

## FEATURE

Office for National Statistics

# Developing financial statistics for policy

## Introduction

## SUMMARY

This series of articles, forming a special edition of *Economic and Labour Market Review*, constitutes a progress report on a project that was launched in the autumn of 2008 and is ONS' response to the financial crisis. It reviews how ONS statistics and analyses were already recording the credit boom and financial innovation of recent years, and what improvements might be possible for the future, to record the continuing effects of the financial crisis and the effects of government interventions, and to raise the profile of sectoral balance sheets in macroeconomic analysis.

The financial crisis has presented new challenges in managing financial risk and uncertainty, and in understanding the mechanics of the credit boom and the securitisation instruments upon which it was built.

The Office for National Statistics (ONS) has several roles:

- to provide the tools to help policy-makers and analysts understand the mechanics of the credit boom, and asset and debt inflation more generally
- to keep pace with financial innovation in our measurement of gross value added by the financial sector, and in our sectoral balance sheets, and
- to contribute to the transparency agenda, where risk and uncertainty are shifted from the private to the public sector balance sheets

This series of articles constitutes a progress report on a project, launched in the autumn of 2008, which is ONS' response to the financial crisis. The project addresses how ONS can best fulfil all three of the roles above. It reviews how ONS statistics and analyses were already recording the credit boom and financial innovation of recent years, and what improvements might be possible for the future, to record the continuing effects of the financial crisis and the effects of government interventions, and to raise the profile of sectoral balance sheets in macroeconomic analysis.

The major focus of the project is on financial balance sheets. ONS economic

statistics have played an important role in measuring the move of the economy into recession:

- UK output growth began to decline through the first quarter of 2008, approximately 12 months after the risks around the credit crisis were identified and six months following the initial impacts of the turmoil on the balance sheet of the financial sector
- labour market statistics have clearly described the impact of the developments in the economy upon the labour market
- in price statistics, the impacts of increased commodity prices and developments in house prices have been reflected in the different movement of CPI and RPI measures of inflation, and
- the retail sales index has demonstrated major differences between different sectors, with sales of household goods reducing much more than sales from predominantly food stores

UK macroeconomic policy in recent years, with its emphasis on promoting growth within a stable macroeconomic environment, has been supported by measures of output (gross domestic product) and productivity. There has been less policy focus on sectoral balance sheets (financial and non-financial). This project points to ways in which balance sheets, using the best available data and analysis, could be helpful in the current economic situation.

As part of this, the public sector balance

sheet will be developed, given the need to include public sector banks, and for information to support analysis of fiscal risk. The project also aims to improve the quality and analysis of all data for the financial sector, with particular focus on the coherence between output, employment and profitability. ONS is working in close cooperation with colleagues at the Bank of England, HM Treasury and the Financial Services Authority (FSA) to pursue this agenda.

The project's work plan is structured by institutional sector, and this report reflects that structure.

The first article considers the impact of the financial crisis on the output and employment measures of the financial sector, and assesses coherence between the two. The sources and methods used to compile quarterly measures of financial services' output are discussed in some detail, with a particular focus on financial innovation, and gaps and issues identified. Work to fill these gaps, and improve data relevance, has been ongoing with the Bank of England for some time.

The second article assesses how the evolution of the credit boom might be detected in the sectoral balance sheets published in the Blue Book data of the past 20 years, for both the financial and non-financial sectors. An analysis of the

gaps in recording of assets and liabilities, largely arising due to the opacity of the unregulated, or "shadow banking system", leads to a list of recommendations to be taken forward in partnership with the Bank of England, HM Treasury and the FSA.

The next article considers issues affecting the household sector balance sheet in the build-up to the financial crisis. Areas of improvement and development are discussed, including the forthcoming release of the analyses and datasets from the Wealth and Assets Survey, to include a demographic breakdown of household debt.

The fourth article addresses issues raised by banking groups coming into the public sector, clarifying how they are presented in the National Accounts and public sector finances and discussing the publication of more asset and liability detail than currently shown in public sector finances balance sheets. The article also clarifies the definition of the public sector net debt measure, and discusses its relevance among alternative measures of debt.

The final article finishes with discussion of the liability boundary for National Accounts, business accounting and government accounting, and the recommendations for presentation of liabilities such as contingent liabilities,

pensions and all liabilities associated with private finance initiatives (PFI).

Finally, a set of conclusions and recommendations is set out.

The project to date has been led by Fenella Maitland-Smith and chaired by Joe Grice. Contributors to the work have included:

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