should prepare a paper for next year’s meeting that discusses the promotion of quarterly IIP reporting and of the enhancements to cross border position data described in paragraph 27?