Finding New Data

The global crisis revealed vast gaps in international financial statistics that authorities are working to fill

Adelheid Burgi-Schmelz

THE recent global financial crisis demonstrated the lack of data in key areas that might have helped authorities measure and understand the risks to the international system that arose from increasingly integrated economies and financial markets. Statistics that are timely, internally consistent, and comparable across countries are critical to monitoring financial stability. Better information on the connections among financial institutions through channels such as interbank lending, securities lending, repurchase agreements, and derivatives contracts is critical to helping authorities ensure financial stability.

But in the run-up to the recent crisis, data systems failed to capture comprehensibly the deepened integration of economies and markets and the strengthened linkages among financial institutions. There is overwhelming evidence that credit risks were made worse by heavy borrowing (leverage), much of which took place outside traditional depository institutions (such as banks) through the use of commercial paper, repurchase agreements, and other similar market instruments. The heavy use of short-term finance to purchase long-term assets (maturity transformation), which led to a mismatch in the maturity structure of corporations' assets and liabilities, was a key problem in the crisis. But because of a paucity of data, regulators, supervisors, and market participants could not fully measure the degree of maturity transformation or the extent to which financial institutions and markets were interconnected.

A key lesson for financial stability

One key lesson is that supervisors, policymakers, and investors should have sufficient data and information to more quickly evaluate the potential effects, for instance, of possible failure of a specific institution on other large institutions through counterparty credit channels, and on financial markets, payment, clearing, and settlement arrangements, Federal Reserve Board Governor Daniel Tarullo noted recently (see Tarullo, 2010). The need for comprehensive, high-frequency, and timely data to monitor systemic risks associated with operations of the systemically important financial institutions was underscored by IMF Managing Director Dominique Strauss-Kahn, who observed in a recent interview (Schneider, 2010), "We need more data, including from a rather small number of the large financially systemic institutions. . . . The mandate of the Fund is to have surveillance of countries, but today you have institutions as big, maybe bigger, than many countries. How can we have global surveillance without having data on what happens with those large financial institutions?"

The Group of 20 (G-20) advanced and large emerging market economies echoed this sentiment and the group asked the IMF and the Financial Stability Board (FSB), to explore gaps and provide appropriate proposals for strengthening data collection (see Burgi-Schmelz, 2009). The International Monetary and Financial Committee, the multinational group that steers IMF policy, endorsed this request in April 2009 and again in 2010.

What is missing?

In response, the IMF and the FSB—which the G-20 set up last year to identify problems in the financial system and oversee any action to remedy them—made 20 recommendations (see IMF and FSB, 2010, p. 12), including

- Strengthening data essential for effective capturing and monitoring of the build-up of risk in the financial sector. This calls for the enhancement of data availability, both in identifying the build-up of risk in the banking sector and in improving coverage in those segments of the financial sector where the reporting of data is not well established, such as the nonbank financial corporations.
- Improving data on international financial network connections. This calls for enhanced information on the financial linkages of systemically important financial institutions as well as strengthening data-gathering initiatives on cross-border banking flows, investment positions, and exposures, in particular, to identify activities of nonbank financial institutions.
- Strengthening data important to monitoring the vulnerability of domestic economies to shocks. This calls for measures to strengthen the sectoral coverage of national balance sheet and flow of funds data, including timely and cross-country standardized and comparable government finance statistics and data on real estate prices. Real estate issues are particularly tricky. Country practice in compiling these data is uneven, yet the impact of house prices on household net worth is highly relevant to the current crisis.
- Promoting effective communication of official statistics to enhance awareness of available data for policy purposes.

Work to address all the recommendations has begun. In some cases, closing the gaps poses significant challenges, such as finding needed resources for statistics agencies or changing legislation. In others, the identified gaps relate to existing initiatives where the conceptual framework for capturing data is well developed, such as in the IMF's Coordinated Portfolio Investment Survey.

Collecting data efficiently

Moving from identification of data gaps to efficient systems of data collection, management, and reporting is complicated. It requires prioritization of activities, effective coordination and cooperation among international agencies and national authorities, adequate resources, and appropriate legislative frameworks in many countries to improve the ability of regulatory and statistical agencies to collect the necessary data. At a conference in Basel last April, senior government officials acknowledged the difficulties (see IMF, 2010). They also observed that some of the most challenging recommendations—such as those calling for a better understanding of global financial networks—are among the most important for enhancing financial stability analysis.

So it is imperative that the data collection effort recognize its international dimensions and seek appropriate participation from regulators worldwide, especially in jurisdictions with significant financial centers. For instance, the international nature of financial markets hampers the extent to which one economy acting single-handedly can organize data on financial markets globally.

It is in recognition of these factors that the IMF and FSB adopted a consultative international approach to developing a common reporting template for the systemically important institutions, involving financial stability experts, supervisors, and statisticians from the countries that are members of the FSB—all of the G-20 plus Hong Kong SAR, the Netherlands, Singapore, Spain, and Switzerland. The reporting template could play an important role in standardizing information and facilitating the process of sharing data on common exposures and linkages between systemically important institutions. But coordination is not a panacea—important barriers remain, such as the lack of an adequate legislative framework for data sharing. Confidentiality issues in data disclosure and private sector proprietary rights must also be dealt with.

Making progress

Considerable progress has been made (see IMF and FSB, 2009, 2010). For example, the Principal Global Indicators (PGI) website was launched in April 2009 to provide timely data available from participating international agencies covering financial, governmental, external, and real sector data, with links to data on websites of international and national agencies.

In developing the PGI website, the seven international organizations that comprise the Inter-Agency Group on Economic and Financial Statistics recognized the importance of going beyond traditional statistical production processes to obtain a set of timely and higher-frequency economic and financial indicators, at least for systemically important countries. Because of the global nature of the recent crisis, data users demand more internationally comparable, timely, and frequent data. This interagency approach mobilizes existing resources, builds on the comparative advantages of each agency, and supports data sharing in a coordinated manner. The international agencies have access to selected country data sets that are presented in a broadly comparable manner across countries.

The website has already been enhanced several times. Efforts are under way to expand the website's country coverage beyond the G-20 economies in tandem with ongoing data initiatives at the IMF—including the promulgation of international statistical methodologies, harmonization in the presentation of government finance statistics, improving regular reporting of Financial Soundness Indicators, and increased dissemination and transparency of data through the IMF's General Data Dissemination System and the Special Data Dissemination Standard.

Closing the gaps

The IMF and the FSB have identified gaps that must be closed to help ensure financial stability.

	Statistical framework needs development	Statistical framework exists but collection needs enhancement
To monitor build-up of risk in the financial sector	Tail risks in the financial system; variations in distributions of, and concentrations in, activity Aggregate leverage and maturity mismatches in the financial system Structured financial products	Financial Soundness Indicators Credit default swap markets Securities data
To improve information on cross-border financial linkages	Global financial network connections and interconnectedness of systemically important global financial institutions Cross-border exposures of financial and nonfinancial corporations	International Banking Statistics The Coordinated Portfolio Investment Survey International Investment Position
To monitor vulnerability of domestic economies to shocks	Distributional information (ranges and quartiles)	Sectoral accounts Government finance statistics Public sector debt Real estate prices
To improve communication of official statistics		Principal Global Indicators website

Source: IMF and FSB, 2010.

The way forward

There has been significant progress in the availability and comparability of economic and financial data in recent years. But the crisis that began in 2007 has raised issues that require even more innovative approaches to statistical production, both to obtain timely and higher-frequency economic and financial indicators and to enhance cooperation among international agencies in addressing data needs. The work in progress on data gaps, and in particular on the IMF-FSB common template, offers great opportunities to permit enhanced understanding of the issues surrounding financial stability—especially those that relate to the interconnections of systemically important global financial institutions. ■

Adelheid Burgi-Schmelz is Director of the IMF's Statistics Department. Robert Heath, Andrew Kitili, and Alfredo Leone of the IMF's Statistics Department assisted in the preparation of this article.

References:

Burgi-Schmelz, Adelheid, 2009, "Data to the Rescue," Finance & Development, *Vol. 46, No. 1.*

Inter-Agency Group on Economic and Financial Statistics, Principal Global Indicators website.

International Monetary Fund, 2010, "High-Level Conference on Financial Crisis and Information Gaps" (Basel, April 8–9).

———, and Financial Stability Board Secretariat, 2009, "The Financial Crisis and Information Gaps: Report to the G-20 Finance Ministers and Central Bank Governors" (October).

———, 2010, "The Financial Crisis and Information Gaps: Progress Report, Action Plans and Timetables" (May).