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Impact of global crises on statistical systems

Detailed outline for keynote speech

Note by the European Central Bank*

Summary

The note provides an outline of the keynote speech to be held during Part III of the 58th plenary session of the Conference of European Statisticians: Impact of global crises on statistical systems. The speech considers the role of statistics in shaping monetary policy decisions, and calls for the development of indicators in three main areas of statistics: to measure the build-up of risks in the financial sector; to capture cross-border financial linkages; and to assess the vulnerability and exposure of economic agents and sectors and better capture the link between financial and real sectors of the economy.

* This document has been submitted late for technical reasons.

I. The role of statistics in shaping monetary policy decisions

1. Monetary policy and statistics are two sides of the same coin: statistics provide objectiveness to policy decisions and policy gives meaning and aim to statistics. Evidence-based policy-making implies that policy decisions are based on careful and rigorous analysis of sound and transparent data. From a central bank's perspective, if the strategy is clearly outlined and the statistics made available in due time, agents can anticipate the central bank's reaction and this can help establish credibility. Furthermore, statistics can be used by citizens to check a posteriori if policy makers have taken the right decisions. Hence, statistics are of paramount importance to enhance credibility and transparency, allow for accountability and thereby prevent policy decisions from being driven by minorities' interests, political ideologies, arbitrariness or anecdotal evidence.

2. What we learnt from the most recent financial turmoil — (Reference to the IMF/FSF report requested by the G20) — is that three main areas of improvements in the field of statistics can be identified:

(a) The developments of indicators to measure the build-up of risks in the financial sector;

(b) The development of indicators to capture cross-border financial linkages; and

(c) The development of indicators to assess the vulnerability and exposure of economic agents and sectors and better capture the link between financial and real sectors of the economy.

3. The crisis also demonstrated the need for timely data and for a closer global coordination and communication. These messages appear quite focused on the macro financial use of statistics. But the crisis also pointed to the role of information gaps, notably on securitization and asset prices in market failures (which points to the need for sound, timely and reliable house price statistics (including commercial property); if data on securitization had been made readily available, policy-making authorities may have been better able to see the systemic risk emerge).

4. Looking ahead, the recent financial crisis provides a catalyst for central banks to undertake further, more detailed research on threats to global financial stability. The risk of contagion implies that more effort is needed on putting micro data in relation with macro data in order to be able to capture the starting point of a crisis.

II. The use of statistics at the European Central Bank: an illustration of the evidence-based policy-making process

5. Monetary policy data needs: monetary policy decisions are based on an overall assessment of the risks to price stability drawn from the analysis of economic dynamics and shocks on the one side cross-checked with the analysis of monetary trends on the other side. The European Central Bank (ECB) uses a wide range of detailed statistics in doing so:

(a) Monetary, financial and operational statistics for the euro area;

(b) External statistics (e.g. balance of payments);

(c) Euro area quarterly financial and non-financial accounts and some other general economic statistics from Eurostat (price and costs, labour market statistics; survey data).

6. The development of euro area statistics is the result of a fruitful collaboration with National Central Banks of the European Union (EU), national statistical offices, Eurostat and the Commission.

7. How are these data used? This part of the speech provides short examples of the timeline of euro area statistical data and the timeliness of most relevant data, e.g. use of interest rates statistics to assess the transmission mechanism of monetary policy; usefulness of early estimates and surveys such as Purchasing Managers' Index (PMI) to derive early estimates. We would emphasise the importance of National Accounts (NA) data, and in particular, the importance of improving inventory statistics (by illustrating the important role played by the stock cycle recently).

8. Macro policy-making and panel data information: in order to conduct a proper analysis of macroeconomic risk, it is necessary to not only focus on one point estimates (e.g. household savings), but to have access to a fuller range of characteristics (e.g. household size, income class, age, etc).

III. Looking forward, some avenues of reflection

9. We need to better understand the link between the financial sphere and the real economy — episodes of financial stress are too frequent and too costly to be treated as just “bad luck” of little consequence to forward-looking stabilisation policy. The macroeconomic accounts provided by European System Accounts are useful and widely used in modelling and forecasting exercises. They need to be matched with sectoral accounts and balance sheets information. Users need to be educated in the complexity of the interrelatedness of macroeconomic and sectoral data.

10. Macroeconomists need to re-think their models and go beyond the current modelling strategies, which do not allow for financial frictions. Financial frictions allow for a role of balance sheet data and risk premia in influencing economic outcomes. Another way to strengthen current models is to allow for a more realistic role of financial intermediaries. Their financial strength, the way they manage their balance sheets, can exert important effects on overall funding conditions for firms and households. This calls for timely and reliable data on the household, financial and non-financial sectors. At the same time, sources of systemic risks may change over time and identifying emerging risks will put the flexibility of the statistical community to the test. For example, the use of surveys to identify sources of risks has proved useful in the recent financial turmoil and could be used more widely in the future. The study of heterogeneity in macroeconomics is starting.

11. The primary objective of macroeconomic policy is to maximise welfare. Hence central banks should not lose sight of longer-term objectives of sustainable growth and development and of social well-being. Interesting initiatives to link growth and financial stability to social well-being include the so-called Stiglitz report. The recommendations to regularly compile net wealth to supplement Gross Domestic Product (GDP) are welcome, as well as improving the empirical measurement of volume changes in key public activities (such as health or education). In fact, the ECB and Eurostat are addressing many of these aspects in the regular compilation of euro area sectoral accounts. Clearly, some reflection is needed on developing economic, fiscal and financial indicators that take into account new developments in environmental awareness. At the same time, one needs to be wary of highly subjective “quality of life” indicators that may eventually lack transparency and neutrality and be prone to political manipulation in their compilation process or in the policy use.

IV. General conclusion

12. We would highlight two fundamental ideas:

(a) Statistics are of paramount importance for the policymaker and good statistics as well as good policies depend on the quality of the interaction of statisticians with policymakers;

(b) The crisis shed some light on statistical gaps and shows some ways forward in terms of statistical developments. Asking for more flexibility and additional (micro) data from statisticians may sound like a very costly request. But beyond traditional restraint techniques, there may be ways to secure a higher return when developing new statistics (e.g. surveyed firms may be interested by the overall survey results and by adequate service concerning their own input).
