

VI Meeting of the Financial Information Forum of Latin American and Caribbean Central

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Welcome

- Good morning. It is a pleasure to welcome you to the **VI Meeting of the Financial Information Forum (FIF) of Latin American and Caribbean Central Banks**. This is the first time we do it in this format, for well-known reasons. I want to thank all contributors, notably, the speakers and this Forum's members, for their participation, especially those who have accepted to share their knowledge and expertise.
- For this meeting, we have 140 formally registered participants, from 25 countries. There will also be several of our members following this meeting on YouTube. I have the conviction that the discussions will be thought-provoking and inspiring for all of us, particularly so, under the current circumstances.
- Let me motivate our interest in **financial information** with aspects of three well-known events or phenomena; **first**, the Global Financial Crisis; **second**, the breakneck pace of financial innovation; and, **third**, the current Covid-19 crisis.¹
- **With the Global Financial Crisis** (GFC) it quickly became apparent that there was insufficient information for policy makers to have adequate diagnostics on the situation in financial markets, particularly so, the exposure to risk of different financial and non-financial institutions. For instance, there was considerable volume of trading taking place in OTC markets, with many firms conducting operations under various names, depending on in which part of the firm they originated, or whether they were subsidiaries or had some other form of association.² The implication we mostly care about, in our context, is that there were much data and information missing from the policy maker's perspective.
 - A particularly important challenge was having sufficient information to gauge whether a given financial institution was "big." Quotation marks should be used for the noun 'big', as this is precisely what was (and still is) challenging to determine. If policy makers do not have sufficient data, then they are unable to determine, for example, if an institution is **too big or too interconnected to fail**. How could a default event become systemic? What is

¹ Relatedly, After the Global Financial Crisis (GFC), the report "The Financial Crisis and Information Gaps", was published as a response to a request to identify the data gaps revealed by the crisis and provide concrete proposals to close them. Its publication was made by the Financial Stability Board (FSB) and the International Monetary Fund (IMF), and the request was done by the G20.

² This means that a considerable volume of trading was taking place outside a central clearing counterparty (CCP) and no information was available for those trades. That is one of the main reasons why the post crisis reforms pushed for the use of CCPs for the settlement and clearing of OTC derivatives.

the less disruptive way for the resolution of a financial institution? It should be clear that the less information one has, the harder it is to propose reasonable answers to these questions.

- In this context, data collection and harmonization across countries became more important for regulatory, supervisory, and monitoring purposes. Many noteworthy initiatives and working groups have been created as a result, like the Legal Entity Identifier (LEI) standard, a key development to monitor and identify emerging risks in the global financial system.³
- **A second event or phenomenon, which certainly started a few years ago, is the extraordinarily fast pace of financial innovation.**⁴ This has brought about a need to modernize the supervision and regulation of the financial sector. Indeed, there might be the need to regulate some markets almost in real time, from the macro and micro perspectives, and to measure and account for systemic and idiosyncratic risks.⁵
- **The third event I would like to refer to is the Covid-19 crisis.** To begin with, its magnitude and scope are, in many ways, unprecedented. Consider some numbers that attest to this. The number of people filing for unemployment benefits in the US in the last couple of months is close to 40 million. The price of the future of a barrel of oil turned negative for the first time in history. U.S. real GDP growth is expected to be close to a staggering minus 39.6 percent in the second quarter, contributing to an expected fall of 5.6 % in 2020.⁶ The IMF's *World Economic Outlook* projects global growth of around minus 3.0 percent for the current year.⁷
- **It is equally important to understand its nature.** It is not similar to anything we have faced before. It has emphatically been a public health safety shock and the policy measures that have been taken as a response have led, by design, to contractions in aggregate demand and supply. Indeed, in order to try to contain the spreading of the virus, and with the exception of some activities, in most countries practically all person to person interaction had to temporarily cease. This brought about, as expected and, indeed, as is designed to do, large contractions in economic activity. The most adequate expression I have heard to describe this is that it's a situation of an "induced coma". To be sure, in its origins, this is certainly not a monetary issue.
- **In many countries, policy responses have been fundamentally fiscal,** for example, increased unemployment benefits, fiscal credit and/or subsidies and reductions in social security contributions. Part of the rationale for some of these actions is, precisely, to incentivize people to shelter in place. Now, to the extent possible, and depending on the particular circumstances in each economy, **monetary policy** has also played a role in terms

³ Central Banks have to harmonize across areas, such as statistics, information technology, monetary and financial stability departments in order to generate granular and data quality by combining and harmonizing data for further analysis. These coordination efforts have paved the way to collaboration inside central banks. The ECB has argued for enhancing granular data collection to improve our understanding of monetary policy, financial stability analysis and banking supervision. <https://www.ecb.europa.eu/explainers/tell-me-more/html/statistics.en.html>

⁴ A related more recent term to financial innovation is Financial Technology (Fintech).

⁵ As a consequence of technological progress, supervisors and regulators have moved from the classical regulatory reports and surveys to APIs, web scrapping, centralized repositories among others. Data sets are becoming bigger and more complex, but our storage capacity and analytical tools are becoming more sophisticated.

⁶ <https://www.cbo.gov/publication/56335>

⁷ <https://blogs.imf.org/2020/04/14/the-great-lockdown-worst-economic-downturn-since-the-great-depression/>

of macroeconomic and financial market stabilization. This has been mainly done through four types of actions:

- **First**, as is well known, under conditions of widespread stress, financial markets can freeze very quickly. This can lead to a situation where bad equilibria can take root. In particular, market participants can try to hoard liquidity as counterparty risk is perceived to increase markedly, triggering very complicated market dynamics, including asset fire-sales. Under these circumstances, central banks should very quickly and in a timely way, provide liquidity in troubled markets. Many policies can be used for this that basically lead the central bank to act as a “market maker of last resort”. Additionally, it can ease trading conditions, like temporarily relaxing collateral standards and, in some cases, if necessary, also using its lender of last resort attributions.
 - **Second**, central banks can relax monetary policy by reducing their reference rates to try and put in place more accommodative conditions for aggregate demand. Of course, as we know, in most advanced economies central banks don’t have much room for this, as reference rates were already close to zero, zero or even negative.
 - **Third**, it can also try to facilitate, through various actions, the demand and supply for credit. Some central banks have even put in place facilities directly targeting easier credit conditions for small and medium sized firms.⁸
 - **Fourth**, and in some cases in coordination with other financial authorities, relaxing temporarily some macroprudential policies, like capital and liquidity standards.
- It should be evident that having the most complete data possible and a deep understanding of the analytical tools available, many of which we will discuss in this event, allow for more effective policy responses. Also, if we have learned anything from this crisis so far, it is that heterogeneity is present in many instances (e.g., see Acemoglu et al., 2020).⁹ This is one of the cases in which granular financial information could play a critical role.
 - In this context, statistics, data science, artificial intelligence, and machine learning techniques, applied to economic modelling, have become important tools for central banks and policy makers in general to systematically analyze data.¹⁰ During this public health crisis, we have seen very concrete big data applications such as mobility measures based on sanitized data collected from smart phone users. Similar applications that allow to have information on the closeness in distance of a potentially infected person have been proposed. As another example, big data techniques are being used to measure and predict the impact of the crisis on consumption and social distancing, to provide support for policy design.¹¹

⁸ Furthermore, in a few cases, central banks have provided facilities directly to private businesses. For example, the Federal has announced that it is establishing a Main Street Lending Program to support lending to small and medium-sized businesses. This is under the condition that such businesses were in sound financial condition before the COVID-19 pandemic.

⁹ Acemoglu, Chernozhukov, Werning and Whinston (2020). “A Multi-Risk SIR Model with Optimally Targeted Lockdown”. NBER Working Paper No. 27102. May.

¹⁰ <https://www.ft.com/content/87f3d396-8de1-11ea-9e12-0d4655dbd44f>

¹¹ A joint collaboration report by the Imperial College of London, the University of Cambridge, among other institutions, documents a 49 percent decline in consumer spending and a 30 percent increase in spending on health care products

- Statistical and financial data from alternative sources, like payment systems, have been used for various purposes at central banks. Their applications are diverse, from monitoring the interbank market as an input for stress testing exercises, to calibrating macroprudential policies and evaluating the impact of macroeconomic shocks, among others.
- **All in all, it should be clear that information is a critical asset, which is particularly relevant during crises like the one we are currently experiencing.** Moreover, from the financial authorities' perspective, information is also needed to have an adequate view of **new market entrants** in order to understand them better and to be able to regulate and supervise them properly. Additionally, information is now commonly used to design micro and macro prudential regulation, as well as for the monitoring of systemic risks.
- **The financial system and the whole economy are in a state of flux**, and that is why we meet at CEMLA every year to revise and discuss different aspects related to financial data collection, storage, sharing, transformation and interpretation.
- Since October 2014, the Center for Latin American Monetary Studies (CEMLA), has made the Financial Information Forum (FIF) of Latin American and Caribbean Central Banks a priority. This initiative was motivated by aspects such as those highlighted from the GFC, financial innovation and crisis such as the current one. All of these have entailed common challenges that require the improvement of financial information.
- The FIF aims to strengthen the statistics and financial information frameworks in Latin American and Caribbean central banks. To this end, its members, together with the Executive Committee and collaborating partners, have discussed key topics. These are to be addressed throughout the year and will also be discussed during the annual meeting.
- Here at CEMLA, we are aware of the importance of big data and new data collection techniques for central banks. Currently, there is a working group elaborating a Policy Report on Fintech Data Gaps with our colleagues from LAC central banks and Banco de España. This report aims to provide an overview of the main issues related to data gaps for monitoring Fintech activities and the challenges of incorporating these activities as relevant data.
- In the referred report, the implications of Fintech data gaps related to central banks' core activities are highlighted. For instance, the report describes how monetary policy's main transmission channels could be affected by the emerging Fintech activities, making necessary the collection of new data associated to such activities.¹²
- In the following three days, we will have valuable interventions by international experts. Starting today, we will have as a keynote speaker Professor Roberto Rigobón from MIT, a distinguished Venezuelan economist and researcher.
- Tomorrow, we will have the opportunity to share international experiences on the implementation of techniques and good practices to preserve the quality and confidentiality of information. Additionally, this session will be addressed to lay out the central banks'

in Spain. <https://www.bbva.com/en/bbva-research-uses-big-data-to-analyze-the-impact-of-covid-19-on-spanish-consumer-spending/>

¹² The implications of Fintech data gaps on financial stability include the importance of identifying the change on interconnectedness in the financial system, as shocks could spread more easily as interconnectedness increases. Other possible implication is the change on credit intermediation for which data is necessary to evaluate accurately threats to the stability of the financial system through this channel.

applications on data science techniques and big data paradigm for the collection and analysis of financial information (blockchain, web scrapping, APIs, text mining, etc.). The session will be covered by Stefan Bender from the Deutsche Bundesbank, a distinguished member of the FIF.

- On the third day, we will have a panel of experts addressing the regional and international experience in the identification of needs and efforts to collect statistical information of new suppliers, services and business models based on financial technologies. It will focus on presenting the current practices, including requirements design, initiatives and information gaps. In this session, we will have the participation of Bruno Tissot representing the Irving Fisher Committee, Fernando Ávila from Banco de México and Serafín Martínez from CEMLA.
- Let me now take this opportunity to thank Serafín Martínez Jaramillo and his team for working very hard and effectively to organize this Meeting.
- Again, welcome to the Meeting, let me emphasize that if you need anything from CEMLA, let us know. We will do our best regarding the initiatives related to statistics and financial information. I hope that all of you have a very productive Meeting.