



**Economic and Social
Council**

Distr.
GENERAL

CES/2000/13
22 March 2000

ORIGINAL: ENGLISH

STATISTICAL COMMISSION and ECONOMIC COMMISSION FOR EUROPE

CONFERENCE OF EUROPEAN STATISTICIANS

Forty-eighth plenary session
(Paris, 13-15 June 2000)

Theme 1

The European Central Bank as a user of statistics

Invited paper submitted by the European Central Bank (ECB)¹

I. Introduction

1. Let me thank you, first, for the invitation to come and speak to you today. The European Central Bank (ECB) has a very strong interest in European statistics. It is, of course, itself a producer of statistics. The ESCB is in charge of money and banking statistics and shares responsibility with Eurostat for balance of payments statistics and financial accounts. However, in most other areas the ECB is solely a user, depending heavily on National Statistical Institutes (NSIs) and Eurostat. I would like to take the opportunity to explain our needs as the monetary policy authority of the euro area, and try to address some of the key issues that have been raised regarding the availability as well as the timeliness, reliability and international comparability of European Statistics. As I am sure you are aware, market participants have been critical, particularly recently, about the state of euro area statistics. The ECB (and its forerunner, the European Monetary Institute) has never been in doubt about the importance of data for

¹ Prepared by Mr W. Schill, Deputy Director General of DG Economics, ECB.

the euro area. It has been actively involved in a number of statistical initiatives in recent years, dating back to the so-called "Implementation Package", which was published in July 1996 and which set out the EMI assessment of the statistics required for Stage Three of Monetary Union. Statistics of a high quality are of key importance to ensuring that the correct monetary policy decisions are taken. Policy mistakes can be very costly for the economy in terms of higher inflation and lower output and employment.

2. **Let me start by explaining that the statistical needs of the ECB and the Eurosystem as a whole are derived from the primary objective, which is to maintain price stability in the euro area. These needs are reflected in the monetary policy strategy which has been adopted.** The European Central Bank is the centre of the Eurosystem, which consists of the National Central Banks (NCBs) of the 11 EU Member States participating in monetary union together with the ECB. The primary objective of the ECB - which is specified in the Treaty on European Union - is to maintain price stability in the euro area. In order to provide greater transparency and accountability in its decision-making, the Governing Council of the ECB (which is composed of the six Executive Board members of the ECB together with the governors of the NCBs) announced a quantitative definition of price stability. This is a year-on-year increase in consumer prices of 2% or less in the medium term, as measured by the Harmonised Index of Consumer Prices (HICP). In fulfilling this objective, the Eurosystem has adopted a monetary policy strategy which is comprised of two pillars. The first relates to the rate of growth of broad money (M3). A reference value has been set of 4% for monetary growth, monitored on the basis of three-month moving averages of the twelve month growth rates for M3. The second pillar is a broadly based assessment of the outlook and risks for price stability. Our assessment, based on the available data, is regularly reported in the ECB Monthly Bulletin.

3. **If the main needs for statistical information relate to the euro area, this does not mean that the ECB does not also take a strong interest in data for other EU countries.** A core set of highly comparable data are required for assessing convergence. In addition, these data are of interest as the ECB monitors closely developments in the main trading partners of the euro area. In the case of future membership of the euro area it will, of course, be necessary to have harmonised data. To the extent that this already exists it would ensure a smooth statistical transition to the euro area. Beyond this, the ECB is also monitoring developments in accession countries.

II. Data requirements are reflected in the monetary policy strategy

4. As already noted, the statistical needs of the Eurosystem are principally driven by the need to provide a thorough analysis of the euro area economic situation as required by the two pillars of the monetary strategy. **In order to conduct this assessment, which is carried out according to the**

monetary policy strategy, the ECB requires a wide range of monetary, financial and economic data. While information on monetary developments in the euro area is vital for the formulation of the appropriate stance of monetary policy, information from other sources is also required, as recognised by the second pillar of the monetary policy strategy. The broadly based assessment of current and future price developments draws on the analysis of price information which can be derived from financial market indicators, a regular analysis of a wide range of short-term economic indicators, including those covering both the domestic and world economy, various survey data on inflation expectations and the evaluation of forecasts of inflation. The quality of euro area data, including timeliness, reliability and the availability of back data, is of prime importance in undertaking forecast exercises for the euro area.

5. **As monetary policy is conducted for the euro area as a whole the Governing Council requires an area-wide perspective on monetary, economic and financial developments. Where the euro area series is the result of aggregating national data, it is therefore concerned with the degree of harmonisation of the statistics and the geographic coverage.** Most of the existing euro area data are based on aggregating national data. While ideally this means that data for all 11 participating countries are available, in practice we may be able to construct area-wide estimates if we have data for a sizeable proportion of the euro area. This means, inevitably, that if data are missing for the larger countries this severely limits the usefulness of any information available to the Governing Council when making policy decisions. It also means that we look for data which, if not fully harmonised, are broadly comparable. Looking back at the development of statistical systems in euro area countries, it is understandable that there have been differences, sometimes quite significant, in the series which are available, the ways in which estimates are constructed, and the frequency of release. However, policy needs change and providers of statistical information need to adapt to meet the needs of this new situation. The alternative to this approach would, of course, be to directly collect data for the euro area.

6. **In general, the Eurosystem has the same statistical needs as other monetary policy authorities responsible for large economic areas in terms of timeliness and reliability, while long time series are also highly desirable.** Timely and reliable data are essential for conducting monetary policy as central banks need to be able to have the latest information to be able to assess the current and future outlook for prices. Back data are necessary for conducting empirical analysis into behavioural relationships between variables and whether there are changes in these relationships over time. Given the potential for significant structural change in the euro area as a result of globalisation, technological changes, and by no means least, monetary union, it is important to be able to assess whether past relationships still hold.

III. An overview of data requirements

7. Let me give you a brief overview of the current availability of some of the various statistics for the euro area which the ECB uses.

8. First, the ECB makes extensive use of *money and banking statistics*. **The Eurosystem is the producer of money and banking statistics and they have been designed to meet the policy requirements.** In addition to monetary and credit aggregates the ECB has produced data on retail interest rates and securities issues. The ECB also examines *financial market statistics*. The quality of these data is considered to be satisfactory.

9. As regards *price statistics*, the ECB places considerable importance on the Harmonised Index of Consumer Prices (HICP). **The HICP broadly fulfils the statistical requirements of the ECB in terms of harmonisation, coverage, reliability and timeliness.** Recently, the coverage was broadened further, to include expenditure on education, health, social protection services and insurance. It is, however, unfortunate that no back data are available. Moreover, the HICP can be further improved. The HICP was originally designed with the aim of having a harmonised price index available for use in assessing convergence among EU countries. In order to assess price stability, it is important that the coverage of the consumer price index is as broad as possible. The main item now still excluded from the HICP is household expenditure on owner-occupied housing. Given the importance of housing in household expenditure, it is important to find an acceptable solution for this, admittedly difficult, item as soon as possible.

10. **Price developments are further assessed using evidence from producer price statistics, import and export price statistics, labour costs and national accounts deflators.** These data are not yet based on fully harmonised data and have a varying degree of coverage and comparability. The situation concerning producer price indices, which are important to identify price pressures at an early stage, has improved during the past year. However, inconsistencies in the data remain, because the underlying main industrial grouping has not been fully harmonised. Data on unit labour costs are not timely, and no euro area aggregate is available. With regard to other labour cost indicators, Eurostat has released area-wide labour cost indices, which are derived from national sources (but follow common broad definitions). However, further progress is required towards reliable, comparable and comprehensive quarterly statistics on labour costs. Timeliness is also poor from a monetary policy perspective, and it is also important to have further information on wage and non-wage costs. The introduction of ESA 95 has clearly improved the quality and timeliness of national accounts deflators at the aggregate level and standardised compensation measures. As regards national accounts export and import deflators, the analysis of the impact of external impulses on the euro area economy remains severely inhibited by the inability to exclude intra-area trade. Genuine export and import price statistics for the euro area are unfortunately not available. Euro area

data for unit value indices prior to 1999 are expressed in ECU, and are therefore distorted by movements in the pound sterling.

11. **Quarterly national accounts are of key importance to assess the cyclical position of the economy and the extent to which this may influence the outlook for price developments. The introduction of ESA 95 marks a significant improvement in terms of the availability of harmonised data. However, the situation is not fully satisfactory.** Not all EU countries produce quarterly estimates as yet, while delays in the implementation of ESA 95 in several Member States, together with the extended use of derogations, means that the full benefits of the new system have not yet been experienced. There are many series required by the Council Regulation which are not yet available at a euro area level. It is also important to reduce the delays of data production and transmission for national accounts. Moreover, there is a problem with the calculation of a long time series for area-wide data which now begin in 1991 in the best case, and in many cases only from 1995 onwards. The existence and use by Member States of derogations with respect to the provision of annual ESA 95 back data are the reason for the absence of a long euro area series, which could persist until 2005. Moreover, there are in some cases insufficient detail available. This is important because the lack of detailed data limits a greater understanding of the factors behind the overall developments.

12. While it is important to focus on the main national accounts aggregates, it should not be overlooked that there are also other series usually derived from national accounts which are of considerable importance, such as quarterly sectoral accounts. Moreover, there is no reference to the issue of seasonal adjustment in ESA 95 and no attempt has been made to look into this subject, while thinking about a common revisions policy has only started recently.

13. **Concerning other short-term indicators, further improvements in the provision of these data are also needed, as regards availability, timeliness and reliability.** The overall picture has been characterised as being one of "too little, too late". This does not, perhaps, do justice to the progress that has been made, but it is clear that the situation remains unsatisfactory. Short-term statistics on production and demand, such as that for industrial production and retail trade, are of great importance, in addition to quarterly national accounts. Improvements are still required in particular for retail trade data, which is a significant fraction of private consumption. Further improvements are important also for some other variables, such as the construction sector. In some areas, such as manufacturing orders, there are currently no area-wide data due to restrictions in terms of coverage or lack of comparability. Again, the use of derogations may seriously delay the availability of important indicators. In the absence of other information, the monthly Business and Consumer survey data collected by the European Commission, and the Purchasing Managers' Surveys, provide particularly useful data on recent developments. The data are very timely, and appear to track actual developments in the main sectors closely.

14. **From an area-wide perspective, the situation regarding data on labour market developments remains far from satisfactory.** Data on employment, in particular, are available only for the industrial sector and with a considerable lag. For total employment no quarterly area-wide indicator is released (the ECB therefore uses available national data). For some indicators, such as vacancies there is no area-wide information. Member States should accelerate the implementation of a continuous Labour Force Survey providing quarterly information on employment and unemployment. The partial availability of quarterly data makes it difficult to assess the employment situation and developments in labour productivity.

15. **Government finance statistics are of special importance to the ECB. Budgetary positions need to be closely monitored within the context of the Stability and Growth Pact.** Data on government expenditure and revenue may provide information on both the fiscal stance and the cyclical position of the economy. **While annual data on government expenditure and revenue are likely to improve following the recent agreement on their definition, there is a need for improvement on quarterly data.** These should come about in the context of the recent Commission Regulation- thanks to the efforts of Eurostat. There is insufficient progress, however, on government financial accounts explaining the deficit-debt adjustment that is the link between the government deficit and the change in government debt. Together with NCBs, the ECB is aiming to improve the availability of these financial data on an annual and quarterly basis.

16. **At present there are no financial accounts covering the euro area.** There is partial information via the MFI data in conjunction with the balance of payments, securities issues, and government financial accounts. The ECB is preparing abbreviated quarterly financial accounts for the euro area using these sources and national financial accounts as they become available. In the ESA 95 the requirement is for annual financial accounts only, but in the longer term data at a quarterly frequency will surely become necessary.

17. **Finally, euro area balance of payments aggregates are compiled by the ECB in accordance with a methodology jointly agreed with Eurostat. The quality of these data is still insufficient.** The inconsistencies between national and euro area BOP statistics and BOP and national accounts statistics are a serious obstacle to use of the data and should be dealt with in the short term. This applies not just to data at an aggregate, but also to data at the detailed, level. There are significant delays in the publication of external and intrastat trade statistics. There are also problems with timeliness of unit value indices and there is a need for export and import price indices rather than unit values, which contain a degree of averaging.

18. **I have already mentioned the absence of data on some useful short-term indicators. However, there are a number of areas in which data would be of**

considerable interest to the ECB but where they do not yet exist at the area-wide level. Among these, the general lack of data on developments in the increasingly important *services sector* should be mentioned. In addition, there currently exists no internationally comparable data on *real estate prices* (which are important in the context of assessing asset price movements and wealth effects). The available data are not only very heterogeneous in terms of definition, they also differ considerably in terms of timeliness and frequency.

IV. Assessment of timeliness, reliability and comparability

19. As already mentioned, the ECB requires data for the euro area which meet a number of criteria; they need to be timely, reliable and comparable. While it should be recognised that in a situation of limited resources it is inevitable that a trade-off will exist between these key characteristics, and that difficult choices may need to be made between them, there is at present a clear need for significant improvements at the euro area level in both timeliness and reliability.

20. **While considerable care should be taken in comparing statistics across countries, it is nevertheless interesting to compare the timeliness of data for EU countries, the euro area and the United States.** The "cobweb" charts are designed to illustrate the timeliness of eight key economic series; real GDP, industrial production, retail sales, employment, unemployment, consumer prices, industrial producer prices and wages/earnings. The comparison is made with reference to recent observations for each series (in some cases with expected release dates). As can be seen, the availability of the euro area aggregate - which depends on the release schedule for the individual countries - generally lies well behind the equivalent figures for the United States. The main exceptions are for consumer prices and, recently, unemployment, where both US data and euro area figures are available with a relatively short time lag following the reference period. For other series, notably national accounts, employment and retail trade, the euro area data are released at least one month after that of the United States. For example, the first estimate of the national accounts data for the fourth quarter of 1999 were released in the United States just over 20 days after the end of the quarter, while the first estimate in the euro area was scheduled for release around 70 days after the quarter, and was based on data for five countries; Germany, Spain, France, (Italy) and the Netherlands. For several countries no quarterly data are available. This illustrates the point that, at the time the euro area aggregates are released there are generally data missing for several euro area countries. Area-wide estimates thus tend to rely on a certain amount of projection for the remaining countries. The delays permitted under the respective Council Regulations are generally rather long and, unfortunately, these delays are often still exceeded in practice by some countries.

21. **It is of course important to stress that the charts can only provide a partial assessment of the data situation.** They do not, for instance, address the issue of reliability. One indication of this is the extent and magnitude of revisions. At present, there are often significant revisions to some euro area data, such as industrial production and retail trade. This suggests that there is scope for improvements both in timeliness and reliability.

22. **It is important that improvements in timeliness do not come at the expense of reliability.** Greater timeliness requires that countries - particularly those which comprise a higher weight in euro area aggregates - release data earlier. This would enable a euro area estimate to be constructed at an earlier date. While a "flash" estimate based on smaller proportions of the euro area total can be useful, it should not be at the cost of more substantial revisions at a later date. I am aware of the existing trade-off between timeliness and reliability and the difficulties of improving timeliness. However, the objective for the euro area data should be to achieve "best practice" of those countries which release statistics already today in a timely manner. The maximum delays of transmission and publication which are used as a reference in several Regulations, as for example the four months delay for quarterly national accounts, are, however, not adequate for monetary policy purposes.

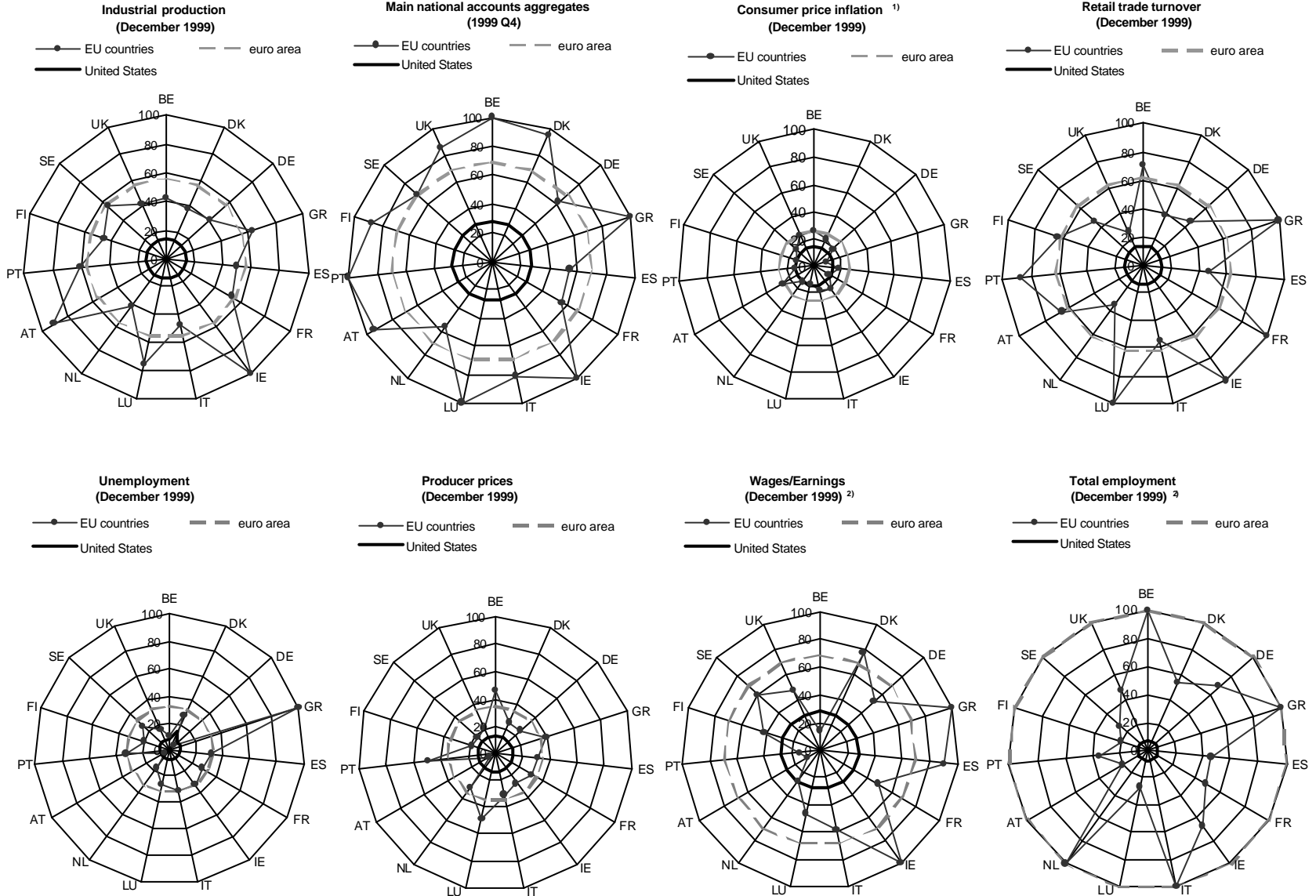
23. **The problems identified partly reflect the fact that the national statistics were originally not designed to be used in the framework of area-wide statistics. Area-wide data are, however, for the most part based on aggregating national data.** It has been suggested that some of the problems could be solved by having a central statistical agency which would collect statistics directly. This would eliminate any problems of harmonisation and could, it is argued, improve timeliness. In this regard, comparisons could be made with the statistical collection systems in the United States. I am not sure that this fully resolves the difficulties. First, it neglects the considerable experience which exists with National Statistical Institutes. Secondly, it ignores the fact that existing resource limitations at the national level are not easily surmounted at the European level. Nevertheless, there may be circumstances under which it could be considered to collect euro area statistics directly. To the degree that resource constraints are an obstacle to providing data for the euro area it should be recalled that - as the US Federal Reserve Chairman Alan Greenspan pointed out in recent testimony before the Senate Banking Committee² - while central banks are generally cautious about the advantages of higher government expenditure, this may be warranted under two conditions, first, that the amounts involved are very small and, secondly, where there is a very formidable argument. I believe that increased spending on euro area statistics certainly meets these conditions.

2 Question-and-answer period of Federal Reserve Chairman Alan Greenspan's testimony before the Senate Banking Committee in the second leg of his semi-annual Humphrey-Hawkins economic report to Congress.

V. Concluding Remarks

24. To summarise, the ECB needs a wide range of data for the euro area. Some of this already exists and meets the criteria for policy use. Indeed, overall, there has been a significant improvement in the statistical framework in the past few years. However, the picture is a mixed one and while there is already a high quality in some areas (for instance in monetary and financial data and in consumer price data) in others further improvements to the data are still needed. In particular, with respect to general economic statistics, there continue to be major shortcomings in some areas. As has been pointed out by market participants, the timeliness of the euro area data still compare very unfavourably in many cases with, for example, the United States. Also, the availability of the data, particularly at a more disaggregated level, is more restricted. Timeliness can certainly be improved in many cases, and there are problems with data quality that lead to frequent - and sometimes large - revisions at the euro area level. In this context, the delays in implementing existing statistical legal acts at the European level, and the use of derogations has led to less progress in the quality of statistics than would otherwise have occurred.

Comparisons of data availability: EU countries, the euro area and the United States



Source: Release calendars (March 2000).
Note: figures indicate days after the reference period; 100 is used to signify no data released.

Source: Release calendars (March 2000).
Note: figures indicate days after the reference period; 100 is used to signify no data released.
1) HICP for EU countries and euro area; CPI for United States.
2) If monthly data are unavailable release dates for 1999 Q4, or 1999 annual estimates, are used.