Lessons for Latin America and the Caribbean from the G-20 Data Gap Initiative

First Meeting of the Financial Information Forum of Latin America and Caribbean Central Banks
Mexico, D.F., June 8-9, 2015
José M. Cartas, Sr. Economist, IMF Statistics Department

The views expressed herein are those of the author and should not be attributed to the IMF, its Executive Boards, or its management. Reproductions of this material, or any parts of it, should refer to the IMF Statistics Department as the source.
Introduction

- Crisis created demand for financial and economic data
  - To support effective surveillance and policy responses
  - At both national and international levels
Introduction

- 2007/2008 crisis was no different
  - G-20 finance ministers and central bank governors (FMCGs) called on the IMF and the FSB to explore information gaps and present proposals (March 2009)
  - Users conference (July 2009)
    - Evidence of global financial transmission mechanisms and strong feedbacks between the financial system and the real economy
    - Need to strengthen the analytical/conceptual framework for financial stability analysis and monitoring of risks
  - Report to the G-20 FMCGs “The Financial Crisis and Information Gaps” (October 2009)
The Financial Crisis and Information Gaps

- Joint document by the IMF staff and the FSB Secretariat in October 2009
- Response to the call from G-20 FMCGs to
  - Explore information gaps
  - Present proposals for strengthening data collection
  - Report back to the FMCGs
- Consultation with official users of economic and financial data in G-20 economies and other international institutions
  - Broad consensus over the information gaps that need to be filled
The Financial Crisis and Information Gaps

- Data gaps are inevitable consequence of growth and innovation in markets and institutions.
- Lack of timely, accurate information hinders the ability of policymakers and market participants to develop effective responses.
- Key areas of information gaps:
  - Build-up of risk in the financial sector
  - Cross-border financial linkages
  - Vulnerability of domestic economies to shocks
  - Communication of official statistics
- Twenty recommendations emerged to fill these gaps.
Build-up of Risk in the Financial Sector

- Financial soundness indicators (FSIs)
  - Strengthen international reporting of FSIs
  - Expand the number of reporting countries
- Leverage and maturity mismatches in the financial system
  - Develop corresponding measures
- Risk transfer instruments
  - Improve coverage of such instruments
  - Data on credit default swap (CDS) markets
  - Not so relevant for LAC
Cross-border Financial Linkages

- Financial linkages of global systemically important financial institutions (G-SIFIs)
  - Enhance information on G-SIFIs
- Data gathering initiatives
  - Cross-border banking flows
  - Investment positions
  - Exposures
    - Identify activities of nonbank financial institutions
Vulnerability of Domestic Economies

- Strengthen sectoral coverage
  - National balance sheets
  - Flow of funds data
- Government finance statistics
  - Timely
  - Cross-country standardized
  - Comparable
- Real estate prices
  - Disseminate more comparable data
Communication of Official Statistics

- Improve communication of official statistics
  - User awareness of available data series to address critical policy issues
    - Principal Global Indicators
# Twenty Recommendations

<table>
<thead>
<tr>
<th>DATA GAPS</th>
<th>There Exist Conceptual/Statistical Frameworks and Ongoing Collection</th>
<th>Conceptual Statistical Framework Needs Further Development</th>
</tr>
</thead>
<tbody>
<tr>
<td>Build-up of Risk in the Financial Sector</td>
<td>#2 Financial Soundness Indicators (FSIs)</td>
<td>#3 Tail Risk in the Financial System</td>
</tr>
<tr>
<td></td>
<td>#5 Credit Default Swaps</td>
<td>#4 Aggregate Leverage and Maturity Mismatches;</td>
</tr>
<tr>
<td></td>
<td>#7 Securities</td>
<td>#6 Structured Products</td>
</tr>
<tr>
<td>Cross-border Financial Linkages</td>
<td>#10, #11, #12 Coordinated Portfolio Investment Survey,</td>
<td></td>
</tr>
<tr>
<td></td>
<td>International Banking Statistics,</td>
<td></td>
</tr>
<tr>
<td></td>
<td>International Investment Positions</td>
<td></td>
</tr>
<tr>
<td>Vulnerability of Domestic Economies to Shocks</td>
<td>#15 Institutional Sector Accounts</td>
<td>#8 Global Network Connections</td>
</tr>
<tr>
<td></td>
<td>#17 Government Finance Statistics</td>
<td>#9 Systemically Important Global Institutions</td>
</tr>
<tr>
<td>Communication of Official Statistics</td>
<td>#18 Public Sector Debt</td>
<td>#13 and #14 Financial and Nonfinancial Corporations’ Cross Border Exposures</td>
</tr>
<tr>
<td></td>
<td>#19 Real Estate Prices</td>
<td>#16 Distributional Information</td>
</tr>
<tr>
<td></td>
<td>#20 Principal Global Indicators (PGIs)</td>
<td></td>
</tr>
</tbody>
</table>
Progress in Implementation

- The individual recommendations have stood the test of time and remain relevant
  - Nonetheless, thinking among policy makers has evolved
  - Increased focus on risks and spillovers within and across economies
## Progress in Implementation

<table>
<thead>
<tr>
<th>Build up of risk in the financial sector</th>
<th>Conceptual/statistical framework needs development</th>
<th>Conceptual/statistical frameworks exist and ongoing collection needs enhancement</th>
</tr>
</thead>
<tbody>
<tr>
<td># 3 (Tail risk)</td>
<td></td>
<td># 2 (FSIs)</td>
</tr>
<tr>
<td># 4 (Aggregate Leverage and Maturity Mismatches)</td>
<td></td>
<td># 5 (CDS)</td>
</tr>
<tr>
<td># 6 (Structured products)</td>
<td></td>
<td># 7 (Securities data)*</td>
</tr>
<tr>
<td>Cross-border financial linkages</td>
<td># 8 and # 9 (G-SIBs Data)</td>
<td># 10 (IBS&amp;CPIS-Participation)</td>
</tr>
<tr>
<td># 13 (Financial and Nonfinancial Corporations cross-border exposures)</td>
<td># 11 (IBS&amp;CPIS-Enhancement)</td>
<td># 12 (IIP)</td>
</tr>
<tr>
<td># 14 (Financial and Nonfinancial Corporations cross-border exposures)</td>
<td># 15 (Sectoral Accounts)*</td>
<td></td>
</tr>
<tr>
<td>Vulnerability of domestic economies to shocks</td>
<td># 16 (Distributional Information)</td>
<td># 17 (GFS)</td>
</tr>
<tr>
<td># 18 (Public Sector Debt)</td>
<td># 19 (Real Estate Prices)</td>
<td></td>
</tr>
<tr>
<td>Improving communication of official statistics</td>
<td></td>
<td># 20 (PGI)</td>
</tr>
</tbody>
</table>
Significant progress has been achieved over the past six years by G-20 economies and international organizations
- Policy support
- Strong support and ownership by G-20 economies
- Peer pressure

Recommendations for which conceptual/statistical framework existed and ongoing collection needed enhancement are close to completion

Recommendations for which conceptual/statistical framework needed development are expected to be completed by end-2015

More work needed to ensure
- Comparability of data
- Quality of data
Progress in Implementation

- Enhancement of datasets are being made by all G-20 economies
  - But at diverse rates of progress
  - Different level of sophistication of statistical systems
- Data available under the DGI enhances policy analysis and surveillance
  - Financial stability
  - Debt analysis
- Further work needed to fully achieve the potential for data provision
Policy Use of DGI Data

- The DGI had been a positive influence on the development of national statistical systems
  - Mentioned in high level policy statements
  - Used in monetary policy discussions
  - Used in debt management committees
- Facilitated greater coordination among national statistical agencies
- Raised the profile of statistics within governments
- Importance of currency composition data
- Importance and need for granular data
  - Security-by-security databases
  - Individual loan data and credit registers
Second Phase of the DGI

- Broadly maintain the same range of recommendations
- Cluster the recommendations under three main headings
  - Risks, vulnerabilities, and spillovers
    - Sectoral accounts and the financial interconnections
  - Monitoring risk in the financial sector
    - Financial institutions and financial markets.
  - Communication of official statistics
    - PGI as platform for promoting the DGI data
- Key modalities
  - IAG to remain global facilitator
  - FSB and IMF staff to provide annual monitoring reports to G-20 FMCBG
  - Periodical consultation with private data users
Beyond the DGI

- Foreign currency exposures
  - Request from the G-20 FMCGs
  - Building on existing data initiatives

- Balance sheet approach matrix
  - Bilateral links between domestic sectors
    - Inter-sectoral shock transmission
  - Country’s position vis-à-vis the rest of the world
  - Aggregate vulnerability to changes in exchange rates and external finance

- Global flow of funds analysis

- IMF’s SDDS Plus (October 2012)
  - Close links with the DGI
  - Eight adherents
Risks, Vulnerabilities, and Spillovers

- Balance Sheet Approach (BSA)
  - The IMF’s work plan, in the context of the G-20 DGI, calls for strengthening data on sectoral accounts, government finance statistics (GFS), and external exposures in foreign currency
  - The G-20 DGI is also helping through
    - Quarterly International Investment Position (IIP)
    - Data on the financial sector (monetary statistics)
    - New 2014 GFS Questionnaire emphasizing maturity, currency, and counterparty information
Risks, Vulnerabilities, and Spillovers

- Global Flow of Funds Analysis
  - Within the IMF and with some major central banks, on-going work to bring the domestic and external data together
    - To develop global flow of funds
Monitoring Risk in the Financial Sector

- Domestic monetary conditions are relevant for financial sector analysis
  - Monetary and financial statistics have been and continue to be an integral dataset for policy analysis
  - FSIs continue to be key indicators of the financial sector
  - Growing policy interest in shadow banking sector
Monitoring Risk in the Financial Sector

- There is growing policy and regulatory attention on monitoring
  - Securities markets in helping to support diversification of funding sources but also as a source of potential vulnerabilities through foreign currency borrowing
  - Liquidity and exposures in short-term wholesale money markets
    - Repos and securities lending
  - Over-the-counter (OTC) derivatives markets

- Real estate developments can have economy-wide implications
Risks, Vulnerabilities, and Spillovers

- The SDDS Plus includes other relevant data sets for this type of analysis
  - Cross-border securities investments have been an increasing source of finance tracked by the CPIS
  - Foreign direct investment is another important form of cross-border financial interconnectedness
  - Reserve asset holdings impact of international financial market conditions
    - Currency Composition (COFER) survey
Lessons for LAC

- Three LAC are G-20 economies
  - Argentina, Brazil, Mexico
- Progress in implementing target at different pace

<table>
<thead>
<tr>
<th></th>
<th>Rec. #2</th>
<th>Rec. #5</th>
<th>Rec. #7</th>
<th>Rec. #10/11</th>
<th>Rec. #10/11</th>
<th>Rec. #12</th>
<th>Rec. #17</th>
<th>Rec. #18</th>
<th>Rec. #19</th>
</tr>
</thead>
<tbody>
<tr>
<td>FSIs</td>
<td>CDS</td>
<td>Securities Statistics</td>
<td>(IBS)</td>
<td>CPIS</td>
<td>IIP</td>
<td>GFS</td>
<td>PSD</td>
<td>Real Estate Prices</td>
<td></td>
</tr>
<tr>
<td>1 Argentina</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3 Brazil</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>13 Mexico</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Recommendation 15 is not included in the table given that the target for completion of the DGI recommendation could be met without the provision of any data at this stage.

- Sectoral accounts and GFS are generally weak areas in all economies
Lessons for LAC

- PGI has been further expanded to include economies with systemically important financial sectors
  - No LAC included in this expanded coverage

- More work needed to ensure
  - Comparability of data
  - Quality of data
Lessons for LAC

- Use of data for policy making
  - The DGI facilitated data sharing between different, but related, working groups
  - Assessment of the usefulness of the indicators varies by country
    - Brazil: FSIs, IIP, Real estate prices
    - Mexico: Cross-border financial linkages
      - Development of a network contagion model by Banco de México using granular data in all domestic financial markets
  - The full potential of enhanced data availability for policy making has not yet been realized
    - Data comparability issues
    - Data sharing problems
Lessons for LAC

- Implementing the regular collection of comparable, integrated, high quality, and standardized statistics
  - This means working towards convergence of data availability for national datasets covered by the DGI with some flexibility for national priorities and resource constraints
Lessons for LAC

- Raise awareness on the policy use of the DGI
- Continued collaboration among national agencies and international organizations is essential
- Momentum needs to be created
Lessons for LAC

- Policy use of the datasets coming out of the DGI recommendations
- DGI recommendations for which regular data collection would bring the most benefits from a national perspective
- Data gaps on foreign currency exposures
- Alignment of users’ needs and challenges in data provision
- Regular collection of comparable, integrated, high quality, and standardized statistics
  - Working towards convergence of data availability
Lessons for LAC

- Promote a LAC version of the G-20 DGI
  - Non-G-20 LAC countries working towards the DGI recommendations
  - Adapt the G-20 DGI recommendations to specific needs of LAC countries
  - The Financial Information Forum as a catalyst for LAC countries working towards reducing their data gaps
    - Especially in the financial sector