SECRETARIAT OF THE PACIFIC COMMUNITY

REGIONAL MEETING OF HEADS OF PLANNING AND HEADS OF STATISTICS (HOPS)
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PFTAC/IMF report on pressing and newly emerging policy challenges impacting on statistical activities

Executive Summary

French text below

The recent financial crisis has highlighted the importance of relevant, timely, consistent and internationally comparable economic statistics. In order to address specific information gaps, the Group of Twenty (G-20) for the IMF and the Financial Stability Board (FSB) launched the data gap initiative project in 2009 to explore gaps and provide appropriate proposals for strengthening data collection. Given the central role of the national accounts in economic statistics, it is essential to improve the quality of national accounts estimates in the Pacific Islands Countries (PICs) by improving the quality of data sources. Business survey data are a key data source for the compilation of national accounts but many PICs do not have the appropriate resources to properly conduct these surveys. This paper aims to open the discussion amongst HOPS members regarding the provision of financial and technical assistance to National Statistics Offices (NSOs) to develop or to improve business surveys as a key mechanism to improve economic statistics.

La récente crise financière a mis en évidence l'importance de statistiques économiques pertinentes, récentes, cohérentes et comparables sur le plan international. Afin de répondre spécifiquement à certaines carences de données, le Groupe des Vingt du FMI et le Conseil de Stabilité Financière (CSF) ont lancé un projet en 2009 afin d'étudier ces carences et de fournir les réponses appropriées pour renforcer la collecte des données. Etant donné le rôle central occupé par les comptes nationaux dans les statistiques économiques, il est essentiel d'améliorer la qualité des statistiques de comptabilité nationale dans les Pays des Iles Pacifiques en améliorant la qualité des données sources. Les enquêtes auprès des entreprises fournissent des données essentielle pour la production des comptes nationaux mais de nombreux pays du Pacifique ne disposent pas des ressources nécessaires pour les mener à bien. Ce document a pour objectif d'entamer une discussion au sein des membres du HOPS quant à la mise à disposition d'une assistance technique et financière auprès des instituts statistiques nationaux pour le développement ou l'amélioration des données d'enquêtes auprès des entreprises. La mise en œuvre de cette proposition permettrait une amélioration significative des statistiques économiques.

Purpose

This paper presents the data gaps initiative project launched in 2009 by the Group of Twenty (G-20) for the IMF and the Financial Stability Board (FSB). The paper also intends to open the discussion with HOPS members for improving business survey data in the Pacific Islands Countries (PICs).

G20 Data gaps initiative[1]

1. The experience of the financial crisis led to a call by the Group of Twenty (G-20) for the IMF and the Financial Stability Board (FSB), to explore gaps and provide appropriate proposals for strengthening data collection.

2. The integration of economies and markets, as evidenced by the financial crisis that has spread worldwide, highlights the critical importance of relevant statistics that are timely and internally consistent as well as comparable across countries. The international community has made a great deal of progress in recent years in developing a methodologically consistent economic and financial statistics system covering traditional datasets, and in developing and implementing data transparency initiatives. Within macroeconomic (real sector, external sector, monetary and financial, and government finance) statistics, the *System of National Accounts (SNA)* is the central organizing framework. For macro-prudential statistics, an analogous framework is not yet in place, but there is on-going progress in developing a consensus among data users on key concepts and indicators, including in relation to the *SNA.*

3. While the financial crisis was not the result of a lack of proper economic and financial statistics, it exposed a significant lack of information as well as data gaps on key financial sector vulnerabilities relevant for financial stability analysis. Some of these gaps affected the dynamics of the crisis, as markets and policy makers were caught unprepared by events in areas poorly covered by existing information sources, such as those arising from exposures taken through complex instruments and off-balance sheet entities, and from the cross-border linkages of financial institutions. Broadly, there is a need to address information gaps in three main areas that are inter-related.

4. *The build-up of risk in the financial sector*: The 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 but also liquidity, credit and tail risks within the regulated sector. Improved data are needed to construct many of these indicators and to make sure they are sufficiently timely and consistent.

5. *Cross-border financial linkages*: There are important international financial network connections that have developed and were not captured by available information. For instance, the continued rapid growth of large financial institutions with a global reach has increased the importance of cross-border network links in national financial stability analysis.

6. *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 corporate, 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.

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[1] The material presented in this section is based on the following document: "*Report to the G-20 Finance Ministers and Central Bank Governors*" prepared by the IMF Staff and the FSB Secretariat. The full report is available at the following Internet address: www.imf.org/external/np/g20/pdf/102909.pdf. A recent progress report is available at: http://www.imf.org/external/np/sec/pr/2013/pr13251.htm

7. Indeed, the crisis also exposed fundamental weaknesses in the ability to integrate financial sector linkages into the macro-economic models that have guided policymaking for decades. High quality analysis is needed to understand financial crises. Indeed, the crisis has reaffirmed an old lesson—good data and good analyses are the lifeblood of effective surveillance and policy responses both at national and international levels. Further work on enhancing data for financial stability will contribute to developing a more robust macro-prudential policy and conceptual framework.

8. Moreover, the crisis has demonstrated a need to improve the communication of official statistics and advance the interaction among the academic, policy and statistical communities. The need for timely data compilations and releases is another important lesson of the crisis with some data that could have been useful in monitoring events during the crisis having only been available with a lengthy time lag. Examples include data on cross-border banking exposures and balance-sheet disclosures by large financial institutions.

9. Further, for efforts to improve data coverage and address gaps to be effective and efficient, the work needs to be coordinated and existing resources leveraged to the maximum extent possible. This requires action and cooperation from individual institutions, supervisors, industry groups, central banks, statistical agencies, and international institutions. Existing reporting frameworks should be used where possible. The legal framework for data collection might need to be strengthened in some countries. Also, there is a need to continue to use relevant data available in the private sector.

10. Substantial progress has been made in implementing most of the data gaps initiative recommendations. In particular, implementation of enhancements to existing datasets is advancing at a good pace. However, challenging work remains to be done to achieve full implementation and to complete developmental work and start reporting on new statistical frameworks.

11. The 20 recommendations aim to close data gaps relevant to identifying and monitoring the buildup of risk in the financial sectors, the cross-border inter-linkages, and the vulnerabilities and sectoral interconnections in domestic economies as well as to improving the communication of official statistics. The resulting data enhancements and new statistical frameworks are key to improve analysis and policymaking to foster financial and macroeconomic stability.

12. The data gaps initiative is aimed first and foremost at more advanced economies with large and complex financial systems but several areas are also relevant to some PICs. These areas include the development and dissemination of financial soundness and macro-prudential risk indicators, the cross-border flows and exposures for banks and international investment positions, the standardization of government financial statistics and the development of public sector debt statistics as well as the development of real estate price statistics.

13. The implementation of higher statistical standards in more advanced economies will also increase the expectations in other countries including those with less developed statistical systems. The availability of quality and timely data are key factors for market participants and improving the quality of economic statistics using an integrated framework is a high priority in the PICs.

National accounts as in integrated framework for economic statistics

14. The SNA has a key statistical function by serving as a coordinating framework for economic statistics. The concepts and classifications of the 2008 SNA are harmonized with other international statistical standards and manuals including the balance of payments statistics (BoP), the government finance statistics (GFS), the system of environmental-economic accounting (SEEA) and international manuals for consumer and producer price indices (CPI and PPI).

15. While using strict accounting conventions, the SNA also offers flexibility for the production of statistics depending on statistical capabilities and analytical needs. In many PICs with limited data and resources, the main output of national accounts statistics consists of GDP estimates by production at current and constant prices with limited industry details. In PICs with better statistical capacities, national accounts estimates are more detailed and include a broader range of indicators based on more sophisticated compilation methods.

16. To address specific analytical or policy needs, the development of satellite accounts is a practical solution which enables the production of SNA-compliant estimates focusing on specific aspects of the economy. One relevant example to a number of PICs is the development of tourism accounts. While maintaining consistency with the concepts of the SNA, the tourism satellite accounts present specific details which are relevant for analytical purposes. Another example is the development of environmental satellite accounts. The concepts and definitions used in the new SEEA are also consistent with the SNA. This consistency facilitates the integration of environment and economic statistics.

A proposal for improving national accounts statistics and economic statistics

17. Because of their central position in economic statistics, national accounts statistics are sourced from a broad range of data sources including but not limited to business account data, administrative data or household surveys. The compilation process is very data intensive and the data quality of national accounts estimates depends heavily on the quality of data sources.

18. Due to resources constraints, data availability is very limited in most PICs and national accountants often rely heavily on administrative data. The existence of a value added tax (VAT) provides a valuable source of information for the compilation of value added generated by businesses. In countries where a VAT is currently being developed such as Kiribati, PFTAC has suggested that the VAT form differentiates between current and capital purchases. This would provide valuable information on capital formation for the compilation of national accounts statistics.

19. VAT exists in the Cook Islands, Fiji, Samoa, Tuvalu, Tonga, Niue, and Vanuatu, and is under development in the Federated States of Micronesia and Kiribati. The inclusion of VAT data in the compilation process of national accounts statistics is well established in the Cook Islands, Samoa, Fiji and Vanuatu. Tax data are also used for the compilation of national accounts statistics in the Solomon Islands, Palau, the Federated States of Micronesia and the Marshall Islands.

20. While PFTAC advocates for better use of administrative data for statistical purposes, there are also a number of deficiencies limiting their usefulness. Concepts and definitions required for administrative purposes rarely meet statistical needs and in particular those of national accounts statistics. Administrative data are often incomplete or inaccurate. In addition, due to the lack of control of NSOs on the data collection process and sometimes due to lack of coordination with administrations, the data quality rarely meets the standards required by national accountants. This is why PFTAC advocates that NSOs promote statistical standards and classifications to the data producers.

21. Business surveys provide key data sources for the compilation of data items including but not limited to gross output, intermediate consumption, gross capital formation and compensation of employees. These are key components for the compilation of gross domestic product (GDP) estimates. Business surveys can also be used to collect information for the compilation of balance sheets as well as labor statistics or external sector statistics.

22. Business surveys are regularly conducted in Fiji, Palau, Papua New Guinea and the Solomon Islands. Other countries also run irregular business surveys for benchmarking purposes.

23. Improving the availability and the quality of business data would be a powerful instrument to greatly enhance the quality of economic statistics in general and of national accounts statistics in particular.

24. PFTAC would like to open the discussion regarding the provision of external assistance to NSOs to conduct business surveys in some PICs. This paper aims to initiate a discussion amongst stakeholders but does not intend to articulate a detailed proposal. A number of points raised below could be considered during the discussion.

25. Both financial and technical assistance would be required. In NSOs with limited experience in business surveys, TA could be provided for the design of the questionnaire, planning, sampling and data analysis. A prerequisite would be the creation of business registers in countries where they do not exist. External assistance may also be required to improve existing registers. The Secretariat of the Pacific Community (SPC) is providing technical assistance on this matter in a number of PICs.

26. The variety of statistical systems, capacities and needs across the PICs would also require a variety of solutions for the development or improvement of business surveys. The availability of alternative good quality indicators should be considered. For example, the existence of good quality VAT data could mean that simpler business surveys could be envisaged because they could be supplemented by tax data. Less detailed and less frequent business surveys might be required in this case while in the absence of alternative or complementary indicators, more comprehensive surveys would be necessary.

27. The frequency of the surveys should also be adjusted to meet different needs such as periodic benchmarking versus more frequent but less detailed surveys. Detailed business surveys provide valuable information for the compilation of benchmarks such as supply-use tables. As mentioned by PFTAC in a separate paper presented to the HOPS, periodic benchmarking should be incorporated in NSOs economic statistics plans. More targeted survey data could also be considered to compile satellite accounts and address specific data gaps.

28. The lack of resources frequently hinders NSOs' capacities to follow-up on non respondents and to process survey data in a timely manner. Where needed, additional support should also be provided to NSOs already conducting business surveys.

Key discussion points

29. The meeting is invited to discuss the following points:

- Review the availability of quality data sources for the compilation of national accounts statistics in the PICs;

- Review availability of business survey data in the PICs and the need for improvement;

- Discuss possible external assistance for the conduction of business surveys in the PICs.