February 23, 2001
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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 00/35

10:00 a.m., March 29, 2000

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Decisions Taken Since Previous Board Meeting

Executive Board Attendance

E. Aninat, Acting Chairman

Executive Directors	Alternate Executive Directors
S.M. Al-Turki	A.S. Alosaimi
	B. Konan, Temporary
	K. Kpetigo, Temporary
	T.-M. Kudiwu, Temporary
	J.A. Chelsky, Temporary
	E. González-Sánchez, Temporary
	M.J. Fernández, Temporary
	A. Del Cid-Bonilla, Temporary
	F. Zurbrügg, Temporary
	W.-D. Donecker
A.M. Jul	
	G. Schlitzer, Temporary
	C.A.E. Sdralevich, Temporary
K.-T. Hetrakul	Sugeng, Temporary
	A.G. Karunasena
	N. Jadhav, Temporary
	S. Çakir, Temporary
	Å. Törnqvist
	I. Steinbuka, Temporary
	M. Sobel, Temporary
	L. Redifer, Temporary
	B. Couillault, Temporary
	I. Mateos y Lago, Temporary
	M. Daïri
	T. Belay, Temporary
	A. Lushin
	S. Collins
	M. Walsh, Temporary
	J.C. Estrella, Temporary
	O. Himani, Temporary
G.F. Taylor	
	Luo Y., Temporary
	Xu J., Temporary
	Y.G. Yakusha
	I.C. Ioannou, Temporary
	E. Azoulay, Temporary
	H. Toyama
	M. Yanase, Temporary

A.S. Linde, Acting Secretary
A. Mountford, Acting Secretary
P. Kunzel, Assistant
A. Tiffin, Assistant
M. Schulte, Assistant

Also Present

ECB: G. Grisse, H. Hatanpaa. IBRD: E. Bangin, Assistant to Executive Director; I. Guerrero and E. May, Latin America and the Caribbean Regional Office; S.K. Dhar, East Asia and the Pacific Regional Office. Asia and Pacific Department: W.S. Tseng, Deputy Director; Y. Khatri, R.P. Kronenberg, G.B. Oestreicher. External Relations Department: P. Kane, C.N. Lotze, K.L. White. Fiscal Affairs Department: J.P. Cordoba Garces, C.L.J. Roehler. Legal Department: R.C. Baban, S.C. Ho, D.E. Siegel. Monetary and Exchange Affairs Department: M. Moretti. Policy Development and Review Department: T. Leddy, Deputy Director; C. Brachet, S.B. Brown, J. Dalsgaard, D. Desruelle, D.J. Jones, G.R. Kincaid, Y.A. Metzgen, C.B. Mulder, A. Richter, M.A. Tareen. Secretary's Department: P. Gotur, B.A. Sarr. Statistics Department: C.S. Carson, Director; S. Almuina, N.M. Anamisis, P. Austin, J.A.J. Bove, J.-E. Chapron, P.R. Cotterell, R.G. Di Calogero, K.G. Dublin, R.M. Heath, A.Y. Kester, C. Luiksila, T.P. McLoughlin, V. Marie, R. Pownall, S.P. Quin. Western Hemisphere Department: H.H. Chua, M.R. Figuerola, B. Fritz-Krockow, M.D. Kaufman, W.E. Lewis, J.S. Lizondo, O.-J. Mandeng, I.C. Medeiros Pacheco, O.E. Melhado Orellana, R.K. Rennhack, E.S. Williams. Office of the Managing Director: M. Amad, A. Bauer, J.A.P. Clément, N. Kapur. Advisors to Executive Directors: M.A. Ahmed, I. Dragulin, O.A. Hendrick, M.E. Kandil, M.F. Melhem, W. Merz, Nguyen Q.T., J. Ntamatungiro, M.R. Shojaeddini, T. Turner-Huggins, I.M. Woolford, S. Zádor. Assistants to Executive Directors: S.A. Bakhache, P.A. Brukoff, N. Burnashev, P. Cabezas, I.- K. Cho, T. Elkjaer, K. Gobe, T. Hadded, K. Harada, S. Hinata, B. Kelmanson, S.K. Keshava, E. Kornitch, D.H. Kranen, A. Maciá, W.C. Mañalac, J.A.K. Munthali, D. Nardelli, J. Nelmes, K. Ongley, Peh K.H., M. Pérez dos Santos, S. Rouai, C.-P. Schollmeier, U.F. Seyidzade, S. Sharipova, J. Sigurgeirsson, Siti Mariam Mohd. Yusof, Vongthieres O., S. Vtyurina, R.P. Watal, E.S. Weisman, A.Y.T. Wong, M. Yépez, I. Zakharchenkov.

1. REPORT BY DEPUTY MANAGING DIRECTOR

The Deputy Managing Director, Mr. Aninat, reported on his travel to the Inter-American Development Bank annual meeting in New Orleans, where he also participated as moderator and chairman of a panel on short-term capital inflows and the role of foreign direct investment in Latin America and the Caribbean, and held discussions with the authorities for Costa Rica, Guatemala, Honduras, and Venezuela.

The Deputy Managing Director made the following statement:

> I attended the Inter-American Development Bank (IDB) Annual Meeting in New Orleans in two capacities. Firstly, the chairman of the IDB, Dr. Enrique Iglesias has proposed a panel group, called the social equity forum, and I had the honor of being the first chairman of that forum. Secondly, I participated as moderator and chairman of a separate panel on short-term capital inflows and the role of foreign direct investment in Latin America and the Caribbean.
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> In addition, I held bilateral meetings with the ministers for Honduras and Costa Rica, with the development and planning minister of Venezuela, and with the president of Guatemala and his economic team.
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> The social equity forum is a newly created body, comprising a "club" of 40 high-level personalities, former public sector officials, academics, and representatives from the banking, financial, and business communities of Latin America and the Caribbean. It includes former presidents from Uruguay, Bolivia, and Ecuador, and the idea is to have a forum to discuss two key issues, without a pressing agenda or the need for specific policy conclusions. First, the group discusses the accumulated knowledge regarding the technical design and experiences of successful public sector policies to promote growth with equity. Latin America and the Caribbean has been recovering from the past crisis. Looking at the prospects for 2000, the region is growing at 3-4 percent in real terms, and there have been significant fiscal consolidation and stabilization gains—for example, the average inflation rate for the region is expected to be in the 1-digit level and falling. However, despite improved macroeconomic policies, fiscal consolidation, and stabilization, the social indicators of these countries, generally, do not seem to have advanced at the same pace, particularly those relating to poverty.
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> The second issue covered by the forum concerns the political economy of structural reform, as well as reforms aimed at improved social policy and equity. In the press today, many of the governors of the IDB have referred to this issue—pointing out that Latin America and the Caribbean have progressed in many areas, but still lag on the social front.

Mr. Barro Chambrier was invited as an observer, and he will report to you on another occasion, but my evaluation is that this is very useful forum, as it provides a clearer insight into important development strategy issues and the longer-run sustainability of macroeconomic and structural reform programs. It also provides a cross-country comparison of successful, and not-so-successful experiences.

A new meeting, with a further agenda on these topics, will be held before the end of the year.

Mr. Ntamatungiro, on behalf of Mr. Barro Chambrier, said that his chair appreciated the quality of the discussions of the social equity forum, from which important lessons could be drawn for the benefit of the whole Fund membership. In particular, the forum confirmed that macroeconomic stability was a precondition for poverty reduction, underscoring the fact that the Fund had an important role to play in poverty reduction strategies.

2. FUND'S DATA STANDARDS INITIATIVES—REVIEW

The Executive Directors considered a staff paper on the third review of the Fund's Data Standards Initiatives (SM/00/55, 3/15/00).

The Director of the Statistics Department made the following statement:

The SDDS is intended to encourage the dissemination of statistics that are reliable, comprehensive and timely. In that context, it was envisaged that the SDDS would evolve over time to adapt to changing circumstances, including to encompass data quality improvements emanating from the adoption of new, internationally-accepted methodological standards.

Two such standards, the System of National Accounts 1993 (SNA 93) and the Fund's fifth edition of the Balance of Payments Statistics Manual (BPM5), were relatively new at the time that the SDDS was established in early 1996, and countries were in various stages of adopting and implementing them. Also, the Fund's Manual on Government Finance Statistics (GFS) was being revised and work was underway on a Manual on Monetary and Financial Statistics (MFS). In the intervening years, countries have made progress in adopting SNA 93 and BPM5; the MFS Manual will be published later this year and the revised draft GFS Manual is in its final stages, with publication expected next year.

The forthcoming GFS Manual —developed in close collaboration with statisticians in a number of countries—provides an improved conceptual framework for fiscal data. Fundamental to the improved methodology is the use of accrual- rather than cash-based accounting. Some countries have begun to implement accrual accounting and have represented that the SDDS specifications for timeliness and/or periodicity are unsuitable for the greater complexity involved in accrual accounts.

The widespread introduction of accrual accounting for fiscal data and its potential impact on the SDDS should be seen in the light of recent experience with the International Investment Position (IIP), which was introduced with BPM5. Initially, the IIP was included as a prescribed data category under the SDDS but without a fixed transition period. After subscribers had gained some experience in compiling and disseminating IIP data, the Executive Board, as part of the Second Review of the SDDS, established a three-year transition period for disseminating IIP data. The staff proposes a similar approach be adopted for accrual accounting of fiscal data. Specifically, that for existing as well as new subscribers to the SDDS that are implementing accrual based accounting systems, the periodicity and timeliness of fiscal data be on a best-efforts basis for the period from now until the end of June 2002. During this period the staff will review countries' experience in implementing accrual accounting systems with the aim of making specific recommendations, as needed, for modifications of the SDDS by the end of this period.

Subscribers making use of this provision would be expected to indicate in their metadata the actions they are taking to introduce accrual-based accounting in the fiscal sector and its impact on data dissemination practices. The staff would encourage such subscribers to share their experiences in implementing the new methodology, and plans to establish arrangements through the DSBB that would facilitate this.

Mrs. Zádor submitted the following statement:

The third review of the Fund's Data Standards Initiative reveals steady progress in implementing the SDDS and GDDS. At this stage the SDDS has generally been quite successful despite a few problems. The introduction of the data template for international reserves and foreign currency liquidity was a major success. All important decisions have already been taken and SDDS subscribers are expected to start publishing the new data by the end of March 2000. Altogether 47 industrial and emerging market economies have subscribed so far. Though they account for only 25 percent of the membership, these subscribers represents a larger share of the world economy. Technical and other difficulties have been more frequent than expected, as a result of the many "transition plans," most of which are connected with fiscal issues raised by industrial countries.

As to the problems facing the SDDS, it is fair to say that many of them have to do with private sector data and with more stringent requirements in terms of data coverage and timeliness. The requirement for more detailed data on external debt, for example, has brought protests from several countries, though no developing or emerging market countries were concerned about the additional cost. At last month's "Conference on Capital flow and Debt Statistics," the compilers of data from many major industrial countries and some offshore financial centers did not consider it important to provide certain kinds of external debt data. In their view, frequent and detailed reports on external debt are only needed for net debtor countries, and they objected to the high cost of gathering data in which there is little or no user interest. Some even threatened that such unnecessary burdens could cause countries to consider withdrawing from the SDDS. The conference produced no consensus on this issue.

It may nonetheless be worthwhile the advice of one data user, who said "Do not let the better be the enemy of the good," meaning that good data now is preferable to perfect data later. Developing and emerging market countries strongly support more frequent reporting of data on external debt. In deciding the next steps, the Fund must strike a balance between the needs of users and the costs of implementation, and should decide what the SDDS should require and what it should encourage while bearing in mind that good incentives are preferable to harsh rules. Excessive requirements for detail could even dissuade new countries from subscribing and old subscribers from continuing; and the ambitious goals of the SDDS are outpacing the national resources available for meeting them.

Turning to the issues of discussion I would like to present our position briefly :

The end of May will mark the first publication of data following the March 31 end of the "transition period" and April's activation of the new reserve data template. The staff's goal of beginning to monitor of the standard at the end of June 2000 seems rather ambitious, since many subscribers are not yet in full compliance and difficulties in installing hyperlinks are adding to the problems. I would recommend extending the trial period before official monitoring begins. The staff needs to be as flexible as possible in dealing with countries' problems in complying with the standards during the trial period.

I agree that the next overall review of the SDDS should only take place when sufficient experience has been accumulated, perhaps by the middle of 2001, and that meanwhile the Board should be kept informed by special "action papers" as the need arises.

On the enhancements to the Dissemination Standards Bulletin Board (DSBB), the staff proposes contracting with commercial vendors who would provide fee-based access to longer, more detailed time series data. While this would limit the Fund's costs, it could also contradict the Fund's broad principles of transparency and the provision of "public goods." The involvement of commercial vendors should not be imposed on all SDDS subscribers, but only those who explicitly accept the fee-based arrangement.

Concerning the reserve template data, I agree that it is much too soon to change the time frame of reserve data dissemination to a weekly/weekly regime at a time when most subscribers are struggling to achieve monthly/monthly disclosure. I can also go along with the staff's proposal that the reserve template data sent to the Fund by SDDS subscribers should disseminated via the Fund's external web site provided that the providing country agrees. Maintaining this database would be the Fund's responsibility and users would have free access to it.

Concerning data on external debt, I think the staff's present proposal strikes an appropriate balance between the need for timeliness and the costs of implementation. The three-year transition period should give countries time to make the institutional and material changes needed to gather data on private sector external debt on a quarterly basis. Meanwhile the Fund should seek other substitution methods with acceptable quality and should encourage countries to estimate data on quarterly stocks on the basis of flow data and stock evaluation. I also agree that the supplementary data for prospective debt service and the domestic/foreign currency breakdown of external debt should be the only elements to be encouraged rather than required. Releasing these data on a quarterly rather than an annual basis may not be necessary in the case of industrial economies where the size or composition of the external debt is not a potential source of macroeconomic problems.

The General Data Dissemination Standard (GDDS) is designed for countries who encounter significant difficulties in compiling and disseminating data. We are glad to learn that the first phase of training and education has been completed and that efforts are now focused technical assistance with the actual implementation of the data standards. I agree with the staff that the differences in coverage between the SDDS and the GDDS should be maintained in the Bulletin Board, with the external debt data category of the GDDS being strengthened as proposed.

Mr. Törnqvist submitted the following statement:

At the outset, let me state that this chair considers recent efforts to improve data provision to be a vital part of the work to strengthen the architecture of the international monetary system. Reliable and timely key data should be made readily available to policy makers, markets and the public. Thus, I can generally support the good intentions which have inspired the staff's proposals concerning improvements in the SDDS and the GDDS.

Now turning to the issues for discussion as outlined in the staff report:

I feel that a structured Fund monitoring of the Standards becomes meaningful only when hyperlinks to NSDPs for all those subscribers who currently have a draft NSDP have been established. The process of introducing hyperlinks to NSDPs has dragged behind due to resource constraints both in the Fund and in the member countries (paragraph 51). In this respect, as clear as possible indications from the staff about the requirements to the NSDPs would be helpful. The monitoring should primarily focus on substantial matters like coverage, accessibility and quality of the SDDS statistics as opposed to formal and editorial issues on the DSBB.

I agree that the next review of data standards should take place around mid-2001.

Concerning DSBB, I agree with staff that it should become a user-friendly and informative web site. In enhancing the DSBB, a first priority should be to ensure the accuracy of the existing information. This is also the best way to promote the DSBB. It has been the experience in my constituency that, on some occasions, there have been significant lags in posting updated information sent to the Fund by subscribers on the DSBB. Therefore, I can welcome the recommendation put forward by the PSG to introduce new technology for the transmission of information between subscribers and the Fund, if this leads to a more up-to-date DSBB.

On the three approaches to guide the development of the DSBB, I would, in the short run, prefer the first approach. While it, of course, would be very user-friendly to create a database for all available data (second approach) this should be done only after "the status quo" works appropriately. However, I do not agree with the third approach, i.e., to make agreements with commercial vendors. Firstly, the primary idea behind the SDDS is to enhance good statistical practices, and the Fund's involvement should be that of an intermediator and kept reasonable. For the Fund to engage – although indirectly - in selling time series cannot be regarded as desirable. Secondly, there are usually many data providers per country with whom vendors would have to make an agreement. Moreover, data providers have no obligation to make such agreements.

I can agree to the proposed sample form as the format for dissemination of reserves template data. Hopefully, it will also be possible to transmit the reserves data to the Fund using more advanced means, namely the EDIFACT message GESMES/CB as has been indicated earlier.

I can agree with the redissemination of the reserves template data on the Fund's external web site.

I agree that the existing prescriptions for timeliness and periodicity of the reserves template data should not be modified.

Concerning the external debt data category, I can support the staff's proposal to disseminate data by sector and by instrument. However, as there are countries in my constituency which do not find maturity information on some of the instruments meaningful, I cannot support dissemination of external debt data by maturity. Also, I do not favor to add dissemination of information on prospective debt service obligations to the SDDS, not even as an encouraged item (even if the item is only encouraged, it would, with time, lead to peer pressure).

One country in my constituency does not support quarterly dissemination of external debt data by maturity and currency due to availability of this data only on a yearly basis.

The proposed transition period and the proposed extension in the timeliness requirement of annual IIP statistics seem appropriate. However, one country in my constituency would prefer 12 months' timeliness requirement of annual IIP statistics.

Staff's efforts to integrate the GDDS into other ongoing initiatives (for example, ROSC and PRSP) and into mission activities is appreciated. Including GDDS metadata on the DSBB and strengthening the external debt category of the GDDS are both ambitious goals.

I would encourage the participating countries to give them serious consideration.

Mr. Zoccali submitted the following statement:

At the outset, we wish to recognize the substantial progress made by subscribers in meeting the requirements of the Special Data Dissemination Standard (SDDS) since the second review, as well as the favorable impact of Phase I for moving ahead with the framework of the General Data Dissemination System (GDDS). Staff should be commended for their effort and for adhering to a consultative and gradual approach to strengthen the design and implementation of the standards in the face of a broad range of constraints and competing demands.

There can be no disagreement regarding the usefulness of continuing to encourage transparency and additional improvements in countries' statistical systems. At the same time, it is clear that additional compilation and reporting requirements will make trade-offs more apparent, even in the most committed countries, thereby increasing the prospects of non-compliance or, as significantly, of lower quality and timeliness of statistical data.

Ambitiousness should continue to guide member countries' efforts to strengthen statistical systems. However, realism and a clear strategy for accommodating competing claims on scarce technical and financial resource will also be increasingly needed to ensure that the priority and the ability of countries to deliver this critical public good is not diminished.

We remain of the view that what is important is that members be able to show clear priorities and steady progress in enhancing the quality of the data even if this means some flexibility when it comes to assessing observance. In some respects, the proposals stemming from the comprehensive review paper seem to contain a dose of voluntarism regarding the scope and pace of future progress. In this regard, the analysis is regrettably compartmentalized in its treatment of national statistical priorities and the consequences of limited resource availability, compilation difficulties and the burden of new collections on reporters for industrial and offshore centers as opposed to developing and emerging market economies. The limited number of Technical Cooperation Action Plan (TCAPs) points to an inherent weakness in the strategy for ensuring adequate national responses. The identification of non-observances with respect to a widening SDDS is likely to prove an insufficient incentive for continued progress. Moreover, the limited number of TCAPs points to a weaker than desirable link to concrete programs for building-up institutional capabilities at the national level that in many cases will be essential for the credibility of the data dissemination standard going forward. Against this general backdrop, some observations on the specific issues for discussion in the order suggested are offered.

Regarding observance and monitoring, a mandatory hyperlink from de Dissemination Standards Bulletin Board (DSBB) to the National Summary Data Page (NSDP) for each subscriber was established under the second review in order to provide a tool to enable monitoring of the SDDS by staff which was to become fully effective when all hyperlinks to the NSDPs were in place. In this regard, of the 47 SDDS subscribers, 42 have established NSDP web sites on which all data categories are disseminated and 19 have operational hyperlinks. In these circumstances, staff note that absence of hyperlinks will make its monitoring more difficult and time-consuming. We agree with the importance of structured monitoring to identify possible deviations from the standard and to facilitate the continued strengthening of national statistical systems. Therefore, we can go along with the proposal to begin at end-June, provided that it applies to all subscribers, that instances of egregious non-observance would trigger notification and, more generally that SDDS monitoring will not be used to arrive at quantitative pass/fail assessments, for example to be inserted into capital adequacy calculations. Regarding the timing of the next overall review of the Fund's data standards, while we could go along with the proposal that it take place by mid-2001, it seems to us that a somewhat longer time-frame, by end-2001 for example, would allow for more adequate feed-back from producers and users and broader experience both with enhancements to the SDDS and the evolution of the GDDS.

Concerning enhancements to the DSBB, our priority at this stage is bringing about focused improvements in the production of reliable data, in particular in terms of quality and comparability, and fostering increased voluntary participation in the SDDS. In this regard, Fund dissemination modalities are an important but somewhat lesser consideration. Given the resource constraints and the technical ambitiousness of the objectives currently on the table, both for the producing members and the Fund, we do not find the recommendations of the Patricia Seybold Group (PSG), involving the improvement of interactive database capabilities and conducting an aggressive marketing campaign to raise the profile of the DSBB on the web to be that compelling. We concur, with staff, that the IMF should not transform the DSBB into a fee-for-access environment on grounds of maintain consistency with the broad objective of ensuring transparency in the dissemination of financial and economic statistics. As to the three approaches to guide the development of the DSBB in the future, at this stage we fall on the side of maintaining the status quo. In any event, before endorsing the proposal to provide for hyperlinks from the DSBB to their web sites, more information will be needed, including the modalities and cost of access, and the process of selection of appropriate commercial vendors.

Concerning the reserves template data, we share the view that a common database at the Fund linked to the template on international reserves and currency liquidity in appendix I of the staff paper would be useful to support surveillance and policy development as well as enhance comparability. In order to redisseminate the country template data, however, it is important that the relevant data conform to some quality standard across the spectrum of subscribing countries. In this regard, the canvassing results in paragraph 11 of the staff paper, from 32 respondent countries point to the need for general strengthening of data collection systems to provide the greater detail that is called for by the template on a more frequent basis, for a better coordination mechanism to gather data from various sources, and for reconciliation of accounting practices used in the data providing agencies with the underlying concepts of the template. Staff also note that the quality of the data is expected to improve over time as subscribers gain experience and that a revised version of the Operational Guidelines for the Data Template is to be expected after the end of the year. In this context, we would welcome some clarification from staff on the extent to which the shortcomings identified in the canvassing results could affect the quality of the proposed data for redissemination and how partial or unrefined data will be treated until all subscribers are able to observe the template data requirement. In any event, we concur with staff that it would not be appropriate to modify at this time the existing prescriptions for timeliness and periodicity.

The external debt data category constitutes an important but extremely complex enhancement for the GDDS. In this regard, striking an appropriate balance between the need for higher frequency data by policy makers and market participants and the resource constraints and burdens of compliance noted by data compilers, is only part of the story. As significant, in our view, is the need to deal with the methodological shortcomings of disseminating debt categories based on a gross liability definitions. The case of Chile, expounded on during the recent Conference on Capital Flows and Debt Statistics, demonstrates clearly that lack of an accepted methodology for estimating international investment positions and reconciling debtor and creditor side data, overstates implied the vulnerability or liquidity risk. Lack of progress on this critical aspect will continue to constrain the ability of the SDDS to contribute to better functioning markets, irrespective of the desirability of broadening the list of prescribed or encouraged information.

We can go along with the proposed prescription to disseminate quarterly, and within one quarter of the reference period, external debt statistics of the general government, the monetary authorities, the banking sector and, with reasonable estimations, the non-banking private sector, including by maturity on an original maturity basis and by instrument as set out in the BPM5. However, we would caution against overloading national statistical capacities, or raising the bar so much so as to undermine the credibility of the effort. In this regard, staff attempt to attenuate the consequences of the concurrent obligation to disseminate annual IIP data. At the same time, they propose to encourage dissemination of additional supplementary information pertaining to prospective debt service payments twice yearly and of the domestic/foreign currency breakdown of external debt each quarter. This approach entails substantial burdens and changes to national statistical systems for advanced countries and, even more so, for other GDDS subscribers. Consequently, we would have difficulty with a shorter transition period than proposed, through March 2003, and consider the suggestion to increase the timeliness of the annual IIP data to nine months, realistic. To operationalize these significant improvements in national-source data, however, the Fund should be prepared to expand significantly its technical assistance. In this regard, we welcome the launching of the Inter-Agency Task Force on Finance Statistics (TFFS), and hope that it will contribute to this objective by fostering foster broad consultation and testing of laudable initiatives, including its Debt Guide for Compilers and Users, before final publication.

Finally, with respect to the plans for working with potential GDDS participants, we endorse the general approach outlined by staff in paragraphs 74 through 78 of the paper, including the continued prioritization of improvements in the production of reliable statistics and not changing either the objectives of the GDDS or adding to its complexity. The impact of Phase I of the GDDS may have been significant, but the fact that only 34 countries have expressed an intention to participate evidences that much remains to be done. Therefore, notwithstanding the desirability of posting GDDS metadata for a critical mass of countries on the DSBB later this year, and of upgrading specific components of external debt to a core data category of the GDDS, we would underscore the importance of encouraging adoption of comprehensive plans to build-up statistical capacity in GDDS participating countries. Effective technical cooperation from the Fund and other relevant donor and multilateral agencies, will be essential to support national authorities' efforts in this domain. The references in paragraph 101, of SM/00/55, however, that "no specific provisions have been made to increase STA's TA program in the medium-term" for the purpose of accommodating additional demand for TA that might stem from the indications of increased participation in the GDDS, heighten our concern regarding the effectiveness of the strategy for establishing even this basic objective. We would welcome some staff comment on the operational impact of this assertion in the near term.

Mr. Toyoma and Mr. Harada submitted the following statement:

As was discussed at last week's Board meeting for WEO, the current world economic and financial situation is now improving following the consecutive crises in Asia, Russia, and Brazil, although some downside risks still exist, such as overheating of the U.S. economy, and rising oil prices. While we tend to be less concerned about any coming crisis, we should not forget the lessons we have learned. Crises seem to befall us when we least expect them.

Under favorable world economic circumstances, we must make the most of the opportunity to arrange our systems to prevent crises so as to avoid being swamped by multi-crises. With this in mind, current efforts in every country, including Japan, are being made to strengthen economic data and to promote its publication correctly. Positive cooperation from every country is also necessary to strengthen the Fund's data initiative. Needless to say, both strengthening the Fund data initiative itself and promoting countries' participation and observance of the initiative will be indispensable in preventing future crises. We welcome the staff's well-balanced proposal that takes care not to undermine any countries' efforts at cooperation.

First, we will comment on reserves template data, which saw considerable progress made last year. We can agree with staff's proposal that the sample form be the standard format for the dissemination of template date by countries and that it be used for the reporting of template data to the Fund. Our authorities are currently arranging to follow this template and its guidelines fully, and so far no problems have presented themselves. We also agree that the data should be re-disseminated on the Fund's external web site. Concerning details of the format's contents, we have no comments at this stage and believe we should discuss their modifications following implementation of the materials.

Concerning periodicity/timeliness, most of the subscribing countries are supporting M/M. Moreover, we find less need of modification before the disclosure of data following the new system. Modification should be discussed with the accumulated experience of use of materials. Therefore, we can support staff's proposal not to modify existing prescriptions for periodicity and timeliness.

Next, concerning the external debt data category, we can support staff's proposal for quarter/quarter base dissemination, with sectarian and maturity breakdown. Our authorities are ready to follow the system, although the quality of data will be somewhat reduced in accumulation of flow-base data or estimation. However, we want to point out that Japan is a creditor country, maintaining over $1 trillion of external credit. So, it is apparent that creating a new quarterly dissemination system of external debt data would be insignificant. We would rather take the option to set the frequency condition at a yearly level, and the frequency of data dissemination should be each countries' authorities' decision, so those countries that want to acquire more credibility from international capital markets will have the incentive to voluntarily disseminate their data more frequently.

The dissemination of prospective debt service payments in which principal and interest components are separately identified as twice yearly with data for the first four quarters, and the following two semesters being encouraged by staff. However, our authorities pointed out the heavy burden of collecting data resources only to reap less significant reward. So, we are not happy with this proposal, but since staff encourages us to merely disseminate these data, we can go along with the majority.

On the other hand, we have no difficulty supporting the proposed dissemination of domestic/foreign currency breakdown of external debt each quarter, as well as the proposed transition period for implementing these proposals that would run through end of March 2003.

We think the proposal to change from six months to nine months the prescribed time specifications with which IIP statistics are to be disseminated is appropriate considering that this is a small change and there are still a good number of countries that have not arranged IIP.

As staff pointed out, GDDS is providing the framework for improving member countries' statistical systems as part of their structural adjustment program. And, since the GDDS is less prescriptive than the SDDS, the adjustment of its contents, along with changes in the world economy, need not be compared to SDDS. So, staff's decision not to propose changes at this time to the data category except to the external debt category, so as not to undermine the member countries' momentum to promote economic statistic arrangements, is agreeable. On the other hand, a large portion of member countries, as well as those that are expected to join GDDS in the future, tend to have an external debt problem, so the staff's proposal to strengthen the external data category is a step in the right direction.

The number of DSBB users is increasing, and this trend should intensify in the future. At the same time, the actual data must be associated with DSBB. In order to avoid excessive burden on the Fund as well as taking into account significant competition with commercial vendors, this chair can basically go along with staff's proposal. However, we want to confirm with staff that the Fund should explain implementation of the system to each country's statistical department that is providing resource data for SDDS and have them agree that commercial data vendors will provide SDDS data before this system is implemented.

Mr. Daïri and Mr. Shojaeddini submitted the following statement:

We thank the staff for the comprehensive paper. We note a significant progress made by the subscribers in meeting the SDDS requirements since the end of 1998. The number of data categories with outstanding transition plans has declined from 240 (close to 6 on average per subscriber) in November 1998 to 58 (slightly more than one on average) in March 2000. However, as Appendix II indicates, relatively less progress has been made in the fiscal sector, as this sector accounts for more than half of such categories. It is interesting to note that out of the 25 countries with outstanding transition plans 14 are industrial countries. Moreover, the prevalence of transition plans is lower in developing and transition economies (which account for 55 percent of total subscribers and only 40 percent of total transition plans) than in industrial countries. We are more concerned by the fact that there has been no new SDDS subscriber since the second review in November 1998, which may reflect the ambitiousness of the initiative as well as the members' apprehension of a moving target of increasing requirements. It could also result from the Board's decision that new subscribers are expected to meet all the requirements at the time of their subscription. This issue may need to be revisited. We could draw lessons from this experience for other architecture-related initiatives where we need a better understanding of the feasibilities. Neglect of the constraints that face member countries in implementation capacities could hinder progress in the related initiatives.

For a smooth progress of the Data Standards Initiative and its credibility, it is crucial that all current subscribers come to a state of full observance of the requirements at an early stage. In this respect, we can support the staff's proposal that monitoring of observance starts at end-June 2000. Those subscribers that have not yet established hyperlinks should be encouraged to do so as soon as possible. For enhancing the transparency and increasing the public's awareness of the procedures involved in the data dissemination initiative, we suggest that all the requirements the subscribers have to comply with, as well as the procedures and steps followed in the monitoring of observance, be compiled in a single guidelines document and posted on the DSBB. Perhaps, the discussion of the draft guidelines document in the Board would give Directors an opportunity to reflect on the detailed steps that were supposed to be revisited, as indicated in the December1998 Summing Up.

We support the staff's suggestion that removal of a subscriber's metadata and hyperlinks from the DSBB in the case of nonobservance could undermine Fund's efforts in promoting transparency. However, maintaining nonobserving members on the SDDS site for a prolonged period of time could undermine credibility of the initiative. Perhaps, the alternative approach of posting a nonobservance note would be more powerful in inducing subscribers to come into observance as soon as possible. We need another overall review of the Fund's data standards to better assess its implementation after completing a full year of observance monitoring.

On enhancements to the DSBB, we agree that its association with actual data is important. It was for that reason that the Executive Board made the hyperlink from the DSBB to the NSDPs a prescribed element in the DSBB. For further development of the DSBB, we prefer the first approach suggested in the report to maintain the status quo and work toward the completion of the NSDPs and hyperlinks. We have serious reservations regarding the involvement of private vendors unless it is negotiated directly with member countries without Fund participation.

Concerning the reserves data, we have reservations with some of the staff's proposals. The whole SDDS, including the reserves data template, has been designed for countries that are expected to be actively involved in the international capital markets. Also, an extensive consultation with SDDS subscribers has taken place before finalizing the template, and, in the process, even the more developed countries among subscribers had major concerns about the details of data requirements. In retrospect, staff's proposal to make this template the format for transmittal of the country data to the Fund database may be understood as a requirement that extends beyond SDDS subscribers to involve the whole membership, which we would not support. Some clarification from staff is welcome. On the redissemination of the reserves data, we suggest that a uniform approach be adopted for all the data categories and reliance be made on hyperlinks for the dissemination. As for modification of the existing prescriptions for timeliness and periodicity of the reserves data, we agree that members need to gain more experience before considering any change to these requirements.

With regard to the external debt data, the quarterly periodicity and timeliness with transition period running through March 31, 2003, is appropriate. However, while we support the proposals with respect to domestic/foreign currency breakdown of external debt as encouraged items, we do not support dissemination of quarterly supplementary information on prospective debt service payments. First, relevant information on a high-frequency basis, as suggested, is seen as a low priority by data compilers from many industrial countries in view of resource constraints. Of course, the task for developing and transition economies would be even more challenging. Second, such detailed information may hinder efficient external debt management strategy of member countries. Under these conditions, our preference is for disseminating debt service projections on an annual basis.

We welcome the efforts made in developing and strengthening of GDDS. We agree with the staff that, in addition to efficiency benefits drawn from this approach, the GDDS is a useful framework in assessing the current status of statistical systems and in developing plans for improvement, including through provision of technical assistance. However, it is important to maintain less prescriptive and open-ended aspects of the GDDS in order to achieve its objectives and attractiveness. We therefore agree that the changes to the GDDS requirements should be limited to the minimum.

On data quality, while we support Fund's initiatives to encourage members to improve the quality of their data and to enable data users to improve their assessment capability, we are not in favor of bringing the Fund to data quality assessment. In addition to the fact that this would require resources beyond the Fund's capacity, it would replace members' accountability to the public at large by a seal of approval provided by the Fund. This may bring the Fund to the forefront of the domestic political debate and could jeopardize its credibility and neutrality.

Finally, for the success of the whole process, any decision to strengthen the data standard initiatives should provide for necessary technical assistance. We are concerned by the staff's comment that no specific provisions have been made to increase technical assistance program of the Statistical Department in the medium term to assist the members who participate in the GDDS and by the fact that this may add to the existing imbalance between demand and supply of Fund's technical assistance.

Mr. Morais submitted the following statement:

Our experience over the four-year period since the establishment of the Special Data Dissemination Standard (SDDS) has meant an increasing number of countries subscribing to the SDDS and making progress in meeting its requirements. However, a significant proportion of the target countries are yet to be part of the system. In this connection, it is to be noted that, of the 47 countries that are so far in the system, seven subscribers have begun disseminating international reserves data based on the template. For other subscribers, the expectation is that most of them will have started disclosure of the data by the end of the transition period which is March 31, 2000, and which is just a few days away. Were the expected number of subscribers not on schedule in disclosing the data, it could be an indication of the tremendous effort demanded of subscribers to meet the SDDS requirements, including the need for sufficient time to gain experience in operating with the new template data system before reliable and comprehensive data can be compiled and disclosed on the template.

The difficulty of ensuring compliance with the SDDS requirements among all subscribers is further reflected in the fact that, by early March 2000, hyperlinks to country data sites have been established only for 19 subscribers. Moreover, as indicated in Appendix 11, more than half of the 47 subscribers are yet to fully implement the data categories under the transition plan.

As several Directors, including this Chair, had reiterated in previous meetings, and as is also acknowledged in the staff paper before us, flexibility and pragmatism will be required in the implementation of a new system such as the SDDS, which entails resource and institutional constraints. Subscribers may not also always find it easy to provide data in the manner and periodicity expected, because disclosure of certain types of information can have some cost, particularly if it reflected instances of temporary nature which could lead to undesirable reactions from markets and the public. In the circumstances, the choice is likely to be one of waiting until the temporary situation is corrected to allow the avoidance of any wrong signals to the markets.

On the evolution of the General Data Dissemination System (GDDS), experience is showing the appropriateness of the phased approach. The first phase which focuses on training and information provides the opportunity to assess the needs and strengths of the likely GDDS participants. While encouraging effort is being made to gain the experience necessary for the implementation of the next phase of the System, many member countries, as noted in the staff paper, are still at an early stage of working toward the objectives of the GDDS. In this regard, we welcome Fund staff plans to continue collaboration with a number of other international agencies, including the World Bank, on the development of GDDS metadata in the next year.

Unlike the SDDS which has a target audience of countries which have access to capital markets, the GDDS participation is open to all members of the Fund. For potential participants, many of which could be the PRGF-eligible members, subscribing to the GDDS can offer the opportunity to improve the production and dissemination of data, including the socio-demographical data which are necessary for the preparation of the poverty reduction strategy papers (PRSPs). Given the dearth of statistics in many of the developing countries, many potential participants are likely to need assistance to implement the requirements of the GDDS. Participation in the GDDS will be influenced not only by the institutional and resource constraints within the countries themselves but also by the extent of the involvement of the several international and regional organizations who have to work on the GDDS. In this regard, we support the proposal for the medium term to increase the staff resources of the STA to be devoted to the GDDS.

Turning to the issues for discussion, we broadly support the staff's proposals concerning the enhancement to the DSBB, the reserves template data, and the evolution of the GDDS. We can also agree to the proposal to conduct the next overall review by mid-2001. We would, however, wish to comment briefly on the other two issues concerning observance and monitoring of the SDDS and the dissemination of the external debt data.

On observance and monitoring of the SDDS, we note that a large number of subscribers are not yet in observance of the Standard. We also note that, because of such a situation, the staff are of the view that structured monitoring of the Standard should begin soon to maintain its credibility and strengthen transparency by alerting users to known instances of nonobservance.

Given the responsibility of the Fund to ensure that subscribers meet their commitments under the SDDS, it would be unbecoming of the Fund to maintain a hands-off attitude in glaring instances of nonobservance. Monitoring of observance will therefore need to be an important aspects of implementing the Standard. The issue is that of deciding the practicable time to begin such monitoring. The fact that a large number of subscribers are not yet in observance of the requirements of the Standard suggests the difficulty of implementing the Standard at a rapid pace. It would thus be necessary to ensure first that subscribers have all the necessary ingredients in place to allow timely dissemination of data before the intended structured monitoring of observance is enforced. Viewed in that context, the proposed date of end-June, 2000 appears, therefore, too early. With sufficient time allowed to address their difficulties, the number of nonobservance cases could be much fewer than has been the case so far, perhaps making any structured monitoring less necessary. While we are not sure how subscribers would see the stipulated scrutiny as outlined in Box 5, we surmise that some potential subscribers might be discouraged from joining the system, if they thought they would not be comfortable with the process of scrutiny. To avoid such likelihood, it might be appropriate to adopt a more flexible process than is being recommended, with substantial effort to resolve the situation at the Fund staff and subscriber level.

As regards external debt data, we note that compilers have difficulties in compiling comprehensive debt statistics. As a result, not all subscribers have been able to disseminate external debt data according to the expected timeliness and periodicity of quarterly disclosure with one quarter lag. Different countries seem to be facing different circumstances, priorities and constraints. In countries where the constraints are severe, disclosure of quarterly data within one quarter of the reference period may continue to be difficult until the situation is addressed. Such countries would need some more time to put their house in order before they are required to observe a specified period of timeliness.

Mrs. Hetrakul submitted the following statement:

We thank staff for a comprehensive paper which provides a useful review of the experience under the Fund's data standard initiatives. We have the following comments on the specific proposals put forward in the paper.

Reserves Template

While the benefits of complying with the reserves template are not in doubt, my authorities wish to reiterate the concern that some of the data released could compromise their money market operations. For example, information on swaps and maturity, if made public, could affect the effectiveness of their conduct of monetary policy by giving markets a sense of the extent of their intervention operations. Given the difficulties and substantial costs involved, the existing prescriptions for timeliness and periodicity should also not be modified for now and in the foreseeable future.

External Debt Data

We appreciate staff's efforts in highlighting the difficulties faced by compilers in putting together comprehensive external debt data. While the benefits derived from the availability of these statistics could be significant, the difficulties encountered and resources involved in producing them are not to be underestimated. The staff should also take into account the specific circumstances and constraints faced by various economies which have their own set of national priorities.

While the observance of the Standard by all member countries is ideal, the fact remains that member countries have different concerns and priorities. For example, annual rather than quarterly external debt statistics should suffice for net creditor countries and off-shore financial centers. The setting-up of a new quarterly reporting system is a misallocation of scarce resources. Moreover, it would impose unnecessary burden on respondents for both net creditor and debtor countries. The proposed quarterly periodicity and timeliness is thus too demanding. In addition, while the compilation and dissemination of external debt statistics for government, monetary authorities and banks may be feasible, it is difficult to compile external debt statistics for private non-bank sector. Therefore, similar to the dissemination of a domestic/foreign currency breakdown and supplementary information on prospective debt service, the dissemination of a breakdown into sectors should be on an encouraged rather than on an prescribed basis.

Although we support the proposal of disseminating external debt data on an original maturity basis so as to be consistent with the BOP framework, it should be noted that data on residual maturity could arguably be more relevant as macro-prudential indicators. Data on residual maturity could also be used as a proxy for that on original maturity, which may not be readily available for a number of members. Besides, given that most of the banks' liabilities are very short-term, the difference between the two sets of data, at least for the banking sector, is not likely to be substantial.

We are glad that the staff has taken note of concerns shared by compilers in offshore financial centers, where the inclusion of all non-equity external liabilities, particularly inter-bank liabilities, in the definition of gross external debt, will greatly exaggerate its gross external debt. We would welcome the suggestion to release concurrently information on external financial assets, particularly inter-bank assets, and a measure of net external debt.

Observance and monitoring of the SDDS

While we agree with staff on the importance of monitoring the Standard, it should not be rushed into, especially when the hyperlinks to NSDPs for all subscribers have yet to be established. That monitoring should begin by end-June 2000 is perhaps too unrealistic a target.

We would appreciate if staff could explain when a member's nonobservance would be considered as egregious. The removal of a subscriber's metadata from DSBB in cases of nonobservance would be a step backward. Staff's suggestion of notifying on the DSBB the reasons why a subscriber was not in observance of a specific data category is preferable. Having said that, we should take great caution in pushing for the inclusion of more indicators in SDDS and at higher frequency and greater timeliness, especially so when the new indicators begin to move away from indicators of general applicability to those of limited applicability. Overloading on the SDDS may lead to a high degree of non-compliance and affect the credibility of the Standard. In this connection, we would strongly recommend that observance of future SDDS requirements be made on a voluntary basis.

GDDS

We would encourage the staff to continue its assistance to prospective GDDS participants in the drafting of metadata and developing steps to improve their statistical systems. We are supportive of the inclusion of GDDS metadata on the DSBB. The distinctions between the coverage of the SDDS and GDDS will naturally be there given the relatively higher requirements of the former. We cannot agree more with staff not to increase the dissemination burden of the GDDS participants and therefore support the proposal of keeping status quo the data category for international reserves in the GDDS.

We agree that the next overall review of data standards be conducted around mid-2001.

Mr. Bernes and Mr. Nelmes submitted the following statement:

I welcome the chance to review the SDDS and the GDDS once again. These data standards are an extremely important building block for improving the architecture of the international monetary system. I would also like to thank the staff for preparing today's document, and for the work put into continually developing and refining the standards. Anyone who has visited the DSBB website can see the effort and improvements that have been made. Moreover, it is encouraging that these efforts pay off, in terms of increased usage of the DSBB, and improvements in authorities' monitoring and data retrieval systems.

I generally support the proposals in the paper. I would like to comment on a few of the important issues for discussion.

On Observance and Monitoring of the SDDS

I agree with the staff on the importance—for credibility and transparency—of beginning the process of structured monitoring of the SDDS as soon as possible. The transition period for incorporation of the reserves data template ends on March 31, and most of the SDDS subscribers should have NSDPs with hyperlinks to the DSBB up and running in the first half of 2000. The reserves template data, NSDPs, and hyperlinks are all very important components of the SDDS. It is a natural progression to begin monitoring in June 2000, to help provide encouragement to subscribers to meet the standard as soon as possible.

I agree that the next overall review of data standards should take place by mid-2001.

On Enhancements to the DSBB

I fully agree with the staff that the DSBB should become a state-of-the art, user-friendly web site with a high profile on the Internet. For this to happen, there is no doubt that the DSBB has to be closely linked to actual data. I also agree with the staff that it is important to maintain a close link between actual data and metadata.

The easiest, and most direct way to accomplish these goals would be to re-disseminate NSDP data on the DSBB. The staff argues against this option, based on a risk of confusing these data with IFS data, database management issues, and because it could put the Fund into direct competition with other data providers. These are important considerations. The latter two, however, also argue against redisseminating the reserves template data on the Fund's external website, a proposal that the staff is recommending (and with which I agree). As a result, I am not sure about the weight of the latter two arguments.

Instead, the staff proposes creating hyperlinks from the DSBB to commercial vendors for access to longer and more detailed time series data, while maintaining hyperlinks to NSDPs. I would feel uncomfortable with this approach for many of the same reasons as given by Mr. Tornqvist. As well, the use of commercial vendors would undoubtedly create tension with those SDDS subscribers that already provide data on their websites for fees.

I would prefer to continue working toward the completion of NSDPs and hyperlinks from the DSBB to these pages. Once this process is complete, I would suggest that national authorities —rather than the Fund— investigate entering into relationships with commercial vendors to provide hyperlinks from their NSDPs to commercial vendor's sites, on the condition that the vendor agreed to disseminate the SDDS data categories.

On the Reserves Template Data

I approve using the sample form as a standard format for the reserves template data, and I welcome the initiative to create a single database at the Fund for country data on reserves and foreign currency liquidity. I also support the staff's proposal to redisseminate the data on the Fund's external website, along with an appropriate disclaimer about the reliability of the data. As the staff note, such a move will facilitate access to the data and foster better transparency. However, placing the data on the external website, rather than on the DSBB, downplays the link between the data and the metadata. I wonder if staff sees this as an important consideration?

I agree that the existing prescriptions for timeliness and periodicity of the template data should not be modified at this time, given that countries will likely need some time to gain experience with the new data template system. However, we may wish to return to this issue at the time of the next review of the SDDS.

On the External Debt Data Category

I recognize the difficulties faced by data compilers in gathering comprehensive and quality external debt statistics. Nevertheless, high-frequency data on external debt stocks and flows are essential to ensure adequate assessments of external vulnerabilities. The staff, I believe, has struck an appropriate balance between these two considerations, in particular given the transition period to March 31, 2003.

I agree, therefore, that the SDDS should prescribe dissemination of quarterly data, within one quarter of the reference period, for the external debt of the government, the monetary authorities, the banking sector, and the non-bank private sector (the latter in Mr. Zoccali's words within reasonable estimations). I also concur that the dissemination of supplementary information on prospective debt service payments be included as an encouraged component of the SDDS.

In sympathy with this, I support the proposal to increase the timeliness specification for the IIP statistics to nine months from six months.

On the Evolution of the GDDS

I support the proposal to include the GDDS metadata on the DSBB, making sure that users will be able to distinguish between the SDDS and the GDDS. Moreover, given the importance of disseminating information on external debt, I believe that the external debt category of the GDDS should be strengthened as proposed.

The Director of the Statistics Department made the following statement:

At the Acting Chairman's suggestion, we have identified five major issues within the staff report. The first issue concerns international reserves and foreign currency liquidity. The transition period for implementing the reserve template is about to close, meaning that end-April data should be disseminated by the end of May 2000. We have proposed a sample form that would allow countries to provide information to the Fund in a uniform and accessible manner, and we have proposed also that the sample form be used as the basis for a Fund database. We propose that countries voluntarily provide the information to the Fund in that sample format, and the Fund redisseminate the information on its external web site. The Fund has made a major advance in bringing together data on reserves and foreign currency liquidity. We consider that our proposal will serve to promote this information as public good, and that it would be a useful adjunct to the Fund simply having the data.

The second issue concerns external debt. A year ago, the Board asked the staff to consult widely and return with recommendations as to the formulation of an external debt category in the SDDS. We have proposed, as a prescribed data category, that quarterly information on external debt be disseminated within one quarter of the end of the reference period. The external debt data would be broken down into four sectors: general government, the monetary authorities, the banking sector, and other. The information would also include a breakdown by maturity, short-term versus long-term, on an original maturity basis and by instrument. This, in essence, is the way that such information is provided in the international investment position (IIP), as described in *Balance of Payments Manual (5th Ed)* (BPM5). The data, as a prescribed set of information to accompany the IIP, will provide a comprehensive picture. In addition to the prescribed information, we recommend that countries should be encouraged to provide certain supplementary categories of information—they should not feel compelled to provide the data to be in observance of the SDDS, but should be encouraged to do so. The "encouraged" categories would include information on prospective debt service payments, broken down into their principal and interest components. That data should be provided twice yearly, and cover the first four quarters and the following two semesters. We also suggest that the Fund encourage subscribers to breakdown their external debt data into domestic currency versus foreign currency. Finally, we suggest that there be a transition period for implementing the prescribed proposals, ending March 31, 2003.

The third major issue concerns the general data dissemination system (GDDS). The report mainly provides an update of what we have accomplished during phase I of the GDDS. We are moving into phase II, where we will be implementing the GDDS by integrating it more closely into the Statistics Department's work. Specifically, phase II will probably involve ongoing technical assistance. As we strengthen the SDDS, the obvious question arises as to whether we should do something similar for the GDDS. With one exception, our proposal is to keep the GDDS as it stood when the Board approved it. The GDDS is already ambitious in the sense that it sets out goals that many countries are working to achieve. We do not consider that there is a need to add to the standard's complexity. The one exception is with respect to external debt. We propose that specific components of external debt should be upgraded to a core data category. Specifically, we would identify public and publicly-guaranteed external debt, and the associated debt service schedule. This is a realistic target for many of the countries that would be participating in the GDDS—many are debtor countries that are more likely to have implemented debt management systems already, so this, in a way, is giving them a framework to move forward and show the world what they have.

The fourth issue concerns the future of the Dissemination Standard Bulletin Board (DSBB). At the last review of dissemination standards, the Board agreed to the Fund hiring s consultant to provide expertise on Internet developments and advice on how we should upgrade our system. We found the work of the consultants very useful, and one of the points that they made was that we need to keep the DSBB competitive with other things that are on the Internet. They also highlighted the importance of bringing together the DSBB's metadata with country data. In the report, we laid out three options for the Board's consideration, as we saw this as a move into a major new area. Firstly, we suggested that one option would be to work with the status quo—to make sure that the national summary data pages were in place and as good as they could be, and to maintain those pages as the basic operational way that we provide easy access between the metadata and the country data. A second option would be for the Fund to take on the job of providing a data warehouse that would have individual subscribers' SDDS data categories, and that would probably extend into providing a time series. This would be a major undertaking. It was something that we thought needed to be brought to the Board explicitly, as the Board said clearly, when the SDDS was formulated, that the Fund should not take on the role of redisseminating country data in a wholesale, immediate fashion. The third alternative was to have the Fund explore the potential for involving commercial vendors. Some countries already work with commercial vendors, and we saw this as a possible way to get the Fund out of the business of redisseminating data. We foresaw the possibility that commercial vendors would agree to assemble country data, by working out agreements with the individual countries. The Fund would then agree to allow a hyperlink from our dissemination standard bulletin board to the commercial vendor site. Again, this would bring together the metadata and the country data with at least just one click or so. It is a big question, and it may be too big a question to take on right now. We know there is much more going on the Internet that the Fund is going to have to be aware of.

The fifth and final issue concerns monitoring. At the last review of dissemination standards, the Board agreed to require that countries provide national summary data pages, to which the DSBB could be hyperlinked. One reason was that it would allow Fund staff to be aware of whether countries were fulfilling their obligations under the SDDS. In a few months, there probably will be national summary data pages for all subscribers, and we are proposing that we take that opportunity to begin structured monitoring. The staff would then come to the Board if we saw instances of "egregious nonobservance." That term dates back to the original SDDS where, if a country did not publish their reserves data, that would be considered an "egregious nonobservance." Since then, we have refined the concept. In the current proposal, we would be focusing more clearly on observance of the data dimension (coverage, periodicity, and timeliness) and the dissemination of the advance released calendars. We would foresee that, when a problem could not be easily resolved working with our counterparts, we would first work with the Executive Directors concerned, and eventually come to the Board. We would be in a position to implement that process by about midyear, and we will return to the Board with a request for your views on how this could work, if the case arises.

Mr. Lou made the following statement:

This chair welcomes today's discussion and thanks staff for providing a concise and informative paper. Since the last review, much progress has been made in implementing the Fund's data standards initiative, which has become one of the important measures in strengthening Fund surveillance. As staff rightly points out, the recent financial crises have illustrated that precise and timely information is one of the key factors for market participants in making the right decisions, and vice versa. Nevertheless, I would stress that the recent financial crises also tell us that we should improve the information dissemination of all market participants(not only the public sector, but also the private sector. However, I regret to note that so far a serious asymmetry still exists in this field. In my opinion, the Fund, cooperating with other relative institutions, should play an active role in developing a set of data standards to better reflect and monitor the economic activities of the private sector. In this way, we could increase the transparency of the whole economy.

In terms of the SDDS, on the one hand, I note that further refinements have been made since the last review, while on the other hand, the ever-increasing requirement of the SDDS seem to be discouraging many economies from subscribing. Given resource considerations, statistics compilers may also be constrained from tailoring their statistics system to domestic priorities. I am worried that no new subscribers have emerged since the last review. Therefore, I am of the view that we should take time to consolidate the current practice before making some new proposals. As an important standard, SDDS should maintain some degree of stability, and some extent of flexibility is indeed needed in allowing for the different characteristics of the wide ranging subscribing economies. In other words, haste brings no success. I note this is also the opinion expressed by some of my colleagues in their grays.

Another serious concern of my chair is the tendency to use SDDS as a strict conditionality or benchmark, as reflected in the proposal of the Basle Committee on Banking Supervision for a New Capital Adequacy Framework and in the preconditions for using the Fund's Contingent Credit Line. This will make SDDS a somewhat mandatory standard instead of a voluntary one, and is not fair to the developing countries. In addition, such a conditionality may have a negative impact on the countries concerned when they wish to borrow through the international capital market.

On GDDS, I reiterate this chair's consistent stance that a gradual and voluntary approach should be applied. In the meantime, the Fund should intensify its technical assistance efforts.

That being said, now let me turn to some specific issues for discussion.

On monitoring of observance and the next review of SDDS, I am of the view that it may be proper to implement the comprehensive monitoring of observance of SDDS and the next review only when all subscribers have set up the hyperlink between DSBB and NSDPs.

On the Fund's intention to reach agreement with commercial vendors, it is indeed well-intentioned to develop time series data that allow cross-country comparison, although I note that many data vendors are already in the market, with a comprehensive range of data series available. On this issue, I would like to seek some clarification from the staff. Is the Fund going to link up with just several selected commercial vendors? If this is the case, how can we ensure fair competition among the data vendors? Are commercial vendors going to allow free access to the database? If not, will free access be provided to the official sector (including SDDS subscribers) in return for the subscribers' service of providing data? Staff comments are welcome.

On reserves template data, I strongly agree that the existing timeliness and periodicity be maintained, and generally agree that the Fund could re-disseminate the data over its web-site. However, as briefly mentioned above, it is already quite burdensome for compilers to produce the reserves template and meet the timeliness requirement. Perhaps subscribers can have the flexibility to decide on a format to disseminate the reserves data(adapted to local circumstances(as long as the contents meet the template requirements. Staff may assume the responsibility for transcribing the data into a preferred format for their own use.

On the external debt data category, it seems staff proposals are a one-size-fit-all solution. Since this is a resource-intensive exercise, there would be a need to cut back the reporting burden or frequency in sectors where the subscriber economy is not in a debtor position. For example, in an economy with minimal debt from the government or the monetary authorities, such as Hong Kong SAR, it would hardly be important to find out the profile of foreign ownership in those domestic currency issues, not to mention the efficiency and feasibility issues. In addition, the staff proposal to have data by maturity fails to take into account many complaints on the feasibility and difficulty from many statistics compilers in the workshop. Also, there remains a question of whether residual maturity or original maturity would be more preferable. With regard to gross external debt data and IIP liabilities, I would suggest a more flexible presentation to allow certain components to be presented in net positions instead of gross positions to avoid possible misperceptions. Given the importance of external debt data, I hope staff can attempt to design a more practical proposal which can be tailored to local circumstances.

On the proposed three-year transition period, I can generally go along with this. However, consideration should be given to extending the transition period nearer the time, as there may be unforeseen circumstances affecting the progress of some subscribers. I also concur with the proposal to lengthen the timeliness of IIP data.

As to GDDS, I agree that, at the current stage, a clear-cut distinction between GDDS and SDDS should remain as staff suggest in the paper. By its nature, GDDS should be implemented gradually and on a voluntary basis, with more comprehensive technical assistance provided by the Fund. In this connection, I suggest that public and publicly- guaranteed external debt and the associated debt service schedule remain as encouraged data categories at this stage.

Finally, I would like to express my sincere thanks to the Fund, especially the Statistics Department, for the very useful technical assistance provided to my country in recent years.

Mr. Daïri said that he agreed with Mr. Lou's call for greater private sector transparency.

Mr. Taylor made the following statement:

The staff circulated a statement at the last minute concerning standards for government accounts on an accrual basis. I would like to support that statement and perhaps the staff might elaborate on the issue at the end of the meeting. I can advise you, and no doubt you have been briefed, that my Korean and Philippine authorities generally go along with the SDDS standards. In the case of the Philippines, technical assistance at various points has been important and forthcoming, and we are grateful for that.

New Zealand has not been a subscriber to the SDDS. The standard remains under active consideration, but there is more than one reason why New Zealand chooses not to subscribe. One reason is that there is continuing concern, particularly with the statistician in New Zealand, about issues of quality, unnecessary cost, and questions of materiality.

Australia has subscribed, but suspect that, had the Australian statistician acted quickly, we might find Australia in the position of New Zealand, principally on the same grounds of quality and materiality. However, Australia has decided to remain within the system as a vigorous critic, although the statistician continues to keep his eye on the exit door. I might say that the Statistics Department has kept the discussions with our authorities as constructive as possible. We appreciate the effort that has been involved, but my authorities continue to feel somewhat dissatisfied. My Australian authorities would join Mr. Lou and others in noting that there are no new subscribers, and that we are not in a position to increase the complexity of the standard, as the staff put it. I have to say, it is disappointing that the Fund has got to the third review and has still not made sufficient headway on issues of quality and relevance in the design and application of the SDDS. It is clear, from the consultation work undertaken with statistical agencies and other data providers, that the Fund is hearing the message about the cost of reporting by business, and the cost to the public of collection, compilation, and dissemination. However, it is not clear that there has been a full understanding of the nature of the concern, nor any significant consultation with users on their information needs. The user-consultation approach by the Fund has been used to circulate a template of data items, and to ask if these are useful, essential, or critical, but there seems to be no real attempt to determine if the data items are relevant to all economies, most economies, or just a few economies. As an example, it is questionable whether detailed debt service schedules are needed an economy which is a large net creditor, which freely floats its exchange rate, and which has few external liabilities. The cost-benefit equation for such countries is starkly different. In fact, we could refer to the recent Article IV consultations with New Zealand and Australia. Both are countries with large external liabilities, but when both sides of the balance sheet are considered seriously, a somewhat different picture about vulnerability emerges. It would seem to be difficult to present that kind of information on the SDDS.

On the reference to debt in paragraph 109, while the answer would be yes to most of the questions, we also consider that there is somewhat too much prescription in some of the details. Australia could present all of the debt data in more sectoral detail than required, in more instruments than required, in a structured and fully-articulated stock-flow reconciliation analysis. It can be presented by maturity, but the Fund apparently has had to give up trying to get agreement on such a presentation, and has opted for a compromise minimum, a so-called short-form presentation. We feel that such an approach discounts the value of such a comprehensive picture of debt, and yet imposes details like short-term/long-term original maturity splits on trade credits, in a more timely fashion than would allow for the full validation of reported data.

Furthermore, on the issue of quality, it is our view that the progress made, identified in paragraph 95, on quality during the course of the review has been somewhat limited. For example, the terminology and the requirements for the balance of payments data in the SDDS are still in terms of 1960s-style cash-based accounting. The Fund's current standard for balance of payments and international investment position statistics specifies accrual-based accounting. For the SDDS terminology to still be cash based for external accounts is inappropriate for a standard that is presented as the world's best practice. Could the staff make comment on those observations?

In terms of cost, the paper mentions the business reporting load associated with SDDS demands, as well as its significance and the concerns that it raises. However, the existing balance between reporting load and information need is not adequately addressed. The staff respond to this issue in terms of the proposed extensions, where it appears that an inappropriate information-resource tradeoff is the proposed debt extension. Instead of focusing the requirement for certain debt data, the real demand is being sacrificed for the one-size-fits-all prescription. As with the treatment of the quality issue, the trade-off issue has not been addressed across the rest of the existing template. Perhaps staff could comment.

In Australia, it is considered that the financial markets are generally satisfied with the presently available standards, and there is little evidence of demand for those SDDS elements where Australia does not meet the SDDS prescriptions.

Those are general comments. I have some more detailed, somewhat more critical comments, which I will pass on bilaterally. However, I have a few brief remarks on the concluding part of the paper. On external debt, as I have indicated, Australia can meet the proposed requirements. The Philippines, for whom the data may be of more interest, is also generally comfortable with what is proposed. On the dissemination of the SDDS, of the three options, my constituents generally prefer the first option, which involves the status quo. On the reserve template, we agree with the suggestion and the form proposed by the staff. On the GDDS, we can generally support what the staff have proposed. On monitoring, we are generally comfortable with a review on monitoring in mid-2001, provided that it is not conducted in an overly zealous way.

Finally, some general comments about the future. There is beginning to be some SDDS fatigue among agencies with significant statistical responsibilities. Not only is the initial standard somewhat demanding, but current and prospective changes are placing additional strains on the authorities. There is probably an element of this in the stance taken by developed countries regarding offshore financial centers in the February conference. In addition, there is some suspicion that subscribers have committed themselves to a moving target, which is probably serving to discourage new members from subscribing.

The benefits of the data standard are beyond question. However, there is a strong case for a period of consolidation in the SDDS, in order to allow both the authorities and the Fund to settle current arrangements, as well as

> those in the pipeline, and to allow a period of renewed consensus building. At this stage, more can be achieved by promoting ownership of the standards than by further expanding the standard without full commitment from all national authorities.

Mr. Donecker observed that many of Mr. Taylor's concerns had also been expressed by his chair over the past three years. There was a strong case for a period of consolidation, consensus building, and strengthening of ownership. Moreover, developed-country providers of raw data were becoming somewhat restless—they profited from the Fund's efforts, but worried that the SDDS was becoming a moving target, which might discourage other potential users. Nevertheless, he was pleased to inform the Board that Germany was in full compliance with the SDDS.

Mr. Sobel made the following statement:

> We thank staff for a well written paper and, like others, we would underscore that there can be no doubt about the importance of the Fund's data standards initiatives and the collection and dissemination of information to markets so that countries are better positioned to enjoy the benefits of globalization and a more stable flow of capital. Hence, we view the SDDS as a key element in the effort to strengthen the global financial architecture.
>
> In this light, we are pleased with the progress made so far on the SDDS but we hope an agenda can be pursued with greater vigor.
>
> On the reserves template, we are pleased to inform you that the United States in December began reporting reserve data, consistent with the template, on a weekly basis with a four-day lag. The reserve data is posted on the Treasury website.
>
> We were also pleased to learn that 32 countries are on track to disseminate the data by end-May, in addition to the 7 countries already doing so. However, we ask staff where that leaves the 8 countries that subscribe to the SDDS but apparently have no plans to disseminate reserves data according to the new template.
>
> During the March 1999 discussion of the reserves template, we expressed our strong preference that these data be disseminated on a weekly basis with no more than a one-week lag and this remains our firm view. Our experience shows that most of the technical difficulties lie in setting up the reporting system. Once the system is established, countries should have little difficulty in reporting with a higher frequency.
>
> We strongly support the Fund proposal to establish a database using the reserves template with a view toward redissemination via the Internet.

On external debt, we support the proposal to require quarterly reporting with a quarterly lag.

However, we were disappointed by staff's proposal to use an original maturity instead of a remaining maturity basis. There is little doubt that remaining maturity is more analytically useful and less costly than an amortization schedule. We believe that both arguments the paper makes in favor of original maturity are unpersuasive.

The first argument the paper makes is consistency with other statistical standards. It is difficult to see how the world gains from having standards that are consistent, if the underlying data is of limited utility.

The second argument—that original maturity data would provide insight on the reliance of countries on short-term finance—applies to remaining maturity as well.

If in fact we are to proceed on an original maturity basis, it then becomes imperative to make an amortization schedule a *required* element of the SDDS.

We recognize that data compilers in industrialized countries have competing demands on their time and resources. But given the importance of this information to international financial stability, we must press forward.

The United States is prepared to work with its data compilers to produce an amortization schedule.

We also recognize that some have questioned the relevance of quarterly external debt data or amortization schedules by creditor countries, but do not find this persuasive. The SDDS is for countries that have or would like to have access to international capital markets. That in itself is the relevant cut-off. Today's creditor can become tomorrow's debtor. As the February 23-24 conference revealed, there is no consensus on what the criteria would be for differentiating categories of countries that would be subject to external debt data reporting. On balance, it would be imprudent to introduce differentiated reporting frameworks within the SDDS and to do so could undermine its very effectiveness.

That said, we are pleased by the proposal that a currency breakdown be an encouraged component of the SDDS—although we believe that this too should be required.

We note the conspicuous absence of discussion on the question of reporting face value or market value.

We strongly support the Fund staff proposal for a transition period of three years.

Regarding the future of the DSBB, we feel that Fund staff have identified the right three options. However, more information on the potential implications of hyperlinks between the DSBB and commercial vendors is needed before we can sign off on an approach. We are open-minded on staff's recommendation. We agree the status quo will not suffice. Option 3 is attractive in that resources are provided by the private sector. But we do not know what are the implications of the Fund having links to private data bases, especially as the dissemination of data is a public good for strengthening international financial markets.

We are pleased that the Fund paper also addresses the critical issue of data quality and we appreciate STA's work in applying data quality to ROSCs. The Data Quality Reference Site is a good start to addressing the issue of how the SDDS and GDDS could be used to improve data quality. We recognize that data quality raises difficult issues, but we believe these need to be addressed seriously. We look forward to staff proposals in the next review.

On observance and monitoring, we agree that the Fund should not wait for the establishment of hyperlinks to National Summary Data Pages (NSDPs) in order to begin structured monitoring at end-June 2000. As staff note, such monitoring is important for the credibility of the SDDS and for strengthening transparency.

On the GDDS, it is important that the GDDS serve as a stepping-stone to the SDDS for countries with access to international capital markets. We agree with staff's proposal that external debt be made a core category. We believe that GDDS participants should also report according to the new reserves template.

As previously noted, we believe macroprudential indicators should be incorporated into the SDDS for reasons well known to the Board. The summing up of the January discussion of MPIs notes that staff was conducting a survey which would, inter alia, look at suggestions on giving priority toward identifying a set of indicators that could be broadly disseminated and that staff would come back to the Board with a progress report before the Annual Meetings. We assume that this work is on track.

We also feel strongly that the next review of data standards should be held before the 2001 spring meetings.

Finally, Mr. Chairman, we would like to offer two proposals that we hope Board members will support.

First, after taking a tour of the DSBB, one can only conclude that it contains a lot of useful information. But to glean that information, one first must actively seek it, going from the main external web page to the DSBB and then click here and there. For example, one page lists subscribers and then one can figure out through asterisks who complies. The What's New page scrolls on for quite a while but contains some interesting country program notes. We would thus like to propose that the Fund start releasing a new quarterly report on the SDDS so as to give the SDDS more prominence. The quarterly report should be relatively short, and it should pull together into one piece on both the main IMF webpage and the DSBB, as well as in hard copy, such information as who subscribes, the status of countries' compliance, what important steps countries have taken over the quarter to improve compliance, and other important SDDS developments. This suggestion, which builds on the DSBB, could offer an important marketing tool for the Fund, better highlighting the SDDS to potential users.

Second, country subscription and adherence to the SDDS, where relevant, should be referenced in the background section of PINs.

Mr. Daïri said that he agreed with Mr. Sobel's first suggestion, but had some reservations concerning the second. Participation in the SDDS was not overly informative in itself—some countries might subscribe to facilitate access to capital markets, while other countries with good statistical systems might have little interest in such access and so might choose not to subscribe. Without a long explanatory paragraph, simple statements outlining a country's subscription and adherence might be misleading.

Mr. Sobel pointed out that the reference would simply entail a short sentence on the country's status. It would be a factual statement, rather than a value judgement. In many ways, such statements were already in use, as many PINs included a reference to Directors welcoming a particular country's subscription to the SDDS.

Mr. Nelmes said that he supported both of Mr. Sobel's proposals.

Mr. Couillault commented that he would require more information on the second proposal before he could provide an opinion. It was important to know whether a country subscribed to the SDDS or GDDS, but it was not appropriate to state to the market that a country was not fully compliant, without also explaining the nature and seriousness of the problem.

Mr. Donecker said that he agreed with Mr. Couillault's remarks. It was important to ensure that the markets were not given the wrong impression. If there was only a single problem, which the authorities were addressing vigorously, then that should be explained properly.

Mr. Couillault made the following statement:

At the outset let me commend staff for this paper and the tremendous work which has been undertaken in order to prepare this review of Fund's data standards initiatives.

First, I will say a few words on the situation of France as regards the SDDS before turning to general remarks on the initiative.

As Staff rightly noticed, France is one of the seven countries which already discloses international reserves data according to the new template for dissemination.

Concerning the compliance to the SDDS, my authorities are finalizing the last details in order to disseminate on a quarterly basis information on publicly guaranteed debt. Therefore, France will be able to join the short list of fully compliant countries before the end of this year.

Let me now turn to issues set for discussion.

We support staff's cautious approach not to modify the existing prescriptions for timeliness and periodicity for data on international reserves. We are still of the view that progress on the public side should be accompanied by progress in private sector transparency, in particular on the HLI's side.

We can go along with the other proposals in order to strengthen the SDDS, provided that further progress on data quality is achieved.

This chair has repeatedly advocated for more attention devoted to data quality in the SDDS. I would like to stress again what in our view are the risks of focusing mainly on timeliness and periodicity.

First, by disseminating data of poor quality, we endanger the credibility of this initiative and, to a certain extent, the credibility of this institution.

Second, by giving a sort of seal of approval to these data we take the risk to send a biased message to the markets which may undermine our efforts towards financial stability.

We welcome staff's emphasis on this critical issue and encourage them in their effort to build a framework for assessing the quality of data. The creation of a data quality reference site is also an initiative which should be encouraged. We also believe that the work undertaken in the context of ROSC goes in the right direction.

In this context we would like staff to explore the problem of data revision. As a former statistician I am fully aware of uncertainties inherent to the publication of statistics. Indeed, the sooner you disseminate data, the more you have uncertainty. Nevertheless, we believe that we should define a framework allowing us to distinguish what is the normal process to revise data from what could be seen as a weakness in the statistical framework.

Staff comments on this issue would be appreciated.

Finally, we can support Mr. Sobel's additional proposals provided that comments which could be done either in the proposed quarterly letter or in the PIN would not be limited to a pass or fail appreciation of the formal framework. Some general appreciation of the quality of the statistical process should be included.

Mr. Collins made the following statement:

I would like to thank the staff for a clear paper. Since we are in the business of blowing trumpets, I would just like to say that we are fully compliant with the SDDS. We were certainly one of the very first. There are also one or two areas where we are intending to become more than compliant.

On the paper itself, I have a couple of points I would like to highlight at the outset. The first relates to external debt data, and the second, in light of Mr. Taylor's comments, relates to the implications of accrual accounting for the SDDS. First of all, on external debt, we are keen to emphasize the term "acceptable quality," which I think is used in the paper. We, for example, currently meet the proposed item for quarterly data on a BPM5 basis, as part of our quarterly IIP. The quality of estimates is acceptable, because the figures are put together within the whole national accounting framework, so there is a check on them from that source.

Turning to the proposals in the paper, we accept the staff's proposals on external debt. However, I have some concerns that this initiative may not be meeting the objective of making adequate data available for financial markets and policy makers. I recognize that the proposals represent a compromise between what is achievable and what is affordable, but my concern is that, while the marginal cost of obtaining additional data in this area may appear high, the collective benefit is potentially enormous. The SDDS was set up as a standard that should be reached for a country with, or seeking, access to international capital markets. As we know from the comments at the recent conference here in the Fund, many developed-market economies are concerned that requirements to produce external debt data would force statistical offices to collect what they regard as irrelevant information—and at a high cost, once hedging had been taken into account. Emerging market economies, for their part, claim that they lack sufficient resources to collect such data, and so we are pushed in the direction of a compromise. However, we must beware of striking compromises which mean data collected under the SDDS are not really suitable for their intended role. Consider Brazil, which is not a subscriber to the SDDS, but which produces excellent debt statistics, as it knows that keeping the market informed is vital for maintaining access. I think that is quite a telling example, because it shows that a country that really wants to impress the markets will move beyond anything proposed in the SDDS, and we are in danger of setting up a flawed standard because of unfortunate compromises. Specifically, we would like to see more of the data described as "encouraged" as actually being required—not immediately, but in due course.

The fact is that "encouraged" means that if a country does not collect it at present, and does not see a national need, it will not start collection. It is a nice term, but it does not carry any weight.

We have some concerns with the required data. First, as regards the valuation of liabilities, it is useful, from a static balance sheet perspective, to be able to value external liabilities at market prices. This gives an idea of what it would cost to buy back debt in the secondary market, or alternatively, from a creditor's perspective, how much to recognize for write-off purposes. However, debtors, creditors, and regulators should also want to know the face value of obligations that will eventually fall due, if all securities go to maturity. This is the point Mr. Sobel was making. Face value figures give an impression of the potential for liquidity or rollover risk. Only once a formal rescheduling has taken place should international statistics on debt obligations discount their value. Therefore, I would argue that both market and nominal values should be shown.

Second, defining debt on an original-maturity basis is also not very useful. Here, again, I echo Mr. Sobel. Figures classified as short-term debt, with original maturity of less than one year, only provide a minimum estimate of the potential rollover or repayment required in a given year. That seems so obvious that it is odd that we have to argue the case, because the claims on a country are in relation to the remaining maturity of its debt.

Third, it would be very useful to know the currency composition of the assets and liabilities of all sectors of the economy, including domestic currency securities linked to a foreign currency. Without this, it is difficult to assess potential financial stability risks from exchange rate volatility. A similar concern exists in relation to whether assets and liabilities are at fixed or floating rates. Furthermore, it is not merely the foreign currency liquidity position, which is important, but also that a vulnerable domestic liquidity situation could trigger a foreign currency liquidity crisis.

Turning now to encouraged data, countries are only to be encouraged to produce amortization schedules twice yearly for four quarters and two semesters ahead, with a lag of one quarter. They are also to be encouraged to provide a currency breakdown of external debt once a quarter. We nonetheless consider that amortization and interest payment schedules, and currency breakdown for moderately and highly indebted countries, would be highly desirable. The term "highly desirable" is not used in the report, so perhaps I should say "strongly encouraged." I think I am touching on the beginnings of a debate between Mr. Taylor and Mr. Sobel as to whether it is sensible to distinguish SDDS requirements for different countries. I think I am coming down on Mr. Taylor's side. In a sense, its is almost a circular problem—highly indebted countries ought to show more data on the SDDS relevant to their situation, but the most relevant feature of their situation is how highly indebted they are, and how maturities are stacking up in the near term. If they are not showing the data to begin with, how do we know that they are highly indebted? I know that it is difficult to differentiate the standard, and I suppose the only way forward is eventually to make the "highly encouraged" data required. However, that then leads us into the problem we saw in the conference, that the industrialized, developed countries do not want to go to the trouble of collecting and publishing all that data. It is a conundrum, and I suppose I am putting on the table the idea that, some way down the line, we ought to think of differentiating the standard for different classes of country, if that is feasible. I realize there will be a lot of debate before we get to that position.

I would like to move on to my other headline topic, which is accrual accounting in the SDDS. I welcome the staff's attitude toward accrual accounting as set out in their statement. It is clear that the SDDS standard of reporting government accounts on a cash basis is unsuitable for the greater complexity involved in an accrual basis, and as staff and others recognize, accrual accounting will increasingly become the preferred method for dealing with government financial data. We in the U.K., for example, will be moving in that direction over the next five years, so it seems sensible that the SDDS should be flexible enough to deal with this. The suggestion of a two-year review seems appropriate, and avoids what otherwise could have been the unfortunate scenario of a SDDS subscriber falling out of compliance through the implementation of a recognized improvement. I support Mr. Taylor on all of that.

Turning now to the other issues listed at the end of the paper. First, on the question of observance and monitoring of the SDDS, we think the staff should concentrate on ensuring that all subscribing countries actually have NSDPs. I was pleased to hear from the staff that they expect that to be the case by mid-year 2000. As for the practicalities of monitoring, I would be interested in the staff's comments as to how they would do it. Would they have sufficient time and resources, and would they prioritize countries or data categories? How will they "alert users to known instances of nonobservance?" How would they treat the flexibility option in that? A lot of care and tact would be needed.

A further review, in mid-2001, is appropriate. Given that we seem to have fallen into a yearly cycle, maybe we should just regularize such reviews, as there seem to be enough developments in this area to warrant it.

On the issue of enhancements to the DSBB, we view with caution proposals with regard to the commercial sector data warehouses. The Fund has pushed countries to establish hyperlinks from the DSBB to NSDPs, and made it a prescription. So it seems perverse now to highlight costs to the Fund as a main problem. It is not clear, by the way, why the Fund should be concerned about being in competition with national vendors. I think we have a different position, and we do not have to worry if that were the only concern. The staff proposal may lead to a situation where commercial companies are the first point of contact for data, rather than the national compilers themselves, and we think that should be avoided.

A feasibility study would need to provide convincing proposals on sensitive areas, such as ownership of data and copyright, charging and access policies, and the ability to delegate to a third party a member's obligations to the Fund. We would also need assurance that the proposal would not impact on national dissemination practices. We also wonder whether more could be done in the first instance on ensuring that NSDPs have a common look and feel, an ensuring that there are good links back to the DSBB. Similarly, we think it must be possible to design a suitable search engine for the DSBB that could be used to collect a user's data request from a rack of NSDPs. Further technical investigations of this, and similar options, should be made before outsourcing to commercial firms.

Turning to the reserves template, while we are supportive in principle of a common format database, we are concerned that, in practice, this could leave countries vulnerable to a staff interpretation of the guidelines in the interest of uniformity, which may not be particularly relevant to local circumstances. For example, under the present institutional arrangements in the United Kingdom, we would report only the assets and claims pertaining to the government, the official reserves. There would be no provision, as in our local presentation of the template, for showing the Bank of England's holdings separately alongside the exchange equalization accounts. It may be counterproductive and misleading to try to force contributors into a common format too soon.

On external debt data, in addition to the points I have already made, we have no objection to redissemination of the template on the Fund's website. On the prescriptions for timeliness, we agree that they should not be modified, although I could mention that our version of the U.K. Reserves will shortly be published with a three-day lag. On data quality, I support the staff, in the sense of having a reference site, but I have some concerns that we have not fully explored the topic of data quality. We had a recent Article IV discussion, I think it was about Hungary, where the country was said to be in full compliance with the SDDS, yet there were reservations about the quality of the national accounts data. I understand that quality refers to having full transparency as to the methodology used in compiling data, but at some point down the line, an absolute quality test will need to be applied. Again, this is not for now, but we should think about that issue as we seek to improve the SDDS over time.

On the GDDS, it is not clear why we should not establish some sort of hyperlink to the GDDS subscriber data, as this information is already posted on the web. That move might be made optional for now, and could be encouraged over time, and then eventually made mandatory. As the GDDS moves into its active phase, it is sensible to maintain the distinctions between the SDDS and the GDDS, while extending the external debt category of the GDDS as proposed.

Finally, I would like to voice my support for Mr. Sobel's two proposals. On his second proposal, I would start by asking the staff to ensure that all Article IV reports, as a matter of course, include a section on the subscription and compliance status of a country. As for the PIN, the subscription status should certainly be mentioned. I also think that the country's compliance ought to be mentioned, but I can imagine there may be some objections.

The Acting Chairman, noting the argument in favor of differentiating the reporting requirements for highly-indebted countries compared to low-debt and creditor countries, suggested that a similar logic might make use of other categories. For instance, it might be argued that fiscal surplus countries should have different reporting requirements compared to deficit countries.

Mr. Daïri remarked that such arguments were somewhat inequitable—they effectively allowed the richest countries to determine which parts of the standards should apply to them, while inflexibly prescribing the standards applying to poorer countries. Furthermore, it was unclear that there was a need to provide detailed information on the maturity and currency composition of debt, as well as high-frequency debt service projections, in a world of liquid markets where debt could be restructured, refinanced, and converted relatively quickly. The provision of such unnecessary detail might hinder some members' debt management capability.

Mr. Taylor, in answer to the Acting Chairman's remark, commented that, if the fiscal status of a country was material, then it might be appropriate to consider different reporting requirements. He further asked Mr. Collins why he considered that data quality was not an issue that might be addressed in the near future.

Mr. Collins said that he agreed that the quality issue should be addressed as soon as possible. In practice, however, it was not possible to do everything at once, and there might be some resistance to a proposal that added yet another layer of demands. As for Mr. Daïri's comment on the ability of countries to reshape their debt easily, world markets tended to become less liquid during periods of crisis—if Brazil or Korea had been able to restructure their debt easily, they would not have faced a problem.

Mr. Daïri remarked that, at any point in time, the composition and maturity of a country's debt was an important indicator, as it might shed light on potential risks. However, it was not clear that providing debt composition and maturity projections, over a 6-8 month horizon, added much value. The composition of a country's debt could be changed readily within that time period—unless members were required to report to the Board, or seek approval from the Fund, before they did so.

Mrs. Zádor questioned Mr. Collins's assessment of the quality of Hungary's data, and noted that such remarks underscored the need to take care when describing a country's compliance. It was not clear that a single, simplistic statement would give an accurate impression.

Mr. Collins said that he had not meant to be critical of Hungary. He had simply recalled a recent Article IV discussion in which the staff had stated that country was in compliance, but that they had some doubt as to the quality of the quarterly national accounts data. Such statements raised the question of how data quality issues were treated within the SDDS. Moreover, under Mr. Sobel's second proposal, Hungary's PIN would simply state that Hungary was a subscriber to the SDDS and, if agreed, that the country was in full compliance. There would be no question of including a statement expressing doubt as to the quality of the national accounts data. As for Mr. Daïri's concern as to whether debt composition details were important, to get a proper impression of a country's financial situation, it was necessary to have a detailed picture of a its liabilities as well as its reserve assets. Such details should include the maturity of those liabilities.

Mr. Sobel commented that the Acting Chairman's remark on different standards for fiscal-deficit countries highlighted the importance of uniform reporting requirements. If the fiscal category had been used, the United States would have had to change its reporting practices sometime in the 1990s. Similarly, a country that was a creditor today might become a debtor tomorrow, so it might not be appropriate to differentiate between creditor and debtor subscribers. As for Mr. Daïri's doubts about the utility of detailed debt projections, although it was true that the use of derivatives might alter the composition of a country's debt, most emerging-market debt was not hedged. That was often because borrowing costs in foreign currency generally appeared less costly, and attempts to hedge against foreign currency exposure tended to eliminate the apparent cost advantage.

Mr. Zurbrügg made the following statement:

This third review of our initiatives to encourage the dissemination of economic and financial data is most encouraging. If I think back to the initial resistance we experienced from our data producers vis-à-vis the SDDS, the progress that has been achieved in the last four years is truly impressive. Box 1 underscores the rapid and continuos efforts that have taken place to enhance the SDDS. Like others, this Chair remains convinced that data standards represent a cornerstone in our endeavor to strengthen the international financial system. I can support most of the staff proposals and would like to take this opportunity to thank staff for their important contribution in pushing these initiatives forward.

As I stated at our last discussion, ensuring data quality is one the main challenges for the SDDS. With the expanded country coverage and expiration of most transition periods, usage will continue to increase. This will entail a more careful scrutiny of compliance with the standards by data users. We must avoid at all costs that users get the impression that SDDS is not delivering what it promises. Therefore, I support the early initialization of the monitoring process.

Turning to the enhancement of DSBB, I think the priority must clearly be to complete NSDPs and to hyperlink these to the DSBB. Like Mr. Thörnqvist, I think accuracy of the posted material is important. I have also had critical feed-back from some of our data producers as regards the long lag in posting updated information. In this context, I also support Mr. Sobel's suggestion to post quarterly reports on new developments regarding SDDS on the website to enable the public a rapid overview.

On the question of disseminating actual data through DSBB, we must keep in mind the main purpose of the DSBB, namely to identify countries that observe the SDDS. By linking the DSBB to a limited amount of the most recent actual data we are providing the public with access to what was considered missing, namely timely data to help avoid surprises. While this service does have a public good character, the provision of user-friendly and state-of-the-art access to longer time series definitely goes a step further. Therefore, I agree that the DSBB should not be transformed into a fee-for-access environment, but this is not necessarily true for access to a larger database.

Concerning the staff's proposal to cooperate with commercial vendors, it is true that commercial providers reach a much broader segment of clients than the DSBB and, therefore, the demand for data would increase. However, this approach raises difficult questions: Who would the commercial partners be? How should they be chosen? If the countries reach an agreement with several and different vendors, the synergy effects for those who search data of several countries will not be great. Implementing this approach would mean concentrating on a few commercial vendors and that all countries use the same ones. But still the question remains how to choose them.

The staff's argument against the second approach is the considerable cost of maintaining such a database. However, as mentioned above, access to a database should not be part of the public good character of the DSBB and the Fund could very well charge access (as is done in the case of the IFS data of the Fund). One could even argue that the collection and dissemination of financial and economic statistics is one of the core issues of the IMF. Nevertheless, I agree with the arguments brought forward in the report that this approach would increase the risk of users confusing these national data with data maintained by the IMF and that it could be opposed by subscribers already providing long-term time series on their websites. To conclude, I would prefer a perfectioning of the status quo.

As regards the reserves template data, I endorse the staff's proposal that the sample form be the standard format for the dissemination of template data as well as for the reporting of template data to the Fund. I also agree that the Fund should redisseminate the template data through its web site. Finally, I support not to modify the existing prescriptions for timeliness and periodicity at this time. Monthly data was an important step forward and we should carefully assess the experience with these prescriptions before moving further.

As regards the external debt data, I welcome the staff's proposal. High frequency and timeliness in this area is crucial to appropriately assess a member's debt sustainability. At the same time one has to bear in mind the existing trade-off between the quality of the data and the two mentioned factors. We must strike a balance among these goals and take into account the difficulties faced by data compilers, given the limited resources and different national statistical priorities. In this respect, I welcome the generous transition period.

I support the staff's proposal that in addition to a position statement of external debt based on the original maturity concept, the SDDS should encourage the dissemination of supplementary information on prospective debt service obligations. Distinction between short- and long-term debt based on original maturity gives a wrong picture of the time structure of the debt position.

Finally, on GDDS; I hope "slowly but surely" sums up our progress under this standard. While I understand the significant capacity constraints in the target countries, I am not sure how to interpret the result of 34 potential GDDS subscribers out of the 129 countries that participated in the seminars. I would be interested in staff's assessment. I have no objections to include

GDDS metadata on the DSBB. I also agree to maintain the distinctions between the coverage of the SDDS and GDDS, and to strengthen the external debt data category of the GDDS.

Mr. Al-Turki made the following statement:

At the outset, let me thank staff for a very well prepared paper to review the Fund's data standards initiative. In this connection, it is encouraging to note that subscribers have made significant progress in meeting the SDDS requirements over the past year.

That said, I will make a few comments on the issues raised in the paper.

On observance and monitoring of the SDDS, the staff argues that although a large number of subscribers are not yet in observance of the standards, structured monitoring of the standards should start at end-June 2000 to maintain the credibility of the SDDS and to strengthen transparency. Here, I have two comments.

First, I wonder if the large number of alerts of nonobservance that may have to be issued initially will dilute the impact of these alerts with markets viewing them as routine. I also wonder about the costs of monitoring compliance in countries that have not yet established the hyperlinks from the DSBB to NSDPs.

Second, financial institutions and investment houses that have business interests and exposure in certain countries would be following developments and data releases in those countries closely, and would presumably be aware if nonobservance occurred without a Fund alert.

These comments notwithstanding, I can go along with consensus on the monitoring issue. I can also go along with reviewing the Fund's data standard initiatives again by mid-2001

On the DSBB, I have some concerns that the objective of the DSBB appears to have shifted from providing information that is supposedly of great interest to financial markets, to trying to ensure that the site has a large number of hits. In this connection, the Fund hired a consultant to make the site more popular, and now on advice of the consultant, we are asked to conduct an aggressive marketing campaign as well as other technical enhancements. While it would be gratifying if the DSBB was the most popular site on the web, we must not lose sight of the reasons for the creation of DSBB or the costs. The most relevant audience for the DSBB is comprised of large financial institutions, investment houses, and governments, which fortunately or unfortunately, are not going to generate very large traffic.

Thus, while I can in principle agree with staff's proposal to explore agreements with commercial data vendors, I would urge again not to lose sight of the reasons for, or the costs associated with, the DSBB.

Turning to the reserve template data, I agree with staff that the existing presumptions for the timeliness and periodicity do not need to be modified. I also agree with staff on the benefits on establishing a common data base on the template on international reserves and foreign currency liquidity. However, it would not be prudent to disseminate the database at this time as staff rightly notes that "countries will need some time to gain experience in operating with their new template data systems before comprehensive data can be compiled on a regular and timely basis." Once countries have gained the experience and the glitches are removed, then the data could be disseminated.

On external debt data, it is worth noting that many industrial countries feel that there are some data that may not be a priority in their particular circumstances. This underscores the need for flexibility to accommodate the differing needs and priorities of the various countries. Therefore, I agree with the three years proposed transition period for implementing staff proposals. Here, I would like to emphasize the importance of listening to all countries' concerns regarding statistical issues.

I welcome staff's approach to the GDDS which emphasizes improving the production of reliable data and stresses technical assistance. In this connection, it may be premature to implement staff's proposals of including GDDS metadata on the DSBB and strengthening the external debt category of the GDDS, given that we are still assessing the lessons of Phase I. We also need to take into account staff's comments on not adding to the complexity of GDDS, as this would be too ambitious for many of the countries for which the GDDS was conceived.

With regard to the reference to subscription and observance of SDDS in PINs, I share the views expressed by Mr. Daïri on this point. I believe we need to be careful and not make PINs yet another moving target.

Let me conclude, Mr. Chairman, by expressing my authorities appreciation for the Fund, especially the Statistics Department for helpful TA's to improve our national statistics systems.

Mr. Konan made the following statement:

This third review of the Fund's experience in data standards initiatives give us the opportunity to assess the progress made by subscribers in meeting the Special Data Dissemination Standard (SDDS) and the General Data Dissemination System (GDDS) requirements and also what additional steps are needed to improve the compliance with these standards.

On the SDDS

It appears from the well-balanced staff's report that subscribers have observed the required specifications over 1999 and the beginning of 2000, with an improvement of the compilation systems in some cases. It is also encouraging to note that progress has been made in implementing the data template on international reserves and foreign currency liquidity while hyperlinks from the Dissemination Standards Bulletin Board to the National Summary Data Pages are being established for a number of subscribers. This chair believes that this move goes in the direction of a greater credibility of subscribers in the system and therefore, deserve to be encouraged for a completion of outstanding work. In that context, I would agree to observe flexibility in beginning the monitoring as proposed in order to give a second chance to countries to solve domestic constraints and to comply with SDDS requirements. Under these considerations and in accordance with progress made, a new deadline for the monitoring should be notified to the Board.

Having said that, I have no difficulty to endorse that the next overall review of the Fund's data standards initiatives take place by mid-2001. This date will leave about 15 months between the last two reviews. I also concur with the idea that, in the meantime, papers on specific adjustments for a better observance of the system be prepared for Board information.

On the agreements with commercial data vendors for providing hyperlinks from the DSBB to the sites, my view is that this point could be discussed with SDDS subscribers. In any case, this should be done on a voluntary basis.

Concerning the reserve template data, we concur with the idea that we should not change too much the template, so as to avoid confusion. Therefore, we support staff's proposal.

Concerning external debt data, we agree with the staff's proposal of a transition period that would run through March 31, 2000 so as to strike the right balance between the need for timeliness and the costs of implementation.

On General Data Dissemination System

I would like to commend staff for progress achieved in the implementation of phase I of the GDDS. This progress, which results from seminars and developments of pilot metadata in countries, has been made possible thanks to the financial assistance of the Japanese authorities. This assistance will be critically needed together with appropriate human resources for the pursuit and the future of the work program for phase II of GDDS as pointed out in the staff's report, as additional countries will improve their statistical systems through participating in the GDDS system.

In this context, I support the idea to progressively integrate GDDS activities into the other activities of the Statistics Department in order to reduce costs and increase efficiency. While I agree with staff to include GDDS metadata on the DSBB later this year, it is surprising to note that no schedule has been made to link actual data with the corresponding GDDS metadata through hyperlinks to national web sites. I concede that there are technological constraints on most of GDDS participants; but this chair believes that the assistance expected by these countries should also go in the direction of the steps to be envisaged to establish a link between actual data and the GDDS metadata, even on a trial basis. Failing to do so could thwart progress made by GDDS countries without this kind of constraint. Staff additional comments on the feasibility of such links would be appreciated.

Finally, Mr. Chairman, I would like to note that while all member countries should be encouraged to make every efforts towards improvements in their statistics systems, the Fund need to play a critical role, in collaboration with other international organizations, like AFRISTAT in my constituency, in the development of comprehensive, reliable, and up to date data among the membership.

Mr. Sdralevich made the following statement:

Let me at the outset thank staff for their informative paper as well as for their efforts to help countries to increasingly comply with the Data Standards Initiative. On this occasion I would like to express our support for a further review of the initiative in mid-2001 in addition to reports on egregious nonobservance as needed.

We broadly agree with the proposals set out by the staff. We would like however to make a couple of brief observations on the approach to the development of the DSBB and on external debt data.

First, the development of the DSBB using the exceptional possibilities offered by the Internet is in our view very appropriate and indeed indispensable. We find the option favored by staff very interesting, but we believe that it should further explored. In the meantime, the status quo should be maintained. We look forward to staff's explanations on the various issues raised by other Chairs, and we would like some details on one point. Fund statistics are already provided to private users through commercial vendors such as Datastream or DRI. If the option for DSBB development proposed by the staff is chosen, there is a risk for the public to confuse the data already provided and the SDDS data. This aspect is particularly delicate in view of the significant public relations implications of the exercise. How does staff plan to keep the two sets of data well separated, in light of the same distribution channel?

Second, we agree with staff on the importance of the external debt data. We fully support the template proposed by staff, but attention should be given to two aspects. On one hand, it will be necessary to maintain some flexibility in modifying the template, should significant technical problems of data provision arise in the transitional period. On the other hand, we agree with Mr. Collins and others that, in perspective, a stronger attempt should be made to include information on the remaining maturity of external liabilities.

Lastly, we support Mr. Sobel's proposals on a quarterly SDDS advancement report and on the inclusion of a short reference to compliance in the PINs of subscriber countries' Article IV Consultations. We share Mr. Couillault, Mr. Donecker and Mr. Collins' observations – while it is necessary to provide information, negative signaling should be avoided. So subscription should definitely be included, but a very cautious approach should be taken on compliance.

Mr. Donecker made the following statement:

Germany is now the 14th SDDS subscriber with full compliance status. I want to thank the staff for their cooperation with my authorities and for their support in helping us achieve this goal. The process required a lot of patience and good will on both sides, and we are grateful. Some countries, such as the one represented by Mr. Collins, started with a system that was closer to the SDDS, compared to others. That does not imply anything about the quality of those other countries' statistics, just that we have agreed on one system, and that some countries were farther away from that system than the United Kingdom. Still, the United Kingdom was one of the first across the line, and I congratulate them for this achievement.

There is little need for me to stress in our Board the importance of transparency and reliable data, especially in an increasingly globalized economy. However, we also have to take into account the associated costs. We further have to consider market participants' willingness to cooperate in providing the needed raw data to national statistical authorities. We therefore caution that any further SDDS adjustments or refinements should be reasonable and take into account all resource implications. We need to encourage consensus building in favor of the SDDS, and to address the underlying causes for the "SDDS fatigue" mentioned by Mr. Taylor. I do not think that is limited only to Australia.

As for the issues for discussion, we have no objections to SDDS monitoring beginning at end-June 2000, notwithstanding that hyperlinks for all subscribers are not yet installed. Since challenges to the implementation of SDDS requirements are more demanding than originally expected, some initial flexibility might be appropriate. The next SDDS review should take place not earlier than mid-2001. Improvements to the SDDS, and the compliance of more countries, will take time, and an appropriate time frame might be necessary to learn from members' experiences with the SDDS and reactions from market participants.

It is important not to overburden the national statistical authorities with ever-increasing and difficult demands. The same authorities are often, as in the case of European Union member states, faced with concurrent high-priority demands on their scarce resources, such as the need to harmonize the intra-EU reporting systems. Thus, we should endeavor not to overtax the goodwill and capacity of the national statistical compilers. I think our own statistical experts know the problem very well and are sympathetic to this.

Concerning enhancements to the DSBB, we are of the view that a reliable connection between the DSBB and actual data is an important part of the SDDS instrument. Here, the links between the DSBB and national statistics are crucial. However, we have reservations about using commercial data vendors for maintaining on-line data warehouses of SDDS data. Mr. Collins's observations on this issue appear relevant. Our main concerns are twofold. On the one hand, the data would be no longer official, i.e., public statistical authorities would be no longer be directly responsible for these data. On the other hand, there might be cost implications for this kind of data provision. According to our understanding of official data, they usually should be provided free of charge. We have some doubts whether it would be possible to adhere to this principle if commercial vendors are included.

Turning now turn to the reserve template data. We can agree with the staff's proposal that the sample form be the standard format for the dissemination of template data by countries, and that it be used for the reporting of template data to the Fund. We have no objections to redisseminating the template data over the Fund's external website. We go along with the intention of keeping the existing prescriptions for timeliness and periodicity of reserve data unchanged at the present time. One additional comment on reserve data, on page 16 of the staff documents there is a proposal to establish a common currency, the U.S. dollar, as a comparable basis for reserves. Although monthly reserves data for EMU members are available in euro, I would like to mention that reserves within the ECB system are reevaluated only on a quarterly basis. I understand that staff will get in contact with the ECB to work out a mutually agreeable procedure.

I cannot comment at present on the staff's most recent proposal with regard to accrual-based fiscal data, and have to reserve our position.

Coming to the external debt data category, my authorities would be able to provide external debt data on a quarterly basis, extracted from the international investment position. Qualitative curtailments must be taken into account on such positions for which no quarterly stock data are available.

Also, we will be able to provide IIP data broken down into sectors, original maturities, and instruments. Residual maturities are not available in our case.

Supplementary data on prospective debt service payments, in which the principal and interest components are separately identified, might be of some value in special cases. However, for my authorities, they are not available. Furthermore, the provision of this data would have resource implications which are not justified, given that Germany, like Japan and others, is a major net creditor country. A foreign currency break down of external debt would be informative, however, and also manageable. We can go along with the proposed three-year transition period for quarterly IIP reports through March, 2003, and support the extension of the timeliness period to nine months.

Let me briefly turn to another issue, the relation between the GDDS and the SDDS. We are in favor of keeping a clear distinction between both instruments, and this distinction should not be blurred, especially on the web site. However, I agree that the staff's proposal to strengthen the external debt category in the GDDS is a step in the right direction. Finally, I would like to support Mr. Sobel's proposals to reorganize the SDDS presentation on the Fund's website to make it more useful, friendly, and to stress the status of the statistical issues, i.e. compliance with the standards, within members' PINs. Such references should include some kind of explanation that would clearly explain if a country is only missing one item.

Mr. Lushin made the following statement:

I welcome the third review of the Fund's data standards initiative. The paper before us today shows clearly that since the second review substantial progress has been achieved in the area of data standards. The staff deserve to be highly commended for their efforts.

As the next step to strengthen the SDDS the staff suggest to include data on external debt. It is evident that comprehensive and timely external debt statistics would help considerably to assess country's external vulnerability and thus to contribute to a better functioning of financial markets. However, it is also clear that compilation of the detailed information on external debt, especially regarding its private sector part, may be challenging for the authorities in a number of countries. Therefore, while welcoming this new SDDS initiative in general, I agree with the view expressed by many Directors that the Fund should strike a right balance between the needs of users and the challenges for compilers in order not to discourage the potential new SDDS subscribers and to prevent the old ones from non-compliance.

Now let me turn to the issues for discussion.

Observance and monitoring of the SDDS

On the issue of monitoring of the observance of the SDDS, I share the staff's view that it should be started as soon as feasible to maintain credibility of the Standard and to enhance transparency. Obviously, the monitoring will be more complicated and time-consuming in the absence of hyperlinks to NSDPs for some subscribers. However, like staff, I believe that the beginning of monitoring will encourage subscribers to complete the remaining work as soon as possible.

I can go along with the proposal that the next overall review of the Fund's data standards initiatives should take place by mid-2001. This said, I think that we can allow certain flexibility in setting this date on the basis of future developments.

Enhancements to the DSBB

On the issue of enhancement to the DSBB, at this stage I support the first approach, i.e. maintaining the status quo. I agree with the staff that access to actual time series data from DSBB is necessary. However, making the Fund's web site more user-friendly by providing different database tools and means of statistical analysis is clearly beyond Fund's responsibilities. At this stage of the SDDS development emphasis should be placed on quality and reliability of data and not on the ways to manipulate them. Therefore, I believe that in near term the system of working hyperlinks from the DSBB to NSDPs together with common databases covering reserves and, possibly, external debt, will be sufficient. Once this already ambitious goal is achieved, other aspects of DSBB framework, including the user-friendliness, may be considered.

Reserve template

I endorse the sample form as a format for reporting the reserve template data.

I also support the intention to re-disseminate the template data over the Fund's external web site. However, one issue needs to be clarified in this context. The staff intend to immediately re-disseminate the reserves data without endorsing their reliability and to include a corresponding disclaimer. I wonder whether the same strategy will be used in compiling the Fund's database on international reserves. If not and if the staff intend to make some sort of evaluation of the incoming data before placing them into the reserve database, maybe it makes sense to re-disseminate reserves only after the initial staff's clearance. I believe that the trade-off between timeliness and reliability of data should be resolved in favor of reliability.

I fully agree with the proposal that the existing prescriptions for timeliness and periodicity for disseminating reserves data not to be modified at this time.

External debt data category

With respect to the external debt data dissemination, I support the proposed timeliness and periodicity as well as the sector and maturity breakdowns. At the same time, I would like to emphasize that it is important to keep dissemination of the supplementary information on prospective debt service payments as well as on the domestic/foreign currency breakdown of the external debt, encouraged rather than prescribed. The inclusion of these categories of information in the template on the prescribed basis would complicate the SDDS accession for quite a number of countries, since a lot of technical difficulties persist in this area. In other words, in this step encouragement should not be a first step to prescription.

I support the proposed transition period through March 31, 2003 for the external debt category. The proposed extension of timeliness for IIP seems also appropriate.

Evolution of GDDS

The initiatives to strengthen GDDS are welcome. I support the proposal to include GDDS metadata on the DSBB as well as to adopt other technical improvements of the web site. I can also go along with the proposal to strengthen the external debt data category of the GDDS, given the importance of these data for GDDS subscribers and the existence of debt monitoring systems in many of these countries. This said, I urge the staff to make this strengthening in a balanced and graduated manner, in order not to exceed the implementation capacities of GDDS participants.

Finally, a few remarks on Mr. Sobel's proposals. I support the first of them and remain cautious about the second. This is because it is not clear to me what is the exact message that we want to send by indicating the state of country's observance of SDDS. Reasons for not subscribing to SDDS may be very different across countries. Those PIN readers who know what the SDDS is can always find the list of subscribers on the IMF website. Those who know about the SDDS nothing or little (and they are the majority) will inevitably interpret this message as a "pass or fail test". I'm not sure that it is what we want to convey to public.

Mr. Daïri commented that placing the Fund in the position of endorsing member country data would be somewhat risky.

The Director of the Statistics Department observed that, for some time, the number subscribers to the SDDS had remained constant at 47. The staff was working actively with the authorities of seven additional countries to increase that number. In one case, the authorities had stated publicly that they intended to subscribe, but had then adopted a more cautious approach when the proposal for the reserves template was raised. Such caution was relatively common among potential subscribers, some of whom preferred to wait until they were more certain of the details of such a commitment.

On the issue of data quality, the staff were working on a framework that could be used to assess data quality systematically. That framework would consist of a set of factors, and each factor would have an associated list of questions that would identify the particular situation in various countries. Development of the framework was proceeding in collaboration with national authorities and international organizations, and would eventually be made public.

A further challenge facing the staff, regarding the SDDS, was the level of service provided to members in updating their metadata and helping them with their national summary data pages, the Director continued. The staff had fallen somewhat behind schedule, as the Statistics Department had also undertaken work on nine ROSC modules, the recently-introduced technical consultations (TC) and technical cooperation action plans (TCAP), and the debt guide. In addition, the department had faced an unexpected fall in available staff, owing to days spent in training or on leave. Given the department's workload and resource constraints, it was not possible to give each initiative the attention it deserved. However, the staff would reallocate their efforts and endeavor to become more responsive to the service needs of SDDS subscribers.

On the GDDS, 34 countries had indicated that they were actively interested in participating, despite the work involved, the Director commented. The staff would be working intensively with those countries, and would be looking to gain valuable experience on the best way to move forward. Many countries were eager to have their data on the internet. Presently, however, the staff's first priority was to post the countries' metadata on the internet. The staff were not, as yet, intending to hyperlink the GDDS metadata with national websites, given the technical challenges involved. However, given the pace of developments in that field, the staff would keep an open mind and would review the situation as needed.

Responding to a question from Mr. Daïri on whether new subscribers to the SDDS would be able to benefit from transitional arrangements, the Director remarked that they could not. The Director added that, once the requirements had been agreed by the Board, initial subscribers were allowed a transition period to reach the common standard. Further transition periods were allowed in cases where individual data categories had been strengthened. As for potential subscribers, they already benefited from a type of transition arrangement, in that the staff had, as part of its regular program, provided numerous assessments and technical assistance for those countries considering joining the standard. Such countries were free to announce their intention to subscribe to the SDDS to the public if they wished. However, new subscribers would only be acknowledged if in observance at the time of the subscription and would not be granted transition periods to meet the standard.

Mr. Daïri remarked that such an approach was inequitable. Given that members' SDDS status might be included in their PINs, new subscribers should be allowed to join under the same conditions afforded to the original subscribers, and so should be able to request transitional arrangements if they were not able to meet all SDDS criteria.

The Acting Chairman commented that Mr. Daïri's proposal might be considered inequitable for those members that had already subscribed to the standard and had made an effort to meet its requirements. Moreover, it might serve as a disincentive for those countries that were currently working with the staff to subscribe at an early opportunity. He appreciated Directors' impatience at the pace of new subscriptions, but considered that the current approach was more appropriate.

Mr. Daïri said that he agreed with the Acting Chairman's argument, but only if the transition arrangements for existing subscribers were clearly limited. Repeated extensions of such transition periods placed non-subscribers at a disadvantage.

The staff representative from the Statistics Department noted that the staff, in their monitoring efforts, proposed to use national summary data pages wherever possible. At present, there were hyperlinks to 21 such pages, and the staff were confident that a further 20 pages would be available by mid-2000. In addition, SDDS subscribers often maintained other web sites, and the staff visited those sites frequently to keep abreast of how countries were disseminating SDDS data. Therefore, it would be possible to monitor the key elements of the standard for those countries—including coverage, periodicity, timeliness, and advance-release calendars—and it was hoped that such monitoring would prompt subscribers to complete any work that remained.

The staff did not consider that structured monitoring would impose an undue burden on subscribers, the staff representative continued. There had been significant progress over the past few months, and much of the transition would probably be completed by mid-2000. Although it was too early to say, the staff would probably send monitoring reports to the Board once every quarter, and the procedures that would be used in cases of egregious nonobservance would have to be developed. However, it would clearly take time for a country to be considered in egregious nonobservance, and if it were considered necessary to notify the Board, that would probably be integrated into the country's Article IV consultations.

On the issue of the relationship between the Fund and commercial vendors, one goal of the staff had been to explore ways of increasing the DSBB's attractiveness, particularly in light of some Directors' suggestions that the Fund charge for access, the staff representative remarked. The staff had, therefore, looked into the issue and had found that there was strong demand for data and metadata. Given that demand, the staff had outlined three options. The third option considered the establishing of agreements with commercial vendors, who would provide for hyperlinks from the DSBB to their websites. It was never the staff's intention to have the Fund negotiate on behalf of SDDS subscribers. Instead, they would have to come to their own arrangements with vendors.

Responding to a query from Mr. Collins on how users might be alerted to instances of nonobservance, the staff representative commented that the staff would first ask the country concerned to explain any discrepancies. Once it had been determined that a country was not in observance in a particular data category, the staff would indicate to users that there was a problem. Hopefully, the country itself would have already provided an explanation in its metadata before that occurred. Although the details of the process were still being worked out, the first indication to users would be a note on the bulletin board that the country was not up to standard for a particular data category. Only at the end of the process, after Board authorization, would a note be put on the bulletin board saying that the subscriber was not in observance.

The staff representative from the Policy Development and Review Department commented that the current discussion was part of a broader effort to broaden the ability of market participants to assess countries' vulnerability. Some Directors had asked about the work being conducted outside the Fund, including in the private sector. There had been considerable debate on the issues generally regarded as critical—the role of highly leveraged institutions, offshore centers, and nonbank financial institutions, as well as the underlying need to develop accounting standards to ensure adequate and reliable disclosure. No consensus had yet emerged on those issues. The Fund's collaborative efforts with other international fora and regulation-setting bodies had resulted in a number of recommendations for improving data on debt. Those recommendations did not just cover external debt, but also considered domestic debt and linkages between sectors through domestic and foreign currency exposure. Documents from the G-20 and the Financial Stability Forum (FSF) summarized much of that discussion. There were also differing views on the appropriate priorities that should be applied when strengthening data on debt and debt-service obligations, and the staff had placed a summary of the most recent discussion of the debt data conference on the Fund website. Unfortunately, there had been strong opposition to a standard that involved the provision of debt-service schedules, or a move to reporting on a residual-maturity basis. However, the staff hoped that, by encouraging the provision of such information through the SDDS, and prompted by the enthusiastic reaction of the capital markets, the information would be provided for those countries where it was most important, and that the discussion would evolve.

On the issue of reserves, some Directors had expressed concern about the Fund screening data prior to its redissemination, the staff representative continued. It was not yet possible for the staff to provide an outline of that screening process, as there were only nine members that were disseminating their data in a form close to that of the template. The experience with those nine members had exposed some differences in coverage, as well as in the interpretation of the template. However, the sample template would help foster a more uniform approach, and the members had agreed to cooperate in addressing some of the more obvious issues. Once that process had been completed, the staff might be able to provide more detail to the Board.

Mr. Jadhav made the following statement:

We wish to compliment the staff for a comprehensive review of the Fund's experience under the data standards initiative, and their proposals to further refine the SDDS and GDDS. While some progress has been made in meeting the SDDS requirements since the last review, a quick analysis of Appendix II presents some interesting facts. First, of the 58 data categories with incomplete transition plans, only one-third emanate from the emerging market economies, whereas the remaining two-thirds relate to advanced economies. Second, as many as 14 emerging market economies, including India, have fully met the SDDS requirements in all data categories. On the other hand, among the G-7 countries, they constitute 12 percent of the outstanding transition plans, of which one country has as many as four incomplete transition plans. Of the remaining 21 advanced economies, four have not subscribed to the SDDS, while the remaining 17 constitute as much as 55 percent of incomplete transition plans, including two with six incomplete transition plans each. One more point is that there have not been any additions to the pool of subscribers to the SDDS.

We would welcome staff's comments on this, but we feel that these facts reflect the ambitiousness of the initiative vis-a-vis the prevailing implementation capabilities in many countries. To an extent, they also reflect members' apprehension regarding the "moving target" of increasing requirements. In this regard, we welcome Mr. Sobel's proposal for a new quarterly report on the SDDS. On his second, proposal, however, we would like to associate ourselves with the view expressed by Mr. Daïri.

Turning now to the specific issues raised for discussion. On observance and monitoring, the importance of structural monitoring with a view to maintaining the credibility of the SDDS, and strengthening transparency, cannot be overemphasized. We can therefore go along with the proposal to begin monitoring from end-June 2000. We also agree that the next review of the Fund's data standards initiative should take place by mid-2001. As for the enhancement of the DSBB, we are inclined to agree with the staff proposal to explore the possibility of Fund reaching agreements with commercial data vendors that would provide hyperlinks from the DSBB to their own sites. This could strengthen the association of the NSDPs to the national data web pages, and minimize the cost of redissemination. As noted by the staff, however, these arrangements should be subject to the condition that vendors maintain on-line warehouses of SDDS data.

As for the reserve data template, we wish to reiterate our reservations regarding the staff proposals. In our view, a high degree of disclosure on international reserve assets may not be in the best interest of the emerging market economies, as it could lead to attempted speculation against the monetary authorities' exchange rate and intervention strategy. While we are in favor of transparency, a high degree of data disclosure at the current stage of development of foreign exchange markets in several developing countries may not be conducive to orderly development of markets and overall financial stability. We agree with the staff proposal not to modify the existing prescriptions for timeliness and periodicity in the dissemination of the international reserve data. As for the external debt data, we broadly agree with the staff proposal. We feel, however, that certain conceptual issues, such as market valuation of debt securities, need to be reviewed.

On the GDDS, we agree with the staff proposal to include the GDDS metadata on the DSBB. In our view, inclusion of GDDS as a separate category in the DSBB would be cost effective. Our chair is in favor of maintaining the distinctions between the coverage of the SDDS and GDDS, but we welcome the reclassification in the SDDS of data on public and publicly-guaranteed external debt, and associated debt service schedules, from an encouraged category to core data category. Finally, we would like to reiterate our position that any decision to strengthen the data standard initiatives should provide for the necessary technical assistance.

Mrs. Fernández made the following statement:

I commend the staff for the complete and well-written documents prepared for today's discussion. I agree with the thrust of the document, and with most of the staff's recommendations. I will just limit my comments to two proposals that raise some concerns.

I am skeptical on the proposal that the SDDS prescribe the dissemination of quarterly external debt statistics, within one quarter of the reference period, including debt of the general government, the monetary authorities, the banking sector, and other sectors. In particular, I question the feasibility of such prescription for nonbank private sector debt. In most countries, there is not even a legal basis for the authorities to demand such information from the private sector. In addition, for economies that are open, thousands of firms have external liabilities, making it costly to gather information with high frequency. My fear is that quarterly data on private sector external debt will be incomplete, undermining the quality of the database. I propose that we gradually increase the frequency of data on private sector debt, and that the staff should prepare manuals and studies related to private sector debt issues and provide technical assistance to countries in need.

My second comment concerns the DSBB. I share the staff's view that the DSBB should become a first-rate web site with a high profile. Thus, the DSBB should be linked to actual data. I concur with Mr. Bernes and Mr. Nelmes that the most direct way to accomplish that goal would be to redisseminate NSDP data on the DSBB. I strongly oppose the staff's recommendations to seek agreements with commercial data vendors, which would provide links from the DSBB to their web site on the condition that the vendors agree to disseminate SDDS data. It is our view that the IMF should refrain from transforming any aspect of its efforts to provide information into a commercial venture, either on its own behalf or for third parties. High quality information enhances the Fund's ability to prevent financial crises. Therefore, I believe that it is important to preserve, as much as possible, the free good characteristics of the information pool we are so interested in developing.

Mr. Himani made the following statement:

The Fund membership has by and large made very significant progress towards meeting the Fund's data standards. The preparatory work devoted by countries to address the Y2K risks, however, did slow down some of the efforts underway. With the turn of the new year, statistical agencies can refocus their efforts on improving their own data systems. Furthermore, the Fund has made a very useful contributions in assisting countries prepare for the GDDS. In particular, the regional seminars were an effective way to present the Fund's initiative to the specialists in member countries.

We can concur with virtually all of the staff recommendations outlined in the paper. Where we do have some hesitations, however, on the issue of direct Fund involvement in the redissemination of country data. The Fund should strictly constrain its activities to assisting countries in compiling sound and consistent statistics, and not to become a dissemination center for the statistics of members. Such a role for the Fund is further complicated by the fact that data is generally not provided free of charge to end users. Indeed, it is my understanding that some Fund members even charge the Fund for the use of electronically transmitted selected data series.

Turning to some broader issues, we will only make three remarks:

First, we find it interesting, as noted in the paper, that data compilers in many industrial countries and off-shore centers doubt "whether disseminating quarterly external debt statistics and data on forward amortization payments of their countries could be justified on the basis of their national statistics priorities and in light of the resource costs involved." This brings to mind the rather contentious debate in this Board before the SDDS was established, where many Chairs, including ourselves, doubted the usefulness of this one-size-fits-all approach. At that time (EBM/96/30) Mr. Autheman, the former French ED, noted that the objective the exercise should be "to create an emulative dynamic by which countries with, or aspiring to have, access to the international financial markets will get near to the best international practices......It is not ...to define whatever the optimal statistical practice may be." I am afraid that now we are faced with precisely the difficulties envisaged by those chairs who voiced concern regarding the rigidity of the approach underlying the SDDS. We would hope that a more flexible approach underlies future reviews of the standards.

Second, staff has put significant effort in assisting countries prepare themselves to subscribe to the GDDS. It is clear, however, that the capacity of many countries to do so is still weak. This serves to reaffirm the importance of provision of technical assistance by the Fund.

Finally, the data standards so far seem to have served a useful purpose for Fund members. However, they involve complex and time consuming initiatives on the part of countries. Care should be taken not to overburden the membership with undue requests for expanding the coverage of standards or raising the requirements. It is perhaps time to consider taking a break from further changes or expansions in the data initiatives in order to allow the members sufficient time to digest the very full plates already before them. Regarding Mr. Sobel's proposals, we do not support the inclusion of references to the data standards in PINs on a systematic basis.

Mr. Estrella made the following statement:

There is no doubt that better and more timely data is of extreme importance for both market participants and policymakers. I wish to emphasize Mr. Collins' comments on Brazil's statistical system. For my authorities, good data play a key role in formulating effective policies and, therefore, statistical offices are doing their best to keep pace with the rapidly increasing sophistication of the international financial markets. As a result, data collection and dissemination are improving and will continue to improve in due course.

We welcome the fact that subscribers to the SDDS have made significant progress in meeting the requirements since the last review, and that most subscribers will complete the remaining work by the end of June 2000. My Colombian authorities confirmed that they will be able to complete the remaining work by this timeline.

Having said this, however, we must take into account the binding resource constraints that face all our national statistical offices. Sometimes, a set of data viewed as very important at an international level may appear less crucial to national policy makers. As some experts in the area emphasized during the recent IMF Conference on Capital Flow and Debt Statistics, broad support for the IMF standards might be jeopardized and lead to nonobservance or withdrawal, if proposed additions are too specific and detailed. Therefore, an effort should be made not to increase the amount of data requirements to be provided under these initiatives beyond what has been approved already by the Board. As Mr. Taylor, Mr. Daïri and other Directors have emphasized, the SDDS should not become a moving target at every review. We understand this is not a static exercise but this does not mean that we should change the rules of the game in every review.

On observance and monitoring of the SDDS, we agree that monitoring should begin at end-June 2000 and that the next overall review of the Fund's data standards initiatives should take place by mid-2001. We agree that the international reserves template be the standard format for dissemination by SDDS's countries and that it be re-disseminated over the Fund's external web site in that format. The existing timeliness and periodicity for the template should remain.

On balance, we can support the staff proposal for quarterly data on external debt to be disseminated within one quarter, and agree with the proposed transition period. However, we have some concerns with dissemination of supplementary information on prospective debt service payments. For example, forward-looking information on debt service payments could be a step too far since this will require highly sensitive assumptions about exchange and interest rates. We also have some technical questions regarding the proposed domestic/foreign currency breakdown of external debt, before taking any final decision on this encouraged category. For example, some countries issue bonds denominated in domestic currency which are paid in domestic currency but at a market exchange rate of a foreign currency. Also, some countries issue bonds denominated in domestic currency which can be sold to non-residents, but these transactions are not part of the country's external debt. What would be the treatment of these transactions? All these issues would have to be fully clarified before taking any final decision.

We support the proposal to change to nine months the prescribed timeliness specification for IIP statistics.

We have some concerns on the enhancements to the DSBB, by exploring the possibility of the Fund reaching agreements with commercial data vendors. No doubt, it is very important to strengthen the link between the DSBB and real data, to employ new technologies to obtain data faster and more cheaply, and to make wider use of existing databases maintained by private firms. However, before taking any final decision, the staff should come back to the Board with an assessment of the benefits and costs, not only the financial cost, but also the cost in terms of potential confidentiality problems.

Finally, we agree with the proposal to include GDDS metadata on the DSBB, and to strengthen the external debt data category of the GDDS. However, for this to be possible in some countries, technical assistance is essential.

Mr. Yakusha made the following statement:

We welcome the staff's report on progress with the data standards initiative. We also appreciate remarks by the staff that the future proposals will be based on the Board's guidance, and this concurs with the importance of restraining the number of changes to the SDDS. This chair represents one of the first subscribers to SDDS, and other countries within my constituency are joining, too, and we would like to stress that present processes are already very labor intensive and time consuming. For a standard to be credible, its observance should be monitored, so we support the staff's suggestion to start monitoring performance by end-June 2000.

When considering various remedies, we would think that publication of a country's nonobservance should only be used as a last remedy. We propose that this measure be preceded by forwarding a timetable of dates by which possible measures to address nonobservance should be implemented. We agree that the next overall review should take place in the by mid-2001. We also note that the number of subscribers to the SDDS has not increased recently, and we think that we should exercise some degree of flexibility with regard to newcomers. Learning by doing here is preferable.

We agree that the DSBB should maintain its presence on the worldwide web. We would, unlike other chairs, endorse the exploration of ways to achieve a more dynamic presentation of the country data, through dialogue with commercial data vendors, but we do not think we should give the impression of agreeing to fee-based access without knowing all the details of possible modalities. We also think that agreements with commercial data vendors should guarantee the quality of commercial data, and at this point, we do not see how this is going to be achieved. The Fund initiatives should not be associated with data of questionable quality, no matter which modern techniques are going to be used.

We agree with the staff proposal that the sample form should be the standard format for dissemination of template data, and that the sample form should be used in the reporting of template data to the Fund. We agree that the dissemination of data on external debt is an important issue, and that the SDDS improves the possibility of assessment of country's vulnerability. We note, however, that reliable quarterly data on the external debt of the nonbank private sector in an open economy like, for example, The Netherlands are difficult to check. It is questionable whether the nonbank private sector will always cooperate with the timely collection of this data. One reason for this reluctance is that it will increase the reporting burden on private firms, whereas the currents trend in many countries is to minimize the reporting burden. We point to the fact that, at present, only 35 percent of the industrial countries disseminate quarterly or monthly data.

As for the foreign debt service obligations, with the split between amortization and interest, and the currency breakdown of debt, we continue to have some reservations. With the Netherlands, for instance, this data is not currently compiled, and the costs would exceed the potential benefits. In light of this, we have no objection to the proposal to change the timeliness of IIP from six to nine months.

Our constituency comprises a diverse array of countries who are also interested in the progress of the GDDS, and we appreciate the staff's initiatives in disseminating information among our constituency countries. We also note the staff finding that, in many cases, there is a need for further technical assistance to enable countries to draft metadata and improve the statistical systems.

We agree with the proposal to input GDDS metadata on the NSDP. The proposal to strengthen the external debt category of the GDDS has our general consent, but we should not forget that it could be especially challenging and may require more assistance from the Fund.

Mr. Toyoma said that he supported Mr. Sobel's proposals, with the caveat that a careful explanation might sometimes be necessary to avoid giving the wrong impression to the financial markets.

Mr. Taylor suggested that the next review of the Fund's data standards initiative might be conducted by an external evaluation team.

The Acting Chairman made the following summing up:

Executive Directors welcomed the opportunity to review the experience under the Fund's data standards initiatives and to consider proposals for further refinements of the Special Data Dissemination Standard (SDDS) and the General Data Dissemination System GDDS). They commended the staff for adhering to the consultative approach to strengthen the design and implementation of these standards.

Directors noted that, since the last review, subscribers had made significant progress in meeting the SDDS requirements, despite the strong competing demands in national statistics agencies, including those for resources to meet the Y2K challenge, and for many European subscribers to launch the European Economic and Monetary Union. They regretted, however, that the number of subscribers had remained constant at 47. In moving forward, many Directors recommended a period with no further changes in SDDS prescriptions so as to allow for consolidation of the progress achieved, and to encourage consensus building in favor of the SDDS initiative. A few Directors suggested that the staff consider introducing greater flexibility, where appropriate, in the implementation of the SDDS, especially for potential new subscribers. However, care should be exercised not to deviate from the already accepted standard.

Directors noted that most subscribers are expected to complete remaining work to be in observance of the SDDS in the first half of this year, including the establishment of hyperlinks from the Dissemination Standards Bulletin Board (DSBB) to the National Summary Data Pages (NSDPs). In this context, Directors generally indicated that structural monitoring of observance of the SDDS should begin at end-June 2000 to encourage subscribers to meet the standard as soon as possible. A few Directors considered that the Fund monitoring of the standard should be postponed until substantial progress was made establishing hyperlinks to NSDPs.

Directors agreed that the Fund should start releasing a new quarterly report on the SDDS initiative so as to increase awareness of the progress being achieved and to give the initiative more prominence. The possibility of referring to country subscription and adherence to the SDDS in Public Information Notices for Article IV consultations and in Article IV reports was also suggested. The staff was requested to explore how this could be achieved, while at the same time taking care in explaining adequately cases of noncompliance. Most Directors agreed that once formal monitoring is in place, the staff should report periodically to the Board on how subscribers were adhering to the monitored elements of the Standard. Instances of egregious nonobservance, for which all other remedies proved ineffective, would be referred to the Board as and when necessary.

Directors were encouraged that most subscribers seemed to be on track to disseminate the information required by the data template on international reserves and foreign currency liquidity by the end of the transition period; they noted that a number of subscribers had already begun to do so. Directors recognized that for some countries compiling template data represented a significant undertaking, necessitating the introduction of new mechanisms to gather the data and to coordinate the template's preparation, and commended these countries for their efforts. In considering whether the current prescriptions for periodicity and timeliness for dissemination of the template data should be strengthened at this time, most Directors indicated that monthly dissemination of the data with a one-month lag should be retained until countries have gained experience with the new data template system. However, a few Directors encouraged early adoption of weekly periodicity and timeliness, noting that the more frequent and timely dissemination of template data was critical to its usefulness in detecting signs of vulnerability at an early stage. It was proposed to return to this issue at the time of the next review of the SDDS.

Directors welcomed the staff's proposal to establish a common database for country data on international reserves and foreign currency liquidity. They approved the use of the sample form reproduced in Appendix I of SM/00/55 as the format for disseminating the template data by SDDS-subscribing countries and for transmitting the data to the Fund for the database. Most Directors considered that the use of a common format for the dissemination of template data was desirable, as it would facilitate transparency and comparability, as well as the storage of the data in the database. Directors also approved the staff proposal to redisseminate template data in the format of the sample form over the Fund's external web site.

Concerning external debt data, Directors expressed satisfaction that the staff had undertaken wide-ranging consultations on the prescriptions regarding external debt and the International Investment Position (IIP). Directors approved the proposed three-year transition period for introducing the new SDDS external debt data category. They concurred with the proposal to prescribe the dissemination of quarterly data with a one-quarter lag, covering four sector categories (general government, the monetary authorities, the banking sector, and all other). Most Directors agreed that the data were to be disaggregated by maturity—short- and long-term—and provided on an original maturity basis and by instrument, as set out in the fifth edition of the Balance of Payments Manual. A few Directors underscored, however, that providing debt data on a residual maturity basis would be more analytically useful than providing it on an original maturity basis. Directors agreed with the proposal to change from six months to nine months the prescribed timeliness for the dissemination of the annual IIP under the SDDS, provided that the subscriber is disseminating quarterly external debt data with a one-quarter lag.

Directors recognized the difficulties that countries face in compiling accurate external debt information, especially for the debt of the private nonbank sector and nonresident holdings of domestic securities. They noted that, for some debt components, estimation methods might need to be developed, and urged the Fund to assign priority to assisting countries in developing their external debt compilation systems through the provision of training on the new debt guide and additional technical assistance.

Most Directors stressed the importance of information on forward debt service schedules, especially for countries that are vulnerable to a reversal of capital flows. Several Directors considered that for vulnerability analysis, a debt service schedule was as important, if not more important, than quarterly stock data on external debt. Some Directors considered that all countries should be encouraged to report external debt in a framework that included both assets and liabilities (such as the IIP). However, in light of the findings from staff consultations with both users and providers of data, and the substantial resources that would be required to develop this data, as well as concerns about data quality, Most Directors agreed with the staff proposal to encourage rather than prescribe the dissemination of a debt service schedule.

One Director suggested that this issue be re-examined in subsequent SDDS reviews. Directors were generally supportive of encouraging a currency breakdown of external debt.

Directors reaffirmed the voluntary nature of the GDDS, while suggesting that there may be considerable value for countries to choose the GDDS framework to improve their statistical systems as part of structural adjustment programs. While recognizing the evolutionary nature of the Fund's data standards, Directors stressed that the institutional weaknesses and resource constraints were severe in many countries that were likely to participate in the GDDS. They were, therefore, not in favor of increasing the coverage of the GDDS at this time. However, because of the relative importance of external debt and the fact that most GDDS participants were likely to be net debtor countries with debt management systems that would generate the required information with minimum efforts, the Executive Board endorsed the staff proposals to include in the core data category of the GDDS public and publicly guaranteed external debt, and the associated debt service schedule. Recommended good practice would be that the stock data, broken down by maturity, be disseminated with quarterly periodicity and timeliness of one or two quarters after the reference date. In addition, the associated debt service schedules should be disseminated twice yearly, within three to six months after the reference period, and with data for four quarters and two semesters ahead. It was also suggested that GDDS participants should report reserves data according to the new template.

Directors welcomed the technical assistance provided by other international organizations and the financial assistance provided by the Japanese authorities during the preparatory phase of the GDDS. They encouraged the staff to continue with such collaborative approaches in order to leverage both limited resources and skills of the Fund in certain areas. Directors expressed concern, however, that the gap between the demand and availability of technical assistance may further increase as GDDS participants work to strengthen their statistical systems.

Directors endorsed the inclusion of the GDDS metadata on the DSBB without, at this early stage, hyperlinks to actual data. They agreed that, where appropriate and relevant, any technical enhancements of the DSBB should be considered for the GDDS pages.

Directors welcomed the staff's efforts to develop a framework that would allow users and compilers to make their own data quality assessments, and strongly supported staff efforts to consult widely in the international statistical community on this project. Directors also welcomed the establishment of the Data Quality Reference Site on the DSBB to promote the dissemination of information in this area. Directors stressed that the SDDS should continue to encourage the adoption of data quality improvements, including those emanating from new internationally accepted guidelines. Recognizing that such guidelines could have implications for the prescription of the SDDS, Directors agreed with the staff proposal that those subscribers implementing accrual accounting systems for fiscal data may need different periodicity and timeliness requirements. Therefore, these subscribers will provide accrual-based accounts on a best-effort basis during the period ending in June 2002. During this period, the staff will review countries' experiences in implementing such systems with the aim of making specific recommendations, as needed, for modifications of the SDDS by the end of the period.

Directors welcomed the in-depth study of the DSBB undertaken in 1999, and looked forward to improvements in both the presentation and functionality of the DSBB. Most Directors considered that to ensure the successful future development of the DSBB, it is imperative to further strengthen its association with the dissemination of actual data beyond hyperlinks to NSDPs. In this respect, they considered that the Fund's involvement with commercial vendors should not be envisaged until all the modalities of that involvement are well studied and discussed with the participants. Most Directors were opposed to vendor involvement with the DSBB and favored keeping the status quo for now.

Most Directors agreed that the next overall review of the Fund's data standards initiative should take place by mid-2001. Some other Directors preferred a delay until the end of 2001.

3. PERU—EXTENDED ARRANGEMENT—REVIEW, AND WAIVER OF PERFORMANCE CRITERIA

The Executive Directors considered a staff paper on the first review under the Extended Arrangement for Peru and Peru's request for a waiver of performance criteria (EBS/00/47, 3/15/00).

The staff representative from the Western Hemisphere Department made the following statement:

This statement provides an update of information that has become available since the release of the staff report (EBS/00/47, 3/15/00). This information does not change the thrust of the staff appraisal.

The main developments were as follows:

The share of non-performing bank loans was 10.3 percent at end-January 2000, compared with 9.7 percent in November and 9.4 percent in December 1999. This increase underscores the staff view that the banking superintendency needs to continue close vigilance of banks' performance.

Net international reserves rose by US$422 million from end-1999 to March 23. Net reserves according to the program definition, which treats as a reserve liability the commercial banks' foreign currency deposits in the central bank, increased by about US$7 million during the same period and stood some US$40 million above the target level for March 31.

The minimum wage was raised by 18.8 percent with effect from March 10, 2000, the first increase since September 1997; the cumulative increase in the CPI over the same period was 11.5 percent. This increase will raise wages for a small percentage of the employees in the formal sector (unofficial estimates put this share at 8 percent in the Lima area, and somewhat higher in other regions of the country), and may thus induce a reduction in the demand for labor in the formal sector.

Ms. Jul and Mr. Hendrick submitted the following statement:

Introduction

At the outset, we would like to express our authorities' appreciation to the staff and management for their continued support and high quality advice. Since the last Executive Board Meeting on June 24, 1999, the Peruvian authorities have made every effort to implement the economic program under the new extended arrangement, despite the higher than expected fall in domestic demand that led also to a substantial fall in government revenues. The authorities' response on the fiscal and monetary front was decisive, timely and comprehensive.

The outcome was positive: GDP grew by 3.8 percent in 1999 while inflation continued its downtrend to 3.7 percent, the lowest rate in the last 39 years. The net international reserves remain at a very comfortable level of more than 10 months of imports of goods and services and 126 percent of short-term external debt, including the amortization of medium-and long- term loans falling due over the following year. The temporary increase in the fiscal deficit did not translate into a higher external deficit. On the contrary, the external current account deficit narrowed as expected, albeit at a faster rate than envisaged because of the weakness in domestic demand. FDI flows, excluding privatization proceeds, were equivalent to more than 90 percent of the current account deficit in 1999.

The continued implementation of sound macroeconomic policies and the political commitment to a 3-year arrangement with the Fund, in the year prior to the run-up to the Presidential and Congressional elections, played a critical role in the consolidation of market confidence both domestically and abroad. Some indicators provide reassurance for this investor confidence. For instance, the level of foreign direct investment was more than 40 percent higher than envisaged in the program, the spread of Peruvian Brady Bonds was one of the lowest in the region, and the rating agencies, such as Moody's, and more recently Standard and Poor's, maintained the foreign currency debt rating through this difficult period.

Our authorities continued with their goals of practicing transparency and building broad consensus and ownership for the program. As in the previous years, a draft of the Letter of Intent, including the quantitative performance criteria table, was published and posted in several web sites for consultation. The public was encouraged to provide comments before it was officially sent to the Fund. To further enhance transparency in economic management, the authorities have recently passed the Fiscal Responsibility and Transparency Law, and the Central Bank has begun to publish its monetary program. It is worth mentioning that Peru has not only subscribed to the SDDS but also is among the first 13 countries in the Fund to fully comply with the requirements of coverage, periodicity and timeliness in the publication of the data.

Recent Economic Developments

The staff report (EBS/00/47) provides a well-balanced description of recent economic developments and policy discussions. Our authorities are in broad agreement with the staff assessment and policy recommendations; therefore, we will only underscore a few points.

Our authorities consider the resulting positive fiscal impulse of 1.6 percent of GDP (compared with a neutral stance envisaged in the program) in 1999 as appropriate. The strong economic fundamentals made it possible to accommodate a temporary somewhat more expansionary policy stance without jeopardizing external and internal balances. The staff agrees that the best course of action in 1999 was to avoid spending cuts to offset for revenue shortfalls. However, the difference in emphasis relates to the appropriateness of easing the fiscal stance in the second semester. In the authorities' view, the early indications of an economic upturn were not strong enough to risk the recovery after two years of weak economic activity and recession in the non-primary sectors.

The authorities decided to finance the larger fiscal deficit with government deposits in the Central Bank from privatization proceeds, but not by accessing the international markets, including the cancellation of a planned issue of a sovereign bond. As a result, the performance criteria on the borrowing requirement of the public sector, the net international reserves, and the net domestic assets of the central bank were not observed for December 1999.

The Fiscal Responsibility and Transparency Law, approved by Congress last December, underscores the authorities' commitment to sound fiscal policies in the medium-term. Our authorities wish to thank staff for the technical assistance provided by FAD in the design of this Law, which was not contemplated in the EFF arrangement. The Law sets prudential fiscal rules, introduces a fiscal stabilization fund, and promotes fiscal transparency.

Policy Issues and Prospects

The revised economic program for 2000 is aimed at striking the right balance between the need to consolidate economic growth and regain a balanced fiscal position, while continuing to ensure medium-term external viability and reducing inflation to industrialized country levels. Accordingly, the program is based on a rate of growth of real GDP in the 4 to 5 percent range, and seeks to maintain the inflation rate at about 3.5 to 4 percent. The external current account deficit would widen slightly to 3.9 percent of GDP, and net international reserves would increase by US$ 300 million. The deficit of the consolidated public sector in 2000 has been limited to a maximum of 1.9 percent of GDP, with general government non-interest expenditure in real terms increasing by less than 1 percent.

Recent economic developments indicate that these targets are achievable, and that if anything, these objectives may be on the conservative side. Economic activity is showing strong signs of recovery in the first quarter, with real GDP projected to grow around 6.5 percent over the first quarter of 1999, while inflation for the year ending March is projected to remain below 4 percent, both performing better than envisaged in the program. As of March 23, net international reserves increased by US$422 million and privatization proceeds amounted to US$110 million.

Fiscal Policy

In the context of a more balanced and stronger growth, the Peruvian authorities aim at reducing the public sector deficit by 0.6 percent of GDP in 2000, which is equivalent to a negative fiscal impulse of around 0.8 percent of GDP. As the staff indicates, the negative fiscal impulse is about twice as large as envisaged in the original program. In addition, to enhance the credibility of fiscal policy, the government is prepared to take additional measures to ensure that the fiscal targets are met, and to reduce the deficit in the event that fiscal revenue is larger-than-programmed, as specified in Table 1 of the Letter of Intent. The authorities plan to increase gasoline excise taxes as mentioned in the staff report when oil prices return to normal levels, and they are committed to not reducing the special payroll tax (IES) during 2000.

To enhance the efficiency of the tax system, the authorities have requested Fund technical assistance in the area of tax policy and tax administration. The FAD mission will also review trade taxation. In light of this review, the authorities will evaluate the mission findings and recommendations and will decide on the appropriate course of action.

Monetary Policy and the Financial Sector

The Central Bank has been very successful in achieving its inflation objective in the last several years through market-based instruments, and in ensuring flexible exchange and interest rates. This performance has provided sustained monetary stability and has contributed to strengthening the Peruvian economy. To further promote transparency and provide clear signals to the markets, beginning in 2000, the Central Bank has begun to publish its monetary program, which will be updated quarterly. The government will continue to implement a flexible exchange rate policy, permitting the rate to move in response to market conditions.

To strengthen the resilience of the Peruvian financial system, the government has requested participation in the joint Fund–Bank Financial Sector Assessment Program (FSAP). Specifically, my authorities are interested in the FSAP providing an assessment of the degree of compliance with the Basle Core principles.

Structural Reform and Social Issues

The government has made very important progress on the structural front. The structural benchmarks for June and September 1999 were fully observed, and only a few of those for December were missed. The shortfall in privatization receipts was due mainly to factors beyond the authorities' control, including legal issues and requests from firms for additional time to make bids.

Despite these difficulties, the government will step up the pace of privatization and concessions in 2000 with an emphasis on asset sales in the energy sector and concessions for roads, ports and the Lima airport. In fact, Peru has already complied with the structural benchmarks for March 2000. The remaining shares in the electricity companies of Edegel and Cahua were sold, and the extraction module for the Camisea project was granted to a consortium from the United States, Korea and Argentina. At any rate, to have some perspective, Directors may take note that the Peruvian government has already privatized most of the previously state-owned enterprises (more than 80 percent in value terms).

Our authorities are aware that macroeconomic success has to go hand in hand with improvement in the standard of living of the population. Consequently, the government continues to give priority to the social sectors and its poverty reduction strategy. Social expenditure continues its upward trend. It rose from 7.2 percent of GDP in 1998 to 7.9 percent in 1999, and is expected to increase to 8.4 percent of GDP in 2000. Social expenditure is mainly targeted at improving primary education, health and for rural infrastructure projects. The government is working closely with the World Bank and the IADB in these areas. By end-June 2000 our authorities expect to have developed a set of social indicators that can be used to measure the effectiveness of the main social programs.

Conclusion

In sum, our authorities are confident that the government strategy to deal with the slowdown in economic activity and the negative external shocks is bearing fruits. The strong fundamentals and the recent policy actions in the fiscal and monetary sector will ensure a strong recovery and sustainable non-inflationary growth of the Peruvian economy. As before, Peru will continue to treat this arrangement as precautionary.

Extending her remarks, Ms. Jul made the following statement:

On the privatization issue, one measure, originally scheduled for the second quarter of 2000, has already been concluded. A 20 year license as a public carrier for national and international long-distance telecommunications will be granted to COMSAT international ,which is headquartered in Bethesda, Maryland. Regarding the other points raised by Directors, I would like to point out that the increase in the minimum wage is the first such increase in almost three years. In addition, the average wage in the private sector is double the level of the new minimum wage, so the new minimum will affect only a small proportion of workers, as indicated in the staff's statement.

On the apparent deterioration of the banks' lending portfolios, in our view this does not imply that the situation is continuing to deteriorate. Rather, it indicates that the improvement in economic activity, particularly in the non-primary sectors, will take some time to affect the quality of bank loan portfolios. As an example of this delay, we notice that, in 1998, we did not see a deterioration in this indicator in the fourth quarter of the year. We only saw it toward the middle of 1999. We expect that loan quality will improve toward the middle of 2000, or perhaps the end of the year. Also, given that there has been a contraction in total loans, for technical reasons we would expect an increase in the ratio of non-performing loans to total loans, even without any change in the absolute level of non-performing loans.

On the issue of statistics and the question of whether Peru's national income accounts are sufficiently up to date, we have indications that the accounts are in the final stages of revision, and that this work will be concluded in third quarter of 2000.

I wanted to make some remarks on the stance of fiscal policy, which is clearly a key issue for the structure of the program and the authorities' commitments. If we look at the stance of fiscal policy in 1999, we see that, in the first semester of the year, the stance was pro-cyclical, meaning that my authorities moved quickly to offset an apparently temporary loss in revenues by reducing expenditures to less than had been programmed. The authorities also introduced some additional tax measures.

In the second half of 1999, there were indications that economic activity, particularly in the non-primary sectors, was falling because of a substantial contraction of domestic demand, particularly from private investment, but also consumption. It is interesting to note that, from the point of view of confidence, foreign investors invested significantly more than had been anticipated, while at the same time total private investment was lower than expected by more than one percentage point of GDP. Domestic investment, therefore, was much less than had been envisaged when the program was structured.

The authorities considered that the loss of revenue was no longer temporary, and that it was no longer appropriate to try to offset the loss of tax revenue. They therefore moved to make fiscal policy more counter cyclical, moving from a neutral stance to an expansionary stance. Economic activity was worse than had been anticipated when the program was framed, and the signs of recovery were not strong enough to validate the view that the program should be maintained. The authorities' position is implicitly recognized by the staff projections for the year 2000, where we see that in instead of the 5.5 percent growth that had been anticipated, we have now only 4 percent. I think that validates my authorities' views that the situation in 1999 merited the change in the stance of the fiscal policy.

Another important issue is that there was clearly scope to loosen the stance of fiscal policy, given that the objectives of the program for 1999 were more than achieved for the balance of payments and inflation. And we continue to see a projected improvement in these indicators into 2001, compared to the regional program. Developments in the first quarter of the year indicate that the stance of fiscal policy will not negatively affect the chances of those projections being realized. So I would stress that, although there was a non-observance of the performance criteria, that was a result of conditions that were not envisaged at the time the program was framed. As conditions progressed during the year, the savings-investment balance of the private sector was significantly different than had been anticipated, and so the authorities' fiscal policy response was the right one.

Now, it could be said that the reaction of the authorities created confidence problems in the private sector. If that was the case, it affected the domestic private sector only. We do not see it impacting the confidence of foreign investors, and if there is a problem of uncertainty or a lack of confidence for these investors, it comes from the conditions in the world market, economic activity in neighboring countries, and perhaps the fact that this is an election year.

One last point on the moral hazard implications of the restructuring operations in the banking system. There were considerable conditions attached to those operations, so they actually enhanced the situation of the banking system. The banks involved in the operations were not able to distribute interest, and instead had to capitalize all profits. Moreover, these operations were limited to half the banks' net worth, and they could also be required to add further capital. Furthermore, the banks are required to start reversing the operations in 2001. The limit for the operations was set at one billion dollars, and only 290 million dollars has been used. So the restructuring operations were not something that everyone rushed into, and we do not see that there is a big moral hazard problem.

Mr. Ahmed submitted the following statement:

We agree with Ms. Jul and Mr. Hendrick that the staff report provides a well-balanced description of recent economic developments and policy discussions in Peru. Despite the larger-than-expected fall in domestic demand, the authorities made good efforts to implement their economic program under the new extended arrangement; they are to be commended for their accomplishments. GDP growth was satisfactory, inflation dropped to its lowest level in almost four decades, and net international reserves continued to provide a comfortable margin over imports and short-term debt. We support the authorities' decision to inject a temporary, positive fiscal impulse in the context of an unexpectedly sharp weakening of the economy. This appears to have been an appropriate, and timely, response to the economic downturn and has lent support to the nascent economic upturn. Accordingly, we have no hesitation in agreeing to the grant of a waiver for missed performance criteria.

The revised program for 2000 is appropriately strong and well-focussed. As Ms. Jul and Mr. Hendrick state, it seeks to strike the right balance between fostering growth and regaining a balanced fiscal position in an environment of low inflation. We welcome the set of measures that have been taken on the revenue and expenditure side and the recent indications that, with economic activity showing signs of a stronger-than-expected rebound, the targets in the fiscal program could turn out to be conservative. The staff note that under favorable assumptions concerning revenues, and the operation of the adjuster, the deficit could be expected to converge towards the originally envisaged path of fiscal consolidation. This would be a highly gratifying outcome. We commend the authorities for the various initiatives to enhance the efficiency and transparency of fiscal operations, and welcome the new law on fiscal responsibility which signals the government's commitment to continued fiscal prudence over the medium term. Like staff, we caution the authorities against yielding to pressures for public sector support for individual sectors as this would introduce distortions in the allocation of resources and invite new demands from other sectors of the economy.

The conduct of monetary policy in Peru has been exemplary with the Central Bank being highly successful in meeting its inflation objective through market-based instruments. We commend the Central Bank for the decision to publish its monetary program in the interest of greater transparency and openness, and are confident that this will have a positive effect on market expectations. On the financial sector, we agree with staff that the authorities' strategy for the banking sector in the context of the changes embodied in new banking legislation is well-focussed and rightly stresses the twin elements of vigilance and market-based solutions to emerging difficulties. We are pleased to learn that the authorities have requested participation in the joint Bank-Fund Financial Sector Assessment Program which will, inter alia, provide an assessment of compliance with Basle Core principles. We commend the authorities for the flexible manner in which they have conducted exchange rate policy, maintaining external competitiveness, and undertaking intervention only to preclude short-term volatility and in amounts consistent with meeting their reserve target.

Although some delays have occurred in the implementation of structural reforms—partly as a consequence of factors beyond the authorities' control—the governments commitment to step up the pace of privatization and concessions in 2000 is welcome. Nevertheless, the scope of the program of privatization and private sector concessions appears to be quite ambitious, and sustained efforts will be needed to meet all the targets the authorities have set for themselves.

We join staff in endorsing the thrust of the authorities' stabilization and reform program for 2000 as being comprehensive, well-balanced, and worthy of continued Fund support.

Mr. Junguito and Mr. Macia submitted the following statement:

Peru has made a substantial recovery in economic activity. However, the growth in real GDP for 1999 was due mainly to good weather conditions that improved fishing and agricultural output. As was the case in many other South American countries in 1999, sectors, except mining, contracted as domestic demand continued its downward decline since 1998. As a result, fiscal revenue was adversely affected in all major tax categories, particularly on domestic consumption and imports. The weakness in domestic demand also narrowed the external current account deficit as the value of imports reflected declines in all categories. The shortfalls in fiscal revenue, together with higher than envisaged expenditures, and the decline in external financing due to the turbulence in world markets, were the major causes of Peru's failure to observe the end-1999 performance criteria.

The 2000 economic program envisages output growth in most sectors. Real GDP growth is expected to be higher and inflation is expected to be contained. The fiscal program pursues a reduction of the combined public sector deficit to 1.9% of GDP in 2000. This objective entails limiting the growth of non-interest expenditures of the general government, and expenditures in relation to GDP are programmed to decline, while keeping the upward trend on social expenditures. We welcome the commitment of the authorities to take further actions during the year to meet the fiscal target. We support the measures to improve the tax administration system, clearly explained in Ms. Jul's and Mr. Hendrick's buff, and the request for Fund technical assistance in the area of tax policy and administration to increase tax yield and reduce evasion. The decision of the authorities to avoid compromising fiscal resources for the fishing fund and rural bank, and eliminate sector-specific tax breaks are major aspects of the fiscal consolidation effort pursued for 2000.

We support the authorities in their endeavor to step up the controls on public expenditure through the law on fiscal responsibility, approved by Congress in December 1999, which imposes limits for the deficit of the nonfinancial public sector, creates a fiscal stabilization fund (FEF), and provides for measures to enhance fiscal transparency. In this context, the law, in addition, limits non-interest expenditures in election years, a measure that will contribute in curbing the incidence of large outlays typical of political cycles. The FEF becomes the recipient of a percentage of privatization and concessions receipts, and any balance accumulation larger than 0.3 percent of GDP will be transferred to the public pension fund or be used for public debt reduction, as outlined in Box 1 of the staff paper. This measure is expected to assure prudent management of revenues in public finances.

The authorities' efforts to support the banking sector through various liquidity assistance measures including lending through the second-tier public bank COFIDE, improving bank provisioning in relation to deteriorating loan portfolios, and temporary government purchase of bank shares to promote mergers in the system are steps in the right direction. To reinforce the confidence in the banking sector, the authorities raised capital requirements to cover exchange rate risk and equity risk, and raised the provisioning requirements for bank loan portfolios in December 1999. However, the bond-for-loan restructuring swap program, which permitted banks to swap past-due loans for non-interest bearing, nonnegotiable treasury bonds, seems to be an unusual practice. Could the staff comment on the potential moral hazard risk stemming from such a practice?

We are in agreement with the authorities' decision to pursue a monetary policy stance that programs a low inflation target for 2000, as well as continuing with the policy to manage liquidity through open market operations. In addition to the previously stated measures implemented in the banking sector, we support the strengthening of the banks' risk management and internal controls systems, and we welcome the authorities' efforts to encourage market-based alternatives to the liquidation of banks in difficulty. Given the greater discretionary authority of the Superintendency of Banks (SBS), we support the staff's recommendation that steps are needed to assure legal protection for the staff in charge of requiring corrective actions from distressed banks. We are of the opinion that this issue requires immediate attention from the authorities, notwithstanding this provision was dropped from the banking legislation prior to congressional approval last year.

On trade policy, we are supportive of the authorities' commitments to an open trade regime and avoiding the introduction of trade barriers, and to sustain the present status of low-level trade restrictiveness. At the same time, we concur with the staff's observation on the need to reorient trade policy to reduce tariff dispersion in 2000.

We look forward to the authorities' decision to move ahead with privatizations and concessions that could generate about US$ 650 million of capital inflows into Peru for 2000, despite the slowdown experienced in the last two years. We believe that this target is realistic given the proposed asset sales in energy sector, air and seaports, and forestry management, among others.

With these remarks, we support the staff's recommendation to approve the requested waiver of nonobservance of performance criteria, and concur with the authorities' request for completion of the first review under the Extended Arrangement.

Mr. Collins and Mr. Burgess submitted the following statement:

Relative to its neighbors, Peru's growth performance last year looks impressive. Despite a succession of negative external shocks in recent years, the economy has managed to sustain positive rates of growth. However, while this overall performance was enviable in a regional context, the internal domestic demand position was not. We will focus our remarks on the domestic policy challenges presented by this sharp decline in domestic demand.

Fiscal policy

The public sector finances have been badly affected by the decline in domestic demand. This was due not only to the decline in tax revenues, but also to the authorities' initial reaction to the severity of the recession which was to loosen the purse strings and allow public spending to rise. The Fund program has therefore moved off track.

The authorities were faced with a clear policy dilemma. We can understand their desire to accommodate the cyclical deterioration in the public finances, although we think there are some question marks over the effectiveness of counter-cyclical policy in Peru. Private sector spending continued to decline last year despite a positive fiscal impulse of 1.6 percentage points of GDP. This suggests to us that:

there may be underlying structural impediments to recovery, which then points to the need for a much more ambitious agenda of structural reforms;

the deterioration in the public finances may, in itself, have damaged confidence. In this respect, however, we noted that the authorities generally have quite a good track record on fiscal management. It is true that the primary surplus slipped into deficit last year, but this is the only occasion on which this has happened over the last ten years or so. The passage of the Fiscal Responsibility Law also suggests that the authorities remain committed to fiscal prudence;

the impact of the positive fiscal impulse may not yet have fed through fully into private demand.

Over the coming year, we agree that a larger deficit than originally programmed is appropriate. We also agree, however, on the need for a framework which establishes firm limits on public spending for this year, and which establishes a path of stability for the public finances over the medium to longer term. Needless to say, the Fund will need to repeat and, if necessary reinforce, this message when the next administration takes office. But for the time being, we think the new Fiscal Responsibility Law represents an appropriate and significant step in this direction. In particular, we welcome the efforts to enhance fiscal transparency—with clearly stated goals for which the government will be held accountable—and to place budget planning within a rolling three-year framework.

Financial sector

We welcome the range of measures undertaken by the authorities to strengthen the banking sector in the face of worsening loan portfolios and more severe problems for some smaller banks. In particular, we welcome the emphasis on strengthening banks' risk management and internal controls. Government support appear to have been limited, appropriately, to viable and well-managed banks. It will, of course, be important to build on these successes, and we agree that a Bank-Fund financial sector assessment would be very timely in this regard.

Private credit growth has remained very weak over the past year. In our view, this is a reflection of the recession and, perhaps, political uncertainty. Liquidity concerns appear to have abated following the successful Bond Swap Program. The high level of foreign ownership in the banking sector probably also helped to support liquidity. The banking sector should, therefore, be able to play its usual role in supporting recovery as private sector confidence starts to improve.

Structural reforms

The structural reform agenda has lost momentum. A number of planned reforms have yet to be implemented. While we understand that such a loss of momentum is not uncommon in the last year of a political cycle, it is, nevertheless, regrettable. Macroeconomic policies appear broadly supportive of recovery. The authorities' priority should therefore be to enhance the underlying structural performance of the economy. We would encourage the staff to discuss with the authorities a revised and more ambitious reform agenda immediately following the elections.

Poverty issues

Half the population of Peru lives in poverty. This is a significant problem. The reduction of poverty should be regarded as integral to the long term economic stability and development of Peru. The authorities' commitments to complete the new poverty map and to develop indicators for evaluating social programs are welcome. We would, however, still like to see greater attention given to poverty reduction measures in the next review.

Other issues

We note that the national accounts are badly out of date. The base year for the national accounts is 1979. This has been the subject of much criticism in Peru, and some institutions have estimated growth at 2—3 percentage points below the official statistics. We would therefore encourage the authorities to press ahead with the updating of the national accounts as soon as possible.

With these remarks we can support the completion of this review and the authorities' request for a waiver of the relevant performance criteria.

Mr. Azoulay made the following statement:

I have no problem in supporting the proposed decision and the waiver of performance criteria. It is clear from the staff report that the authorities have continued to pursue prudent policies directed at further improving macroeconomic conditions to promote a favorable and sustainable performance. Indeed, combined with the three year arrangement with the Fund, the policies have produced favorable results, despite some difficulties arising from a slower than expected recovery in domestic demand. In particular, economic activity accelerated, inflation declined markedly, and credibility was enhanced.

Also, despite the slight increase in non-performing loans, the situation in the banking sector is well under control, and a substantial decline in spreads, together with increased access of local banks to foreign credit lines, are clear signs of renewed confidence in the banking and financial systems. In light of the low demand, we can understand cutting expenditures in response to revenue shortfalls. However, the authorities went beyond that and increased spending by 0.7 percent of GDP. In absolute terms this is even more pronounced, as output exceeded projections.

Generally, I share the belief that a restrained fiscal policy that gradually acts to reduce the budget deficit is the appropriate approach for creating conditions that support sustained economic recovery. I therefore welcome the authorities renewed commitment to this long-term approach, as reflected by the adoption of the fiscal responsibility and transparency law which provides a clear signal of continued sound fiscal policies over the coming years. This legislation is even more appreciated in light of the forthcoming general election. Moreover, this law introduces stringent requirements. It not only limits the budget deficit as a percentage of GDP. but sets limits on expenditures and deals appropriately with cases of a decline in revenues. The law, however, excludes municipalities when setting limits on the government primary balance. Sometimes, a lack of fiscal responsibility at the local level can create pressure to increase transfers to local authorities, threatening the achievement of fiscal targets. Therefore, the introduction of measures aimed at hardening local authorities' budget constraints is recommended. I also wonder if the recent wage increase was in line with the commitment made in the new law.

The achievement of lowering inflation is remarkable and is mainly attributable to the authorities' adoption of a freely floating exchange rate, which allows the central bank to concentrate on reducing inflation. I note that monetary policy will remain prudent to ensure that low level of inflation persists over the longer term. With inflation at a low level, the amount of economic activity denominated in local currency will grow, thereby increasing the effectiveness of monetary policy. In light of this trend, I would suggest that the authorities prepare their monetary framework for such a possibility and consider moving to an inflation targeting regime. Such a regime has proved successful for improving price stability in other countries after a stabilization period. Staff comments on the prospects for this move are welcome.

Finally, I noted the increased trend in spending to improve public social conditions. Increased living standards should remain the priority of the government. Besides increases in social allocations, the government should improve targeting of social outlays to better help the poorest in the society. We welcome the authorities' development of indicators to measure the effectiveness of various programs.

Mr. Schlitzer made the following statement:

We are grateful to the staff for preparing a very good paper.

Notwithstanding the continued commitment of the Peruvian authorities to sound macroeconomic policies, which is reiterated by Ms. Jul and Mr. Hendrick in their helpful BUFF, fiscal and structural slippages led to the nonobservance of some important performance criteria.

Indeed, the program appropriately envisaged a fiscal relaxation for 1999. Yet, the public deficit turned out considerably higher than targeted, in part due to an overshooting of expenditure in goods and services and in pension and fringe benefits. We would add that military expenditure was not reduced as envisaged in the program. This said, we understand that the weakness in domestic demand was largely unanticipated and that this has negatively affected revenue performance. We also note that the non-observance of the performance criteria on net international reserves and net domestic assets is largely the mechanical result of the authorities' decision to finance the deficit mainly with the government's deposits held at the central bank.

Against this background, we can support the request for waivers and the completion of the present review. We do so also in light of Peru's impeccable track record and we strongly encourage the authorities to remain on this path.

We have a few specific comments.

On economic growth, we fail to understand the factors behind the weakness in domestic demand and especially investment, and would like to know more from the staff. Moreover, we note that growth was quite uneven. It was particularly strong in fishing, agriculture and mining, with the first two sectors being positively affected by improved weather conditions. In other sectors, such as construction, economic activity either remained sluggish or contracted, leading to lower employment. Therefore, the ensuing recovery appears still very fragile. It would be interesting to know how the staff foresee future developments, in particular whether they expect the uneven growth pattern to continue.

Concerning the financial sector, the utmost priority is to proceed with bank restructuring, for which Peru is benefiting from significant lending from the World Bank and the Japan Bank for International Cooperation. Two issues are at stake, of equal importance. One is the sector's financial soundness. We are somewhat concerned by the steady rise in non- performing loans, which is continuing as indicated by the staff in their update. Vigilance has to be strictly observed. We also welcome the authorities' request for participation in the Financial Sector Assessment Program. The other issue is how to reinforce the finance-development link. In 1999 credit to the private sector fell sharply below the programmed level, and the target has been revised downward for the current year as well. Indeed, credit to the private sector has been on a steady downward trend over the last three years. Staff comments would be welcome.

In the area of privatization, we acknowledge that much has been done over the past few years and that the slippages occurring in 1999 were in part due to factors beyond the authorities' control. However, the shortfall in privatization receipts was significant, on the order of 0.8 percent of GDP. The authorities appear seriously committed to pursue privatization. But they must do so swiftly, otherwise foreign investors' sentiment will be negatively affected. We would also like to hear clarifications from the staff on some recent signals from the authorities calling for a more active role of the state in the power sector.

Concerning the recent, large increase in the minimum wage, while we acknowledge that it only applies to a small fraction of the labor force, we would like to know whether there can be spillover effects on the rest of the labor market.

Finally, on poverty, we would like to associate ourselves with the comments made by Mr. Collins and Mr. Burgess in their preliminary statement.

Ms. Redifer made the following statement:

In the past decade, the Peruvian authorities have pursued sound macroeconomic policies and structural reforms that have resulted in solid growth. This sturdy base enabled the country to weather fairly well the emerging markets crisis, commodity price, and El Nino effects that eventually led to the precautionary program being reviewed today. We can approve the waivers and the conclusion of the first review. Our view is that the fiscal slippages are not a cause for major concern in light of the unexpected shortfall in domestic demand and the lower than programmed current account deficit. Looking forward we would encourage staff and the authorities to consider whether the fiscal and monetary goals of the revised program continue to be realistic, if the rebound in domestic demand turns out to be less robust than currently envisaged.

Fiscal Policy:

Let me be clear, however, that while we think counter-cyclical fiscal policy may have been the right response to the circumstances, it is not entirely clear from the staff report that that was what the authorities intended. It may be useful to revisit briefly the excessive spending in 1999. According to the staff, it in fact mainly occurred in the last quarter, after the pickup in domestic demand. It involved additional discretionary spending on pensions, bonuses to civil servants, and unspecified goods and services purchased by quasi-governmental entities. It also took place as a backdrop to passage of the fiscal responsibility law. Therefore it is unclear whether this extra spending was a belated counter-cyclical response to the recession, was simply uncontrollable, or was in fact early election spending. Ms. Jul made statements this morning that implied the authorities were attempting to make a counter-cyclical impulse. In any case, the new fiscal responsibility law will serve to tighten the rules such that fiscal choices in the future will be more transparent.

Looking at the revisions to the program for 2000, the fiscal deficit target constitutes a negative fiscal contribution to GDP of some 0.8%. This consolidation, which would normally be surprising at the turning point of the cycle, is in part due to the base effect of the higher deficit in 1999. As Mr. Hendrick points out in his buff statement, the fiscal targets should be achievable if the strong rebound in domestic demand in the last quarter of 1999 continues. If the rebound does not take strong hold, again, we would encourage reconsideration of the targets, and we would encourage further use of automatic stabilizers, particularly if there is not improvement in persistently high unemployment.

Furthermore, I would like to underscore the recommendations in paragraph 45 of the staff appraisal, calling for greater efforts to improve targeting of social sector expenditures. More detail on the planned increase in social expenditures, particularly in the absence of an unemployment insurance program, would have been useful. I also found interesting the information in the staff supplemental on the recent increase in the minimum wage. While the timing is certainly serendipitous from the perspective of the elections, it seems that some increase may have been warranted. I wonder if staff could comment on whether they believe it will have a very profound impact on formal sector employment.

As we mentioned at the inception of the program last year, we encourage the authorities, in the context of the upcoming FAD mission to improve tax compliance, to seek measures beyond improved compliance to boost the low revenue ratio. Particularly in combination with the new deficit controls, a higher revenue intake will help avoid squeezing out desirable investment outlays and social welfare expenditures.

Monetary Policy/Financial Sector:

Based on table 5, on page. 27, the revised program calls for no growth in base money in 2000, down from planned growth of 8-10%. Staff commented that this is to compensate for the growth far in excess of program targets in 1999. This would seem to imply that there is sufficient liquidity, but that the banks are serving as a bottleneck in getting the liquidity out to the public. While excess reserves compelled banks to reduce external borrowing in 1999, does this mean there will not be further liquidity needs in 2000? There was little discussion of interest rates in the program document, which I assumed was because of the high level of dollarization in the economy, but that should also be a consideration for money growth. The original program document contained several government programs for encouraging banks to extend credit, in fact, we were concerned about the fiscal effect of the contingent liabilities at the time.

These programs were implemented and have helped strengthen banks' balance sheets, yet lending is still low and NPLs are still on an upward trajectory, according to yesterday's staff supplement. I take Mr. Jul's comment that NPLs are a lagged indicator. In fact, earlier this month Moody's lowered its ratings on three of Peru's top five banks. The authorities should continue their diligent efforts to strengthen banks' balance sheets, and support their role in intermediation and stimulating private sector demand. We are pleased to see that the government has requested a financial sector assessment program which should provide additional ideas.

Privatization/other:

On structural reform, the authorities fell short of their goals, but did achieve a good deal of progress. The next big challenge will be privatization of the gas distribution network after the elections. Finally, my authorities were curious to know why the environmental framework law passed by the legislature last year was put on hold by the government.

To conclude, we would like to compliment the authorities on their SDDS participation, and I welcome the earlier mentioned update of national account statistics.

Mr. González-Sánchez made the following statement:

We welcome this discussion on the Peruvian economy and we thank staff for its well-written report on the subject, and Ms. Jul and Mr. Hendrick's for their comprehensive preliminary statement. We support the approval of the requested waiver of nonobservance of performance criteria as well as the authorities' request for completion of the first review under the Extended Arrangement.

Having said this, allow me to make some comments on specific issues of the report.

Concerning fiscal policy, we welcome the recent approval by Congress of the Fiscal Responsibility and Transparency Law, which is an important instrument in ensuring a prudent management of the public finances. The adjuster to the deficit target, which provides that most of the higher than programmed revenue be saved is also a very useful device for fiscal discipline, and the authorities are to be commended for undertaking it. We concur with the staff on the convenience of adopting measures to quantify the actuarial deficit of the public pension system, in preparation for possible further pension reform, and as an additional element for the soundness of public finances over the medium term. Also, we think that the Fund must stand ready to provide the technical assistance requested by the authorities in the area of tax policy and administration.

Regarding monetary policy, we learned from the staff's report that the 12-month growth of currency rose to 17 percent at the end of 1999, partly reflecting Y2K-related precautionary demand for liquidity. We would like to ask staff if the growth of currency has already subsided or if it continues relatively high.

We commend the authorities for the measures taken to correct bank problems, and encourage them to continue their efforts to consolidate the banking system. We consider that special attention and monitoring should be devoted to the banking system, and we agree with staff's recommendations in this area, particularly on the provision of legal protection to bank supervisory staff, as a way to reinforce the authority of bank's supervisors. Like other Directors, we welcome the authorities' decision to request Peru's participation in the joint Fund-Bank financial sector assessment program. The information provided in The staff representative's buff regarding the slight rise at end-January of the share of non-performing bank loans seems to underscore the importance of carefully monitoring the banking system.

Given that the Peruvian financial system is already highly dollarized (with about 80 percent of bank deposits and credits denominated in U.S. dollars), and in the context of discussions about dollarization in Latin

American economies, we would appreciate the staff's opinion on the possibilities and convenience of dollarizing the Peruvian economy.

We welcome the authorities' plan to accelerate the pace of the privatization and concession program in 2000, as well as the privatization that Ms. Jul referred to at the beginning of the session. The continuation of the privatization program is essential to consolidate the structural changes of the economy and lay the basis for sustained high quality growth, especially if we consider that last year favorable economic expansion was in part the result of transitory and exogenous factors.

Finally, we commend the authorities for their commitment to free trade, and we join the staff and Mr. Junguito and Mr. Macia in encouraging them to give special attention to trade policy measures aimed at reducing tariff dispersion in 2000. With these remarks, we wish the authorities the best in their endeavors.

Mr. Sugeng made the following statement:

The Peruvian economy has seen some progress since the implementation of the new extended arrangement. As staff reported, signs of recovery has begun to appear as reflected in the rebound of the primary sector, particularly fishing and agricultural output since the final quarter of 1999. Overall, in 1999 domestic demand was, however, still weak. Therefore, appropriate economic policies are warranted, to expedite economic recovery, while preserving macroeconomic stability.

We broadly agree with the staff assessment. We shall thus focus our remarks on only few point for emphasis.

On the fiscal side, the authorities face the daunting challenge of adopting a fiscal stance that is appropriate to the present situation. While it is difficult to judge if the authorities have struck a right balance in this context, the fiscal program which provides for a wider deficit may need to be reconsidered, especially so under the recent development. As elaborated in Ms. Jul's and Mr. Hendrick's comprehensive preliminary statement, economic activity is showing strong signs of recovery in the first quarter of 2000, leading to a 6.5 percent GDP growth over the first quarter 1999. Based on this fact, one might wonder on the fiscal impacts if the public sector deficit is still kept at 1.9 percent of GDP in 2000, rather than the previous program of a 0.8 percent deficit. We appreciate staff's comments on this. In the longer-run perspective, we welcome the introduction of the Fiscal Responsibility and Transparency Law as it reflects the authorities' strong commitment to a sound fiscal policy.

On the monetary side, we welcome the central bank publishing its monetary program that will be updated quarterly. We can go along the authorities' view that this transparency will give a clear signals to the market, thus provide some degree of certainty. In line of this step, we encourage the authorities to implement a consistent and discipline monetary policy as this will play a crucial role in enhancing the credibility of the central bank's policy. However, under the current flexible exchange rate system, we view that this kind of monetary setting may not bring about optimal results due mainly to the absence of a nominal anchor for the economic players that is needed in guiding their business activities. To make the monetary effective in achieving its goal, its is timely for the authorities may have to consider the need of a nominal anchor. In this regard, as the current flexible exchange rate system has served well in helping the economy adjust to external shock, we are of the view that setting an inflation target could be important consideration.

As shown by the fact that most of the Peruvian population is still below the poverty line, we welcome the authorities' commitment to stepping up its efforts in increasing spending on the key social sectors, in particularly in the field of education. In this case, we encourage the authorities to emphasize on primary and secondary education as these education are indeed effective means for reducing income inequality in the long run. However, to be effective, this initiative should be supported by a comprehensive strategy based on sustained broad-based growth and more effecting targeting. In this context, we support the authorities' intention to open up their trade regime as this will help speed up economic activities. Thus, it is expected to have positive effects on poverty elevation.

The implementation of structural reforms is essential both to stabilize the economy and to improve competitiveness in the long run. We therefore welcome the authorities' intention to continue with the privatization program as Ms. Jul mentioned before. Given the still weak fiscal position, however, a firm implementation is warranted as this will help raise significant proceeds needed to enhance revenue's side.

With these remarks, we can support staff's recommendation to approve the waiver of nonobservance of performance criteria requested by Peru, and agree with the authorities' request for completion of the first review under the Extended Arrangement.

Mr. Çakir made the following statement:

I generally agree with the staff appraisal and support the proposed decision. However, I would like to submit a few thoughts for the Board's reflection.

Regarding the non-observance of the performance criterion on the borrowing requirement of the combined public sector, I agree that the counter-cyclical government spending kept Peru's economy from going into a recession. Indeed, even with stimulation from public spending, overall domestic demand still fell by 3 percent. The government's overspending is therefore justified. This year, the program assumes that the ratio of government expenditure to GDP will fall by half a percentage point. This means that to achieve the assumed growth of 4 percent will require an increase in private investment demand, a return of consumer confidence, and continued strong growth of export volume. In 1999 real output growth came mainly from the fisheries and agricultural production. Growth in these sectors is hostage to favorable weather conditions. Sustainable long-term growth must also have support from mining and manufacturing.

The debt of the public sector has been increasing since 1997, and though the debt-to-GDP ratio is still relatively small, reversing this trend will require some progress with fiscal consolidation. The fiscal responsibility law passed at the end of 1999 may assist this purpose. In particular, basing the budget discussions on a rolling three-year macroeconomic framework will help insulate fiscal policy from interference due to the electoral cycle. We urge the authorities to observe the program's deficit limits. I would like to learn from the staff about what contingency measures are planned to deal with deviations from the fiscal program.

The authorities' efforts to strengthen the banking system are to be commended. But although the governments' liquidity assistance has increased the availability of funds, the banks still seem reluctant to increase their lending. Loan interest rates are high partly because of the large quantity of bad loans on the banks' balance sheets. For this reason, yesterday's news that the share of non-performing loans has grown is especially discouraging. The government's restructuring via bond—for—loan swaps could serve to strengthen bank balance sheets and permit a faster lowering of interest rates. But we must disagree with the staff's statement, in paragraph 28, to the effect that these non—nterest bearing bonds entail no fiscal cost. This kind of operation merely transfers the risk from the banks to the government but does not eliminate it. Each non—performing loan will represent a cost to the government, since the issuance of these bonds provides no financing but creates a future non-interest bearing obligation.

We strongly agree with Mr. Junguito and Mr. Macia on the necessity of granting adequate legal protection to bank supervisors and their staffs. The problems of Peru's banking sector require immediate correction, and banking supervision personnel should be given adequate legal protection. We would favor making such a measure into a structural benchmark for future program reviews.

As to the financing of the current account, the government's present policy centered on foreign direct investment (FDI) is on the mark. Staff estimates show that the FDI inflows will continue to grow over the medium term. As noted in the buff statement of Mrs. Jul and Mr. Hendricks, Peruvian Brady bonds have one of the narrowest spreads in the region, which implies that there will be room for the government to tap the international bond markets for part of its financing requirement, and this is an option that the authorities should consider.

With these comments, I wish the authorities all the best in their endeavors.

Mrs. Mateos y Lago made the following statement:

When we approved this arrangement last June, somewhat reluctantly because of its nature, it was with the belief that it would help the authorities stay on the course of their adjustment and structural reform program, as well as contribute to restoring Peru's credibility and attractiveness in the eyes of private sector investors. Unfortunately, developments followed a somewhat different path : indeed, the three core quantitative targets for end-December were missed, in large part for reasons not beyond the authorities' control. Likewise, they failed to meet 5 structural benchmarks out of 12. Against this background, and taking into account the lack of immediate balance of payments needs, it could be argued that it would have been preferable to postpone the review until some of the deviations and lags were corrected.

Staff and management decided not to do so and to ask for a waiver instead. It is their judgement, and we can go along with that. Given the hard economic conditions endured by Peru last year and the reasonable fiscal targets set for the year ahead, and even though it is not entirely clear to us that fiscal stimulus should have taken the form of, among other things, slippages in military expenditures, we can support the proposed waiver.

We are a lot more concerned with the lack of sufficient progress in key structural reforms, both because of the adverse consequences it has on the Peruvian economy and as a matter of principle, given that Peru is under an extended arrangement.

In light of the good track record of Peru and of the strong commitments detailed by Mrs. Jul and Mr. Hendrick in their preliminary statement, as well as in consideration of the consensus pointing in that direction, we are nevertheless willing to support the completion of the review. But we strongly wish that, by the time of the next review, structural reforms have regained enough momentum to compensate for the time lost in 1999. In this regard, we share the views expressed by Mr. Schlitzer as to the order of priority of the various reforms and by Mr. Azoulay as to the inclusion of municipalities within the scope of the fiscal responsibility law.

Mr. Xu made the following statement:

At the outset, I would like to express our appreciation to the staff for their balanced report and to Ms. Jul and Mr. Hendrick for their informative and helpful preliminary statement. The Peruvian economy has been heavily indented by the negative legacy of exogenous shocks which occurred in 1998, resulting in weak domestic demand, lower fiscal revenue, less-than-expected foreign capital inflows, and lower employment. Even under such unfavorable conditions, the authorities have managed the economy in quite a balanced way. GDP grew at 3.8 percent, inflation declined to 3.7 percent (the lowest in 40 years), the external current account registered remarkable improvement, and most of the program's structural benchmarks were largely met although some uncontrollable ones were missed. As indicated by the recent available data, the economic recovery has remained fairly strong and balanced. The Peruvian authorities should be commended for these achievements.

The fiscal and banking sector consolidation efforts have been the pillars of the program, and I would like to limit my remarks to these two areas.

I note that the program's fiscal target was missed in the course of second half of the year due to larger expenditure. It seems to me this is a matter of judgement. It is well recognized that the fiscal stabilizer can help smooth economic fluctuations. Given the weak domestic demand, fragile economic recovery, and stagnated private activity, it may be wise to apply a temporary, somewhat expansionary, fiscal policy rather than a neutral stance to strengthen the recovery momentum. In this regard, I share the argument made by Ms. Jul and Mr. Hendrick in their buff. I welcome the approval of the Fiscal Responsibility Law. It equips the authorities with a fundamental and permanent tool for fiscal discipline. I am of the view that the target for this year's budget is well balanced between prudence and flexibility, in particular, the mechanism of the adjuster to the deficit target. The authorities are encouraged to move along prudential lines in budget implementation, resisting any further pressure for sectoral fiscal support, while putting the initiatives to enhance the efficiency and transparency of fiscal operations in place. Therefore, I fully support the authorities' request for Fund technical assistance in the areas of tax policy and administration.

The slack in economic activity in 1998 inevitably eroded the quality of banking assets with some time lags. I am impressed by the authorities' timely policy response in taking a number of corrective actions aimed at improving the liquidity situation in the banking sector in addition to the tightening in provision, capital adequacy requirement, and risk management. It is welcome that the various programs to strengthen the banking system carry limited potential fiscal cost, and as such are more desirable especially in the weak fiscal position. Although the share of non-performing loans was reduced to 9.4 percent at the end of last year, the rebound to 10.3 percent at the end of January this year has shown that further policy action and continued vigilance over bank performance are called for, despite the economic upswing.

With these remarks, I support the completion of this review and the authorities' request for a waiver of the relevant performance criteria, and wish them every success in their economic consolidation.

Mr. Kpetigo made the following statement:

The macroeconomic stabilization and structural reforms measures undertaken to reverse the Peruvian economic slowdown have produced mixed result indicating that further strong actions are still needed. Like Mr. Collins and Mr. Burgess, we welcome the recent fiscal responsibility law passed by the Congress. We also welcome the prudence shown by the banks as regards the lending policy that takes into account the capacity of the clients to service their debt.

For the fiscal year 2000, it is encouraging that the authorities and the staff have reached agreement to cautiously relax the spending cuts, in order to give boost to the economy. We support the Peruvian authorities' commitment to further reduce the public sector deficit by 0.6 percent of GDP this year, and welcome their request for Fund technical assistance in order to enhance the efficiency of the tax system. Furthermore, we are in agreement with the authorities that efforts to enhance efficiency and transparency and reduce exemptions and other tax breaks could help reduce uncertainty regarding the deficit target.

On the monetary policy, we share Mr. Ahmed views that the Peru's Central Bank has been successful in meeting its inflation objectives through market-based instruments. We also note that good progress has been made since last year in curtailing the growth of base money, and that the momentum is expected to be maintained during year 2000. We welcome the continuation of these measures and those related to increased provisioning for bad loans, and the observance of capital adequacy requirements. We are of the view that the authorities' request for joint Fund-Bank assistance to assess the financial sector should be given due attention. This is the best way to help the country ensure banking system soundness. We are also encouraged to note that the programs supporting these actions will not entail a significant budgetary cost.

On external policies, we agree with maintaining a flexible exchange rate policy as it has helped Peru's economy adjust easily to external shocks and ensure the country's competitiveness. This policy, together with an open trade regime, could help improve the balance of payments situation.

In the structural reforms area, the authorities should continue steadfastly with the privatization process, mainly as regards the larger state enterprises and the public agricultural lands.

Finally, we note from Ms. Jul and Mr. Hendrick's informative buff statement the good progress made in recent years by the authorities in improving the standard of living of the Peruvian population, and like Mr. Collins, we encourage them not to lose their grip on the poverty reduction measures for the years to come.

With these remarks, we support the proposed decision and wish the authorities every success.

Mr. Kranen made the following statement:

Let me begin by saying that we support the proposed decision. We also do not see any problems with granting the waiver for nonobservance of performance criteria.

Peru is certainly one of the success-stories in Latin America. It has also done well in weathering the Asia- and Brazil-crisis. The flexible exchange rate system has served the country well and contributed to the high resistance against external shocks. Inflation is under control due to prudent monetary- and fiscal policies, which are committed to price stability.

Since we are in broad agreement with staff's appraisal I would like to confine my remarks to two issues: Fiscal Policy and Privatization

On Fiscal Policy

Although we regret that the authorities have exceeded the ceiling of public expenditures last year, we are pleased by the creation of the new "Fiscal Responsibility Law". This law could become a keystone in containing public expenditures. Based on our own experience such budgetary constraints can be helpful in enforcing consolidation.

Also, the rule based fiscal stabilization fund seems to be an appropriate new instrument to stabilize public expenditures over the medium term. We are interested to learn how this fund will perform over the next years. In other countries similar funds have not always fulfilled expectations because of the unwillingness of parliament to accept that such rule-based mechanism is interfering with the budgetary right of parliament.

Although we welcome the ambitions of the government to balance their revenues and expenditures, we are somewhat puzzled by the fact that the presumptive-income tax was allowed to expire without suggesting a follow up tax. From our point of view, the authorities are "shooting themselves in the foot" by curtailing their tax-base with such kind of measures. In Germany there is the saying "old tax – good tax. New tax – bad tax". The authorities' are now facing the challenge to compensate the revenue losses of the abolished tax,

Let me now make some comments on the privatization process.

Although we have been pleased to learn that the long overdue auction of the Camisea gas field has recently been concluded, we are concerned about the insufficient progress in privatization. The shortfall in revenues last year could have been substantially alleviated if the authorities had placed more emphasis on the privatization agenda. Therefore we welcome the envisaged speeding up in this area.

Finally, I would like to draw the attention of the Board to the new government initiative for the landless, Profam, which was established last month. There are estimates that this giveaway of one million plots of land by the government will cost about 3 Bill. $. I would be interested in hearing staff's assessment on this program. Is it in line with the Fiscal Responsibility law, which sets clear ceilings for expenditures during election years?

To conclude, I would like to wish the authorities further success in their endeavors.

The staff representative from the Western Hemisphere Department noted that, on the issue of full dollarization, the authorities had made their position quite clear. They considered that the flexible exchange rate regime had been useful in allowing the economy to adapt to adverse shocks, particularly as many of Peru's exports had volatile prices. The staff agreed with that position, and felt that the authorities' policies had been successful. On the issue of inflation targeting, the authorities had successfully reduced inflation with their current approach, which was based on a flexible targeting of the monetary base. The authorities intended to continue with that regime. The staff would probably discuss that issue with the authorities in the future, but it had to be noted that the economy's high level of dollarization presented particular problems.

On the events of 1999, it had been originally anticipated that there would be an expansion of bank credit to the private sector, the staff representative continued. To help bring that about, one of the provisions of the Fund-supported program had been an extension of funds from the public financial sector to the banks—allowing the banks to lengthen the maturity of their loans to the private sector and so reduce credit risk. However, the expansion of credit did not take place, as the banks' concern about non-performing loans had caused them to be increasingly cautious. Credit had remained flat in 1999, and had not grown strongly in the first part of 2000.

The monetary system remained very liquid in 1999, and interest rates had declined, the staff representative noted. However, rather than lend to domestic borrowers, the banks had instead repaid their foreign credit lines—which partly explained the observed capital outflows, the increased deposits with the central bank, and the accumulation of foreign reserves. The banks were not lending domestically owing to concern about the level of indebtedness of the private sector. In response, the authorities had introduced a fast-track regime for enterprise restructuring, which would accelerate the recapitalization of many private firms and induce the banks to increase their lending. The staff expected that the policy, if effective, would result in an expansion of domestic credit. If the policy did not work, however, credit would grow by less than projected. While the weakness in demand in 1999 had partly resulted from a lack of credit, election uncertainty had also probably dampened investment demand.

As for the fiscal impact of the minimum wage increase, there were no public sector wages or benefits that were linked to the minimum wage, the staff representative commented. The direct impact, therefore, would be limited. The affect on the overall formal labor market would also be muted, as only 8 percent of workers in Lima received the minimum wage, and the proportion was only slightly higher for the rest of the country. In addition, many of those workers received an informally-indexed minimum wage, in which the minimum wage was determined at a certain point in time and then adjusted for inflation. Those workers, therefore, would not receive the full 18 percent wage increase. Instead, they would receive the difference between 18 percent and the existing amount of accumulated inflation, which was around 8 percent.

In the event that domestic demand did not pick up as quickly as expected, the staff would have an opportunity to discuss the Fund-supported program during the Article IV consultations in mid-2000, the staff representative observed. However, for the final quarter of 1999, domestic demand had increased by 7 percent, relative to the previous year. At the same time, output growth in 2000 was more broadly based than it had been in 1999.

On the question concerning domestic monetary developments, base money had grown by 17 percent in 1999, mainly owing to Y2K concerns, the staff representative noted. Since then, the rate of growth had been declining, and was only 6 percent in February 2000, compared to the same point in the previous year.

In the event that the authorities' fiscal deficit appeared to exceed the program's projections, the authorities had indicated that they would take various corrective measures in the early part of 2001, mainly involving spending cuts, the staff representative commented. Although the authorities had also planned an increase in gasoline taxes, the timing of the increase would be set to coincide with the return of world oil prices to more normal levels. As for the fiscal costs of the bond swap program, the swap had been designed to involve non-tradable bonds that did not pay interest. The banks had exchanged their existing loans in return for the bonds, and would reverse that transaction gradually over the next five years.

Therefore, there were no direct costs for the authorities, and there were no contingent liabilities for the public sector, as any non-performing loans would eventually be returned to the banks. The program had not given rise to moral hazard problems, because participating banks were required to accept a restructuring plan agreed with the superintendent of banks. They also were required to increase their capital, they could not distribute profits, and the value of the swap was limited to 50 percent of the banks' net worth. The authorities were also encouraging mergers for those banks that had problems raising additional capital. Nine banks had participated in the swap program, three had been merged, and the total nominal value of the program was 0.5 percent of GDP.

On the question of why the staff had asked for a waiver, rather than postponing the review until after the elections, the staff had been discussing the program with the authorities since November 1999, the staff representative remarked. So the issue had been under consideration for some time, and the staff had delayed bringing it before the Board until they felt that the authorities' policies were sufficiently strong to justify a Fund-supported program. Moreover, although the Peruvian elections would be held in the very near future, a change in government would not take place until end-July 2000. So waiting for a new government would have meant postponing discussion of the program until August-September 2000.

The staff representative from the Policy Development and Review Department confirmed that the review of Peru's program had originally been scheduled for mid-November 1999. However, the staff and management had been concerned about a weakening in the authorities structural reform measures, which were a core part of the program as supported by the CFF. Regardless of whether the subsequent date for the review had been set for April or July 2000, a waiver would still have been necessary, as a number of performance criteria still would have been breached.

The staff representative from the Western Hemisphere Department remarked that, although there was not much information available on the authorities' pro-farm program, 700,000 lots of land had been distributed so far, and the cost of bringing water within reach of those lots was about $100 million, or around 2 percent of GDP. To supply water to each individual lot, as well as electricity, would involve added expenditures, but the staff did not have any further information. The military would provide any labor needed to set up the lots. The budgetary impact of the pro-farm program would be felt principally in 2001, and would count against the total expenditures permitted under the fiscal responsibility law.

Responding to a question from Mr. Çakir on the purposes of the bond swap program, the staff representative pointed out that the net effect was to allow the banks to temporarily reduce their provisioning. In return, the banks would enter into a restructuring program.

Responding to a query from Mr. Hinata, who observed that the projected capital outflows for 2000 were considerably less than the actual outflows in 1999, the staff representative commented that the portfolio adjustment of the banks, which had moved to repay their foreign credit lines, had been largely completed in 1999. The staff did not expect those outflows to continue, and the latest figures showed that net foreign borrowings had been almost flat. As for the projected decline in foreign direct investment, the authorities and the staff had agreed that it was better to be cautious when making such forecasts.

Responding to a question from Ms. Redifer on whether the staff's liquidity projections implied a constraint on economic activity, the staff representative noted that there were two currencies in use: the U.S. dollar and the Peruvian sola. Eighty percent of economic activity was denominated in dollars, and liquidity conditions in that currency were relatively loose. The banks were depositing their dollars with the central bank, resulting in an accumulation of international reserves. As for liquidity in solas, the projected fall in the base money growth rate, from 17 percent growth to zero percent, would not be forced by the central bank—so far, the growth rate had already fallen to 6 percent without the need for central bank action, so it did not appear that the fall in money growth would be associated with liquidity problems. Moreover, although the central bank had a base money target, that target was applied flexibly in light of interest rates and other signs of liquidity. Therefore, the bank was unlikely to force the growth rate to zero if it meant ignoring other market developments.

Ms. Jul thanked the staff and Directors for their comments. She emphasized the authorities' commitment to the revised program, including the privatization of the electricity sector.

The Acting Chairman made the following summing up:

Executive Directors agreed with the thrust of the staff appraisal. They welcomed the progress made by Peru under the program supported by the Extended Arrangement that the authorities are treating as precautionary. Despite an adverse external environment, the growth and inflation performance in 1999 had been better than expected, and the external current account deficit lower, owing principally to weak domestic demand. The larger than expected contraction in domestic spending in 1999, however, had lowered tax collections and contributed to raising the fiscal deficit. Directors were supportive of the decision not to offset the revenue shortfall through deficit reducing measures. However, some Directors questioned whether the counter-cyclical increase in government spending had been warranted.

With economic conditions improving, Directors supported the resumption of the effort to reduce the fiscal deficit in 2000, which will require restraint in government expenditure. Some Directors encouraged the authorities to seek opportunities for a more rapid reduction in the fiscal deficit, particularly if tax collections were to exceed projections because of a broad-based upturn in the economy. They welcomed the presence in the program of an adjuster to this effect. Conversely, it was also noted by a few Directors that, should the economy not rebound as expected, automatic stabilizers should be allowed to operate. Directors also supported the authorities' intention to review tax policy and tax administration in order to enhance the efficiency of the tax system.

Directors welcomed the authorities' efforts to resist pressures for expenditure subsidies to individual sectors, and encouraged them to maintain this position. They also observed that tax breaks for specific sectors—whether in the form of exemptions or lower rates—should be avoided.

Directors welcomed the new law on fiscal responsibility, which signals the authorities' commitment to a continuation of prudent fiscal conduct over the medium term by setting permanent ceilings on deficits and spending growth for most of the public sector. A few Directors stressed that this standard of fiscal prudence and discipline should be encouraged for all levels of government.

Directors noted with concern that the expected recovery in the quality of banks' loan portfolios does not appear to have materialized yet. They stressed the need for the banking superintendency to remain vigilant in monitoring banks' performance closely. Directors endorsed the authorities' strategy for the banking sector, which puts emphasis on market-based solutions. They urged the authorities to provide adequate legal protection to bank supervisory staff, especially in light of the increased discretionary authority the superintendency had been given for carrying out close surveillance of problem banks.

Directors welcomed the authorities' plan to accelerate the privatization program in 2000. They encouraged stepped-up efforts to implement other elements of the government's structural reform agenda, including further improvements in tax administration, land titling, and government land sales to foster agricultural development, and additional financial sector reforms. Noting that poverty remains a significant problem, Directors stressed the need for continued priority to the social sectors and better targeting of social expenditures.

The Executive Board took the following decision:

1. Peru has consulted with the Fund in accordance with paragraph 3(c) of the Extended Arrangement for Peru (EBS/99/93, Sup. 2) in order to review progress in the implementation of Peru's economic program, assess progress with structural reforms, and establish performance criteria for end-March and end-June 2000.

2. The letter from the Minister of Economy and Finance and the President of the Central Reserve Bank of Peru dated March 13, 2000 shall be attached to the Extended Arrangement for Peru, and the letter from the Minister of Economy and Finance and the President of the Central Reserve Bank of Peru dated June 7, 1999, together with the memorandum and tables annexed thereto, shall be read as supplemented by the letter dated March 13, 2000.

3. Accordingly, the Extended Arrangement for Peru shall be amended as follows:

(a) paragraph 2 shall be partially redrafted to read as follows: "... the equivalent of SDR 95.75 million until May 15, 2000, the equivalent of SDR 132.58 million until August 15, 2000, the equivalent of SDR 169.40 million until November 15, 2000, ..."

(b) the limits and targets for March 31, 2000 and June 30, 2000 referred to in paragraphs 3(a)(i) to, and including, 3(a)(v) shall be as specified in Table 1 of the letter dated March 13, 2000";

(c) the following shall be added to the end of paragraph 3(b) of the Extended Arrangement: "...and Table 1 of the letter dated March 13, 2000";

(d) the following paragraph 3(cc) shall be added to the Extended Arrangement:

"(cc) after August 14, 2000, until the review contemplated in paragraph 9 of the letter dated March 13, 2000 is completed; or"; and

(e) paragraph 3(d) of the Extended Arrangement shall be amended to read as follows:

"(d) after August 14, 2000 until performance criteria for the remaining of 2000 and the timing of future reviews of the program have been established; or".

4. The Fund decides that the review contemplated in paragraph 3(c) of the Extended Arrangement for Peru is completed and that no further understandings are necessary for Peru to resume purchases under the Extended Arrangement. (EBS/00/47, 3/15/00)

Decision No. 12167-(00/35), adopted
March 29, 2000

4. PAPUA NEW GUINEA—STAND-BY ARRANGEMENT

The Executive Directors considered a staff paper on a request for a Stand-By Arrangement for Papua New Guinea (EBS/00/53, 3/20/00; and Sup. 1, 3/22/00).

The staff representative from the Asia and Pacific Department submitted the following statement:

> Since the staff report was issued, the authorities have continued to implement their structural reform agenda as envisaged under the proposed Stand-By Arrangement, and all prior actions and structural performance criteria and benchmarks for end-March have been met.
>
> In a meeting on March 22, 2000, cabinet approved amendments to the Central Banking Act (CBA) and the Reenactment of the Banks and Financial Institutions Act (BFIA), following consultation with the Fund staff and others. The CBA was tabled in parliament on its opening day (March 28), and debate is expected to begin immediately. The BFIA will also be introduced in the coming days. Both Acts are expected to be passed during April.
>
> Cabinet has also approved the District Development Programme Grant Framework and Guidelines, which establish strong and transparent disciplines over local development spending, replacing the Rural Development Program.
>
> An action plan has been drafted for the two large pension funds which will, among other things, set in motion the process for conducting actuarial audits of the funds and launch a comprehensive review of the industry aimed at strengthening the regulatory and supervisory structures and, possibly, introducing competition in the industry.
>
> Data that have become available since the staff report was issued suggest that the financial program is on track. Inflation declined from 18 percent in the September 1999 quarter to 13 percent in the December quarter, consistent with bringing the rate down to a target of 5 percent at end-2000. The monetary data for end-February are consistent with achievement of the indicative targets for end-March 2000.

Extending his remarks, the staff representative informed that the Central Bank Act had been passed the previous day by parliament on March 28, 2000.

Mr. Taylor submitted the following statement:

> Last July, in his first days in office, the prime minister of Papua New Guinea stated his commitment to restoring a solid and enduring relationship with the Fund (together with other IFIs and bilateral donors). Hence, this meeting is long awaited, and of great significance for the PNG authorities.
>
> From the outset, the Fund has been called upon to play a key role in the Government's determined effort to address the deterioration in macroeconomic performance. Economic stabilization is at the heart of a comprehensive program of structural economic reform. In turn, structural

reforms are being pursued as part of a broader effort to restore due process and good governance across the face of government responsibilities.

It is clear that the authorities have set themselves a far reaching and challenging agenda. I am pleased to be able to assure the Board that PNG is in full observance of the Fund-supported program before it today.

Macroeconomic Objectives

The documents before the Board set out clearly the authorities' decisive actions to stabilize the economic situation and improve the macroeconomic framework. The new Government's supplementary budget in August 1999 reversed the previous government's fiscal laxity through a combination of new revenue measures and cuts in capital expenditure. Substantial headway was also made in the second half of 1999 in the clearance of domestic arrears. The 2000 budget makes further progress in the task of fiscal consolidation and provides for the clearance of all remaining domestic arrears.

Monetary policy will follow a firm stance in 2000 and we have seen the authorities act swiftly in the first months of this year to mop up the Y2K-related build up in liquidity from late 1999. The key objective for monetary policy now is to reduce the level of net domestic credit to government, while providing scope for some increase in private sector credit.

The foreign exchange market was under pressure in the first six weeks of the year, but as monetary policy tightened, the pressure eased. Knowledge of the negotiations with the Fund also assisted the rebuilding of confidence.

Improving the Operation of Fiscal Policy

The authorities place great importance on restoring the machinery of government—including, in particular, the rehabilitation of the administrative structures for budgetary control. Full details are in the staff paper.

The Government's efforts to improve the quality of government expenditure are demonstrated clearly in the development of the new framework for the Rural Development Program (RDP). In the past, the RDP has be the subject of widespread abuse. The authorities are determined to render the program an effective means of delivering development expenditure at the grass roots level. To this end, new program guidelines, including proper accountability, have been devised with the assistance of the World Bank.

I am pleased to say that in a spirit of cooperation with the Fund, the authorities have completed the self-assessment questionnaire under the Code of Good Practices in Fiscal Transparency.

Monetary and Financial Sector

The authorities are determined to establish the independence of the Bank of PNG firmly in amended legislation, and to restore the proper conduct of monetary policy. Under the previous administration, the operation of monetary policy was subverted for the purposes of financing the fiscal deficit. The Bank has taken prompt action in moving to a more market-based operation of monetary policy consistent with restoration of the primacy of the price stability objective. Further legislative action is imminent to improve the supervisory and regulatory framework of the entire financial system.

The Government has successfully carried out Special Audits on the two major superannuation funds—the Public Officers' Superannuation Fund and the National Provident Fund—covering the financial positions of the funds and governance issues in general. The Government has considered the audit reports and has drafted an action plan for tackling the industry's problems. The Government is aiming to introduce new legislation for the regulation and supervision of the industry by August of this year.

Privatization

The privatization process is well advanced, following a major planning conference in January, which included the World Bank and international experts. In terms of process, an international advisory group has been appointed, and Cabinet has decided on the structure of the Privatization Commission and appointed its Managing Director.

Regarding actual privatizations, Cabinet has already decided on the timetable for the sale of Finance Pacific (the former PNG Banking Corporation), with the first stage of the sale to be completed by March 2001. A clear timetable has also been set for the sale of the other major public enterprises.

Concluding remarks

The Government's objectives constitute a complete break from the past, in the economic area and in the process of governance more broadly. It will take time to establish full understanding and confidence in the markets and the community more broadly. This program with the Fund, if approved, will constitute a major building block. In this regard, it will confirm international endorsement of the Government's efforts; provide confidence to the markets; and set the stage for the further essential economic reforms already outlined by the Government.

Extending his remarks, Mr. Taylor recalled that the previous Board discussion on Papua New Guinea had been complicated by the divergent views at that time between the authorities and the staff. At that time, he had been asked by the authorities to circulate a statement on their behalf that sought to counter the view of the staff on almost all points raised in the staff report.

At the current juncture, a recently appointed prime minister had pursued a policy agenda different from that of the previous administration, Mr. Taylor continued. Given that the new prime minister had outlined an aggressive reform program, it was perhaps surprising to some that it had taken a relatively long time for the program to be discussed in the Board. There were political, administrative, and psychological reasons for that. As politics in Pacific island countries often revolved around personalities, there was some inherent instability that had to be taken into account when addressing contentious issues. Therefore, matters like privatization and the replacement of previous government programs were even more difficult in such a political setting than in those with a less personalized style of politics. With regard to administrative problems, it was caused mainly by the fact that the number of competent and untainted officials available to bring about a strong reform of government tended to be rather small. Also, Papua New Guinea was an aggressively independent country, which, at times, made the administration reluctant even to accept technical assistance, unless they were already reasonably familiar with the staff involved.

The consequence of those conditions and attitudes had created problems for staff missions that, at times, might be difficult to understand, Mr. Taylor said. While those factors were perhaps unique to Papua New Guinea (PNG), the perception gap that they had created in the past years had greatly hampered the negotiation of a Fund-supported program. Therefore, the Fund would be well-advised to seize the opportunity available at the current juncture. In the political cycle of PNG the present administration represented the high point of opportunity, as that administration would likely remain in power for no longer than two and a half years. Therefore, that opportunity needed to be exploited. The fact that the opportunity was now at hand was owed in part to the extraordinary commitment shown by the staff at the time of the mission.

The set of prior actions attached to the program had all been met and macro economic developments were on track, Mr. Taylor concluded. With regard to privatization, the authorities had published a comprehensive statement that went even further than the Fund-supported program. The prime minister had also addressed the issue of the open skies policy—on which Mr. Taylor would advise the authorities to pursue the policy on the condition that United States granted reciprocity. The Central Bank Act—a central piece of reform in the governance area—had been passed with a large majority, which was reassuring. Also, the cabinet had prepared an action plan to address any problem that might arise in the context of the ongoing audit of the pension funds. That issue would likely be an important matter in the context of the first program review of the Fund-supported program.

Mrs. Hetrakul and Mrs. Vongthieres submitted the following statement:

> It is indeed a welcome sign that negotiations on the long-overdue Stand-By Arrangement have successfully been concluded under the new Administration and the new Fund's mission. We commend the Government of

Papua New Guinea for its prompt corrective actions, especially in the fiscal area, and firm determination to undertake tough stabilization measures and press ahead with far-reaching structural reforms, the result of which has so far been encouraging. Access to the SBA would go a long way towards strengthening market confidence and restoring normal relations with bilateral and other multilateral donors.

The proposed economic adjustment program appears sufficiently strong and well-balanced, with the tightening of fiscal policy mainly through expenditure measures, withdrawal of central bank credit to the government, and broad-based structural reforms in support of the economic recovery on a more sustainable basis. We therefore support the proposed decision, and would like to raise the following comments basically for emphasis.

In the key area of fiscal policy, it is appropriate to give first priority to the elimination of government arrears and reduction of public debt. Although the marked increase in FY 1999 revenue from the VAT and excises might justify expenditure growth this year in excess of revenue growth, we wonder if some of that revenue could be saved towards further reducing the public deficit as the first priority, so as to lessen the need for contingency revenue measures in the future. While one third of the total expenditure in FY 2000 is geared for development and infrastructure, the main cause for expenditure growth over that of revenue, it is important to ensure that the budget is used properly and effectively. In this connection, we welcome the government's plan to establish a monitoring mechanism with technical assistance from the World Bank, aimed at enhancing transparency, accountability, and governance. Also to improve the efficiency of budgeting, public expenditure review should be conducted without delay.

One main area of concern is rural poverty and sectoral inequality that need to be addressed in a more decisive and systematic manner. Growth in the mining and oil and gas sectors has left other sectors of the economy in a relatively less advantageous position. Steps to reform the Rural Development Program, which is a major source of political abuse and governance problem, should be taken seriously and expeditiously in accordance with the World Bank's recommendations. In addition, more government attention should be given to diversify the economy, for example, into the agriculture-related industries.

Enhancement of market-based operations is a step in the right direction to achieve the price stability objective. Nevertheless, monetary policy cannot be effective without a complete delink from fiscal dominance. To this end, independence of the central bank must be first achieved. It is reassuring to note that the draft amendment to the central bank law to that effect has been approved by the cabinet and now tabled in the parliament. We hope that with the support of the prime minister, himself the former central bank governor, the bill would be passed intact by the parliament by the end of April, along with the new financial institution law.

Finally, we wish the PNG authorities every success in their economic management and reform efforts.

Mr. Yanase made the following statement:

To begin, I thank the staff not only for the useful Board paper, but also for their tremendous effort in completing negotiations for the Stand-By Arrangement. I also commend the authorities for their excellent macroeconomic management since the current government came into power. At the previous Article IV discussion this chair said that increasing the transparency and accountability of fiscal and monetary policy was the most important issue facing the authorities, as mismanagement in those areas had damaged investors' and donors' confidence, resulting in an outflow of capital, which had an enormous negative effect on the country's economy. I am pleased that the authorities are proceeding with reform in those areas, showing strong ownership, and cooperating with the Fund staff. Given that the regional economy is recovering, I hope that the establishment of a well-disciplined fiscal and monetary policy will result in economic recovery. This chair generally agrees with the staff's view and supports the proposed decision. Therefore, my comments will focus on fiscal policy and monetary policy.

With respect to fiscal policy, I greatly appreciate the authorities' actions, especially the tight supplementary budget in August 1999. Considering that the economic deterioration of 1998 and 1999 was due mainly to the loss of fiscal discipline, maintaining fiscal soundness is important. To achieve this, as staff and the authorities have rightly recognized, it is crucial to establish a mechanism that will guarantee fiscal soundness, and it is also essential to reestablish the expenditure control system that secures the transparency and accountability of fiscal transactions. In this connection, it is welcome that the authorities have completed the self-assessment questionnaire under the code of good practices in fiscal transparency. On the issue of the Rural Development Program, it is welcome that a new mechanism has been created and is being implemented. The authorities should broaden the application of the mechanism to other such programs and should maintain the transparency and accountability of this kind of expenditure in the future.

On the revenue side, I am concerned that the tax revenue to GDP ratio has not recovered. In the event tax revenue does not increase as expected, the authorities should immediately implement contingency revenue measures. On the expenditure side, prudence will be necessary. In this regard, I support the prioritization of expenditure items and a general hiring freeze to contain wage costs. I hope that an appropriate budget with a suitable increase in human resources will be made in the future, based on the results of the public expenditure review.

On monetary policy, I support the staff's view that mopping up the excess liquidity caused by the central bank's credit to the government in the past is important in order to reduce inflationary pressure. However, the authorities should monitor carefully this mopping up, for if it happens too fast, it could lead to interest rate hikes. On the institutional side, I appreciate the fact that the central bank has stopped underwriting treasury securities at a predetermined price. Finally, in order to maintain the discipline of monetary policy, the new Central Bank Act is quite important. I am glad to hear that the bill has passed the parliament and hope it will be implemented soon.

As this chair indicated at the previous Article IV discussion, maintaining a good relationship with the Fund is key to the success of economic reform in PNG. I therefore welcome the SBA program and hope the authorities will show their strong ownership of the program in the future.

Mr. Chelsky made the following statement:

Mr. Taylor made reference to this chair's intervention at the last Article IV consultation as having been mostly notable by its length. The length of the statement was indicative of the seriousness of the concerns that we had over macroeconomic management and the governance environment in Papua New Guinea. Today, we find ourselves in a completely different environment, given that the new government's objectives constitute a complete break from the past in the economic area and in governance in Papua New Guinea more generally. The positive impression is reinforced by the announcement that the Central Bank Act was passed yesterday. The fact that this happened so quickly after its presentation to parliament is highly commendable, and the Board does need to acknowledge that this is a considerable departure from the ways of the past. With all that said, most of my comments and questions are of a secondary nature.

The program is sound and the authorities seem to own it. Therefore, only a few questions remain. I would like the staff to provide information on the composition of the large outflows of private capital seen in 1999 that occurred as a consequence of the poor governance environment at that time.

Another problem is that of the CPI, and is related to issues that the Board discussed in the context of the recent biennial review of surveillance. At that time Directors agreed on the need to address data limitations more frankly. In PNG, the CPI constitutes one of the biggest problems, given that the index is calculated in urban centers, while the economy is predominantly rural. In the past, that has generated some debate with regard to the impact of exchange rate movements on the price index. It would have been constructive had the staff report addressed the problems of the CPI right at the outset. I think this is a fundamental issue that deserves special treatment.

With respect to the pension audits, one issue that needs attention is that of the investment strategy and the investment guidelines. The transparency of those guidelines and accountability in the investment of resources must be ensured.

We support the proposed decision.

Mrs. Mateos y Lago made the following statement:

Papua New Guinea has been through quite a bit of economic and political trouble in recent years, from which it is only just beginning to recover. The authorities that took office last summer seem determined to move in the right direction and have already demonstrated their commitment by acts. At the same time, the country still faces enormous challenges, many of which are not even mentioned in the Staff report, but contribute to its ranking alongside the world's poorest countries according to the UN Human Development Index.

Therefore, I have no doubt that the authorities and their economic program deserve all our support. Nevertheless, I would like to make a few remarks on the design of the arrangement and the contents of the program.

First, I would like to note that even though the Staff report is not very explicit regarding the risks faced by the program, conditionality is unusually tough, and, in our view, appropriately so. Given the many uncertainties surrounding the implementation of the program, and the poor track-record of PNG with respect to Fund-supported programs, we also welcome the prudent phasing of disbursements.

Turning now to the contents of the program, I find it broadly suitable to the needs of PNG's economy. I was just concerned that the inflation target might be slightly too ambitious, as indeed it involves a decline from 20 percent to 5 percent in the course of only one year. Given that the disinflation process is unlikely to be supported by any significant appreciation of the kina – at least until the reserves accumulation target is met – I am afraid that reaching the inflation target might require measures which would make it difficult to achieve the planned 4.5 % growth of GDP. In a country where 38 % of the population lives in poverty, such a trade-off is worth being made explicit.

Fiscal policy seems reasonable. But looking ahead, in view of the high sensitivity of fiscal revenues to volatile terms of trade, it might be useful to encourage and, if need be, help the government think of ways to either diversify its revenue base and/or set up stabilization mechanisms. It could be a stabilization fund, but I understand from my conversation with Staff that such a device might be premature until better governance has taken root. More simply, it could also be automatic fiscal adjusters, like for instance in Mexico, i.e. legislative rules which cap expenditures at the level of effectively available resources and make it compulsory to save all or most of windfall revenues.

Furthermore, we welcome the privatization program announced by the authorities. Nonetheless, as we note that there really isn't any emergency, as the proceeds are not expected before 2001, we would like to urge the authorities to take the time needed for privatizations to be done in an orderly fashion ; what matters at the end of the day is greater efficiency of resource allocation, and better service to the public. If this cannot be guaranteed, then there is hardly any point in privatizing.

Finally, we welcome the decision made by the government to publish their MOEP, as it will undoubtedly go a long way to restoring the authorities' credibility in the eyes of private investors, and therefore the confidence of the latter. In this respect, I was a bit struck by the pessimism of Staff projections regarding private sector capital flows. Indeed, according to table 7, net private loan disbursements will still be negative in 2004. Annual FDI net flows, on average, will be only 24 percent higher in the next 5 years than between 1996 and 1999, in spite of the large privatization program. This does not point to a very strong catalytic effect of Fund resources. In fact, it even makes one wonder whether PNG will be able to do at all without Fund support when this program expires. Staff comments on this point and on the exit strategy for the Fund would be welcome.

Mr. Ioannou made the following statement:

After a rather difficult development, exacerbated by policy slippages, Papua New Guinea now seems to be moving again on the right track. The proposed Fund-supported program aims at reestablishing macroeconomic stability while pursuing a number of structural reforms. The program aims at accelerating growth and at the same time at bringing about a sharp deceleration in inflation. Given the proposed fiscal consolidation and monetary tightening as well as the slowdown in external demand, could the staff explain in a more detailed fashion how the program's objectives will be attained, which are the sources of growth in 2000, and how the projected growth rate can be achieved in tandem with the targeted disinflation.

In the area of public finances, I welcome the contingency measures embedded in the program and the efforts made to enhance expenditure control. However, considerable further efforts are needed to increase tax revenues which, despite the projected cyclical upturn, remain well below past cycle peaks. The efforts to expand the tax base and to address governance weaknesses should have priority. On the expenditure side, I note the high share of wages and recurrent expenditures. Although the hiring freeze is a welcome step in this regard, more may be necessary to achieve significant progress in that area.

The considerable reduction of the fiscal deficit in 2001 appears to be driven by the absence of structural adjustment expenditure. In light of the planned privatizations for 2001, noted in the staff report, why is such expenditure not included in the fiscal accounts? I would have expected more detail on the issue of public debt in the staff report and more data coverage, given the significance the staff ascribes to this issue more data coverage would also have been welcome. In the area of structural reforms, I note that a number of measures have been implemented and that a broad range of privatizations are planned for 2001 and beyond.

More generally, I think that the structural reform agenda should be geared toward addressing the root causes of the instability that leads a country to request Fund assistance. It appears that Fund-supported programs all too often treat the symptoms but not the disease, thus necessitating repeated programs to deal with the same source of instability and thereby making inefficient use of resources.

The program contains very little on reducing the country's vulnerability to terms of trade fluctuations; and should export prices in the future be not as favorable as they are now, the country might find itself again in the same situation as in the past year. I would appreciate some comments from the staff on that matter.

Regarding the pyramid scheme debacle, I am assured by the authorities' statement that they will not accept financial responsibility for losses incurred by investors in these schemes. However, in light of the past government's involvement in granting exemptions from licensing requirements to such schemes, the question arises as to whether this position may be challenged in a court of law. Could the staff also provide some information regarding any possible fallout from the pyramid schemes in the banking system?

With these remarks, we support the proposed decision and wish the authorities success.

Mrs. Del Cid-Bonilla made the following statement:

The Papua New Guinea authorities are to be commended for the serious effort the are making in restoring macroeconomic stability and implementing structural reforms, thus orienting the economy towards a sustainable economic growth path. This is confirmed in the staff Representative's buff statement which indicates that all prior actions and structural performance criteria and benchmarks for end March, in the proposed Stand-By Arrangement, have been meet.

In the last years, PNG's macroeconomic situation significantly deteriorated, reflected in an increase of the fiscal deficit, a deceleration in economic growth, a weakening of the external position and a sharp increase in inflation. While there were a number of exogenous factors that affected PNG macroeconomic performance, the loose domestic policies and the governance problems contributed to worsen the situation.

In fact, as it is recognized by both the staff and the authorities, the loss of government expenditure control in those years contributed to increase the fiscal deficit, and the financing of this deficit by the central bank accounted for most of the growth of reserve money and contributed directly to the increase in inflation, the loss of international reserves, and the large depreciation of the kina.

The economic program put forward by the PNG authorities, to be supported by a Stand-By Arrangement with the Fund and a structural adjustment loan from the World Bank, is comprehensive and strong, and includes important measures and reforms for both: the maintenance of macroeconomic stability, and the modernization of the economy. Among the structural reforms contemplated in the program, I followed with particular interest the reforms proposed for the financial sector, including a new central bank law oriented to enhance the powers and independence of the central bank and sharply limit the possibility of financing for the government. This measure and the decision that the central bank no longer underwrites the entire issue of treasury bills at a predetermined price should be a strong incentive for fiscal discipline.

I fully support the staff proposal related to the Stand-By Arrangement and only want to make a few comments regarding the macroeconomic perspectives.

First, while the improvement in the PNG macroeconomic performance since the second semester or last year obeys in part to the restoration of fiscal and monetary discipline, it is clear that the rebound in export prices and the full recovery from the drought also played an important role. In this context, I wonder if the staff worked in different balance of payments scenarios for the next years, since it would be extremely important for the authorities to have ready a contingent plan should the current favorable external environment reverse.

Second, and along the same lines of Mrs. Hetrakul and Mrs. Vongthieres, I would like to know if the government has contemplated to promote a program of economic diversification since, in the medium term, this diversification could highly contribute to reduce the vulnerability of the economy. I would appreciate the staff's comments in this regard. The current favorable domestic and external environment provide the authorities a unique window of opportunity to accelerate, as much as possible, the pace of structural reforms so as to modernize the economy and reduce its vulnerability.

With these comments, I wish the PNG authorities all success in their future endeavors.

Mr. Kudiwu made the following statement:

We are in broad agreement with the staff's analysis. Like other speakers, we commend the government for the prompt and aggressive corrective measures adopted since it took office in July 1999, and which have begun to produce encouraging results in the economic and governance areas.

Despite these positive achievements, Papua New Guinea continues to face a difficult environment. As a result, its economy remains vulnerable and confidence is still fragile. Therefore, we find appropriate the proposed economic program for 2000, which seeks to establish the basis for strong and sustainable economic growth. Like Mrs. Hetrakul and Mrs. Vongthieres, we share the view that further efforts are needed to tackle rural poverty and sectoral inequality and encourage the authorities to intensify their efforts to implement forcefully the Rural Development Program.

All in all, we welcome the assurances provided in Mr. Taylor's informative preliminary statement regarding the authorities' full commitment to the adjustment program, as already evidenced by the recent efforts made to meet all prior actions and structural performance criteria and benchmarks set for end-March 2000. As the reform agenda is ambitious, technical assistance will remain essential. In light of the authorities' firm determination to reform their economy, we support the proposed decision. We wish the authorities all the best.

Mr. Xu made the following statement:

I would like to thank Mr. Taylor for his comprehensive preliminary statement, which reinforced my understanding of the strong determination of the new government to embark on a comprehensive program of structural reform. I am in agreement with the thrust of the staff report, and fully support the proposed decision.

I am impressed by the demonstrated effort of the government to open a new chapter of macroeconomic management and, a new chapter in governance. The objective of the program is ambitious. However, I believe it can be realized, given the new authorities' strong commitment coupled with continued assistance from the international community, including the Fund.

I fully support the authorities' request for a Stand-By Arrangement and wish them every success in their future endeavors.

Mrs. Steinbuka made the following statement:

It is unfortunate that, as a result of policy slippages and exogenous shocks, the economic situation in Papua New Guinea has deteriorated dramatically. We commend the government for the recent corrective measures, which have already led to improvements in the fiscal and external positions. The new government's firm determination to undertake a number of much-needed reforms is clearly a positive sign. Like the staff, we believe that the government's strong ownership of the reform program will prevent the repetition of the errors of the past. Given the strength of the reform agenda and the catalytic role of the Fund in its implementation, we endorse the staff's appraisal.

Having said that, I would like to comment on the risks of the program implementation and the challenges in the restoration of investors' confidence.

First, the staff and some speakers have fairly pointed out several risks to the program implementation. A major challenge will be of a political nature because the economic success depends on the ability of the government to maintain a political consensus. Another challenge is the maintaining of sound policies in an unpredictable external environment. Political risks are beyond the staff's advice while economic risks are not. The staff pointed out specifically the risks of the fall of export prices below the projections. I wonder whether the staff has analyzed the worst-case scenario and whether any corrective measures have been discussed with the government.

Second, after a lengthy period of mismanagement and adverse development, the economy remains vulnerable and the potential investors' confidence is fragile. If successfully implemented, the program should play a key role in the restoration of confidence of foreign and domestic investors. In this context, on the fiscal side, the elimination of government arrears and the reduction of public debt are badly needed. On the structural side, strengthening governance and public institutions, implementing financial sector reform and accelerating privatization are of major importance. Also, the independence of the central bank is crucial. I highly appreciate Mr. Taylor's information about the passage through the Parliament of the new Central Bank

Act aimed at strengthening the independence and accountability of the central bank.

We wish the authorities every success in the implementation of the ambitious reform program.

Mr. Walsh made the following statement:

We are encouraged by the measures that the new government has adopted since taking office. As the staff notes, this constitutes sharp break with the policies of the past. The authorities deserve encouragement for this, and I support the request for an SBA. However, significant challenges lie ahead. What is needed now is a period of sustained policy implementation along the lines laid down in the staff report.

I would like to raise two points. Income is extremely unevenly distributed in Papua New Guinea. The country's social indicators indicate a high level of poverty. We would encourage the staff and authorities to ensure that the poorer sections of society are also able to benefit from economic growth.

I note that, according to the staff's index of trade restrictiveness, Papua New Guinea moved up from four to the least restricted category over the last year. That is a remarkable achievement, and I commend the authorities for this.

The staff representative from the Asia and Pacific Department, responding to questions about the pace of disinflation and the quality of the inflation data, noted that there was a need for further improvement in the quality of the statistics. An expert from the Pacific Financial Technical Assistance Centre had just completed a mission charged with reviewing the statistics in the context of GDDS. The staff had identified a number of issues that needed to be addressed and would work with the authorities to draw up a program, including rebasing and reweighing the CPI. Also, the authorities would conduct a complete census, funded through a structural adjustment loan from the World Bank. The information gathered in the census should help improve the quality of the CPI data over time.

On the question of whether the inflation objective was overly ambitious, and whether the scope for private sector growth in the program was adequate, the staff representative considered that the inflation objective was appropriately ambitious. The problem causing the exchange rate depreciation in the previous year had mainly been caused by a lack of confidence. There was not much of a tradeoff between stabilizing inflation and growth prospects, and the authorities felt strongly that there was no alternative to stabilization and reform.

With regard to the scope for private sector credit growth, the staff representative observed that the program envisaged healthy private sector growth in the next couple of years, which was partly associated with the new nickel mine and the gas pipeline. The construction activities associated with those projects would produce spin offs in terms of private sector growth, and both the staff and the authorities considered that the program would leave a comfortable margin for private sector credit expansion at about 9 percent in 2000.

On the issue of the volatility of commodity prices, and prospects for export diversification, the staff representative noted that the recent performance with regard to nontraditional exports had been good. Fostering diversification through a more flexible private sector was the ultimate aim of the authorities' structural reforms. With the gas pipeline coming onstream, it was expected that the price of the gas would be subject to longer-term contracts, and therefore more stable over time than some of the mineral exports. However, the details of those arrangements had not yet been finalized.

With regard to safeguards for the program, the staff representative observed that the Stand-By Arrangement included an explicit adjuster ensuring that the ceilings would take account of any additional revenue windfalls from mineral sector earnings.

Mr. Taylor made the following concluding statement:

> I will touch on three sets of questions. Several Directors asked how a country like Papua New Guinea could manage the good times in such a way as to be prepared for the bad times. As the staff pointed out, the letter of intent relates specifically to bank revenue. If bank revenue and privatization proceeds are higher than anticipated, that should translate into higher retirement of debt. While that concerns the short term, the question remains, how best to manage an economy subject to sharp fluctuations in mining revenue in the longer term. Originally, the Mineral Resources Stabilization Fund (MRSF) was the way in which that was to be done. The future of the MRSF is something that the authorities will have to discuss with the staff. I hope that this issue will be addressed shortly. There is no ultimately satisfactory way of handling this matter, but it remains an important question. The problem of governance is highly relevant in that context.
>
> There were a number of questions on privatization. Mrs. Mateos y Lago finished by saying that, if the appropriate measures were implemented, there would hardly be any need for privatization. The purpose of privatization in PNG was explicitly to generate capital for retiring debt, but also to increase efficiency and competition in the economy. There has been an explicit provision for pro-competitive regulation. More importantly, the government has asked itself whether it should be involved in running business enterprises, like airlines and banks, and which are not a core business of government. They have therefore determined to concentrate on areas that they regard as core government business.
>
> Given that the pension funds at the moment have a monopoly, it is a critically important question, when the government will reform the pension

system and on what will be the investment guidelines. My understanding is that, in the short run, the existing guidelines will be respected. However, in the fairly near future, those guidelines will be reviewed, and the regulation of the entire industry will be reconsidered. By the time of the next Board meeting, the matter will probably have been resolved.

I am grateful for the large number of highly pertinent questions raised by Directors. That will enable me to report to the authorities that the Board was appropriately stringent in its examination of the proposed program, which will be of great encouragement to the authorities.

I have already expressed my appreciation for the work of the staff and I would also like to thank the person sitting behind me for her important role well beyond the call of duty in preparing this program.

The Acting Chairman made the following summing up:

Executive Directors agreed with the thrust of the staff appraisal and approved Papua New Guinea's (PNG) request for a Stand-By Arrangement. They noted that economic performance in the late 1990s had been adversely affected by a decline in export prices, serious drought, weaknesses in macroeconomic policies, and severe governance problems. These adverse factors eroded confidence, led to increased inflation, and depleted international reserves. Directors therefore welcomed and strongly supported the authorities' commitment to implement a comprehensive economic reform program to address PNG's serious economic problems and lay the foundations for sustainable growth.

Directors endorsed the 2000 budget, which aims at containing the overall government deficit to 1½ percent of GDP while eliminating all remaining government arrears. Over the medium term, Directors believed that it would be appropriate to achieve and maintain budget balance. They welcomed the steps taken by the authorities to address critical problems in the area of expenditure management, including the establishment of tight controls over spending commitments by government departments, the consolidation of government payrolls, the temporary maintenance of a hiring freeze, and the initiation of a public expenditure review. Vigilance would be required to ensure that the progress on expenditure control is sustained and carried forward. On the revenue side, Directors advised that the authorities should be prepared to implement additional measures promptly if revenue collection were to decline below program targets in 2000. At the same time Directors welcomed the authorities' commitment to sterilize any revenue windfalls through a reduction in public debt.

Directors noted that inflation needed to be—and could be—brought down quickly, and they welcomed the authorities' timely action to mop up the large amount of excess liquidity that emerged in late 1999. Directors welcomed the quick passage of the new Central Bank Act and underscored that its implementation should enhance the powers and independence of the central bank, sharply curtail the government's recourse to central bank credit, and facilitate the achievement of the program's monetary policy objective.

Directors endorsed the government's broad-based structural reform agenda to improve public sector governance, promote private sector development, and strengthen the financial system. In this connection, they viewed the recent reform of the Rural Development Program as a major step forward that would increase the transparency, fairness, and cost-effectiveness of development spending. They also welcomed the progress that has been achieved in drawing up a detailed framework for the privatization of large public enterprises, and encouraged the authorities to take timely steps to keep the privatization process on track, including through the development of a regulatory framework for the utilities. Directors supported the Banks and Financial Institutions Act aimed at strengthening the supervision and regulation of financial institutions. Pending passage of that legislation in April, they encouraged the authorities to continue to pursue all available legal means to obtain the closure and liquidation of pyramid schemes.

Directors encouraged strong donor support for PNG's reform effort and welcomed the involvement of the World Bank through a prospective SAL.

The Executive Board took the following decision:

1. The government of Papua New Guinea has requested a Stand-By Arrangement for a period of fourteen months from March 29, 2000 through May 28, 2001 in an amount equivalent to SDR 85.54 million.

2. The Fund approves the Stand-By Arrangement set forth in EBS/00/53, Supplement 2.

Decision No. 12168-(00/35), adopted
March 29, 2000

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/00/34 (3/27/00) and EBM/00/35 (3/29/00).

5. PHILIPPINES—STAND-BY ARRANGEMENT—EXTENSION

"Paragraph 1 of the Stand-By Arrangement for the Philippines (EBS/98/50, Supplement 1) is hereby partially amended to read:

"1. For a period from April 1, 1998 until June 30, 2000, the Philippines..." (EBS/00/56, 3/21/00)

Decision No. 12170-(00/35), adopted
March 28, 2000

6. ROMANIA—STAND-BY ARRANGEMENT—EXTENSION

Romania has requested an extension to May 31, 2000 of the Stand-By Arrangement set forth in EBS/99/141 (Sup. 2, 8/6/99).

The Stand-By Arrangement for Romania is extended to May 31, 2000. (EBS/00/52, 3/20/00)

Decision No. 12169-(00/35), adopted
March 27, 2000

7. EXECUTIVE BOARD TRAVEL

Travel by an Executive Director and by an Assistant to an Executive Director as set forth in EBAM/00/42 (3/27/00) is approved.

APPROVAL: March 2, 2001

SHAILENDRA J. ANJARIA
Secretary