Box 6. Does Lack of Data Still Prevent the Use of Balance Sheet Analysis?

In October 2015, to encourage Fund economists to utilize balance sheet analysis (BSA) more frequently, the IMF posted an Intranet article entitled, "Five Things You Need to Know About Balance Sheet Analysis." The following excerpts from three of those "five things to know" indicate that the authors of the article believe that lack of data is no longer the inhibiting factor that it once was:[1]

"**1. Balance sheets matter a lot.** Balance sheet analysis captures the role played by financial frictions and mismatches in creating fragility, amplifying shocks, and generating spillovers. The boom, bust, and recovery associated with the global financial crisis can all be viewed through the prism of balance sheets. The boom was associated with increased private sector debt, and the bust created a decline in wealth that was propagated across the world through balance sheet linkages, even as debt remained elevated. Recovery has featured deleveraging, as the private sector restructures its balance sheets by increasing savings, cutting spending, and repaying debt. In turn, governments have responded by expanding the fiscal or central bank balance sheets to buttress demand.

2. Data no longer pose major constraints to analyzing balance sheets. While balance sheet data were hard to come by in the past, country coverage and granularity of data have improved. This is in part due to Fund-supported initiatives such as the collection of data on financial sector balance sheets through standardized report forms (SRFs), and information on cross-border financial interlinkages through international investment positions (IIP) and coordinated surveys on direct and portfolio investments (CDIS and CPIS). Such initiatives have helped to better capture the state of the balance sheets of key sectors of the economy and how they are linked to each other as well as to the rest of the world. Even where balance sheet data are not fully available for some sectors, it is possible to make pragmatic assumptions or use supplementary information–including national sources, micro data, and surveys–as a workaround.

3. A lot of the data can be exploited using off-the-shelf techniques. Successive waves of crises have driven innovation in the Fund's analytical toolkit, including macro models, techniques for macrofinancial stress testing, the balance sheet approach (BSA), and debt sustainability analyses. The new Board paper and note also develop some new empirical tools, including: illustrations of how to construct balance sheet matrices using Fund-collected data, and analyze them to get an aggregate sense of the key vulnerabilities in the economy; tools to dig deeper into these identified vulnerabilities using micro data; and general equilibrium and reduced form approaches to improve macro forecasting by incorporating balance sheet variables."

[1]This conclusion may be too sanguine, in light of the fact that fewer than two dozen Fund members were able to provide complete annual and quarterly sectoral balance sheets as of mid-2015.

is also working on implementing some intersectoral consistency checks,[53] which could prove an important additional tool for quality control.

56. Though many of the Fund's area department country teams obtain much of their data directly online from national sources or from commercial databases (such as Haver Analytics), many staff missions, particularly in low-income countries, still spend considerable time collecting data in the field, with Fund staff often "getting their hands dirty" working on data with their counterparts during missions.[54] The policy discussions between mission teams and country authorities often reveal data inadequacies, potentially prompting corrective action and improvements in data quality. Staff estimates, which are often discussed first with country authorities, are frequently used to fill in the blanks from missing or problematic data.[55]

57. Implicit in IMF country teams' collection of data are validation activities that involve some verification of data at the primary source, checking the accuracy of basic calculations, and assessing overall consistency within a macroeconomic framework. According to staff interviews, country teams have traditionally been more active in checking and validating data in emerging markets and low-income countries, while tending to accept without question the data from advanced economies. The IMF's flagship publications use a combination of the data collected by area departments and those from commercial databases as inputs. At this stage,

[53]Official data are typically sourced from several agencies within the same country (e.g., national statistics office, central bank, ministry of finance) and are thus often inconsistent on an intersectoral basis, as these agencies often do not cross-check their respective data.

[54]While this is often among the most appreciated contributions of IMF staff during missions, staff often consider it among the least rewarding parts of mission work.

[55]Jerven (2016) uses the example of Ethiopia to illustrate the lack of clear procedures as to the use of staff estimates in place of official data that are questioned by staff.