March 6, 1997
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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 96/36

10:00 a.m., April 12, 1996

Contents

Executive Board Attendance

M. Camdessus, Chairman
A. D. Ouattara, Acting Chairman
S. Fischer, First Deputy Managing Director

Executive Directors	Alternate Executive Directors
	S. M. Al-Turki
	M. F. Melhem, Temporary
	O. A. Himani, Temporary
M.-A. Autheman	A. Fayolle
	J. Guzmán-Calafell, Temporary
I. Clark	N. L. Laframboise, Temporary
B. S. Dlamini	J. M. Jones, Temporary
H. Evans	J. Shields
K. P. Geethakrishnan	R. Kannan, Temporary
	V. Trivedi, Temporary
	N. Coumbis
J. E. Ismael	L. M. Cheong
D. Kaeser	D. Gotz-Kozierkiewicz
A. Kafka	A. Calderón
	J. Prader
	A. Cserés, Temporary
	J.-C. Obame, Temporary
	D. Saha, Temporary
K. Lissakers	B. S. Newman
H. Mesaki	T. Fukuyama
A. Mirakhor	M. Daïri
	A. G. Zoccali
	J. Leiva, Temporary
S. Schoenberg	B. Esdar
	Y. Y. Mohammed
	T. K. Gaspard, Temporary
E. Srejber	K. M. Heinonen, Temporary
	A. V. Mozhin
	A. Vernikov, Temporary
	B. M. Lvin, Temporary
E. L. Waterman	J.-H. Kang
J. de Beaufort Wijnholds	O. Havrylyshyn
Zhang Z.	Song J., Temporary

L. Van Houtven, Secretary and Counsellor
A. Mountford, Acting Secretary
G. N. Walton, Assistant

Also Present

IBRD: D. Rosenblatt, Latin America and the Caribbean Regional Office. African Department: J. A. Clemént. European I Department: M. E. Hardy. External Relations Department: S. J. Anjaria, Director; F. Baker, H. P. Puentes. Fiscal Affairs Department: J. A. Schiff. Legal Department: F. P. Gianviti, General Counsel; W. E. Holder, Deputy General Counsel; R. H. Munzberg, Deputy General Counsel; R. C. Baban, H. Elizalde. Middle Eastern Department: P. Chabrier, Director; M. A. El-Erian, Deputy Director. Policy Development and Review Department: T. Leddy, Deputy Director; H. M. Al-Atrash, D. Desruelle, O. J. Evans, T. Nakao, C. Pinon-Farah, C. Puckahtikom, J. P. Pujol, S. K. Wajid. Research Department: J. Santaella. Secretary's Department: W. S. Tseng, Deputy Secretary. Statistics Department: J. B. McLenaghan, Director; C. Carson, Deputy Director; R. A. Elson, Deputy Director; E. Ayales, R. J. Hides, T. P. McLoughlin, K. W. O'Connor, S. P. Quin, M. V. Saunders, R. T. Stillson. Treasurer's Department: D. Williams, Treasurer; D. Gupta, Deputy Treasurer; R. H. Floyd, K. M. Kenney. Western Hemisphere Department: C. M. Loser, Director; M. E. Bonangelino, Deputy Director; E. Hernández-Catá, Deputy Director; G. E. Canonero, J. P. Guzman, E. S. Kreis, A. S. Linde, A. V. Quintero, T. M. Reichmann, B. M. Traa. Office of the Managing Director: S. Sugisaki, Special Advisor; J. A. Quick, Personal Assistant. Advisors to Executive Directors: M. B. Alemán, P. Cailleteau, S. S. Farid, He J., G. Iradian, A. R. Ismael, J. John, J. Justiniano, W. C. Keller, M. H. Mahdavian, H. Mori, R. von Kleist. Assistants to Executive Directors: R. D. Bessone Basto, K. Byrne, A. G. Cathcart, J. A. Costa, D. Daco, J. Dagustun, C. Duenwald, J. C. Estrella, M. Giulimondi, C. M. Gonzalez, A. Guennewich, R. J. Heinbuecher, P. Jilek, H. Kaufmann, G. A. Kyriacou, J. A. K. Munthali, Ng C. S., A. R. Palmason, J. Roaf, S. Rouai, K. Sakr, F. A. Schilthuis, G. Schlitzer, S. Simonsen, Y. Tahara, Zubir bin Abdullah.

1. STANDARDS FOR DISSEMINATION OF ECONOMIC AND FINANCIAL STATISTICS TO THE PUBLIC BY MEMBER COUNTRIES AND IMPLEMENTATION OF SPECIAL DATA DISSEMINATION STANDARD—FURTHER CONSIDERATIONS

The Executive Directors considered a staff paper on further considerations with regard to the standards for the dissemination of economic and financial statistics to the public by member countries and the implementation of a special data dissemination standard (SDDS) SM/96/83, 4/4/96; and Sup. 1, 4/5/96).

Mr. Havrylyshyn made the following statement:

From the outset this chair has been strongly supportive of the dissemination standards initiative. We continue to be so, and consider it of primary importance to be able to agree today on launching the initiative during the upcoming Interim Committee meeting. We concur with the essential thrust of the draft report text, including the changes proposed by the staff in view of our last discussion on March 29.

As certain concerns about implementation in the early phase do remain, however, and our authorities share some, if not all, of these concerns, I wish to propose a slight modification to the text which would address these concerns. Before I read out the proposed text, let me just add one other thing.

Let me just add that in our constituency the Netherlands has confirmed its preliminary intention to subscribe, with some of the modifications in the language or a similar one to what I am proposing. A few others in our constituency may in the near- or medium-future be able to do so, but at the present time I cannot confirm their intentions.

Let me now read the suggested text. In the annex, on page 5, at paragraph 5, beginning "A transition period," I would suggest a modification as follows: "A transition period will extend through the end of 1998. This will allow countries time in which to make adjustments to their dissemination practices. It will also allow the Fund, in cooperation with members, to continue elaborating more fully certain operational aspects, and to undertake reviews of the standard's conformity with countries' reasonable best practices and countries' other relevant concerns." That is the extent of my proposition.

Mr. Mesaki made the following statement:

The special data dissemination standard, as revised by the staff, is acceptable. I would like to raise two issues. First, in Appendix III, page 3, paragraph 4, and in Appendix IV, page 24, paragraph 1 it is stipulated that the staff's assessment of observance of the dissemination standards is expected to be included in Article IV consultation reports. What is written here is, of course, appropriate. However, if known to the public, it may bring about a request for the publication of the Fund's assessment. In my understanding, there is no consensus that the Fund should do so. Therefore, it is better that this part of the

appendix not be made known to the public.The staff's comments would be appreciated.

Meanwhile, I have some questions as to the nature of Appendices II to IV. Appendix II is the summing up of the last discussion, and it does not seem to have any more implication than that. Is the Board expected to decide on the combination of the summing up of today's discussion and Appendix III? On Appendix IV, which is very similar to Appendix III, exactly how will Appendix IV be used? Is it necessary to circulate both Appendices III and IV outside the Fund? The staff's clarification would be appreciated.

Second, I still wonder whether country authorities must republish data produced and disseminated by private organizations, especially if these organizations are semipublic in nature. This may be a matter of interpretation of the standard rather than the standard itself. I would like to ask the staff or other Directors whether, for example, the U.S. Federal Reserve will republish the Dow index, and the Bank of England will republish the LIBOR.

Finally, as for Appendix I, I have no difficulty with the description related to the SDDS; however, the description relating to the general data dissemination standard is rather complex.The first sentence looks like an excuse. As a minimum, this means the general data standard by the staff as a second tier should be changed. I would say that the general standard is, rather, the first tier, and I hope that Board discussion on it will be held as soon as possible within this year rather than at the end of this year.

The Director of the Statistics Department said that the summing up for the discussion, together with an annex dealing with the scope of the Special Data Dissemination Standard, would be sent to all members. A letter from the Managing Director inviting members to subscribe would also be included. Appendix IV of the staff report would be disseminated to the public.

Concerning the coverage of private sector data by the Special Data Dissemination Standard, it would not be unusual for statistical agencies to publish certain private sector statistics, the Director remarked. Stock price indices, for example, were to be found frequently in central bank bulletins. Therefore, given the interests of markets in such information, these data should not be omitted from the Special Data Dissemination Standard.

The Deputy Director of the Statistics Department noted that the Federal Reserve bulletin published a range of privately sourced data series including stock price indices. The bulletin of the Bank of England published privately sourced series on interest rates such as the LIBOR.

The Director of the Statistics Department said that it was proposed that Article IV consultation reports cover observance of the proposed statistical standards.

Mr. Ismael made the following statement:

It is with much regret that I have to convey my authorities' disappointment with the revised staff papers before us today. In light of the Board discussion two weeks ago, we had hoped there would be some changes made to Table 1 that would address the concerns of my authorities.

On several occasions in the past, my chair has voiced its concerns on specific data categories to the staff. Regretfully, until to date, our most important concerns have not been addressed. And, as we understand it, no further changes will be made by the staff.

There are in particular, two major restrictions that are hindering our authorities' subscription to the SDDS. First, the lack of flexibility on the timeliness requirement for international reserves. We can accept the proposed periodicity of one month for reserves, but none of the countries in my group can produce the data within a week of the end of the reference period. For some of the countries in my group, compilation of the raw data, before computing the reserves alone, takes more than a week. We were informed by the staff, at a very early stage of discussion on data standards, that the market benchmark for the timeliness of release for reserves data is one week. That may be the norm for industrial countries. However, a report on data release standards for emerging economies, just published by the Institute of International Finance, indicates that the benchmark for developing countries is two weeks. In this light, I would urge the staff and the Board to consider amending the timeliness for international reserves to two weeks, with a timeliness target of one week being encouraged. I do not think this flexibility would seriously jeopardize the objective of strengthening surveillance, which anyway should be a cooperative effort.

Second, the lack of flexibility on the quarterly periodicity for national accounts and the balance of payments. These are comprehensive statistical frameworks, production of which require enormous amount of resources, organization and coordination. Given the present resource constraints for some of our countries, the situation is not likely to improve significantly by the end of the transition period.

In conclusion, let me reiterate that all countries in my constituency support the underlying motivation and principles behind this initiative and would like to subscribe to the higher tier data standards. However, it is with deep regret that the emerging market economies in my group will not be able to comply to the SDDS as is presently structured. Other smaller members in my group would also like to subscribe to the higher tier and would like indications from the Fund management on a timetable of technical assistance to ensure that they can meet the requirements in Table 1.

Ms. Lissakers asked whether members of Mr. Ismael's constituency would be able to meet the one-week reporting requirement for reserves data by the end of the two-year transition period.

Mr. Ismael said that his authorities would try to meet that objective but it was doubtful they would achieve it.That explained why his chair had asked for additional time for meeting the requirements of the Special Data Dissemination Standard.

Mr. Waterman made the following statement:

I am very hopeful that Australia will be able to subscribe to the SDDS from the start, but I cannot commit other members of this constituency at this stage. I think the efforts that have been made to incorporate greater flexibility into the standard are important. Clearly there is an issue of quality versus timeliness. In some areas, such as reserves, that we have just been talking about, you probably need data reasonably quickly, but in other areas, particularly where the statistics are based on surveys and samples, there is an important trade-off between timeliness and quality. So I think the added flexibility is important. To this point, I do not believe we have undermined the standard we are trying to establish, but there are clearly limits to how far we can go in this area. I will be interested in the staff's comments on Mr. Ismael's problem with reserves and his proposal of going to a two-week standard.

The other point that I have commented upon in the past is that of monitoring. I think it is important not to rush into this area. We have time and we will learn a lot over the next 2 ½ years. It is clear from the messages that I am getting from national statistical offices that some of them feel threatened by earlier proposals, and some egos have been bruised by prospects of having dilettantes like us passing judgment over their work as independent professionals undertaking a complex specialized task.

So long as we are careful to ensure that the standards are met when a country joins the club, I doubt that it will be a major problem. In my experience, statistical standards in countries are generally raised over time, so it seems to me that the policing needs to be applied very carefully at the entrance point. I think it is going to be very difficult to let someone into the club and then say we do not like their table manners.

We can also rely on the market for a great deal of self-discipline, particularly on countries borrowing in the market or from the international banks. Mr. Ismael has already cited the work of the Institute of International Finance.That is interesting, in regard to both setting a standard for emerging markets but also the monitoring performance that they already seem to be taking on.

It is also interesting, in this regard that the Whittome report brought out that the international banking system had a better feel for what was happening to reserves in Mexico in calendar 1994 than we did. I am also reminded of some advice an international banker gave to me when Australia was borrowing on international markets in the mid-1980s. He said to me that in this business you ignore rumor at your peril. The only weakness in that story is that this particular person did not follow his own injunction, because he was a senior member of Barings Brothers.

If there is any problem, it seems to me it will need to be sorted out by the Board. We will only be able to do that if, to use the staff's words, it is an egregious non-observance. Here I am talking about not only monitoring in the transition period but the problem of ongoing monitoring. It seems to me that the Board will need to come to its own judgment. I am rather skeptical about the value of an independent international panel advising us on problems.

At one level I will be surprised if there are any significant problems that cannot be readily sorted out, so long as we are careful at the entrance point. If there are problems, I think they will need to be clear enough so that the Board can reach an agreement on the matter. I cannot see us removing countries from the bulletin board for obscure technical points.

In all this, while I will not be around to sort out these problems, I think we do need to have an eye to the future here to make sure that we do not set up problems for future boards. I think the emphasis should be on the standards at entrance and less on the ongoing monitoring role for the Fund and the Board.

Mr. Guzmán-Calafell made the following statement:

I have no objections to the staff proposals numbered 1, 2, and 3 under the issues for further consideration included in the report. I am somehow surprised by the additional flexibility required, and by the substantial modification that has been observed in the standards for some of the data categories as compared with those originally suggested by the staff. But I believe this approach is justified since the evidence suggests that the initial proposal was over optimistic.

With respect to procedures in cases of possible nonobservance of the SDDS, I do not see a significant difference between the proposal contained in this report and the one discussed on March 29. I agree that we have to be very strict with nonobservers and exclude them from the Bulletin Board. I also support the use of a graduated approach involving the Executive Director concerned, the Board, etc. to this end. Nevertheless, I have some reservations regarding the merits of posting a notice on the Dissemination Standards Bulletin Board (DSBB) to trigger formal procedures for review of observance as suggested by the staff. This could set in motion an undesirable public dispute between a member country and the Fund on a sensitive issue. Furthermore, the staff's argument that this is needed to calm market uncertainty and avoid questions on the integrity of the DSBB is not very convincing, particularly since the period involved between the failure of bilateral discussions and the receipt of a recommendation by a panel of experts is unlikely to be long. In fact, our goal should be, rather than making this whole process public, to ensure that a decision on this issue is taken quickly, and to let the markets know that this will be our general approach.This should be enough to dispel any doubts regarding the integrity of the bulletin board. Obviously, if the country concerned considers that posting a note on the bulletin board is of use, a request can always be submitted to the staff. But we should leave this decision to the country. I share the view that the possibility of ever evoking the procedures to deal with nonobservance is

quite remote. But this could hardly be a justification to accept a scheme if this is not seen as convenient.

I have only one comment to the draft report of the Managing Director to the Interim Committee. In paragraph 3 on page 1, the report refers to the number of member countries that have indicated their preliminary intention to subscribe. It is not clear if this refers specifically to those countries that intend to subscribe to the standards in its initial phase. If this is the case, it should be expressed more explicitly, and if not it would be useful to include this information in the report.

Finally, of the countries in this constituency, Mexico and Spain expect to subscribe to the Special Data Dissemination Standard since its initial phase. This is of course on a preliminary basis and subject to additional contacts with the staff.

Ms. Srejber made the following statement:

As I find that the documents before us today take into account the views expressed in our last meeting, I can be rather short and simply state that I endorse the implementation of the special data dissemination standard as outlined in the supplement. Whether it is the recent changes in the standard that have been the main motivating factor, or whether the decision-making process in some countries in my constituency has been difficult and time consuming, it is difficult for me to say, but I am glad to inform you that two more countries in my constituency, Estonia and Latvia, both have indicated, on a preliminary basis, that they want to subscribe to the standard. I have no comments on the draft report to the Interim Committee.

Mr. Clark made the following statement:

This chair is a strong supporter of data dissemination standards, and we have come a long way since the Interim Committee requested work on data standards one year ago.This is a notable achievement, and one that staff, management and the Board can take some pride in.

As far as the papers before us today are concerned, I commend the Staff for their quick, yet thorough, response to Directors' comments and queries during the discussion on data standards we had two weeks ago. From the perspective of my Canadian authorities, the changes made to some of the parameters of the SDDS fully address their concerns. In addition, we support the other elaborations by the staff to the proposal for the SDDS prompted by comments from other chairs. I am happy to indicate that Canada and Ireland intend to subscribe to the SDDS in its initial phase.

Mr. Kafka made the following statement:

Our constituency wishes to be as forthcoming as possible in connection with this initiative. However, we still have some concern regarding the Special Data Dissemination Standard.

We think that complex data like those which member countries are asked to make available should be accompanied by adequate explanations to avoid misunderstandings. There seems to be no requirement to publish those explanations. Of course, each country must choose what explanations, if any, it wishes to publish.

We are not convinced that 15-20 countries is a large enough critical mass to open the Dissemination Standards Bulletin Board to the public on the Internet. We would also want to be more clear about the proportion of developed, developing and transition countries that will be part of the critical mass.

Before subscribing some of our countries may need more time to estimate the cost of the initiative to them.

We also would like clarification about whether the increase in the Statistics Department's budget of five staff years is the total increase in cost to the Fund to adjust to the new standard.

The first module manual designed to assist countries in deciding whether to subscribe to the SDDS will be ready only in April. Some of our countries would like to see the manual before subscribing.

We want to be very clear about the removal procedure from the DSBB during the transition period; therefore, we would suggest to add the word "only" before the word "egregious" on page 7, paragraph 5, line 5 of Supplement 1 to SM/96/83 (Appendix III). The point is implicit on page 24, paragraph 2, line 2 of the same document.

We have already, at last meeting, communicated Colombia's favorable reaction.

Mr. Cserés made the following statement:

Like previous speakers, we endorse the standard for dissemination to the public, and I welcome the staff's suggestion to increase the flexibility of the advanced release calendar. I can go along with the proposed minor modification of the data category of merchandize trade. I think both are fully in accord with the essence of the original approach. I am pleased to announce again that nine of the ten countries in our constituency have confirmed their intention to subscribe during the transition period to the special data dissemination standard. Indeed, some of them are determined to subscribe at a very early stage. Some preliminary examples include Austria, Turkey, and the Czech Republic.

Finally, as we suggested during earlier close cooperation with the statistical agencies, harmonization with Eurostat is essential for establishing a well-functioning system. Therefore, I fully support the recent suggestion of Mr. Havrylyshyn to mention in the report that reviews should provide an opportunity to make adjustments called for by experience throughout the transition period.

Mr. Esdar made the following statement:

The revised version of the SDDS provides more flexibility and meets some of the concerns I expressed at our last meeting. I hope that other remaining questions can be discussed and overcome when the details of the data provision will be discussed on the basis of the manual the staff has announced for later this year.

In addition, I understand that the transition period will not only be seen as a period in which members are expected to adjust to the standards defined; it will also be used to adjust the system to statistical realities of member countries with well established statistical systems, in the light of the experience which will have been gained by then. Therefore, I fully share and support Mr. Havrylyshyn's modification of the text for the report to the Interim Committee. With this understanding, I expect that my authorities will be prepared to subscribe to the system at an early stage.

Mr. Leiva made the following statement:

In the past, this chair has welcomed each of the new features of flexibility and relaxation of rigid norms added to earlier versions of the Special Data Dissemination Standard. At this time, we support the proposal for extending timeliness periods for merchandise trade to eight weeks, allowing more flexibility on released calendars and maintaining a periodicity of one month for international reserves. We regret, however, that our request for revising periodicity and timeliness in other categories and/or components has not been addressed in the present proposal.

Let me be more specific on this subject. I happened to arrive from Chile yesterday, after working with two Fund staff missions and, while in Santiago, I also had the opportunity to consult on this issue in detail with my authorities.

As mentioned in my previous statement (EBM/96/30, 3/29/96), my authorities have carefully evaluated the complexity of adhering to the proposed dissemination standard and have informed the staff about the impossibility to meet the standard's norm for periodicity and timeliness on one category (central government operations) and one component (nominal national accounts). The difficulties originate from several factors: budgetary constraints, availability of qualified human resources, long established statistical practices and political sensibility. These factors are present in other countries as well. In fact, Chile is one of the countries in our constituency with fewer problems to meet the proposed standard.

I will not comment on long established statistical practices and political sensibility. Their effects on data collection and publication are strong but not very different from those experienced in most of Fund member countries. Financial and human resources constraints are more pressing issues in this case. Following its anti-inflationary policy and Fund advice, Chile is under a strict fiscal policy even after registering a 2.8 percent of GDP public finance surplus last year. This restrictive policy makes it very difficult to allocate the necessary human and financial resources in order to meet new statistical demands deriving from the proposed standard.

Considering that this situation is not unique to Chile, I expect that future revisions will include extending periods for periodicity and/or timeliness of categories and/or components when they are not strictly needed to fulfill the purpose of providing a comprehensive picture of each country's performance.

Let me discuss the example of central government operations. Chile publishes quarterly data on this category with one quarter delay. My authorities are convinced that meeting monthly periodicity and timeliness would greatly affect quality of politically sensitive data without adding any new significant information to evaluate Chilean performance on fiscal matters in particular, or in macroeconomic developments in general.

Country member's budgetary constraints should also be considered when addressing cost recovery. It is not the best option to add costs to countries that are making efforts to improve their data collection and publication processes. Other sources, including data users' fees should be considered as alternatives for recovering costs.

On the subject of the critical mass needed to demonstrate the vitality of the initiative, our Chair did not get the impression from our last meeting that a sufficient number of countries was committed to adhere to the standard. Has the staff received additional information on this matter?

Regarding the Managing Director's Report to the Interim Committee, we would like it to be more specific on the flexibility allowed in the SDDS. We suggest that in addition to the example on categories designated "as relevant," the other two flexibility options be explicitly mentioned. We think that this could be easily done in the paragraph that refers to flexibility, contained in SM/96/83, Appendix I, page 5.

Mr. Zhang made the following statement:

As the general position of this chair has been expressed on previous occasions, I wish to reiterate today that first, we welcome Fund efforts in this area and the progress made so far; second, we should strike a proper balance between how far our ambition will carry us and how far the Fund mandate of priority and available resources will permit us to go; third, while remaining enthusiastic, we should maintain our consistent trust in the role of the market;

and fourth, greater pragmatism and flexibility may enhance the effectiveness of our approach.

On the new paper before us, I wish to commend the staff for their quick response to the concerns of the Directors raised during the last discussion. Its elaborations represent another step toward bridging the gap between our ambition and the reality. We have noted and also agree that there is the need for further flexibility to be embodied in the standards.

Although China is not yet ready to subscribe to the special standard, we are working toward meeting it.

Mr. Shields asked Mr. Leiva whether shifting to monthly data on central government operations would involve a reduction in the quality of the quarterly data.

Mr. Leiva said that, in Chile, monthly budget data were obtained from the various spending agencies. The central budget office needed time to categorize and process that data. Moving from three-month to one-month timeliness would mean that the budget office would not have sufficient time to produce data of sufficient quality. In Peru, budget data were also based on monthly reports from spending agencies, and the reporting delay in that country was four months.

Ms. Lissakers suggested that Chile make use of the flexibility options to allow it to subscribe to the Special Data Dissemination Standard.

Mr. Leiva said that a decision had not yet been made to utilize the flexibility options, even though he had advised his authorities of that possibility. However, it was his view that quarterly information on government operations would be sufficient from the point of view of country risk analysis.

Mr. Havrylyshyn emphasized that the transition period had been intended to resolve the kinds of problems Mr. Leiva had mentioned. Over time, the efficiency and effectiveness of data systems would improve and countries should be working toward the requirements of the Special Data Dissemination Standard. Many countries were already exceeding those standards for some data categories. The system, in his view, already had sufficient flexibility. Therefore, the objective should be to agree to launch the very important initiative under consideration.

Mr. Daïri made the following statement:

This chair has, from the start, supported Fund's involvement in encouraging good statistical citizenship, including adequate dissemination of statistics. We see this initiative as extremely useful not only for countries seeking or having access to capital markets, but also, and maybe even more importantly, for information of domestic investors and the public at large.

I am glad to indicate that several members of my constituency have expressed, on a preliminary basis, their readiness to subscribe to the special standards in the initial stage and are looking forward to discussing with Fund mission how they can meet this objective and obtain the necessary technical

assistance. In this respect, I would like to stress that this initiative will encompass a substantial increase in resources available in the Fund for technical assistance, particularly in the Statistics Department. I hope that budgetary constraints will not hinder the success of this initiative. I also feel that these resources will be needed for a limited time only, and would suggest that any increase in staff resources would be essentially on a contractual basis. This initiative will succeed fully only if good practices become deeply rooted in the membership within a four-to-five-year period without further involvement of the Fund. I also feel that if necessary flexibility were introduced in the system, we may be in a position where we would not need general standards as against special standards and where most countries would be able to appear on the bulletin board after a reasonable period.

In this respect, I would support Mr. Havrylyshyn's call for possible revision of the standards during the transition period. Also, like Mr. Waterman, I am interested in hearing the staff's reaction to Mr. Ismael's concern since I find it extremely important for the success and credibility of this exercise that the dynamic emerging markets in Southeast Asia be able to subscribe to the special standards at an early stage.

Finally, I would encourage the staff to have the office of the Executive Directors involved in a systematic way in their discussions with the authorities. I would also encourage the Department of Statistics to make its publications available to the largest extent possible making use of all available data dissemination means.

Mr. Gaspard made the following statement:

I have only one brief comment to make concerning the observance of the standard. I would like to refer to Appendix IV on page 24. I would like to thank the staff for taking into account some of the concerns that were expressed during our last discussion. As I understand it now, there are two phases in relation to the removal of a subscriber. In the course of the transition period, the removal will be by decision of the Executive Board. Following the transition period, procedures for removal will emerge, as I understand it, after a dialogue with the interested member. So far, I find this is an excellent proposal.

My concern, however, is that a detailed list of procedures is envisaged to deal with nonobservance. These procedures are exactly the same as the procedures that were the reason for the concern that was expressed by some speakers during the last discussion. I am concerned that we are prejudging the outcome of the discussions between the staff and the users by proposing these detailed procedures at this early stage. I wonder whether I can suggest that after "dialogue with the interested member" the remainder will be deleted. I do not think that that would affect the substance of the whole proposal.

Mr. Himani made the following statement:

I will refrain from making extensive comments on the proposed standard. This chair has already expressed a number of reservations on this issue, and I do not intend to repeat them. I will, nevertheless, make four comments.

First, I do not see this standard as a semblance of an optimal standard. The collection and dissemination of data is not costless. Furthermore, countries' own data dissemination standards vary according to their own needs and circumstances. Similarly, markets' requirements for data vary across countries. Thus, a one-size-fits-all approach cannot be optimal. It is important that the Fund not vaunt this standard as such.

Second, it is important that the Fund not raise high expectations regarding what this standard will achieve. After all, there are many countries that do not meet the standard whose data are regarded as adequate by markets. We cannot, and should not, give the slightest impression that it is the Fund's view that countries meeting this standard are more creditworthy than those which do not.

Third, I share Mr. Mesaki's concern regarding the references to Article IV consultation reports in Appendix IV.

Fourth, I am concerned with the proposals for monitoring observance with the standard. In particular, posting of a notice on the bulletin board to indicate that a country may not be acting in a manner consistent with the standard will unduly penalize a country before a full investigation of the issues has taken place.

Mr. Saha made the following statement:

This chair supports the thrust of the staff proposal. It provides adequate incentive to strengthen the Fund's surveillance. However, the staff should be prepared to assist members to implement the Special Data Dissemination Standard. In this regard, the manual should be available as soon as possible. I agree with Mr. Ismael that more flexibility should be shown, particularly regarding the timeliness of the national accounts.

Mr. Vernikov made the following statement:

First, as at the previous meeting, I would like to support Mr. Daïri in that we must work toward displaying on the Bulletin Board metadata for as many emerging market countries as possible, even if some of them are not yet prepared to join the Special Standard.

Second, I would endorse the modification to the text of the report, that was proposed by Mr. Havrylyshyn, with regard to the work during the transition period.

Third, and finally, I see merit in the idea expressed by one Director, that we may need to add specificity to the Managing Director's report by providing more detailed information on members' participation in the Special Standard. It is not the same if a country joins the standard by April 1996 or by December 31, 1998. Therefore, it would be practical to distinguish between a decision to subscribe and comply immediately, a decision to subscribe and take advantage of the transition period, and a mere manifestation of interest toward the Special Standard.

Ms. Lissakers said that it would be difficult for the Managing Director's report to the Interim Committee to be more specific concerning potential subscribers to the Special Data Dissemination Standard. In fact, members were expected to use the forum of the Interim Committee to express their intentions to subscribe.

Mr. Coumbis remarked that during the transition period a lot of technical assistance would be needed to help countries to adjust to the requirements of the Special Data Dissemination Standard.

Mr. Kaeser made the following statement:

Issue 1: refinements to the SDDS

In its very short paper, the staff makes some reasonable proposals with regard to the four issues raised during the last discussion on the Special Data Dissemination Standard. We can agree to all of them:

Although we would have preferred the original timeliness of 6 weeks for the data category merchandise trade, the adjustment to 8 weeks does not change the substance of the Special Standard.

For international reserves, a more frequent dissemination of data should be encouraged. Nevertheless, the periodicity of one month remains adequate, among other reasons because this data category is excepted from the second flexibility option of section II.1.c of the standard.

We are not very pleased by the increased flexibility of the Special Standard with respect to the release calendars. As the staff correctly points out in the paper, these calendars are important for achieving equal and ready access to economic and financial data. However, the staff proposal creates only a limited room for additional flexibility, is sufficiently transparent, and can be regarded as a provisional solution until the end of the transition period.

As regards the revised procedure in cases of possible nonobservance of the Special Standard we agree to the proposal to inform the Executive Board before a notice on nonobservance is posted on the DSBB. In order to prevent a unnecessary politicization of the procedure, the Executive Board should not be further involved at this stage, though.

Issue 2: subscription to the SDDS

The refinements to the SDDS proposed in the staff paper do not affect our clear intention to subscribe to the standard. However, as we said already in the discussion of March 29, our definite decision on this issue will only be possible on the basis of the first module of the dissemination standard manual currently being prepared by the staff.

Issue 3: draft report to the Interim Committee

We agree to the draft report to the Interim Committee. The report accurately reflects the substantial progress achieved since the October 1995 meeting of the Interim Committee.

Mr. Autheman made the following statement:

I support Mr. Havrylyshyn's proposed amendment and would like to suggest another one. When the report refers to the flexibility introduced in the design of a standard, in order to recognize differences in the economic structures of countries for which the standard was designed, I think we should add another consideration: for instance, to acknowledge the appropriateness of some national practices which, while not matching all the other requirements of the proposed standard, are broadly recognized as international good practices.

My second comment is that I will need some help from my colleagues in order to be able to answer the only question which my Minister will ask me: which emerging countries participate, and how many are there? I have drawn a tentative list of 24 countries or economies. So far, as I understand it, the positive responses are from Mexico, Turkey, the Czech Republic, Hungary, Colombia, and maybe Chile and Poland. If I have well noted, other countries decided to follow the New Zealand standard and not yet participate. Please correct me if I am wrong. There is Indonesia, Malaysia, Thailand, Korea, the Philippines, Venezuela, Argentina, Saudi Arabia, China, Israel, and Singapore. I am not clear about the status of Poland, Morocco, India, and Kuwait. I do not know how we should interpret Mr. Shields's support as regards Hong Kong, which is a very interesting case. I make this point because that is what we are interested in.

Finally, I would like the Managing Director's report to indicate that a fee will be imposed. I would give two reasons for it. First, we must ensure that our supply, which is costly, meets real market demand. Second, I am concerned by this row of requests for more technical assistance. I do not expect to support requests for increased staff in the statistical department. Therefore, we would need to pay a fee for any technical assistance expenses.

Mr. Shields made the following statement:

With regard to Mr. Autheman's comments, I am delighted that France will subscribe, however reluctantly. I am certainly very keen that these standards have the effect that we all want: that they will ensure that a large number of

countries pursue good statistical practices, and that markets thereby get better information with more confidence in the information they receive. I think, as we discussed on previous occasions, the approach taken seems appropriate, that is, to specify specific data categories and their periodicity, and timeliness, together with aspects of quality, and so forth. So I think it is important that we retain that aspect of this report, and concentrate on what we actually expect in specific data categories rather than provide blanket possibilities to follow other practices.

On the other hand, I can see that this is a new venture. We are continually discovering more features of the exercise, what the requirements will be, and questioning some aspects of the requirements.

I have always preferred the idea of having a review during the transition period. I think Mr. Havrylyshyn is right to make clear what that review will cover. I would hope that a lot of the questions that have been raised could be looked at in the transition phase. One aspect that will be quite important is how the release calendars have been working. We discussed various problems with release calendars during the last discussion, and the staff came up with suggestions for dealing with the situation where a precise day of release could not be identified one week before. I thought it was a sensible notion that, even if there were not one week's notice, we could at least be sure that 24 hours in advance countries would indicate that data would be released. If there are problems associated with particular items of data, countries should know with full confidence 24 hours in advance. I think it is very important that all markets know the precise moment when data are to be released. I note in the revisions to the text that the expression is used that 24 hours advance notice is strongly encouraged. I am happy to see the language a little bit stronger than it was, but my sense is that we really ought to expect that practice to occur for the couple of data categories for which this special privilege is given. Even if it does not happen a week in advance, the expectation will be that the data would be published. So maybe we can look at this when we come to the review.

On the question of how many countries will subscribe, it seems to me absolutely right, as Ms. Lissakers says, that we are looking for the whole period, and the whole idea is to make sure that a large number of countries achieve the standards. That is why I like the transition period idea. Although it is useful for present purposes to differentiate between those who are already able to subscribe, and those who hope to subscribe by the end of the period, I think we can take satisfaction from the number of countries which actually want to take part in this process during the transition period. In my constituency, I certainly hope the United Kingdom will be there at the beginning. Hong Kong may be one of those which has to look for a slightly longer time period.

Mr. Daïri said that he expected most countries in his constituency to subscribe except perhaps for Afghanistan. Expressions of interest had already been received from Tunisia, Iran, Morocco, and Pakistan. With regard to the possibility of a fee for technical assistance received to help meet the new standards, that could be supported providing the low and middle income countries could be excluded.

Ms. Lissakers made the following statement:

We can support the revised staff version of the standard. As we said in our last discussion, we think the weakening of the reserve data requirement is unfortunate, but we understand the difficulties and objections that some countries have, and there is a balance between maximizing the standard and accommodating national differences. I think this is, for now at least, the best we can do.

I think Mr. Havrylyshyn is quite right to request the addition of language that indicates that it is not just operations of the system that can be modified, but that we will also have a review of the extent to which the standard, once it is put in practice, is consistent with both national and market needs. I would hold open the possibility that some aspects could indeed be strengthened after this review, because it may be that the practice has outstripped the standard.
Mr. Havrylyshyn pointed to a couple of indications where our standard is actually lower than current practice. So there can be adjustment in both directions.

My one caution on this would be that countries should not enter the standard on the assumption that there will be a wholesale revision or softening of the standard at the end of the review period. We are going to stick to our basic objective of achieving best practices on each of the data points. Having a high standard that will necessitate an adjustment, probably on most members' statistics, and will lead to an overall improvement of the statistics that are available to national governments, to this organization, and to the markets. We should be very vigilant in our defense of this objective. We support the standard.

Mr. Guzmán-Calafell said that the flexibility introduced into the Special Data Dissemination Standard should assist many emerging market economies to subscribe. On the issue of monthly data on government operations, it might prove necessary to relax the standard further, depending on the number of potential emerging market subscribers.

Ms. Lissakers stated that the Special Data Dissemination Standard was a voluntary standard and that it would remain open for subscription even after the transition period.

Mr. Esdar queried whether the review of the standard could be held six months before the close of the transition period.

Mr. Kafka said that he was concerned about the critical mass of countries needed to launch the Special Data Dissemination Standard. Both the number and composition of countries would be critical factors in determining whether the critical mass had been obtained.

The Director of the Statistics Department said that when the Special Data Dissemination Standard had been launched the informational requirements of globalized markets had been well endorsed. Initial emphasis had been on the information needs of capital markets balanced against the concerns and capabilities of the producers of statistics. The January staff paper had tried to reflect that balance as much as possible.

With regard to the separate standards of the Institute for International Finance (IIF), it was important to note that they pertained only to coverage, periodicity, and timeliness, the Director said. By contrast, the standards that the Fund had established were equally concerned with the integrity of statistics, equal access questions, and issues of data quality. Those additional dimensions of the Fund's standards reflected the call for standards that were in many respects more demanding than those of the IIF; for example, the Fund's standards called for a shorter timeliness requirement on reserves data.

Recalling the difficulties faced by national statistical offices, it was certainly true that they faced tight budget constraints, the Director said. Generally, those agencies tended to find themselves with fewer resources than central banks in fulfilling their mandates.

It was worth recalling that the Board had agreed to a transition period of more than 2½ years that would extend through the end of 1988, the Director remarked. During that time, members would need to try to improve their statistical systems. A number of industrial countries might have difficulties in complying with the proposed standards, and the purpose of the transition period was to provide an adequate breathing space in which improvements could be made. Setting the initial standard at a demanding level had been a deliberate choice, a stance that had received the endorsement of agencies such as the OECD, Eurostat, and the United Nations.

The staff was of the view that the required critical mass of subscribing countries had been obtained, based on indications received so far, the Director said. Some countries were waiting to receive the manual for the Special Data Dissemination Standard before subscribing. With regard to the electronic bulletin board, staff had identified August 31 as a viable date for its commencement.

In trying to respond to questions about observance of the Fund's standards expressed by Directors at the previous meeting, the staff had outlined some suggested procedures, the Director remarked. A requirement was introduced that the first step to be taken in the observance process, following the transition period, would be a notification to the Board. The Board would therefore have the opportunity to address the question and to assess whether further action would be needed. During the previous Board discussion, the staff had emphasized the importance of maintaining the integrity of standard. Such observance questions needed to be addressed because markets would be watching closely to see that members were conforming with the metadata posted on the bulletin board.The staff was, however, of the view that nonobservance would not be a major and frequently occurring problem.

The staff was continuing to examine the modalities for the application of user fees in the context of electronic data dissemination, the Director said.

The demand for technical assistance with respect to the Special Data Dissemination Standard was likely to expand, the Director added. However, since the standard was only in its early phase it would be difficult to estimate the likely level of that demand.The nature of technical assistance would also change. There had been a recent upsurge in requests for assistance with the national accounts, particularly from the transition countries of Europe. On the whole, the Statistics Department was gearing up not only for those new technical assistance demands, but for the production of manuals for the standard, and the preparation of work in relation to the Internet and Web sites.

Mr. Daïri said that during the first discussion of the issue on September 20, he had called for coordinated action between the Fund, the World Bank, and the United Nations institutions, such as the UNDP, and also bilateral donors, to see how technical assistance could be made available on a coordinated basis.

The Director of the Statistics Department remarked that, in a number of contexts, the staff had consulted with colleagues in other international organizations about the Fund's initiative. At a forthcoming meeting in New York of the Working Group of the UN Statistics Commission, there would be a discussion on the subject of critical issues in economic statistics which would take into account the Fund's standards, and the ability of statistical agencies to undertake other work while attempting to meet globalized standards. There would also be an opportunity to discuss technical assistance coordination needs, particularly in the context of the UN Subcommittee on Statistical Activities. In those discussions, the World Bank and the OECD would also be represented. Such coordination activities were given a high priority, but it was to be recognized that coordination was a costly endeavor.

The Deputy Director of the Statistics Department said that previous Board discussions of the standards for international reserves data had focused on periodicity considerations. Additional flexibility had consequently been introduced with respect to periodicity. It was therefore surprising that the present discussion appeared to be revolving around considerations of timeliness for reserves data. Since timeliness had not been discussed previously, the staff had not made any changes in that regard and had kept the timeliness requirement at one week for reserves data. Moreover, reserves data were not a census-based series, and that was one of the considerations in having a transition period that would make it possible to bring about any changes to reach a timeliness within one week of the close of the reference month.

With regard to the periodicity and frequency of compilation for national accounts and balance of payments data, the staff paper had reflected the belief that quarterly periodicity was important for the kind of countries that the Fund could expect to aspire to the more demanding standard, the Deputy Director added.There was flexibility with respect to timeliness, but the quarterly periodicity remained firm. In that context, it should be noted that importance had been attached to quarterly national accounts and balance of payments in the transition countries in Europe. A regional seminar had just been held on that subject which was jointly sponsored by the OECD and the Fund.

While the Fund had stressed the importance of the quarterly periodicity of national accounts and balance of payments, it had allowed for flexibility on timeliness. The idea was that over the transition period countries would move toward quarterly periodicity. It needed to be borne in mind that both balance of payments and national accounts data were very complicated to assemble.

The staff representative from the Policy Development and Review Department remarked that, from the point of view of the public and the markets, the best practice was to move toward more frequent and more timely provision of foreign reserves data. It was striking that, in the case of Argentina, foreign reserves data were already available on a daily basis, with a two-day lag. There was now also a similar practice in Mexico. While the staff had not gone as far as that in its proposals, it had tried to be ambitious in specifying the standards.

Experience with Fund mission work suggested that the key items on a central bank balance sheet can typically be put together very quickly, the staff representative added. Countries may have some difficulties with other aspects of the standard, but the capability existed for quickly producing data ordinarily needed for central bank balance sheets.

Mr. Ismael said that he understood how resources could be mobilized on a one-off basis to produce data for the specific purpose of Article IV consultation discussions, but that could not be expected to be maintained as a routine activity.

The staff representative from the Policy Development and Review Department said that it had been proposed to review experience with the Special Data Dissemination Standard at the end of 1997, and again at the end of the transition period, that is, at the end of 1998.

The Executive Board's approval for the operation of the SDDS had been obtained at the March 29 Board meeting, as indicated in the summing up for that meeting, the staff representative added. That approval was not contingent on any specific number of countries or mix of countries joining the initiative. What had been suggested in an earlier staff paper was that the timing of the opening of the Dissemination Standards Bulletin Board would wait until a critical mass of countries had subscribed.The indications in the March 29 Board meeting were that the critical mass had been achieved. Therefore, the proposal in the staff paper was that the bulletin board would open at the end of August. It appeared that 24 or 25 countries had provided a preliminary indication that they would subscribe in the initial phase, with about 11 or 12 nonindustrial countries in that group. It was expected that more countries would announce their intentions during the Interim Committee meetings.

Mr. Kafka asked whether the proposed increase in the Statistics Department's budget of five staff years would be the total increase in cost to the Fund to adjust to the new standard.

The Director of the Statistics Department confirmed that the budget proposal was for five additional staff years to address the needs of the Data Dissemination Standards.

Mr. Kafka queried the likely cost of technical assistance to support the Special Data Dissemination Standard.

The Director of the Statistics Department said that an excess demand for technical assistance had begun to emerge, though the nature and composition of the demand could not be determined. In terms of coordination with other international organizations, Eurostat was a significant provider of technical assistance resources to the European transition countries, but it also had programs in Latin America and in Africa. The OECD had also been providing technical assistance to the transition countries but other international agencies, such as the UN Statistics Division, had fewer resources.

The introduction of a fee for users of the bulletin board was envisaged in due course, the Director said. The staff had been consulting with experts in the field of electronic communications to determine the modalities by which the Fund could obtain some cost offsets.

Ms. Lissakers said that, in terms of improving country data as a routine part of Article IV consultations, sometimes supplemented with special technical assistance, the data

standard would likely make that process easier because there would be a clear goal toward which to work.

After a discussion of various drafting changes to the staff report and its associated annexes, the Secretary summarized the agreed text modifications as follows: on page 4 of SM/96/83, in the third full paragraph, "about members" would be replaced by "a significant number of members"; on page 5, at the beginning of the of the fourth full paragraph, the first sentence would be replaced by Mr. Havrylyshyn's amendment that read: "A transition period will extend through the end of 1998. This will allow countries time in which to make adjustments to their dissemination practices. It will also allow the Fund, in cooperation with members, to continue elaborating more fully certain operational aspects, and to undertake reviews of the standards' conformity with countries' reasonable best practices and countries' other relevant concerns;" on page 6, last paragraph, first line, "The Interim Committee endorsed, as the second tier, a standard that..." would be replaced by "The Interim Committee *also endorsed the establishment of a general standard that...;" and, all references to* "internationally recognized statistical experts" would be replaced by "independent statistical experts." Finally, with regard to SM/96/83, Supplement 1, page 24, Appendix IV, the sentence before the bullet points, and including the bullet points, would be replaced by "Such procedures, which would need to operate in a timely fashion, could involve arrangements to draw on the advice of a panel of independent statistical experts and would, of course, provide the country concerned with a full opportunity to present its position. The removal of a subscribing member from the DSBB, which would provide a public indication that a member was not in observance of its commitments, would be decided by the IMF Executive Board."

The Acting Chairman made the following summing up:

Executive Directors noted that the Interim Committee, in its communiqué of October 8, 1995, had endorsed the establishment by the Fund of standards to guide members in the publication of their economic and financial data. Those standards would consist of two tiers: a general standard, and a more demanding standard, now designated as the Special Data Dissemination Standard (SDDS). They recalled that the Interim Committee had requested that Fund members have the opportunity to subscribe to the SDDS by the time of the April 1996 Interim Committee meeting and were gratified that this objective would be achieved. Directors also appreciated the speedy staff work that had gone into the data dissemination initiative and the widespread consultation with users and producers of statistics, national authorities, and other international organizations that had been undertaken in preparation of the specific staff proposals.

Directors recalled their earlier approval, at the meeting of March 29, 1996, of the SDDS and of its immediate opening for subscription on a voluntary basis. They recognized that the establishment of the SDDS was an important step for the Fund and for its membership. Directors emphasized that in the initial phase the approach to its implementation would inevitably need to be both flexible and evolutionary.

Directors discussed the elaborations proposed by the staff regarding the timeliness of foreign trade data, the periodicity of foreign reserves data, some

flexibility for release calendars, and procedures in case of possible nonobservance of the SDDS. In light of the above considerations, the Executive Board approved those elaborations to the SDDS, whose scope and operational characteristics are set forth in the Annex to this summing up.

Executive Directors took note that a significant number of member countries had provided indications of their intention to subscribe to the SDDS and agreed that the electronic Dissemination Standards Bulletin Board (DSBB) should be open to the public by the end of August 1996. Directors also welcomed the preparation by the staff of an operations manual that would soon become available.

Directors observed that the SDDS was ambitious. At the same time, they welcomed the several aspects of flexibility built into the standard. They also noted that reviews of the operation of, and experience with, the SDDS would provide the opportunity to make adjustments that might be called for as experience accumulated through the transition period that would end at the close of 1998.

Directors agreed that invitations for subscription should be sent by the Managing Director as soon as possible. The package of materials would comprise a communication from the Managing Director, and, to be sent separately, this summing up with its Annex, and a paper entitled the Special Data Dissemination Standard (SM/96/83, Sup. 2, 4/15/96, to be circulated).

Directors called for work to continue on the elaboration of the general data dissemination standard for Board consideration before the end of 1996. They also called for a review of the operation of the special and general data dissemination standards by the end of 1997, and another review before the completion of the transition period at the end of 1998.

2. ARGENTINA—STAND-BY ARRANGEMENT

The Executive Directors considered a staff paper on Argentina's request for a 21-month stand-by arrangement in an amount equivalent to SDR 720 million (EBS/96/45, 3/15/96).

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

The following information has become available since the staff report was circulated to the Executive Board. The information does not change the thrust of the staff appraisal.

Full national accounts data for 1995 indicate that real GDP for the year as a whole contracted by 4.4 percent instead of 3.7 percent estimated in the report. This reduction reflects a downward revision of real GDP figures for the third and fourth quarter, which in turn is based on larger than estimated adverse

effects of a drought on the second (i.e., spring) harvest of the year. However, on a seasonally adjusted basis, the data remain consistent with the beginning of a recovery of economic activity towards the end of 1995. Partial indicators of sales and production show further increases (seasonally adjusted) during January-February 1996.

Consumer prices declined by 0.1 percent during the first quarter of 1996, bringing inflation in the twelve months ending in March to 0.2 percent. Wholesale prices, which are weighted more heavily towards tradeable goods, increased by 0.6 percent during the first quarter of 1996 and were some 5 percent higher than in the first quarter of last year. Real wages in early 1996 are estimated to be some 1 percent below their level of a year earlier.

The external trade deficit in the first two months of 1996 amounted to $365 million (with imports on a c.i.f. basis), somewhat larger than anticipated in the program. The shortfall is largely explained by lower agricultural exports as a consequence of the disappointing second grain harvest of 1995. Imports increased at about the rate projected in the program.

Private sector deposits in the banking system continued to rise, and in March the authorities implemented measures to reduce distortionary taxes on financial transactions and help the recovery of credit to the private sector. A 2 percent surcharge on bank's interest earnings, earmarked to finance the bank employees' health care agency, was eliminated effective July 1996. The value-added tax on interest payments charged by the banking system was halved to 10.5 percent; the value-added tax on purchases of new residential property was also halved. The fiscal cost of these last two measures is preliminarily estimated at about Arg $130 million (0.04 percent of GDP) on an annual basis.

Preliminary information suggests that the program's indicative targets for end-March 1996 are likely to have been met. Tax and social security revenues were Arg $260 million below program (some 2 percent of programmed revenue), but it appears that this shortfall was offset by higher nontax revenue and by lower expenditures, including in transfers to provinces. The indicative targets on free international reserves and net domestic assets of the Central Bank were met.

Mr. Zoccali made the following statement:

The conclusion at the end of March 1996 of the economic program supported by a fourth-year arrangement under the Extended Fund Facility (EFF) marks impressive gains in stabilization and structural transformation of the Argentine economy since the adoption of the Convertibility Law five years ago. Argentina has shed, within the framework of vibrant democratic institutions, its inward orientation, interventionist public policies, and the collective impoverishment that resulted from decades of very high inflation and stagnation. At the same time, the environment of globalization has posed new challenges and served to heighten awareness of the need to maintain policy credibility and

market confidence by pursuing macroeconomic stability and the elimination of remaining distortions in the economy.

Today, on the verge of a new successor arrangement with the Fund, my authorities remain intent on concluding the administrative reform of the state, on improving the incentive structure for employment creation with continued productivity growth, on increasing domestic savings, and on combating poverty. In this regard, they especially value the support received from the Fund and the readiness of management and staff to assist them in their ongoing adjustment efforts.

The staff has fully reported on the spill-over effects from the devaluation of the Mexican peso, triggering a large decline of bank deposits, an interruption of domestic credit, particularly to small and medium-sized firms, and a pronounced drop in economic activity and employment in 1995. Adjustment measures were rapidly adopted despite the presidential elections in May to ensure the sustainability of the Convertibility Plan. The cumulative 35 percent real GDP growth achieved in the period 1991-94 gave way, however, to a more pronounced and protracted recession than anticipated. Economic activity contracted in 1995 by 4.4 percent in real terms. This needs to be kept in mind when assessing Argentina's fiscal performance against the revised targets for end-1995 under the EFF program.

The cumulative deviations as calculated by the staff in EBS/96/44, amounting in the case of the overall deficit of the nonfinancial public sector to less than 0.5 percent of GDP, were essentially attributable to the modality used to secure budgetary revenue from the tax moratorium envisaged in the revised program to broaden the tax base and counter the adverse effects of the credit crunch on economic activity and tax compliance. Given the large number of taxpayers taking advantage of the moratorium in December, and the complexity of the original plan of discounting in the banking system individual pledges, my authorities considered the discount of a single amount of approximately $1.3 billion against Treasury risk to be a faster and less expensive alternative for securing ordinary revenue in accordance with the Budget Law.

Despite recessionary conditions, the fiscal stance in 1995 remained firm. Tight control over expenditure outlays was maintained and fiscal policy overall exerted a negative impulse on the economy of one percent of GDP. More generally, the policy framework helped restore deposits, bank reserves, and domestic interest rates to pre-crisis levels, international reserves and "free-reserves" exceeded program targets by sizable margins, CPI inflation declined to 1.6 percent, the lowest annual rate in fifty years, and the trade account shifted into surplus, representing a $6 billion turnaround, as a consequence of export volume growth of almost 24 percent and favorable prices. The high level of unemployment, although some 2 percent lower than in May 1995, stands out as the most serious challenge confronting my authorities. It reflects the structural transformation that brought into the open a previously disguised situation of low productivity employment, a much lower labor participation rate than that in similar countries, as well as the cyclical downturn

in economic activity in 1995 precipitated by the external shock. Job creation has become a top priority that is being addressed through further structural reforms particularly of the labor market, active training programs and the reduction of nonwage disincentives rather than through deliberate macroeconomic stimulation.

Leading indicators of industrial activity for January-February 1996 point to an incipient recovery on a seasonally adjusted basis vis-à-vis that of the last two months of 1995 and to the smallest decline since last July measured against a similar period of a year earlier. Electricity and gas production in the first two months of the year rose by 5.3 and 15.4 percent, respectively. Value-added tax (VAT) collection has picked up and private estimates of aggregate demand for March show a positive trend accompanied by a further decline in inventories and a rise in bank credit. The halving of the VAT rate on interest payments on April 1, affecting only consumption loans and new residential housing sales, is expected to boost demand with negligible fiscal costs in static terms and may even contribute to improving overall collection.The coarse grain harvest in 1996 will also help to ameliorate the economic climate as a result of reasonably good projected yields, despite drought conditions in some areas, and continued favorable international prices. Annual CPI inflation at end-March was only 0.2 percent despite a 3 percent increase in the VAT rate last year. Thus, my authorities consider that the ground work has been laid for a sustained bounce back of the economy in the latter half of the year.

The policy mix being pursued has consistently aimed at securing strong fundamentals. The events of the past year have served to demonstrate the resolve of my authorities and that of the population to preserve Argentina's hard-won price stability. In recent months, an excessive sensitivity of markets to open political debate on governance issues, considered healthy in more mature democratic societies, has had an undesirable impact on the pace and timing of the recovery. To deal with this issue head on, the outward, market-based orientation of economic policy centered on the convertibility framework which worked well during the last five years, has been reaffirmed by the highest authorities of the Argentine Government. Moreover, they view it essential to consolidate equitable growth and full credibility after Argentina's long history of very high inflation.

My authorities welcome the frank and focused staff report and share the thrust of the appraisal of the key policy issues facing Argentina. They also consider the 2.5 percent real GDP growth projection assumed in the program for 1996 to be well within reach in light of recent developments. Consequently, I will address a few salient points.

The first relates to the ongoing realignment of relative prices in favor of the tradeable sector, after back-to-back improvements of some 5 and 6 percent in 1994 and 1995, respectively, without a change in the nominal anchor of the program. External competitiveness has also been enhanced by deregulation, the reduction of distortive taxation and the stimulus for technological change and productivity increases from trade opening and privatization.

The sharp increase in unemployment in 1995 has facilitated the adoption of further flexibility in the labor market, including new forms of work contracts, more flexible work hours, and direct wage negotiation for small and medium sized firms and new ventures not covered by existing collective wage bargaining agreements. Real wages in the manufacturing sector fell by 2.4 percent in 1995, reflecting in part significant downward corrections in nominal remunerations. A similar trend was observed in the retail sector, as well as in some levels of the national and provincial administrations. In addition, total labor costs declined as a result of phased reductions in payroll taxes of between 30 to 80 percent. Its full impact represented an average drop in nonwage labor costs for the industrial sector of almost a third compared to the levels prevailing in the period March-August 1995. Given the simultaneous growth in productivity, private estimates of unit labor costs which had remained unchanged in the period 1991-93, declined by some 17 percent since then. The consequences of this policy approach for competitiveness can be summed up in the 26 and 32 percent average annual growth rates of total exports and exports of industrial origin since 1993, respectively.

Second, the broader measure of the fiscal balance consolidating the accounts of the federal government with those of the provinces and other fiscal operations introduced by staff in page 4 of EBS/96/45, is deemed useful to assess the overall fiscal stance. At the same time, my authorities consider that further technical exchanges will be required to ensure macroeconomic consistency both in the areas of provincial fiscal data and methodology used by staff, which for example under the rubric of "other fiscal operations" implicitly assigns zero residual value to the collateral acquired by the trust funds set up for the restructuring of private and provincial banks.

More importantly, the broader measure of fiscal performance in 1995 underplays the extent of the underlying effort of fiscal consolidation. In that regard, it fails to adequately reflect the introduction of important medium and long-term structural reforms. These include the elimination of over 20 distortionary taxes, of quasi-fiscal activities, the establishment of trust funds to support the privatization and restructuring of provincial and private banks, and last, but certainly not least, the revamping of the social security system. Overdue pension liabilities of the federal government are now reflected in the budget while the social security contributions being channeled to privately administered pension funds are no longer available to finance the pay-as-you-go system. Nevertheless, it is worth noting that assets of private pension funds already exceed $3 billion and are expected to reach $15 billion by the year 2000. This reform has also served to reawaken the culture of savings in Argentina, which over time will serve to deepen the domestic capital market, thus lowering the country's vulnerability to volatile capital flows.

Third, the ability of the provinces to sustain fiscal adjustment and structural reforms clearly impinges on Argentina's fiscal outlook and potential growth prospects over the medium-term. The most significant development in this regard is the generalized recognition by provincial administrations that the most effective way to deal with their financial strains is through their own

efforts. Many provinces have undertaken politically unpopular cuts in nominal wages and employment to compensate for lower levels of coparticipated revenue. Provincial fiscal discipline is being further reinforced by their decision to privatize loss-making utility companies and banks, with the financial and technical support of the IBRD and the IDB. The second linchpin of this effort is the gradual transfer of underfunded provincial social security systems to the federal government in exchange for further fiscal adjustment and structural reforms. An appropriate institutional mechanism is also being developed to link the use of guarantees of coparticipated revenue for the restructuring of provincial debts to the attainment of specific benchmarks in the area of tax policy and administration, deregulation and privatization.

Lastly, with respect to the banking system, the tightening early-on of supervisory and prudential standards helped to contain the effects of last year's liquidity shock and the stress caused by the ensuing recession. In this regard, it is important to distinguish between the behavior of private and official banks, as the latter grouping includes chronically weak provincial banks. While non-performing loans increased sharply in the first semester and bank profitability declined as a consequence of higher loan-loss provisioning, the proportion of impaired loans adjusted for provisioning to total loans has stabilized in October at around 5.3 percent. Banks were required to accumulate additional provisioning on the basis of the rate of interest charged as a proxy of credit risk, to observe limits on risk concentration and to maintain relatively high non-remunerated legal reserves. At end-December 1995, capital of the banking system exceeded by some 63 percent the already demanding requirement of 12 percent of risk assets. Since July large efficiency gains were also observed, reflecting lower operational and funding costs and the shift in August to remunerated liquidity requirements. In February of this year, the liquidity requirement was broadened to cover all bank liabilities. Another noteworthy aspect of Argentina's essentially passive monetary policy is that the interest-rate defense mechanism under the convertibility arrangement worked as intended. Following the sharp increase associated with the unprecedented withdrawal of deposits in early 1995, domestic interest rates declined rapidly with the return of market confidence. The interbank rate for call money presently stands at around 5.5 and 5.125 percent a year and the lending rate for prime borrowers at 10.1 and 9.1 percent a year in pesos and dollars, respectively. Even more significant for a country accustomed to operating without long-term financing, housing credit of up to 20 years has reappeared.

Two fully funded fiduciary trusts helped to accelerate the process of banking restructuring. Since the beginning of last year the number of financial institutions operating in Argentina declined by over 25 percent to 153 at end-March 1996. Net mergers reached 43, ten private banks were closed, nine provincial banks were privatized and another nine are in the process of privatization, and one new foreign bank began operating in the country. Mergers and acquisitions are being encouraged and legislation was recently enacted to limit the scope of possible legal claims stemming from prior bad management decisions in weakened institutions. Nevertheless, my authorities consider that the restructuring process should continue to rely essentially on market incentives.

This approach, combined with the absence of an official deposit guarantee scheme limited the fiscal impact of the external shock to the banking system. The privately funded deposit-guarantee scheme introduced last April, will serve to preserve fiscal discipline while enhancing depositor confidence.

Consistent with the approach being followed to restore policy credibility, additional measures were announced in March, to facilitate a faster decline in banks' intermediation spreads, including in particular the phasing out of distortionary employer health-related contributions based on gross interest-income. To further strengthen the ability of the banking system to withstand market volatility and general and counterpart market risk, the central bank will soon implement the new Basle guidelines for setting minimum capital requirements as a function of the trading risks in portfolios. In a broad sense, Argentina's ruled-based monetary policy is fostering price and market stability, deemed essential for the further remonetization of the economy. The still relatively low level of monetization, of 18 percent of GDP, suggests the ample scope for sustaining strong non-inflationary growth over the medium-term.

Finally, my authorities appreciate the close relationship established with the Fund and consider the 21-month successor Stand-By Arrangement essential to consolidate market confidence and sustain the process of recovery now underway.

Mr. Mohammed, speaking on behalf of Mr. Shaalan, made the following statement:

The Argentine economy has weathered the decline in confidence following the Mexican crisis relatively well. Thanks to the responsible response of the authorities, the drop in economic activity was limited to 4.4 percent in real terms despite the significant spillover effect of the Mexican crisis and the recent drought. In the meantime, exports grew strongly and inflation remained low. After a period of severe disruption in the financial market, interest rates declined to their pre-crisis levels, domestic deposits were restored, and access to international capital markets was regained. In this regard, it is important to note that it was the authorities' commitment to the Convertibility Plan and to a sound fiscal policy, together with the productivity gains resulting from earlier strong structural reforms, that were the important factors behind the relatively quick arrest of the decline in confidence associated with the crisis. The challenge presently facing the authorities is the achievement of a speedy and sustainable recovery that would help reduce the high level of unemployment and further improve public finances.

Central to the program before us is the authorities' continued commitment to the Convertibility Plan which provides the economy with a strong nominal anchor and guards against fiscal relaxation. The appeal of this policy is clear when viewed against Argentina's not-too-distant history of hyperinflation and its present competitive position as evidenced by the recent strong exports performance. The continued success of this policy, however, hinges on strengthening fiscal consolidation as well as deepening structural reforms. I shall limit the rest of my statement to these two important areas.

The authorities are to be commended for their fiscal consolidation efforts even though they did not fully translate into the targeted revenue in 1995. This was due to the weakening in economic activity and to the short-term adverse effect of some reform measures such as the elimination of several distortionary taxes and the shift to private pension schemes which resulted in a decline in social security contributions. While fiscal prospects for 1996 and 1997 appear to be favorable, the outcome will depend on the timeliness and strength of the expected recovery and the authorities' commitment to take additional measures if needed to meet the program's fiscal targets of a small deficit in 1996 and a balanced budget in 1997. In this connection, we are encouraged by the recent authorization by the Congress to extend the VAT surcharge and to eliminate various tax exemptions if needed. Also encouraging is the intention of the authorities to strengthen tax administration and to improve the finances of provincial governments. Nevertheless, it is a matter of concern that the staff is still uncertain that the fiscal targets would be fully met even with the implementation of all authorized measures if the recovery is delayed.This distinct risk may, inter alia, endanger the credibility of the Convertibility Plan and gives added impetus to the case for further structural reforms in order to enhance confidence and lay the grounds for an early recovery.

Argentina's record on structural reforms is impressive, particularly in privatization, price decontrol, trade liberalization, social services, and the labor market. These reforms have already translated into cost reductions and productivity gains. Further reforms are needed, however, particularly in restructuring the federal and provincial governments. Of particular importance are a further reduction of the provincial civil service, privatization of provincial enterprises, and the transfer of provincial pension systems to the federal government.

As regards the banking sector, it is encouraging that banks have started to recover from the crisis of early 1995 as a result of the significant restructuring undertaken with the help of the World Bank and the IDB, coupled with the reflow of deposits as confidence was restored. The banks, however, remain reluctant to increase credit to the private sector partly due to the rise in non-performing loans. In such a situation and in view of the absence of a lender-of-last-resort, it is crucial to further tighten prudential regulations and supervision. The authorities' intentions in this regard, as highlighted in Mr. Zoccali's most helpful statement, are welcome.

In conclusion, in view of the authorities' commitment to the reform program and their readiness to take additional measures if needed, it is clear that the remaining risk facing the program is related to uncertainties about the pace of recovery which would have adverse implications for the fiscal targets and the banking sector. By approving the Stand-By Arrangement for Argentina today, we offer the authorities the support they deserve in their efforts to enhance confidence in the performance and the prospects of the economy.

Mr. Havrylyshyn made the following statement:

Although the economic situation in Argentina is difficult and fragile, it is not easy to find a great deal to say without merely repeating the position of the authorities and staff. As I concur with most of the report, I will make only three brief comments. First, some general remarks for emphasis and support; second a comment on province-level policy measures, and third a comment on external trade.

The year 1995 was one of contrasts for the Argentinean economy: it was a good year for authorities which showed the resilience to ward off contagion effects of the Mexico crisis but it was also a very harsh year, with a large fall in output, very high unemployment and consequent fiscal problems. The outcome, on balance, is to the credit of the Argentinean authorities who managed to limit the damage of a severe confidence crisis and to react in a timely fashion to minimize the fiscal worsening. But there remains a risk of a prolongation of the recession, therefore continued vigilance is required. Based on the authorities' past performance we have confidence they will implement the necessary steps.

On the exchange rate I can for now concur with staff's position that under present circumstances there is no credible alternative to the current arrangement, though of course such a view does not preclude returning to the question once the circumstances improve. Also, it is important to emphasize, as Mr. Shaalan does, the fundamental role of fiscal consolidation which underpins the arrangement.

Finally, one cannot emphasize enough the importance of continuing the various structural reforms that have begun—and indeed gone quite far—reforms that are laying the basis for growing confidence, recovery, renewal of a savings culture as Mr. Zoccali said, and long term productivity increases leading not only to short-run recovery but to sustained long term growth.

Fiscal stance, as opposed to cyclical fiscal changes, has been and continues to be very strong and effective at the federal level. Until recently, this has been much less true for the provinces, hence it is of great importance to devote policy-makers' energies to move provincial fiscalism towards a more viable position. The various measures proposed are sensible and welcome, but I do have a question, perhaps only of clarification, concerning province-owned enterprises. The staff on report page 1, last paragraph, notes that "almost all federal (my emphasis) enterprises were sold off." On page 9, paragraph 2 refers broadly to further privatization. What is unclear to me, is: how much state-ownership remains at the provincial-level; how does this affect provincial fiscal positions; and what plans are there for a big push in provincial privatization?

Trade liberalization and trade performance has been one of the highlights of Argentina's adjustment efforts, reflective both of the travails involved and the successes achieved. I wish only to make a perhaps nuanced point on the very rapid expansion of imports since 1990 (staff reports a quadrupling). While a

worsening of trade and/or current account deficit should always be taken as a signal for caution, I am not sure that a sharp rise in the import ratio in itself is a reason for concern; indeed it may in fact be interpreted as a positive development. Trade liberalization is intended to open a formerly closed economy, and more imports are at least as important as more exports to provide a stimulus to competition, efficiency, and resource reallocation. It is comforting to see that the period of very high opening up also saw a solid rise (though still too small) in savings, as well as strong growth of productivity. Combined with an overall external balance situation that staff regards as reasonable, the indications on the external trade side suggest a solid beginning to the necessary adjustment between tradables and nontradables. The only recommendation necessary is perseverance.

I do, however, have a question about MERCOSUR. The past history of regional trade arrangements not only in Latin America but also other developing regions is generally not too good, as they too often resulted in more trade-diversion than trade-creation. While this would not appear to be the case with MERCOSUR today, I would appreciate staff commenting briefly on the nature of MERCOSUR, and how the risks of trade-diversion have been minimized.

With these remarks, we lend our support to approval of the Stand-By Arrangement.

Ms. Lissakers made the following statement:

At our last formal Board discussion of Argentina in September 1995, the economy was just emerging from the post-Mexico shock. At the time, we observed a rising level of dollarization and substantial spreads between domestic and foreign borrowing costs.The economy had weakened, and spontaneous capital inflows had not resumed to any significant extent.

As the staff statement and Mr. Zoccali confirm, the recession of 1995 was very deep. Inflation, not surprisingly under the circumstances, was negligible. Structural reforms and productivity gains helped to maintain an adequate level of external competitiveness, and a strong export performance in the first half of the year restored the trade account to a surplus, and narrowed the current account deficit for the year.

Certainly, in surveying the fundamental profile of the economy at present, and comparing it with conditions before the passage of the convertibility plan in March 1991, one has to say that the authorities have made enormous progress in rationalizing federal and, now, more recently, provincial fiscal arrears, controlling inflation, reforming the financial sector, and restructuring the economy generally. Without question, the discipline imposed by convertibility has helped the government to navigate the very rough wake of the Mexican crisis.

Nevertheless, the Stand-By Arrangement we are considering today succeeds an extended arrangement in which a number of fiscal targets were

missed, partly because of the cyclical downturn, but also because of insufficient fiscal tightening, particularly in the latter part of 1994, which contributed to a loss of confidence in the currency board arrangement and did leave the economy vulnerable to the consequences of the Mexican crisis.

The authorities face some of the same challenges now, in the sense that the delay in economic recovery could depress tax revenues, making the fiscal targets difficult to achieve. Some might argue that additional fiscal restraint could be counterproductive, further depressing growth and tax revenues, and jeopardizing the success of the stand-by arrangement. Certainly, there is a delicate balance to be achieved here.

It seems to us, given the history of Argentina, that it is essential to maintain confidence in the convertibility scheme by adhering to strong and credible policies. That, indeed, seems to be the attitude of the authorities as well. We agree that fiscal discipline, particularly to create room for growth in the private sector, which is likely to be the source of future growth in Argentina, must be maintained. We are relieved that both sides agree that fiscal stimulus would provide only marginal impetus to a private sector led recovery, while the negative impulse of the fiscal restraint is likely to be outweighed by its positive impact on confidence and on private capital flows.

We have been quite concerned about the lack of recovery. I was encouraged by "the first green shoots of recovery" that Mr. Zoccali refers to, and I would ask the staff whether it agrees with this tentative but somewhat more optimistic assessment of what is going on now in the Argentine economy.

The legislation that is in place certainly expands the government's leeway, should the need arise, and we certainly hope it will not, to cut expenditures further and to boost revenue. We think the program and the subsequent legislative measures provide the level of discretion, and signal a strong commitment by the authorities to maintain the very highly disciplined policies that have been followed in recent years.

On the monetary side, measures to improve the level of liquid assets in commercial banks, to rebuild the free reserve position of the central bank and restructure the banking system, will also help to reinforce the currency board regime, given the absence of a lender of last resort. We concur with the staff and the authorities that the nominal exchange rate anchor should be maintained for the time being, given the prevailing financial uncertainties and the country's previous experience with inflation.

We observe the reflows of bank deposits and the restored access to foreign borrowing on more favorable terms. I was quite interested in Mr. Zoccali's note that 20-year mortgages are beginning to be available. But there is clearly still much more to be done in privatizing the troubled provincial banks and a number of smaller second-tier banks in Argentina that are quite vulnerable to loss of reserves and that, as the staff report notes, are unable to compete with larger, stronger banks. Certainly, a speedy merger or acquisition of

these institutions, or even liquidation, would seem to be in order. Could the staff elaborate a little bit on what is happening in the banking sector?

It is also clear that credit remains very tight, although I suppose it is hard to see how much is lack of credit demand and how much is credit stringency. Obviously, the weakness of the banking sector is an impediment to economic recovery. Nonprime lending rates remain multiples of prime, and last year's recession has hindered the servicing of already high consumer and corporate debt burdens, constraining the capacity to incur new debt. So I do not think we should understate the risks that remain in the Argentine outlook, and therefore the risks in this program. There is, one suspects, still a serious confidence problem, particularly with regard to the banking system. Of course, as we have seen in other countries, as inflation disappears, the pressure on the banking system increases.

Finally, on savings, I guess it is the one aspect of the feature of the Argentine economic situation that is most worrisome, and that is very low, even by Latin America standards, and without improved savings it is unlikely that the economy will really be able to sustain a high growth level without balance of payments problems. I did note Mr. Zoccali's reference to the apparent initial success of the pension reform. If the Chilean experience is relevant then that could have a considerably positive impact on the savings rate. I certainly hope that is so.

I am a little concerned about the trade pattern. Looking at Chart 3 on page 4(b) of the staff report, I wonder whether the staff could elaborate a little bit on what is happening in nonagricultural exports. It is picking up at the end of January. It was not clear to me why one saw this sharp drop-off in industrial production, and in imports, and in reserves at the end of 1995. Maybe the staff could shed some light on that. Is it the staff's view that agricultural exports are still the key to the balance of payments or is the picture becoming a little more complex? Given where commodity prices are right now, I would assume Argentina would do well if the crops are decent, but there are such enormous fluctuations in those export earnings that one would like to see some broadening of the export base. With that, we can support the proposed decision.

Mr. Calderón made the following statement:

During last September's discussion, this chair praised the authorities for the package of strong measures they had adopted, and that was at a time when the authorities and the staff believed that the economy was not going to grow. Now we are told that real GDP growth was—4.4 percent. This makes their efforts seem even more valiant.

As the staff points out, even if there were significant deviations in the fiscal performance, it is clear that a cyclically-adjusted tight fiscal stance was maintained. Furthermore, these policies seem to have contributed by 1 percentage point in the negative performance of the economy.

In sum, the efforts made in preserving macroeconomic stability, and in defending the convertibility plan are clearly worthwhile, but the costs have not been low.

On policy discussions, I agree that private sector confidence is the key to restoring sound economic growth, and a major part of that credibility comes from a strong fiscal position. The idea is to enter the virtuous circle of sound fiscal policy, increased private confidence, private capital flows, economic recovery, higher fiscal revenues, and so on.

The 1996 program assumes real GDP growth of 2½ percent, which under the present circumstances seems plausible. But like the staff, we also see the risks of a further delay in the timing of the recovery and the negative effects this would have on the fiscal stance. If that turned out to be the case, we could again be seeing negative GDP growth and relatively high fiscal deficits.

The staff tells us that even if the authorities implement all of the budget measures, the fiscal outcome may fall short of the target. Hence, we would urge the government to devise additional contingency plans. In terms of our virtuous circle metaphor, the authorities cannot rely, for the first step, on the recovery of the economy. The first step must be achieving and sustaining a credible tight fiscal stance. This is usually the case for all countries but it is even more so in the case of Argentina's currency board system, and only then will we be sure that economic growth will follow.

On structural reforms, we welcome the government's plan to reform the existing legislation on part-time employment, and on small- and medium-size enterprises, by lowering employers' social security contributions. As we saw in a recent Fund paper, Argentina has one of the highest payroll taxes in the world. This must definitely contribute to its high unemployment rate.

The staff shares the authorities assessment that the present competitive position is broadly adequate. I would be somewhat more cautious. The cyclically-adjusted current account deficit is close to 3 percent of GDP, which is not far from the 3.7 percent deficit of 1994. (By the way, and off the record, during a recent trip I made to Argentina I found the country beautiful as always, but quite expensive). Consequently, I find that speeding and extending the scope of structural reforms to foster the country's competitive position is warranted.

In conclusion, the authorities' strong past performance indicates that they will again adopt the necessary measures in the months and years to come. Therefore, we strongly support their request for a Stand-By Arrangement.

Mr. Schoenberg made the following statement:

Compared to its record in the 1980s, Argentina's economic development continues to be impressive. The inflation rate must now be ranked among the lowest in the world and the authorities have demonstrated their commitment to stick to a course of fiscal prudence, even though this is made much more difficult

by last year's recession. Exports are buoyant, bolstered by deregulation, the reduction of distortive taxation and the stimulus for technological change and productivity increases from trade opening and privatization as Mr. Zoccali states in his very informative statement. The drop in real wages during last year undoubtedly also increased external competitiveness.

Economic developments in Argentina during the past five years have in fact reacted textbook-like to the monetary framework the authorities have chosen to follow. Whereas growth was vigorous from 1991 to 1994—Mr. Zoccali quotes an impressive cumulative growth of 35 percent during that time—the currency board, together with a strong inflow of capital, expanded the monetary base, which led to very loose domestic monetary conditions, with in turn higher inflation than in the currency peg country and an accompanying real appreciation. This resulted in a loss of competitiveness, a contraction of the tradables sector, coupled with an expansion of the nontradables sector. Regardless of external developments, this high growth was not sustainable in the long run anyway, if Argentina wanted to retain a tradables sector. Both staff and Mr. Zoccali attribute the "expulsion from the high growth paradise" to the contagion effects of the Mexican crisis. Even though this is a very widely held view, I do not fully agree with it. As we have stated at previous discussion on this topic, interest rate spreads between Argentina and the United States began to rise sharply already in October of 1994, well before public knowledge of any crisis in Mexico. The events in Mexico certainly amplified any developments in Argentina, but I do not think one should draw that causality too far.

During 1995, of course, due to the massive capital outflows, the currency board began to bite. As one would expect, the shrinking monetary base squeezed the real economy, reducing inflation to historic lows in the process and reinvigorating the tradables sector through the reduction of real wages. The current account has already swung around, even though some of the progress is obscured by worse than expected weather related agricultural exports. For the time being, I agree with the staff's and the authorities' view that a change in monetary arrangements is not appropriate at this point in time while confidence is being rebuilt and the currency board acts as restraint on wages and fiscal policy. Should, however, strong capital inflows resume, then increased flexibility of the exchange rate in a climate of rebuilt confidence should be considered at an early stage. As we have indicated at earlier discussions, it is never too early to look at exit options in an informal and confidential manner in order to be prepared if and when swift action would be desirable.

With monetary policy at the mercy of capital flows, the authorities' only policy variable is and remains fiscal policy. It is therefore of highest importance that the seemingly ambitious fiscal targets are adhered to. I say seemingly, because I have some difficulties in identifying the exact fiscal goals of the authorities for 1997. The staff appraisal announces the planned elimination of the federal government deficit in 1997. On page 7, however, additional costs from the take-over of the provincial pension systems and from the reforms of the federal and provincial administration are pointed out. I conclude therefore, that the federal government budget will not be in balance in 1997. This point is of

particular importance because, as I pointed out earlier, fiscal policy is the only variable left to the Argentine authorities and because we had to grant waivers due to fiscal underperformance at the end of Argentina's previous Fund program. I therefore join staff in urging the authorities that the program must be strengthened as needed in a timely fashion if the fiscal performance should once again make this necessary even though today's *Wall Street Journal* characterizes such a policy as "Faustian Bargain" between Mr. Cavallo and the Fund.

I have two more brief points. Firstly, we share staff's concerns about continuing fragility in the banking sector and especially the strong increase of nonperforming loans. We are, however, confident that the Argentine authorities are fully aware of this problem and will strive to resolve it as soon as possible.

Secondly, Argentina is not only the Fund's third biggest debtor, but also turns out to be a rather prolonged user of Fund resources. It is especially striking that the new Stand-By Arrangement will not significantly increase the Fund's total exposure towards Argentina. In other words, one could describe this new Stand-By Arrangement as a refinancing or even rescheduling of old Fund money. As you are fully aware, my authorities view prolonged use of Fund resources as problematic, especially with regard to the monetary character of the Fund.

These concerns notwithstanding, we fully support Argentina's stabilization and reform efforts and want to congratulate the key policy-makers for their huge successes during the past five years.

Mr. Shields made the following statement:

I welcome this request today, and join others in congratulating Argentina on its perseverance in following necessary policy measures. As others have remarked, progress continues to be tough, but clearly there are signs that policies are beginning to pay off. Certainly, the worst of the financial crisis appears to be well and truly behind us, and now we are waiting to see this reflected in an improvement in the real economy. I must say that I remember a few years ago problems about green shoots appearing, in that they tended to wither quite early on. I hope this does not happen in Argentina's case.

Speakers so far have raised a number of important issues. I would like to concentrate on one which there have been references to, but I will go into rather more detail. This is not about a policy or program, but rather more about the continuing practice of making over optimistic projections, which this chair has drawn attention to on a number of occasions in the past, and most particularly in the case of Argentina.

First, if I could go back a year or so. At the time we approved the Extended Arrangement in April of last year, growth for 1995 was estimated at 2 percent by both the Argentine authorities and the Fund staff. A number of speakers in this Board, including this chair, commented then that the projection looked optimistic. When we got to the modification of the program in September, the forecasts were revised down to 1 percent. Again, many

speakers—in fact, the whole Board—said this looked extremely optimistic. By the time of the December review, the projections were actually for a decline of 2½ percent for 1995. The review at that time was taken under a lapse of time procedure, but I seem to remember that we noted our concerns about these projections in a memorandum. In the event, the latest figure we had was that GDP fell by nearly 4½ percent in 1995. Of course, the budget projections followed a similar path from the original projection of a surplus of 0.7 percent of GDP to the outturn deficit of 1.3 percent of GDP.

We might say that everyone knows forecasting is difficult and imprecise, so we should not be too worried about failing to hit economic projections. As a former forecaster, I have certainly made similar comments myself. What worries me is that we really need to be most concerned about strong and persistent biases. In this respect, we are talking about massively over optimistic forecasting. We need to think through the implications of this.

For example, in the recent final review of the extended arrangement, which we took under a lapse of time procedure, there was an argument there that the failure to achieve the fiscal targets was excusable because it reflected weaker than expected economic activity. In the light of what I have been saying about the projections through the year, I do not agree with this argument at all. If we were saying that the projections were too optimistic, then the natural consequence would have been to revise those forecasts on policy, and base them on more sensible assumptions.

This leads me to think about the message that the Fund is giving to a country like Argentina. Although the staff may urge members to make central forecasts, the fact that ex post we give waivers on the grounds that activity has turned out weaker than projected, that procedure provides what I think is an unfortunate temptation, to say the least, for a member to overstate those projections ex ante.

I have also heard the sentiment that program countries and the Fund, in fact, ought to make over optimistic forecasts in order somehow to encourage market confidence. I think this attempts to mislead the markets, and displays a fundamental distrust, which certainly Argentina does not follow in other respects at all; it treats financial markets very well. I think the Fund normally does likewise and should continue to do so in this respect. Worst of all, it is likely to backfire, because markets soon learn to discount such messages.

Also, Mr. Schoenberg raised some questions of unease on the final review of the extended arrangement under a lapse of time procedure because of these difficulties. I certainly shared those doubts, but of course I did not think it was appropriate to stop that procedure, because we can talk about it today. Also, looking back on the policy implications, it is not clear necessarily that Argentina should, as it turned out, have tightened fiscal policy further rather than allowing some movement of the automatic stabilizers.

Having said that, I do feel we should do our best to avoid a repeat of last year's experience this year. The staff forecasts are clearly more distanced from the authorities' public projections, but we have not yet seen any changes from last week's forecast of 2½ percent, despite what would seem to be worse figures for the end of last year.

I note Mr. Zoccali's comments about recent movements. I hope he is right, but, when he was talking about the outlook for this year, he seemed to be stressing the second half of the year rather than the first half of the year. Like Ms. Lissakers, I would be grateful for the staff's latest views on the likely outturn for 1996, and the implications for changed views about the end of last year. Once again, I am afraid, I doubt that the figure in front of us of 2 ½ percent will be reached.

The program itself is obviously consistent, laid out in terms of the staff's views of prospects rather than the authorities', but it does look as if the tax forecast may be a bit of a leftover from the more optimistic projections of GDP growth. I note a forecast of tax revenues rising by 16 percent in 1996. I would be grateful if the staff could perhaps elaborate a little more on where this is going to come from—maybe a little bit from tax evasion, but I am not sure that is enough to bolster it to this extent. Having raised these worries about the projections, I do certainly welcome the comments made by Mr. Zoccali about the improved transparency of the whole budget process and quasi-fiscal operations. I think we will see great improvements in that respect.

Lastly, I was tempted to take a step back and think what we would be advising a country in Argentina's position if we came across it fresh, without knowledge of the country's history or its full policy framework. If we looked just at the data, I think all of us would say that this is a country facing a problem of deflation, running well below capacity, and that the correct response would be a loosening of policy, probably both fiscal and monetary policy. We would say that, much as we hoped that virtue would lead to some spontaneous recovery in the private sector. Nevertheless, we would feel there was definite action to be taken in terms of government policy. Clearly, this is an option which Argentina has specifically chosen to deny itself through the convertibility plan, and clearly the need for that rests on its history of inflation, which it is showing every sign of success in overthrowing. It would certainly have my full support in this, but it is clearly at the moment a very costly choice. There has been a good deal of pain over the past year, and it looks as if the recovery will continue to be sluggish for some time. I think the pain is certainly worth it. There is every prospect that these policies will lead to very significant benefits in the longer term, as well as staving off even more costly risks in the short term.

I have sympathy with Argentina adhering to the convertibility plan, as supported by the staff. Mr. Schoenberg made various comments about looking toward exit strategies and so on, and keeping the medium-term perspective in mind. Clearly, that will continue to be important.

Finally, I wish Argentina every success with the program and with the success of its policies.

Mr. Havrylyshyn remarked that caution should be exercised in adopting the more traditional view of how fiscal policy can be pro- or countercyclical when the underlying reason for a recession was not the business cycle but rather the lack of an appropriate economic structure. That lesson had been learned when dealing with the transition economies.

Ms. Lissakers said that experience with the countries in transition also suggested that to complete the economic transformation enterprises needed liquidity and consumer demand to be able to develop. But that did not obviate the benefits of fiscal discipline.

Noting with concern the fact that growth projections for 1995 had been far off track, the authorities should be warned against taking an optimistic public posture on the growth outlook for 1996, Ms. Lissakers added.

Mr. Shields queried whether the Fund's policy advice to Argentina would have been the same if it had abstracted from the country's past inflation record. In his view, in a situation characterized by low inflation and substantial excess capacity, some monetary adjustment might have been warranted.

Mr. Mirakhor observed that the Fund's forecasting record had been two-sided. The Fund had also not predicted well the rapid growth of the Argentine economy over the period 1991-94.

Mr. Fukuyama made the following statement:

Together with the Fund's continuous support, the Argentine economy made remarkable progress under the Convertibility Plan. The authorities have made every effort under the program supported by an extended arrangement, as described in Mr. Zoccali's statement, but the unexpected Mexican crisis somewhat hindered the progress. Against this background, the request for a new Stand-By Arrangement is justified to counteract the remaining "tequila effect".

The Argentine economy has still lots of issues to address, but there is no doubt that the market confidence necessary for Argentina to issue bonds in the international capital markets is now being fostered. Given this favorable situation and these achievements, a graduation from the program country is within reach. From this viewpoint, I think the year 1996 will be very important for the Argentine economy, and therefore a sound implementation of the program is required.

I would like to make a few remarks on various policies.

The urgent need for strengthening the fiscal position was repeatedly pointed out under the previous program; the same holds for the new program. As the staff report stipulates, private sector confidence would be strengthened if the government demonstrated firm control of the public finance. I think this point is valid for Argentina at this stage. In addition, the revenue from privatization,

which covers more than half of the budget deficit, is expected to decrease in the medium term, as privatization moves forward. Under such circumstances, the smooth financing of the budget deficit will be best achieved by reducing the deficit itself, through the strengthening of expenditure control and the improvement of tax administration.

With regard to the prospects for achievement of the fiscal target, the staff and authorities have different views: while the staff is cautious, the authorities are optimistic. I would welcome the staff's elaboration: What is the size, as a percentage of GDP, of the additional measures the authorities intend to introduce when necessary? In what kind of scenario will these measures be insufficient to cover the larger-than-anticipated deficit?

On financial policy, it is welcome that the banking system is regaining its liquidity and recovering from the crisis of early 1995.

I think it appropriate to tighten the legal liquidity requirements focusing on the stabilization of the banking system. It would also be desirable if repayment of outstanding rediscount to the central bank could be made soon. This would function as a cushion against external shocks to the central bank as well as to the overall banking system.

Finally, I would like to touch upon the unemployment issue and to welcome the staff's comments. High unemployment rates often hinder the implementation of adjustment policies. In Argentina, substantial progress has been made in the area of labor market reform over the past two years. May I conclude, therefore, that unemployment rates are expected to decrease as the economy picks up?

I conclude my remarks with the hope that the Argentine authorities will succeed in improving the economic stability in close cooperation with the Fund.

Mr. Coumbis made the following statement:

During last September's Board meeting, we commended the authorities for the measures taken during 1995 to face the effects of the Mexican crisis. These actions have contributed to a gradual strengthening of confidence as shown by the decline in interest rates, the increase in the stock market index and international reserves, and the regaining of access to international capital markets. However, the decline in economic activity in 1995 was more pronounced and longer lasting than initially predicted and its adverse consequences on fiscal accounts more serious.

Against this background, the authorities have focused their efforts on improving economic confidence in order to normalize liquidity conditions in the banking sector and allow the recovery of economic activity. The maintenance of the currency peg under the convertibility plan which has been a guarantee of price stability, the exercise of firm control over public finances, and the rapid

implementation of structural reforms have been the cornerstone of their policy during 1995.

Progress in the area of fiscal consolidation is needed to allow the increase in national savings in order to reduce the country's reliance on external financing and its vulnerability to external shocks. In particular, the implementation of important structural reforms, aimed at improving tax administration, the setting up of a fully-funded private pension system, and the reforms being introduced in the provincial governments will enhance the efficiency of the fiscal sector, and improve the medium-term prospects of the fiscal accounts.

It seems, however, that the authorities' fiscal efforts are based on too optimistic assumptions about economic recovery. This was also the case under the recent extended arrangement in which the fiscal targets for September and December 1995 had to be modified, given the weaker-than-expected economic growth and its effects on fiscal revenues. The 1996 program may present the same problem.

Even though the approval of legislation authorizing the introduction of additional fiscal measures is welcome, according to the staff these measures may be insufficient. In addition, the authorities' decision to reduce value-added tax rates on interest payments, and on purchases of new residential property is worrisome, in particular, taking into consideration the budget pressures starting in 1997, and the reforms of the federal and provincial administrations and pension system. Given the uncertainty concerning the timing and pace of the recovery, the authorities should stand ready to implement the new fiscal package, and even supplement it with additional measures should a more unfavorable scenario materialize.

I think, however, that the authorities have to weigh very carefully the pros and cons of further fiscal measures in view of the fact that the economy is still in deep recession. Personally, I am in favor of further fiscal measures because of the confidence effect of these measures. However, I share Ms. Lissakers's concerns on this matter.

In the monetary area, we share the view that the authorities' commitment to the convertibility arrangement contributed substantially to reducing inflation. We are pleased to note that the 1996 program makes room for greater credit to the private sector, and that greater remonetization of the economy has contributed to the restoration of more adequate levels of liquidity to the banking system. In addition, progress has been made in bank restructuring and privatization, which have allowed the rapid recovery of this sector after the earlier crisis.

However, the recent increase in nonperforming loans is a matter of concern. Even though I agree with the staff's assessment that the greater capitalization of banks reduces the risk associated with bad loans, their negative effects on bank profitability and on bank reluctance to resume lending can delay the recovery. Even though the authorities expect this situation to improve

gradually as interest rates decline and the economy recovers, careful vigilance of the system must be maintained as stronger actions might be needed to tackle this problem. The authorities' intention to further tighten prudential regulations is welcome, and it should prevent the re-emergence of additional nonperforming loans. Like Ms. Lissakers, I find that there is still a confidence problem in the banking sector.

Finally, we welcome the implementation of structural reforms, in particular in the labor market, which should help reduce the unemployment rate and increase economic competitiveness. I agree with Mr. Shaalan that, by approving the Stand-By Arrangement for Argentina, we offer the authorities the support they deserve in their efforts to enhance confidence in the performance of the economy.

With these remarks, we support the proposed decision.

Mr. Guzmán-Calafell made the following statement:

I would like to start by commending the Argentine authorities for their rapid and effective response to the economic difficulties faced since late 1994. The maintenance of the convertibility plan, the tightening of fiscal policy, and the introduction of a number of policies to support the banking system, among other measures, have allowed to contain the main effects of the crisis. Thus, confidence has strengthened, the decline in deposits and the outflow of capital have been reverted, and a resurgence of inflationary pressures has been avoided. On the other hand, a sharp output contraction was the inevitable cost of these developments.

The economic program for 1996, based on the preservation of the convertibility agreement, represents a coherent and serious effort to continue along the path of stabilization and structural transformation of the economy that has been followed since 1991. I agree fully with the authorities and the staff that maintaining the present exchange arrangement is essential for the success of the program, and especially to avoid the reemergence of inflationary expectations.

The recovery of economic activity, in the context of a low inflation rate, represents one of the main challenges for economic policy in 1996. As explained in the staff report and in Mr. Zoccali's very useful statement, a number of indicators point to the start of an incipient recovery. In addition, the authorities have clearly stated that economic activity will be led by private investment and not by fiscal stimulus. This is indeed the wiser approach. An inadequate loosening of the fiscal stance could seriously undermine private sector confidence and thus result detrimental to both the evolution of inflation and economic growth. However, I am left with several doubts in this regard.

First, the staff expresses the concern that even if the new measures approved by Congress are implemented, the fiscal outcome might fall short of the target in 1996, especially given continuing uncertainties about the speed of economic recovery. As I mentioned previously, I agree that the perception of

private agents that a strong fiscal position is being maintained is essential for confidence, and therefore for the success of the program. But one may ask to which extent this requires adherence to a rigid fiscal objective, if the behavior of economic activity departs significantly from the expected path. For instance, we could well face in 1996 a situation like that of the previous year, when a widening of the nominal fiscal deficit was consistent with a strengthening of both the cyclically adjusted public finance position and confidence. In fact, the staff explains that even though the fiscal targets were not met in 1995, the fiscal outturn implied a negative impulse of about 1 percent of GDP. I am aware that this is a very difficult issue, and I share the view that under present circumstances there are few options to erring on the side of prudence. But I also feel that we should try to avoid being excessively rigid in our policy recommendations. I would appreciate the staff's views in this respect.

Second, I am surprised by the large discrepancy between the authorities' projection of GDP growth for 1996 as compared to that of the staff. I wonder if the staff can elaborate on their assumptions regarding the likely sources of economic growth this year, as well as on the authorities' views in this respect.

Third, the high unemployment rate, which Mr. Zoccali considers notes is the most serious challenge for the Argentine authorities, has been influenced by cyclical and structural factors. The authorities have introduced important measures to address the structural component of this problem, and an upturn of economic activity is expected this year. It is not clear to me, however, what is the expected impact of these measures on the unemployment rate.

The policies implemented by the authorities to support the banking system are welcome. They represent indeed a commendable effort to strengthen the financial position of banks, to improve the efficiency of the financial sector, and to reinforce supervision. I agree that these measures, coupled with present capitalization levels, will contribute to foster the resumption of bank credit. Nevertheless, the latter will also be closely linked to the evolution of interest rates during the year. In particular, the persistence of very high lending rates may be an obstacle to meet the program assumption that credit to the private sector will expand by 12 percent in 1996.

With respect to the external sector, I am in agreement with the thrust of the staff analysis. The current account deficit has fallen to a moderate level that should be easily financed in 1996. On the other hand, the strong expansion of exports over the last years, investment projects underway in the export sector, and the major structural transformation of the economy, are evidence of an adequate competitive position at the present level of the exchange rate, and support the expectation that this margin will be preserved. Obviously, this is an area which must be subject to the continued monitoring of the authorities and the staff.

With these comments, I support the proposed decision and I wish the Argentine authorities continued success.

Mr. Song made the following statement:

I would like to commend the Argentine authorities for the remarkable progress made, since the adoption of the Convertibility Law in 1991, in macroeconomic stabilization and structural transformation. The resolved implementation of strong fiscal measures by the authorities, together with strong international financial support, brought about financial stability last year following the liquidity shock caused by the devaluation of the Mexican peso. Along with the strengthening of market confidence, bank deposits and foreign capital were seen to reflow, as indicated by Mr. Zoccali in his helpful statement. I am in broad agreement with the staff on the main thrust of the paper and would like to make some comments for emphasis.

Given that CPI inflation has declined to its lowest level in decades, unemployment seems to have become the most serious problem for the authorities. This was highlighted by the fact that the recession in 1995 was more severe and protracted than was expected. In my view, however, it will remain a daunting challenge for the authorities to achieve the GDP growth target without compromising price stability in light of the economic circumstances required by the continuation of convertibility. In this connection, it is encouraging to learn that the outward market-based orientation of economic policy centered on the convertibility framework has been reaffirmed by the highest authority of the government. I believe the requested stand-by arrangement will provide the necessary support for the authorities' strong program in the next two years.

Regarding fiscal policy, a tight policy stance ought to be maintained in a medium-term macroeconomic framework in view of the vulnerability of external accounts to the volatility of capital flows, and the need for recovery of domestic savings in anticipation of higher economic growth in the years to come. The fiscal measures aimed at improving intergovernmental fiscal relations and tax administration are highly warranted. We expect streamlining of the civil service and reforming of the pension system will enhance fiscal management efficiency in a gradual manner.

Concerning monetary policy, while the domestic monetary arrangement is consistent with the authorities' target for control over expansion of monetary aggregates, a further increase in free reserves with the central bank will provide an additional cushion against external shocks. The progress in restructuring the banking sector through mergers and liquidation, together with the implementation of the new Basle guidelines for minimum capital requirements, will further strengthen the supervisory and prudential standards in Argentina. While the operational efficiency of the banking sector will be enhanced along with the further decrease of nonperforming loans, the increase of banking credit to the private sector is deemed necessary for the recovery of economic activity.

In conclusion, we would like to support the Argentine authorities' request for the Stand-By Arrangement, along with the staff's proposed decision. We wish the authorities every success in their future economic adjustment efforts.

Ms. Laframboise made the following statement:

At the outset, I would like to thank Mr. Zoccali for his very comprehensive and informative statement. It has been very interesting following Argentina's economy over the past two years; on the basis of economic progress and the authorities' unequivocal policy commitment, we can support the request for a Stand-By Arrangement.

It would appear that many of the fears highlighted by the staff and expressed by Directors one year ago and last September materialized. Indeed, we had deep reservations about the growth forecast and the budget projections last year. Looking ahead, I would like to focus my remarks on additional risks to the growth forecast and the budget and growth forecast, and to comment briefly on the exchange rate and unemployment. I will not repeat the comments I made during the last few Board meetings regarding the provinces' finances and the banking sector, since they were fairly comprehensive and remain valid/pertinent today.

As in the past, and despite the signs of recovery, there are still a number of downside risks to growth prospects and the deficit targets. As Mr. Shields noted, given the constraints imposed by the currency board, the Authorities do not have the option of easing fiscal or monetary policy at this stage. Consequently, the fiscal outcome is the cornerstone of the success of the convertibility plan—in addition and as a result, market sentiment is highly sensitive to fiscal management. In this sense, and on a more practical level, we would repeat what we have said before in Argentina's case that it is better to program less ambitious—or more realistic—fiscal targets than to program ones which are likely to be breached (in Canada we learned this is much more effective at reassuring markets).

With respect to growth prospects, there is little reference in the report to the possible impact of developments in the U.S. economy on the recovery in Argentina. As signs of stronger growth in the United States have emerged, it is possible that interest rates will not go lower—and may even rise in 1996—which could have negative consequences for growth. An appreciation in the U.S. dollar could also affect the external sector through its effects on exports. Could staff say whether this has been adequately factored into the equation, or whether they have any sensitivity analysis on this?

With respect to the budget revenue forecast, the effectiveness of measures to improve tax administration remain very uncertain, particularly the problems related to tax evasion which have persisted for many years. In addition to the risks cited by staff, prices actually declined in the first quarter. The effect of deflation on revenue intake could add further to the downside risks. For these reasons, I agree with staff that revenue developments should be monitored very closely. I did read today with interest the editorial in the WSJ about the economic philosophies of Cavallo. The editorial reminded me of the claim by staff and the government that there is no room to maneuver on the expenditure

side of the budget, stating that Mr. Cavallo's earlier supply-side views on reducing taxes were not accompanied by the necessary expenditure reductions—thereby leading to budget imbalances—despite the rise in revenues—and forcing him back into the arms of the Fund. While this may not paint the whole picture, I raise the issue to encourage the authorities and staff to reconsider possible areas for expenditure reductions, including in the civil service. Many governments, including my own, used the argument that expenditures are "inflexible downward," until they are forced to bite into those spending items previously seen as sacred.

Before leaving the fiscal area, and in view of this morning's discussion, it is worth mentioning that data on the provincial finances is inadequate. Given the critical importance of the provinces' financial situation for the overall fiscal position and the success of the program, the quality and frequency of provincial data should be improved.

I share the views of Mr. Schoenberg about the exchange rate—at some point in future, the authorities may well have the opportunity to move to a more flexible system. In this respect, this possibility, even in the very distant future, of an alternative should be reviewed or contemplated informally and confidentially.

Finally, as Mr. Zoccali states, unemployment is one of the biggest challenges to the administration given the negative social repercussions it could have. Given the significant adjustment which has taken place in industry and manufacturing and even agriculture, the displacement of workers is going to be difficult to remedy and is likely to take some time. While much of the increase must be structural in nature, could staff or Mr. Zoccali say what share of the level is cyclical and what share is structural? We support fully the efforts currently underway and would reinforce as priorities any measures which increase flexibility and reduce distortions in labor markets, and agree with the points made by Mr. Mesaki.

The staff representative from the Western Hemisphere Department said that, with regard to the growth assumption in the program and the accuracy of forecasts, the staff was aware of the views of the Board vis-à-vis the experience of last year, and they had conveyed that view to the authorities. The staff forecast of GDP growth for 1996 was about in the middle of the forecast range of other private analysts of the economy. Staff estimates had been based on the prospects for a recovery of private consumption, which should undo the exceptional increase in savings of the previous year. As confidence returned, the stock adjustment process affecting private sector assets would work itself out, and a recovery of consumption should be expected. A further positive factor that the staff had counted upon was the favorable prospects for agriculture. To a lesser extent, there were indications of an increase in investment, particularly closer to the end of the year. There were quite a number of projects in the pipeline. In addition, prospects for exports continued to be robust. Even with those positive signs, the staff thought that growth of about 2½ percent for 1996 was more or less a conservative estimate. Nevertheless, it should be recognized that the authorities had plausible arguments to defend an even higher forecast.

The staff had advised the authorities not to try to affect market sentiment by providing bullish forecasts, the staff representative added. However, the authorities seemed to believe that, given the slump in confidence, it would be extremely important to try to reinforce confidence.

On the whole, there appeared to be some green shoots of recovery, the staff representative observed. The staff forecast assumed that if growth in the first quarter of 1996 was of the order of negative 4 percent vis-à-vis the first quarter of 1995, that would still be consistent with reaching 2½ percent for the year as a whole. Early estimates for growth in the first quarter were in the range of negative 4-5½ percent. That would mean, ceteris paribus, that the 2½ percent growth forecast was still inside the predictable range.

The staff had not factored in the effects of trade with the U.S. economy, the staff representative said. In that regard, it should be kept in mind that the Argentine economy was not an export-led economy. The external sector represented only about 7 percent of GDP. Therefore, domestic factors were predominant. It was possible however that a rise in U.S. interest rates could transmit almost immediately into Argentine rates, although there had been some decoupling of Argentine rates from those in the United States.

The restructuring of the banking system was almost complete, the staff representative noted. There were about 100 small, weak banks, but they held only 9 percent of total deposits. The remaining 50 banks were considered viable in the short run and held 91 percent of total deposits. With regard to the banking system in the provinces, the news was basically encouraging since about two thirds of the banks were about to be privatized. Nine banks had already been privatized, and there were about five banks that the provincial governments did not intend to privatize because of their financial soundness. Other than the banks, most of the enterprises belonging to provincial governments were utilities, and privatization was also proceeding in that area.

There were a few positive trends that could lead to an increase in overall savings, the staff representative remarked. Foremost among those factors was the adjustment that was taking place in the public sector, and the increasing strength of the private pension schemes. However, the staff had been purposely conservative in its medium-term projection, assuming only a 1½ percentage point of GDP increase in savings over the next ten years.

In 1995, the share of manufactured exports had increased, the staff representative stated. Manufactured industrial exports grew by 40 percent in 1995. Manufactured agricultural exports grew by 28 percent, and primary exports by 28 percent. From that point of view, the structure of exports seemed to have been moving in the right direction. The intra-year pattern of exports essentially reflected seasonality.

The staff had not seen major evidence of trade diversion as a result of MERCOSUR, the staff representative observed. Exports to both MERCOSUR and non-MERCOSUR countries had grown fast, particularly during the previous year. The risks of trade diversion had been reduced because the common tariff of MERCOSUR was not that high. The average effective tariff in Argentina at present for non-MERCOSUR countries was 13 percent.

With consumption assumed to be growing faster, the staff had projected 16 percent growth in taxes for 1996, the staff representative said. Moreover, a reduction of tax evasion,

and the hope that many tax administration measures that had been implemented in recent years would finally take hold, encouraged the staff to utilize such an optimistic growth forecast for tax revenues. Other factors included the effects of the tax amnesty that had brought more taxpayers into the tax net, and the recent tax measures passed by Congress, in particular the elimination of exemptions.

Depending on the speed and strength of the economic recovery, additional measures could be envisaged, the staff representative observed. The authorities had even not ruled out a reduction in the value-added tax rate. However, the staff had taken a more conservative view on that subject.

There were still deficiencies in data, the staff representative confirmed. The authorities were working on that problem. The authorities had received Fund technical assistance in the area of monetary statistics, and there had been a major improvement in the balance of payments statistics. The issue of provincial statistics remained a problem.

Mr. Zoccali noted that one New York investment bank was optimistic about Argentina, despite the bearish U.S. markets, because of tentative signs of an economic upswing. While the market had ruled out growth of 5 percent, the Government's official estimate of 2½ percent was still considered possible. Argentina was a country that, given the right signals and incentive structures, could produce very quick results and that was what the markets were reflecting.

As to the sort of external vulnerability to expect from the tightening of long-term interest rates in the United States, there was still a very substantial margin to work with, Mr. Zoccali observed. The country's risk premium in March or February of 1995 was 1,600 basis points and, currently, it remained at 700 basis points. As confidence returned, given the impact that that would have on consumption and investment, the authorities continued to be optimistic that Argentina would not only fulfill its growth projections, but would also reduce substantially the vulnerability that was associated with a higher volatility in the markets.

Of the nine banks that had been privatized, four had been privatized in the first three months of 1996, Mr. Zoccali said. That highlighted the momentum of the reform. Moreover, the rate of domestic savings had consistently increased since 1992, and increased even in 1995, despite the contraction of GDP by 4.4 percent.

The staff representative from the Western Hemisphere Department said that there was evidence of wage flexibility in the case of Argentina. Unfortunately, labor market statistics, as in most countries, were not very strong. The downward movement of wages may have been affected by factors such as the disappearance of overtime payments, furloughs, and suspensions. However, the situation was not all that clear-cut. Measures had been taken that would increase labor market flexibility including the substantial reduction in nonwage labor costs, and the reduction in the tax wedge on labor. Unemployment had been coming down but only very gradually, and that had given rise to doubts about the depth of real wage cuts and their contribution to adjustment. There had been important structural shifts in the labor market over the previous five years. The jump in structural employment had been quite pronounced, in part owing to the incorporation of women in the workforce, and immigration.

Mr. Mirakhor queried whether the apparent link between industrial production and unemployment was an indication of flexibility in the labor market.

Mr. Zoccali said that his authorities were aware of the difficulties in bringing down the rate of unemployment. Most countries had experienced problems in reducing cyclical unemployment. Argentina still had a participation rate that was slightly below countries of a comparable level of economic development. In that regard, the authorities were concentrating on the incentive structure for job creation. That explained why the reduction in nonwage costs figured so importantly in their strategy, and job retraining and similar proactive labor policies were being employed. It also had to be kept in mind that disguised unemployment in Argentina was also very high, and, therefore, as the structural component was accelerated, and as the rate of inflation came down, the necessity to become competitive increased.

Mr. Schoenberg pointed out that part of the wage flexibility in Argentina was imposed by the currency board regime. It was therefore not a natural flexibility. If, for instance, Argentine trade unions were to request wage increases to the extent of the inflation rate plus the productivity gain, then in times of capital outflows the currency board regime would automatically reduce the inflation rate in Argentina below the rate of the currency to which the Argentina currency was pegged. So there would inevitably be a reduction in real wages.

Mr. Ismael made the following statement:

At this juncture of our discussion, let me state briefly the following five observations:

I join earlier speakers that the Argentine authorities are indeed to be commended for their strong response to the crisis that followed the devaluation of the Mexican peso in late 1994 and for the success achieved in their fiscal consolidation and structural reform efforts in 1995, as evidenced, among others, by a reflow of capital, drastic decline of inflation, and reductions in cost and productivity gains.

I also share the view that the recovery of economic activity needs to be strengthened further. I, therefore, welcome the Stand-By Arrangement that has been prepared to achieve this end, based on fiscal adjustment as the lynchpin, supported by further structural reforms.

I agree with staff that the program is both strong and coherent. I welcome the authorities' readiness to take additional measures if needed.

On this basis, I can support the proposed decision.

On an aside, I wish to raise a minor question, purely out of ignorance. What explains the absence of a lender-of-last-resort in Argentina's financial system? Is having a lender-of-last-resort function instituted conceptually inconsistent with the fact that Argentina's domestic monetary arrangements approximate those of a currency board? If that is not the case, is there a plan to have this function institutionalized in the central bank, as is traditionally the case, rather than purely depending on the effectiveness of tight prudential regulations and banking supervision; more so in view of the fact that the level of nonperforming loans is on the high side? If, under the present monetary arrangements, there is no room for the central bank to perform a

lender-of-last-resort function, how can the tight prudential regulations be effectively observed?

Mr. Melhem made the following statement:

Developments in Argentina over the past year underscored not only the vulnerability of the economy to external shocks but more importantly the authorities' resolve in safeguarding the hard-won gains under the Convertibility Plan. It is most encouraging that this resolve has strengthened confidence, and that early signs of a recovery are emerging. Advancing this progress, however, requires further determined efforts. In this connection, the authorities' track record is reassuring, and I can support their request for a Stand-By Arrangement.

As I am in broad agreement with the thrust of the staff appraisal, I will make a few comments for emphasis:

First, the currency board arrangement in Argentina has served the country well. I fully agree with the authorities that maintaining the current exchange arrangement at this time is needed to safeguard price stability and strengthen fiscal discipline.

Second, the planned reduction in the fiscal deficit in 1996 is welcome. In this regard, the measures already implemented are reassuring. Such measures will not only reduce the deficit but also strengthen the structure of the budget. Despite these efforts, the staff notes that it remains uncertain whether revenue targets will be achieved. Thus, I urge the authorities to monitor the revenue situation closely and to prepare a set of contingency measures that, if needed, could be quickly implemented. The importance of achieving the fiscal targets cannot be overemphasized.

Third, I welcome the progress made in addressing the weaknesses in the banking sector. At the same time, the sharp increase in nonperforming loans in 1995 is a concern. Thus, continued efforts to liquidate or merge weaker banks and to privatize public sector owned banks remain essential. Enhancing prudential and supervisory regulations is also a priority.

Fourth, the sharp increase in unemployment over the past year is a major risk. In this regard, I hope that improved economic prospects, along with the important reform of labor markets will lead to a meaningful reduction in unemployment. Early passage of the legislation to reduce litigation costs should also increase competitiveness and further improve employment prospects.

With these remarks, I wish the Argentine authorities success in their adjustment.

Mr. Prader made the following statement:

The Argentine authorities are to be commended for sticking to their guns in implementing the Convertibility Plan. The reversal of Argentina's fortunes due to spillover effects of the Mexican crisis has now been almost fully overcome thanks to very tight fiscal policies and redoubled efforts with structural reforms. The recovery of confidence is reflected in the reflow of deposits, the downward trend of interest rates, and several recent consecutive successful international bond placements. However, full recovery will only be achieved with a stronger revival of private sector activities and the return of the GDP growth rate to a more comfortable level.

The 1996-97 stand-by program appropriately builds on the positive role of the currency peg and correctly assumes the primacy of further confidence building via firm control of public finances rather than application of fiscal stimuli for an anticipated private sector led recovery. Let me comment on the areas of the program most crucial for its success.

Argentina's resort to what is virtually a currency board arrangement calls for an ambitious fiscal program. This year's goal of reducing the consolidated public sector deficit by 1.2 percent of GDP seems within the authorities' reach. Indeed, given the possibility of a stronger than expected recovery, as described by Mr. Zoccali, and the additional revenue enhancing measures recently passed by the legislature, an even more ambitious deficit target could be in order. Let me mention that the 1996 program target of 1.8 percent of GDP is still much higher than Argentina's median pre-Mexico deficit.

Allow me one remark on the Shields-Havrylyshyn controversy. If economic growth should not turn out as strong as expected, in a few months from now, Argentina should not relax its policies but stay the course in order not to create a market perception of an imminent return to the familiar pattern of stop-and-go policies practiced in the 1980s. The short-term gains from reflationary policies would be small, compared to the much larger losses from the confidence crisis brought about by a departure from its adjustment path and waste the confidence gains achieved by dint of more than five years of reform. As an observer of Fund programs with Argentina in the late 1980s, I can say that whenever a Fund program was presented to the Board, it had zero credibility. Any return to such policies would be nothing short of a catastrophe. We should therefore be careful with frivolous academic advice to Argentina, and take into account that Argentina's problems are structural and not cyclical.

Despite impressive sustained reforms and adjustment in recent years, as well as a very professional economic management, Argentina has been subjected to political and economic instability. The fact that the financial markets react so nervously to rumors about potential changes in the economic team is indicative of the still-existing degree of instability in the economy. Since Argentina has been affected in the past by spillovers from crises in other Latin American countries, it might be interesting to learn Mr. Zoccali's and the staff's views about the possible repercussions of recent developments in Brazil, a major

(perhaps the major) trading partner of Argentina. Do the Brazilian developments pose a serious threat to the prospects for recovery in Argentina, or affect confidence in Argentina's economic and financial policy?

The staff report mentions a worrisome doubling of nonperforming loans in the banking system in 1995. The current high level of capitalization and strengthening of supervisory functions of the central bank give good reason to believe that the bad loans will be absorbed as the economy recovers and interest rates decline. However, the structure of Argentina's financial system requires banks to maintain a sizable liquidity cushion. Strict enforcement of prudential regulations and the use of risk assessment guidelines is therefore very important.

Finally, I agree with the staff view that the program is strong and coherent. The authorities' commitment is strong, and I have no hesitation in approving the proposed decision.

Mr. Kang made the following statement:

We support the proposed decision. The authorities have responded to the crisis of late 1994 as strongly as could be expected under the circumstances and their commitment to the convertibility plan has not wavered. This has added to the credibility of the government's policies and provided a good foundation for continuing macroeconomic stability in the period ahead.

We concur with the staff that one great single risk to the program is that the recovery in economic activity will be delayed or considerably weaker than is currently expected either by the staff or the authorities. To our mind, this raises the issue of why economic growth could remain weak in the period ahead. As the staff mentioned a moment ago, potentially the greatest risk is an on-going increase in international interest rates through the course of 1996 and in early 1997, particularly in the United States. Indeed, a jump in long term interest rates in the United States may well prove to be the Achilles' heel of this program.

We wonder whether this 21-month Stand-By Arrangement is an appropriate facility, given the resilience of Argentina's external sector. Perhaps an additional extended facility might have been a more appropriate arrangement and would have been just as helpful in enhancing private sector confidence. Staff could comment on this point.

We notice that the authorities have extended the surcharge on the VAT. The overall rate of 21 percent therefore remains very high and yet it seems to raise very little revenue as a percentage of GDP (14 percent), suggesting there are far too many holes in it. The authorities might be better off through broadening its base than maintaining a high rate. Staff could elaborate further on this issue.

Mrs. Gotz-Kozierkiewicz made the following statement:

After having passed a critical test in 1995, following the Mexican crisis, the Argentine economy seems to be gradually regaining its momentum at the beginning of 1996. There have been signs that the restrictive monetary and fiscal policies result in the rebuilding confidence of international investors. Capital has been flowing back into the country, bringing bank deposits to their pre-crisis level and reducing interest rates. Regained access to capital markets and the improvement in current account—due to strong foreign demand, favorable terms of trade and deep recession in the Argentine economy—contributed to a build-up in the central bank's international reserves.

The key challenge for the authorities is now to further strengthen the country's credibility in the foreign markets but also to foster confidence within the domestic market. The success of the proposed program, especially the fiscal targets, depends on a recovery of economic activity.

A vicious circle of economic sluggishness and worsening of the fiscal results in 1995 has appeared to be more difficult to break than seemed to be the case according to the authorities' firmly declared belief and the staff's somewhat reluctant acceptance. To risk another slippage in the fiscal targets in 1996 might be too detrimental to the program credibility. At the same time, serious uncertainties remain concerning the timing of the recovery.

As export growth will be contained by slow domestic demand growth in Brazil and the United States and no fiscal stimulus is possible, the expected pick-up should, therefore, come from a recovery of consumer demand and an expansion of credit. However, since the introduction of the Convertibility Plan, unemployment has almost tripled, reaching 17.5 percent on average in 1995. Real industrial wages have fallen by a fifth. Further fiscal consolidation is planned, implying additional staff reductions, both at the federal and at the provincial levels, and tighter eligibility requirements for social security benefits. These prospects still provide households with a rather bleak outlook, undermining their confidence and depressing their demand.

On the credit side, although interest rates have fallen, they remain high in real terms. The expectations of an expansion of credit to the private sector appeared to be overoptimistic in the second half of 1995 and the main causes of this development have not been removed. Banks seem to have preference for building up liquidity; it has been additionally enforced by the prudential measures as recently introduced. The fact that restructuring the financial sector takes time, the cautious credit patterns that banks have adopted, the redistribution of loanable funds in favor of the larger banks and of prime corporations at the expense of small and medium firms, all these are factors affecting the relative sluggishness in the bank credit. This problem may be more lengthy to solve than the authorities seem to think.

A delay in the economic recovery should, thus, not be excluded with adverse effects, once again, on the fiscal targets. According to the staff's view,

the economic recovery is going to embark on gaining strength of private confidence and pick up in private demand, with little merit of a potential fiscal stimulus, if at all. While accepting a minor role for the latter, it should be taken into account that an additional fiscal restraint, as eventually needed in the case of the economic growth weaker than projected, may have its procyclical impact and, by the same, weaken the recovery.

On the other side, balance of payments projections for 1996, essential for liquidity rebuilding in the banking system and its liquidity potential to the private sector, have been closely related to the item "other capital net inflow," in the amount of $4 billion, with the change of the order of $10 billion in terms of flow, if compared with 1995. The question may also be raised as to what extent the expected capital inflow would depend on the economic performance of the Argentine economy assessed in terms of its economic growth.

It is hard not to agree with the statement that considering fundamental changes in the Argentine policy package now seems to be premature. The country has had behind it the very long story of the often renewed but failed stabilization programs and the very successful and unique period of 1991-94, as built on the fixed exchange rate and the fiscal adjustment. With the latter providing an attractive, though very difficult model of stabilization for Argentina, the authorities should be encouraged to monitor economic and fiscal developments and adopt further measures, if needed. No easy solutions exist to foster confidence in an economy's future. The pursuit of structural reforms, especially in the areas of banking and labor markets, may, however, contribute to this.

A positive signal from the international financial community may be useful at this point, as a sign of continued support for the reform efforts of the government. We, therefore, support Argentina's request for a Stand-By Arrangement in the amount of SDR 720 million.

Mr. Lvin made the following statement:

Let me start my short statement with some quotations. "[Argentineans] are always in trouble about their currency...Generally they have too much of it, but their own idea is that they never have enough...the Argentines alter their currency almost as frequently as they change their presidents...No people in the world take a keener interest in currency experiments than the Argentines" (quoted in: *The Gold Standard. Britain and Argentina*, by A. Ford, 1962, page 91). These observations were published by *The Banker's Magazine* not in 1989 but in 1899, and it is against such a historical background we have to assess the extremely successful developments of the last few years. In this perspective, the Argentine authorities should be strongly commended for their handling of the 1995 economic difficulties. It now seems that Argentina has solidly broken with its more than century-old tradition of having convertibility and payments suspended once external tranquility is shaken. Thus, with substantial assistance from the Fund, the present currency board may look now even more credible and more secure than that of 1900-14, and the authorities'

refusal to consider any alternatives to the existing monetary arrangements seems to be the only appropriate option. Indeed, it would be fair to say that such a consideration would now be not merely premature but almost suicidal for the general thrust of economic reform. I assume, however, that when the staff talks about these alternatives it means a sort of easing of the arrangement for there is still some room for making it more straightforward by, for example, gradually phasing out the clause which allows counting of the public debt as a part of reserves.

The authorities' policy in 1995 was driven basically by the long-term general targets. The large-scale crisis of confidence generated outside of the authorities' area of responsibility, was met by the fiscal consolidation package with a strong demonstrative effect. In our view, the unexpectedly successful results of the tax amnesty operation can be deemed a true reward for the authorities clear and frank policy approach, rightfully endorsed by the staff. Hence, 1995 ought to be regarded as, perhaps, a year of success of the long-term growth oriented policy stance rather than merely a year of GDP decline. It is remarkable, in this respect, how rapidly exports grew without any devaluation boost. The positive trade balance dynamics shows how Argentina's economy turns to a healthy path of balanced growth.

Other welcome developments are taking place at the provincial level. The provinces finally embarked upon a true expenditure-cuts policy instead of running arrears, and their pension plans are going to be transferred to the central government. Thus, provincial finances can well be expected to cease to be a source of potential economic instability.

We have not much to add to the points made by the staff in its informative report and by Mr. Zoccali in his excellent and thoughtful statement. In view of the almost exemplary approach demonstrated by the authorities and because of their strongest possible commitment to their reform program, we fully support the proposed Stand-By Arrangement.

Let me make just a couple of remarks.

First, about fiscal contingency measures. Economic recovery is still fragile, and it is absolutely appropriate that the Government obtained a broad extraordinary authority to carry out immediately the measures necessary to keep the fiscal accounts in check. However, there is an impression that these measures tend to emphasize the revenue side much more strongly than expenditure contraction. Such an approach does not seem fully consistent with the authorities' policy of banking on a rapid resumption of growth, and I fully share Ms. Lafromboise's points on this issue.

Second, some issues in banking regulation may appear to some extent contradictory to the clear spirit of the Convertibility Law. For example, when the authorities try to narrow bank spreads and introduce remunerated reserve requirements, the resulting changes in the spreads reflect not a better performance by the banks or increased competitiveness of the whole sector, but

simply a central bank subsidy. Even if generated out of seigniorage, these funds would better be used to finance public sector restructuring. Another issue is related to the proposed strengthening of bank regulation and introduction of detailed risk assessment requirements. It may be argued that even indirect participation in the banking business would lead the central bank toward assuming at least implicit responsibility for the financial outcomes of this business, and such a responsibility is understood to be incompatible with present monetary arrangements. Therefore, emphasis should, perhaps, be put on making banking institutions more transparent and more accountable to their shareholders and clients, rather than making them subject to more centralized regulations.

With these remarks, we wish the authorities further success in their endeavors.

Mr. Obame made the following statement:

At this stage, this chair has not much to add to the discussion but would like to join previous speakers in welcoming the strong commitment that the Argentine authorities have demonstrated in implementing tight financial policies to confront the adverse effects on their economy and financial system, that surfaced after the devaluation of the Mexican peso at the end of 1994. This has enabled the authorities to achieve significant progress in economic stabilization and help to reestablish market confidence in the government determination to maintain prudent policies. It is encouraging to note that inflation remains subdued and that fiscal discipline has been maintained and continues to be so. These achievements underscore that the current convertibility plan being implemented is working well and remains a suitable tool for ensuring price stability while safeguarding fiscal discipline. Despite these achievements, there is no doubt that many challenges, and in particular the need to enhance a sustainable recovery, to curb the high level of unemployment and to achieve internal and external viability, still lay ahead of the Argentine authorities.

Overall, I endorse the staff appraisal and support the proposed decision, I would be brief, limiting my remarks mainly to one issue relating to the successor program for which the authorities are requesting Fund's support.

I welcome the emphasis that the Argentine authorities are putting on achieving the structural equilibrium in the national public finances in the medium term. In this regard, on the revenue side, the measures envisaged both in 1996 and 1997 and which entail inter-alia, the elimination of certain exemptions from income taxes and the strengthening of the tax administration, so as to enhance the tax system and better apprehend the taxpayers, appear to represent steps in the right direction. However, should the outcome remain below fiscal targets, the authorities should stand ready to implement additional corrective, but not counterproductive measures. In this context, while we understand the need to improve fiscal revenue, we wonder whether the present high level of the VAT rate could not contribute to delay the recovery process while perhaps, already being a potential source of tax evasion that ultimately could limit the achievement of the fiscal revenue objective. Could a slightly lower rate of the VAT than the current one have been more suitable especially when an effort is

being envisaged to speed up growth through private consumption as indicated by the staff earlier; and to reinforce and broaden the tax base. Could the staff comment on that issue and especially explain if such an alternative of lower VAT was discussed with the authorities?

On the expenditure side, we note the restrictive stance that the authorities are following in the 1996 budget by keeping primary expenditure unchanged in nominal terms. We also note the efforts being undertaken to merge or eliminate public entities, to close programs and agencies and to consolidate manpower. All these measures should go a long way in restoring fiscal balance. Particularly important in this process, are the reforms that are also being introduced to enhance the autonomy of the provincial governments and reduce their overall deficit. We urge the Argentine authorities to forcefully implement these reforms through which the privatization of provincial enterprises and banks, are expected not only to promote further the private sector, but also to reduce the overall liabilities of the public sector.

With these comments, this chair supports the proposed decision and wish Mr. Zoccali's authorities well in their future endeavors.

Mr. Autheman made the following statement:

I continue to have confidence in Argentina's capacity to implement a very tight adjustment policy. I therefore support the proposed Stand-By Arrangement. I found the staff report both concise and excellent, and am in agreement with all its comments. I will therefore limit myself to three brief remarks.

First, on the growth forecast, I think the proposed forecast is quite reasonable. Of course, we always have a tendency to forecast backwards and to believe that the future will be similar to the recent past, but experience tells us that this is the best way to make mistakes. Several of us last year made the observation that a recession was highly probable in Argentina. They expressed the concern that the authorities should prepare themselves for this prospect. I do not challenge the practice of maintaining too optimistic a forecast, as long as this is perceived as a sensible public relations exercise, while the authorities and the staff are well aware of the underlying reality.

My second comment is related to the currency board. I join those who think that for the time being—and I would add "for some time"—Argentina has no other option. Any attempt to move out of the currency board would create more credibility losses than would generate flexibility gains. Mr. Schoenberg suggested that an opportunity to reconsider the exchange rate system may arise if capital inflows resume. Personally, I would put more emphasis on another condition, which would be a significant increase in the monetization of the economy. I really do not see how Argentina could move out of the present arrangement in a credible fashion without a significant remonetization of the economy.

Finally, I think we must be aware, as Mr. Schoenberg invited us to do, that this is basically a rescheduling of Fund money. This is acceptable as long as we are invited to support a country whose commitment to sustain a strong adjustment policy makes no doubt, but there is an element of exception in this decision.

Ms. Heinonen made the following statement:

Like many previous speakers, we find it hard to disagree with the analysis presented by the staff on the no doubt difficult economic agenda the authorities need to pursue in 1996. The Mexican crisis hit the economy hard and much depends now on how quickly economic activity will pick up again. Sound economic policies will be necessary. Consequently we can support the authorities' request for a stand by arrangement to sustain the process of recovery.

The cornerstone for economic policies has been the Convertibility Law, stipulating parity between the U.S. dollar and the Argentine peso and close to full coverage of the monetary base with reserves. It can be credited for having kept the domestic price level under control and acting as a buffer against fiscal laxity. As it now also has proven its external viability, Argentina, can, in some respects, be said to have an advantage over many other countries in the region in having the tools to weather external shocks.

But at the same time the arrangement keeps the authorities hands tied as far as monetary policy is concerned, and fiscal policy is left to perform many tasks. This is of course the dilemma, especially if growth will remain weak for too long. We note from Mr. Zoccali's statement that the high level of unemployment is considered the most serious challenge confronting the authorities, but that remedies are sought in job-creation rather than through deliberate macro-economic stimulation. We support that strategy.

For public sector consolidation, the efficiency of tax administration measures is a problem. In the future, privatization receipts will not cover so much of the budget deficit. We would also urge the authorities to continue to press forward with the issue of having provinces redressing their financial imbalances.

With none of the components of domestic demand set to pull a recovery, it appears that the pick up in activity can only come from the external sector. There the outlook continues to be favorable, and furthermore, the current account deficit should not present serious financing difficulties over the next few years. Like some other speakers, we therefore think a graduation from Fund programs should soon be in sight for Argentina.

Mr. Mirakhor made the following statement:

Let me join Mr. Autheman's compliment to the staff for an excellent report. We have come to expect that from Mr. Reichmann after his excellent

work on Turkey. I also want to associate myself strongly with the concise remarks of Mr. Ismael in the four points he very rapidly read. They were basically my sentiments, so I want to associate myself with him, and Mr. Prader.

I wish to add just one point. Along with Mr. Calderón, we believe that the authorities' excellent policy track record of recent years gives confidence that timely and adequate measures will be taken, if needed, regardless of what the growth out turn may be. We hope it will be strongly positive. We support the decision, and wish Argentina a very rapid recovery of its economic activity.

Mr. Trivedi made the following statement:

Allow me first to commend the Argentine authorities for their exceptional efforts during last year. We support the proposed decision. I have only one concern which I would like to flag. Allow me to rewind and play back what the staff said about Mr. Shields's comment about the 16 percent anticipated growth in the revenue receipts in the next three years, and the input that the amnesty scheme has made into the revenue receipts.

I find it difficult to see how the amnesty scheme is going to make an input into the future revenue receipts. However, I think, once the amnesty scheme has been completed—as I understand the scheme, the money has been borrowed and the money has been consumed at the end of 1995—all that is going to come back is merely an accounting procedure. It comes back next year, the year after that, in 1998, and goes back to the bank.

In connection with the amnesty scheme, I have one more question, which is: who bears the fiscal cost of this borrowing? Obviously, there is some indirect loan that has been given to the Treasury. Perhaps we should also be concerned about the risk. Mr. Zoccali refers to the treasury risk which now has been transferred to the banks. On that point, I would like to raise another flag: what prevents the government from getting into this indirect borrowing business from the bank in the future?

The staff representative from the Western Hemisphere Department said that the currency board arrangement prevented issuing money for anything but foreign exchange. Therefore, there was no room for lending to the commercial banks. There was a small lending margin, but not enough to act as a lender-of-last-resort.

The issue of widening the value-added tax base and lowering the rate had been one of the major topics of discussion during the recent staff mission, the staff representative said. It had also been a major topic of discussion in national Congress when the new laws were approved. The authorities would have liked to lower the rate since the current high rate induced tax evasion. However, given the precarious fiscal situation it was deemed to be too risky to move in that direction.

Considering that Argentina was already coming out of a four-year extended arrangement, and that the authorities were concerned about prolonged use of Fund resources, they had not considered the option of another extended arrangement, the staff representative

remarked. A 21-month Stand-By Arrangement was considered sufficient to bridge the period through 1997.

Even though Brazil was a major trading partner of Argentina, Argentina's exports were sufficiently diversified that a slowdown in Brazil, that would precipitate a drop in Brazilian imports, would be manageable, the staff representative stated. There was, of course, the risk that events in Brazil may trigger capital outflows, but Argentina had already withstood rather well, and without deviating from its policy stance, the effects of the Mexico crisis. Moreover, to some extent the stronger position of the banking system reduced the contagion effect and the vulnerabilities in the system.

The inflow of "other" capital reflected the projected increase in the demand for money, the staff representative observed. Given the convertibility arrangement, the increase in domestic deposits reflected the inflow of foreign capital. The program was quite conservative in terms of what was assumed with regard to the likely increase in deposits, and in the demand for money, throughout 1996.

Only one fourth of the total proceeds of the tax amnesty were used as collateral to borrow against in 1995, the staff representative explained. That borrowing was like any other borrowing by the public sector. Given the convertibility arrangement, it was not possible to distinguish one borrowing from the other.

Mr. Zoccali made the following concluding statement:

> I wish to thank Mr. Reichmann for his very comprehensive replies and, perhaps, given the late hour, limit my concluding remarks to a couple of issues.
>
> First, on the issue raised by Mr. Lvin regarding the policy of prudential regulations in Argentina and the inconsistency with what is the objective in terms of lower spreads, I must say that the authorities are again following very cautious policies. The liquidity requirement which has substituted the legal reserve requirement is not remunerated by the central bank. Therefore, there is no quasi-fiscal cost involved in the arrangement, and the remuneration is, in fact, being received by the bank, so it should have a positive effect on the intermediation spread.
>
> On the prudential side, they have implemented the United States style that is, they are following capital assets, management capacities, earnings, and liabilities. If anything, my authorities are very keen on enforcing this very strictly, and on covering not only general market risk but also the risk of trading that is inherent in bank portfolios. So I think both things go in hand, and in fact perhaps explain why the Argentine banking system withstood a 20 percent withdrawal of deposits in the span of three months, which was equivalent to the magnitude of deposit decline in the U.S. banking system during the Great Depression.
>
> Having said this, I think the other issue is related to the ambitiousness of the growth in fiscal objectives and, certainly, whether there is justification for maintaining the current policy framework. I have noted the seriousness and the

multifaceted nature of the unemployment problem in Argentina, and everybody has noted the severity of the downturn in activity.

During this period, the government was able to maintain, as I have mentioned, the momentum of reform. I think this is a very important aspect to gauge the authorities by, and also the possibility or capacity to fulfil the commitments which they are undertaking. I think the momentum of reform can be reflected in the tax and administrative reform legislation which was enacted, and I think my authorities are confident that this momentum of reform, which for the first time is extending in earnest into the provincial jurisdictions, which was also mentioned, is a very auspicious development.

At the same time, we have reversed the consequences of hyperinflation, and we have reversed the decline in total deposits, so it is not the first time that the Argentine authorities have been faced with important obstacles such as the high level of unemployment. I think, observing the discipline which has also been mentioned, imposed by convertibility at this time last year, it has been the underlying factor responsible for the regained credibility.

Last year, if I remember correctly, we had not only concerns regarding the loss of competitiveness, but also new concerns regarding the prospect of default and the collapse of the banking system. Fortunately, these have not materialized. Instead, the convertibility plan is now in the beginning of its sixth year, in the context of continued vigorous export growth—something which is perhaps unique to an Argentine adjustment program, which is the low interest rates. More than unique, as mentioned by Mr. Lvin, is the virtual price stability, but this virtual price stability comes mixed in with no exchange controls, no capital controls, and complete consumer choice, which is an important aspect of this process of reform. The significance of these achievements, and even the base of popular support, especially from those that were seriously affected by regressivity and distortions of high inflation in the past, should not really be downplayed.

Broadly defined—and this comes back to how we should treat the deviations—the program objectives during this period can be said to have been systematically met. This also proves that the process of adjustment should not be conceived as either linear or of short-term duration. I think, if we are intent on eliminating distortions and on sustaining noninflationary growth, we should ultimately aim at eliminating distortions in the economy.

The issue of the tax revenue performance was raised. Certainly there is no doubt that it had a cyclical component which was aggravated by the credit squeeze tied to the deposit withdrawal that I have mentioned. I think what is valid on the downside should also apply as the economy pulls out of the recession. I have already noted some leading indicators as well as market perceptions as to where we are going. In fact, today the stock market improved another 1.7 percent. The market is internalizing these aspects.

An additional indicator that is linked to the unemployment issue, which was mentioned before, especially by Mr. Fukuyama, is that the index of help wanted advertisements rose in March on a seasonally adjusted basis by some 10 percent compared to February. Auto sales have been stronger. Steel production figures have increased. I think the important thing is that share and bond prices have climbed despite the correction of the markets in the United States.

Another issue that should be remarked on is that since 1994 the government was able to keep expenditure under firm control. This was done even during the second and third quarters of 1995, when the most severe contraction of economic activity was being observed, and certainly there was also political pressure at that time to relax the brakes.

The realism of the objectives under the successor program and the resolve that my authorities have shown to persevere, which is the recommendation of Mr. Havrylyshyn, should therefore be assessed against these results rather than against the minor deviation in relative terms with respect to the end-December fiscal targets, which I think were largely explained by the modality of accounting for the receipts which were envisaged in the revised program, as was the tax moratorium. I think the benefit of the tax moratorium for the future is that it will increase the base of taxpayers. It is not just the question of the back taxes that are being incorporated, but the enlargement of the base on which to secure a future compliance.

This said, I think the discussion between Mr. Havrylyshyn and Mr. Shields has to be kept in mind. Perhaps a fuller use of the automatic stabilizers earlier on in the cycle, given the considerable unused capacity, could have attenuated the duration or the severity of the contraction and its impact on tax and social security collection. Nevertheless, given the history, my authorities have preferred the side of caution, and this is their basic stance for the future.

As to the counterfactual scenario of faster growth predicated on the abandonment or the change of the present exchange rate anchor, it may look seductive from afar, but for a country like Argentina that has very recently emerged from a long period of price and institutional instability, which was rightly pointed out, where competitiveness is improving through falling costs and has, importantly, accelerated productivity, and where the momentum of structural reforms remains strong, it is less clear that such a change is necessary or desirable. As importantly, I do not think that there is any domestic clamor in this regard, and I would fully share the view expressed by Mr. Autheman that a relevant variable to keep in mind in this regard is the rate of growth or the rate of remonetization of the economy, which at the present time is only 18 percent of GDP.

Finally, I think the dynamism of the structural reforms, which as I have mentioned includes the provinces and includes the labor markets, actually constitutes a silver lining of this downturn in 1995. I think my authorities remain convinced that the full restoration of confidence will be possible in a low

inflation environment. This is important if we want to favor domestic savings, which has been so stressed around the table, and this low inflation environment is *also important for institutional stability for investment, which in the view of* practically all Directors is essential for strong job creation and growth in a liberalized and deregulated economy.

I wish to thank my colleagues for their continued support, for the enlightening statements, and for the very constructive comments, which are eagerly being awaited by my authorities.

The Executive Board took the following decision:

1. The Government of Argentina has requested a stand-by arrangement in an amount equivalent to SDR 720 million for a period of *21 months from April 12, 1996.*

2. The Fund approves the stand-by arrangement as set forth in EBS/96/45, Supplement 1.

3. The Fund waives the limitation in Article V, Section 3(b)(iii).

Decision No. 11241-(96/36), adopted
April 12, 1996

3. REPORT BY FIRST DEPUTY MANAGING DIRECTOR

The First Deputy Managing Director, reporting on his travel to Saudia Arabia and Bahrain, said that the visit to Saudi Arabia was purely to exchange views with the Saudi authorities. He had been accompanied by the Director of the Middle Eastern Department, who made a side trip from Morocco. Meetings were held with the Governor and Deputy Governor of SAMA, the Planning Minister, and the Finance Minister. The meeting at the Finance Ministry ended with a lunch with officials and with the Chairmen of several major commercial banks and the institutions of the Gulf Cooperation Council (GCC). Discussions focused on the world economy, developments in the capital markets, the GAB, ESAF, the HIPC debt initiative, and some issues about the Saudi economy. Relations with the Fund were obviously excellent.

In Bahrain, he had attended the Gulf Economic Forum, the First Deputy Managing Director continued. The forum was co-hosted by the Government of Bahrain and Dow Jones. There were participants from all Gulf countries. The guest of honor was the Deputy President of South Africa, who made the keynote address. Before the conference, meetings were held with the Finance Minister of Bahrain and the Governor of the monetary agency. There were discussions on issues confronting the economy, particularly labor market problems. The Gulf countries were essentially aiming for budget balance by the year 2000, and were attempting to deal with associated labor market problems that were a result of very rapidly growing populations in which over 60 percent of the population is under the age of twenty-five.

During the visit to Bahrain, there was also an opportunity to meet with the Minister of Planning of the Palestinian authority to discuss the situation in the West Bank and Gaza, the

First Deputy Managing Director said. Discussions centered on the interactions with the Fund's resident representative, the recent staff mission, and preparations for the meeting of the Ad Hoc Liaison Committee which was to take place in Brussels. The Palestinian authorities were extremely grateful to the Fund for the work it had been doing in documenting the budgetary needs of the country.

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/96/35 (4/10/96) and EBM/96/36 (4/12/96).

4. ZAMBIA—EXCHANGE RESTRICTIONS—EXTENSION OF APPROVAL

Zambia continues to have exchange restrictions on debt service payments evidenced by limitations on payments for external debt. The Fund grants approval for the retention of the exchange restrictions until June 30, 1996 or completion of the next Article IV consultation with Zambia, whichever is earlier.

Decision No. 11242-(96/36), adopted
April 11, 1996

5. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors as set forth in EBAM/95/41, Supplement 1 (4/10/96) and EBAM/96/52 (4/12/96) and by an Advisor to an Executive Director as set forth in EBAM/96/52 (4/10/96) is approved.

6. TRAVEL BY MANAGING DIRECTOR

Travel by the Managing Director as set forth in EBAP/96/37 (4/11/96) is approved.

APPROVAL: March 13, 1997

REINHARD H. MUNZBERG
Secretary

Scope and Operational Characteristics of the Special Data Dissemination Standard

I. Purpose and Framework

The purpose of the Special Data Dissemination Standard (SDDS) is to guide member countries in the provision to the public of comprehensive, timely, accessible, and reliable economic and financial statistics in a world of increasing economic and financial integration. The SDDS thus comprises four dimensions: (a) coverage, periodicity, and timeliness of data; (b) access by the public; (c) integrity of the disseminated data; and (d) quality of the disseminated data. For each of the four dimensions, the SDDS prescribes good practices that can be observed, or monitored, by users of statistics.

II. Dimensions of the SDDS

1. Coverage, periodicity, and timeliness of data

Comprehensive economic and financial data, disseminated on a timely basis, are essential to the transparency of macroeconomic performance and policy.

a. Definitions and general considerations

(i) Coverage

In respect of coverage, the SDDS focuses on basic data that are most important in shedding light on economic performance and policy in four sectors across the economy--real, fiscal, financial, and external. The SDDS focuses on the minimum coverage necessary, but countries are encouraged to disseminate other data that may increase the transparency of economic performance and policy in general and for their own economic and financial situations in particular.

For each of the four sectors, the SDDS provides:

(a) a comprehensive statistical framework--national accounts for the real sector, government operations for fiscal data, analytical accounts of the banking system for financial data, and balance of payments accounts for external transactions;

(b) data that permit tracking of the principal measures in the comprehensive frameworks; and

(c) other data relevant to the sector.

These other data are often in the form of a price, including interest rates and exchange rates. The comprehensive frameworks and tracking categories are indicated in the attached Table 1.

(ii) Periodicity and timeliness

Periodicity refers to the frequency of compilation of the data. Timeliness refers to the speed of dissemination of the data--i.e., the lapse of time between a reference date (or close of a reference period) and dissemination of the data. Dissemination of statistics may take several forms, including: formal publications (including news releases); announcement of availability on request (but not necessarily without charge), including through electronic databases; diskettes, tapes, or CD-ROM of a formal publication or a database; and recorded telephone messages and facsimile services.

b. Specifications

The SDDS specifications for coverage, periodicity, and timeliness are summarized in the attached Table 1. Where the coverage components, periodicity, or timeliness is to be provided on an "as relevant" basis, subscribing members would have the flexibility to take an approach that is the most relevant to their respective circumstances. Where the coverage components, periodicity, or timeliness is designated as "encouraged," that feature would not be binding under the SDDS, but countries are encouraged to develop and disseminate such data categories in the indicated periodicity and timeliness.

The prescribed comprehensive statistical framework for the real sector is the national accounts, consisting of nominal levels, real (price-adjusted) levels, and associated prices (deflators or price indices). The data category intended to track GDP on a more frequent basis is a single production index or a selection of production indices. For price statistics, consumer price indices and producer or wholesale price indices are prescribed.

For the fiscal sector, the prescribed comprehensive statistical framework covers the general (central plus state or provincial and local) government or the public sector, depending on which coverage is the focus of policy and analysis in a particular country. As more frequent and timely tracking indicators of fiscal stance, central government indicators are prescribed. Data for government debt are prescribed in terms of central government debt.

For the financial sector, the prescribed comprehensive statistical framework is the analytical accounts of the banking system. Data should cover all units of the system that are included in principal national measures of money aggregates (such as M2 or M3). The data category prescribed to track banking system data on a more timely basis is the central bank analytical accounts. Interest rates should include rates on short- and long-term government securities as appropriate to the country.

For the external sector, balance of payments data are the prescribed comprehensive statistical framework. On a more frequent and timely basis, international reserves and merchandise trade are called for as tracking categories. Dissemination of monthly gross official reserve assets within one week is prescribed. In respect of the international investment position, the approach taken under the SDDS is to expect that countries would work toward the provision of components consistent with the *IMF Balance of Payments Manual (5th Ed.)* and disseminate the framework--or components of it--as appropriate and feasible. Exchange rates should be disseminated on a daily basis, as should forward exchange rates (three- and six-month rates) on an "as relevant" basis if a robust forward market exists.

c. Flexibility

2. Access by the public

Dissemination of official statistics is an essential feature of statistics as a public good. Ready and equal access is a principal requirement for the public, including market participants.

To support ready and equal access, the SDDS prescribes:

(a) Advance dissemination of release calendars, with flexibility for the distribution of the release dates for up to two data categories; and

(b) Simultaneous release to all interested parties

3. Integrity

To fulfill the purpose of providing the public with information, official statistics must have the confidence of their users. In turn, confidence in the statistics ultimately becomes a matter of confidence in the objectivity and professionalism of the agency producing the statistics. Transparency of its practices and procedures is a key factor in creating this confidence.

To assist users of the data disseminated under the SDDS in assessing their integrity, the SDDS prescribes:

(a) the dissemination of the terms and conditions under which official statistics are produced, including those relating to the confidentiality of individually identifiable information;

(b) the identification of internal government access to data before release;

(c) the identification of ministerial commentary on the occasion of statistical release; and

(d) the provision of information about revision and advance notice of major changes in methodology.

4. Quality

A set of standards that deals with coverage, periodicity, and timeliness of data must also address the quality of statistics. Although quality is difficult to judge, monitorable proxies, designed to focus on information the user needs to judge quality, can be useful.

To assist users of the data disseminated under the SDDS in assessing their quality, the SDDS prescribes:

(a) the dissemination of documentation on methodology and sources used in preparing statistics; and

(b) the dissemination of component detail, reconciliations with related data, and statistical frameworks that support statistical cross-checks and provide assurance of reasonableness.

III. Implementation of the SDDS

1. Subscription to the SDDS

Subscription to the SDDS by members of the Fund would be on a voluntary basis. Members may communicate their subscription to the SDDS by a notification to the Managing Director of the Fund.

After its subscription to the SDDS, a member would be expected to provide information describing its data dissemination practices (metadata) no later than three months (except for summary methodologies, which may be submitted no later than the end of the transition period), including the extent to which it wishes to avail itself of the flexibility provided in the SDDS for coverage, periodicity, and timeliness. Such metadata would be reviewed to ensure that they are comprehensive and presented in a reasonably internationally comparable way.

The period through December 31, 1998 will be the transition period. During this period, a member may subscribe to the SDDS even though it is not able to observe it fully. In these circumstances, a subscribing member would be expected to:

(a) delineate, at the same time that it provides its metadata, the elements on which its data dissemination practices fall short of the SDDS; and

(b) provide a plan of action that a member would represent would bring its practices to the level of the SDDS by the end of the transition period.

Members may also subscribe after the transition period, when the SDDS would be in full operation. Subscription will then require that members be able to observe the SDDS fully.

2. Dissemination Standard Bulletin Board

As a cornerstone of the implementation of the SDDS, the Fund will, as a service to its members, establish and maintain an electronic Dissemination Standard Bulletin Board (DSBB) on the Internet. The DSBB will identify the members subscribing to the SDDS and provide wide and easy access to the members' respective metadata. The responsibility for the accuracy of the metadata and of the economic and financial statistics underlying the metadata rests with member countries.

The DSBB would be opened to public access once the necessary preparations are completed and the metadata for at least 15 countries, including a number of nonindustrial countries, are ready for posting. Thereafter, metadata posted in the DSBB may be amended on the basis of information to be provided by subscribing members.

3. Observance of the SDDS and Removal from the DSBB

A member that subscribes to the SDDS will be expected to observe the elements of its four dimensions described above. Users that observe deviations from a member's commitments as a subscriber are encouraged to consult with the member directly in the first instance and then to communicate with the contact in the Fund that shall be established for this purpose. An assessment of a member's observance of its commitments as a subscriber is expected to be included in Article IV consultation reports.

To serve the purposes for which the SDDS is designed, it will be necessary to signal if a subscribing member is no longer fulfilling the expectation that it is observing the SDDS. This signal would be given by the removal of the member's metadata from the DSBB. During the transition period, a member could be removed from the DSBB only for egregious nonobservance of the SDDS. The removal would be by a decision of the Executive Board, which could draw on advice of a panel of internationally recognized statistical experts.

The procedures for removal from the DSBB that will apply after the transition period will be elaborated during the transition period.

4. Review, Revisions, and Withdrawal

Reviews of the SDDS will be conducted by the Fund by the end of 1997 and again by the end of 1998. At the completion of these reviews, revisions of the SDDS may be adopted.

A member may withdraw its subscription to the SDDS at any time by sending a notification to the Managing Director of the Fund. The relevant metadata would be removed promptly from the DSBB.

ANNEX

Coverage			Periodicity	Timeliness
Prescribed		Encouraged categories and/or components		
Category	Components			
Real sector				
National accounts: nominal, real, and associated prices *	GDP by major expenditure category and/or by productive sector	Saving, gross national income	Q	Q
Production index/indices #	Industrial, primary commodity, or sector, as relevant		M (or as relevant)	6W (M encouraged, or as relevant)
		Forward-looking indicator(s), e.g., qualitative business surveys, orders, composite leading indicators index	M or Q	M or Q
Labor market	Employment, unemployment, and wages/earnings, as relevant		Q	Q
Price indices	Consumer prices and producer or wholesale prices		M	M
Fiscal sector				
General government or public sector operations, as relevant *	Revenue, expenditure, balance, and domestic (bank and nonbank) and foreign financing	Interest payments	A	2Q
Central government operations #	Budgetary accounts: revenue, expenditure, balance, and domestic (bank and nonbank) and foreign financing	Interest payments	M	M
Central government debt	Domestic and foreign, as relevant, with a breakdown by currency (including indexed), as relevant, and a breakdown by maturity; debt guaranteed by central government, as relevant	Debt service projections: interest and amortization on medium and long-term debt (Q for next 4 quarters and then A) and amortization on short-term debt (Q)	Q	Q
Financial sector				

Coverage			Periodicity	Timeliness
Prescribed		Encouraged categories and/or components		
Category	Components			
Analytical accounts of the banking sector *	Money aggregates, domestic credit by public and private sector, external position		M	M
Analytical accounts of the central bank #	Reserve money, domestic claims on public and private sector, external position		M (W encouraged)	2W (W encouraged)
Interest rates	Short-term and long-term government security rates, policy variable rate	Range of representative deposit and lending rates	D	1/
Stock market	Share price index, as relevant		D	1/

ANNEX

Coverage			Periodicity	Timeliness
Prescribed		Encouraged categories and/or components		
Category	Components			
External sector				
Balance of payments *	Goods and services, net income flows, net current transfers, selected capital (or capital and financial) account items (including reserves)	Foreign direct investment and portfolio investment	Q	Q
International reserves #	Gross official reserves (gold, foreign exchange, SDRs, and Fund position) denominated in U.S. dollars	Reserve-related liabilities, as relevant	M (W encouraged)	W
Merchandise trade #	Exports and imports	Major commodity breakdowns with longer time lapse	M	8W (4-6W encouraged)
International investment position	See text of Annex		A (Q encouraged)	2Q (Q encouraged)
Exchange rates	Spot rates and 3- and 6-month forward market rates, as relevant		D	1/
Addendum: Population		Key distributions, e.g., by age and sex	A	...

Periodicity and timeliness: Daily ("D"); weekly or with lapse of no more than one week ("W") after the reference data or close of the reference week; monthly or with lapse of no more than one month ("M"); quarterly or with lapse of no more than one quarter ("Q"); annual ("A").

* Comprehensive statistical frameworks

\# Tracking categories

1/ Given that data are widely available from private sources, dissemination of official producers may be less time-sensitive. Although dissemination by recorded telephone messages or fax services is encouraged, dissemination of these data can be made part of other (preferably high-frequency) dissemination products.