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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 97/125

10:00 a.m., December 19, 1997

Contents

Executive Board Attendance

S. Fischer, Acting Chairman
S. Sugisaki, Deputy Managing Director

Executive Directors	**Alternate Executive Directors**
	S.M. Al-Turki
	A.S. Alosaimi, Temporary
	J.D. Borpujari, Temporary
	R. Fernandez
	P.F. Fremann, Temporary
T.A. Bernes	C.X. O'Loghlin
	C.K. Duenwald, Temporary
R.F. Cippa	K. Kaufmann, Temporary
	W.-D. Donecker
	R.J. Heinbuecher, Temporary
	N. Coumbis
	J.N. Santos, Temporary
	J.P. de Morais
	P.A. Akatu, Temporary
A. Kafka	J.C. Estrella, Temporary
W. Kiekens	J. Prader
	D.A.A. Daco, Temporary
K. Lissakers	B.S. Newman
	S.D. Melese-d'Hospital, Temporary
A. Mirakhor	M.A. Ahmed, Temporary
	M.-H. Mahdavian, Temporary
A.V. Mozhin	A. Vernikov
	J. Shields
	K.S. Brownlee, Temporary
A.S. Shaalan	G.M. Iradian, Temporary
	H.B. Disanayaka
	R.P. Watal, Temporary
E. Srejber	B. Andersen
	O. Kwon
	J.K. Honeyfield, Temporary
J.J. Toribio	J. Guzmán-Calafell
	J.L. Pascual, Temporary
J. de Beaufort Wijnholds	Y.G. Yakusha
K. Yao	D. Saha, Temporary
	H. Ono
	D. Fujii, Temporary
	O. Sein, Temporary
	Phan M.H., Temporary
	Han M.
	Lu A., Temporary
A.G. Zoccali	N. Eyzaguirre
	D. Merino, Temporary

R.H. Munzberg, Secretary
M.J. Miller, Assistant
S. Bhatia, Assistant
S. Tenney, Assistant

Republic of Korea—Report by Staff
Staff representative: Neiss, APD

General Data Dissemination System
Staff representatives: Carson, STA; O'Connor, STA; Nord, PDR

Special Data Dissemination Standard—Review
Staff representatives: Carson, STA; E. Saunders, STA; Nord, PDR

Republic of Tajikistan—1997 Article IV Consultation; and Purchase Transaction—Emergency Post-Conflict Assistance
Staff representatives: Saavalainen, EU2; Leddy, PDR

Also Present
IBRD: R.E. Christiansen, Europe and Central Asia Regional Office. European II Department: J. Odling-Smee, Director; D.J. Donovan, P.M. Keller, J. Ma, C.B. Rosenberg, T.O. Saavalainen, J.K. Wakeman-Linn, T.A. Wolf. External Relations Department: S.J. Anjaria, Director; M.E. Hansen. Fiscal Affairs Department: H.T. Young. Legal Department: R.C. Baban, S.C. Ho, I. Mouysset. Monetary and Exchange Affairs Department: P.T. Downes, P.L. Hilbers, A.M. Leone. Policy Development and Review Department: J.T. Boorman, Director; T. Leddy, Deputy Director; R.S. Khemani, I.A. Metzgen, L. Nielsen, R.H. Nord. Research Department: G.M. Milesi-Ferretti. Western Hemishpere Department: J.G. Mikkelsen. Secretary's Department: P. Gotur, A. Mountford. Statistics Department: C.S. Carson, Director; R.A. Elson, Deputy Director; R.G. Di Calogero, J. Healey, P.L. Joyce, E. Liuksila, K.W. O'Connor, E.W. Saunders. Treasurer's Department: D. Williams, Treasurer; R.H. Floyd. Western Hemisphere Department: J.G. Mikkelsen. Office of the Managing Director. M. Cross, Personal Assistant; C. Christensen, O.J. Evans, T.J. Hill. Advisors to Executive Directors: M. Askari-Rankouhi, M.H. Elhage, L.J.F. Erasmus, S.S. Farid, A. Giustiniani, C.M. Gonzalez, J. Jonáš, A. Levy, M.F. Melhem, H. Mori, H. Ogushi, T. Turner-Huggins, L.B.J. van Geest. Assistants to Executive Directors: J.A. Akhmetova, N.R.F. Blancher, P.I. Botoucharov, M.A. Brooke, M. Carlens, D. Chen, M.A. Cilento, S. Fukushima, M.A. Hammoudi, E. Kouprianova, T.-M. Kudiwu, K. Lai, A. Lucenti, J. Mafararikwa, F. Mercusa, D. Merino, I. Moon, J.A.K. Munthali, L. Palei, H. Paris, T. Presečan, S. Rouai, J. Salleh, O. Schmalzriedt, T.T. Schneider, R.J. Singh, M. Vismantas, E.L. Zamalloa.

1. REPUBLIC OF KOREA—REPORT BY STAFF

The Chairman stated that he had learned that the President-elect of Korea, Mr. Kim Dae Jung, intended to address the nation following the confirmation of his election. That address would contain a paragraph that reiterated the basic thrust of the policies that Korea had adopted in the context of the Fund's assistance. He trusted that that information would serve to reassure members of the Board about the President-elect's intentions. That paragraph would read:

> The new government in Korea will endeavor to ensure future financial integrity, so there is no need for a Fund bailout, through thorough and systematic economic reforms, as soon as possible. I shall state once more, with utmost clarity and emphasis, we shall cooperate with the Fund fully and completely. We shall also faithfully abide by the agreement between the Fund and the present government of this Republic. For that, we shall try our best to legislate the necessary laws in the National Assembly. The emergency rescue by the Fund has provided us with an opportunity for serious self-reflection and rectification. The Fund has been called for a rescue because we have failed to do our job to take care of our own economy. The advent of the new government in Korea will be the start of our national efforts to overcome the economic crisis, but in the interim, before the government is inaugurated, we shall maintain the closest possible cooperation with the incumbent government to weather the current crisis.

The President-elect had telephoned him on that morning, the Chairman continued. He had expressed to him the Fund's congratulations, as well as his own, upon his election, as well as his condolences, and those of the Fund, for the President-elect's brother, who had died on the very day of the election. The President-elect had reiterated what he had declared before, he had emphasized the basic market orientation of the policy he wished to promote, as well as his gratitude for Fund support. The President-elect would meet President Kim on the following day, and they would join their efforts for an integral implementation of the agreement.

The President-elect had impressed upon him his gratitude for the strength and speed of Fund support and the quality of Fund advice, the Chairman related. He had also requested that the Fund put in place, in particular during the current period of political transition, a resident representative in Korea, in order to maintain the consultation between the Fund and Korea at the traditional high level. He had responded to the President-elect by telling him that the Director of the Asia and Pacific Department would be returning to Korea on the following Sunday to provide continuity and needed policy advice. The President-elect had said that he strongly looked forward to meeting with the Director.

The President-elect had gone on to reiterate the fact that he was conscious that he needed the Fund's continued support, which he saw as an opportunity to help Korea to remove all the economic and other obstacles to the growth and market orientation of the economy, the Chairman concluded. The President-elect had also expressed an interest in meeting with him, although he had emphasized his satisfaction in meeting with the Fund staff as well. He had promised to send to the Fund a complete English version of his speech, which would be distributed to the Board as soon as it was received.

The Director of the Asia and Pacific Department stated that the Korean markets had been quite weak on the preceding Friday, but not catastrophically so. The won had depreciated during the day, but had then gained a bit, and overall it had ended with a depreciation of about 5 percent. The same had happened in the stock market. Interest rates had begun to rise, and now stood above 25 percent; one rate that the staff had observed was now at 26 percent. The long-term corporate bond rate had also risen sharply.

The situation with respect to the rollover of debt obligations falling due remained very precarious, the Director cautioned. The estimate was that about another $1 billion had had to be channeled to Korean banks to enable them to keep current on their liabilities. Discussions with foreign banks on quick market borrowing had intensified, and the cabinet was preparing to submit to the National Assembly on Monday authorization for the government to borrow abroad. A guarantee of commercial bank borrowing was still under discussion, but that might also be submitted to the National Assembly in the not-too-distant future.

In discussions with the foreign banks, three possible schemes for dealing with the debt repayments were beginning to coalesce, the Director continued. One was a syndicated government loan of $10 billion early in 1998, and the Fund very much encouraged the authorities to move ahead with that as quickly as possible. Another possibility was an even quicker syndicated loan by the Bank of Korea from international banks, the proceeds from which could be used to repay that part of the short-term debt that was not rolled over. Another possibility was to ask the National Assembly for the authority to give a government guarantee to loans by commercial banks, and those loans could take the form of a rollover. Those choices involved complex issues that needed to be examined from many angles. The Korean authorities were still seeking advice on how to proceed.

The first possibility was clearly desirable, the Director considered. The others were probably also desirable, assuming that certain safeguards were built in, but, until more details about them became known, it was difficult to have a clear view of them. The important point, however, was that intensive efforts were being made to tap the commercial market in order to alleviate the liquidity crisis.

Ms. Lissakers commented that, with respect to the third proposal—of having the National Assembly approve a government guarantee for foreign bank deposits—she had supposed that there was already in place a government guarantee for all deposits. She wondered whether that meant that the general conclusion had been drawn that that guarantee was not legally binding.

The Director of the Asia and Pacific Department explained that the previous guarantee was not legally binding because it had not been approved by the National Assembly. It was to be hoped that the new guarantee would have two distinct advantages—first, it would push the old guarantee into the background, and second, it could be made clear, explicit, limited, and legally valid.

Ms. Lissakers said that if the foreign banking community had been operating on the assumption that the previous guarantee was, in fact, valid, and that guarantee had had no apparent effect on confidence or on the willingness of banks to roll over debt obligations falling due, she wondered whether a binding guarantee would not be counterproductive, because it would mean that banks that still had credit lines to Korea would think that there would be absolutely no cost in pulling them, because the government would pay out anyway.

It would tend to secure what was already happening, which was that the central bank was paying out at the back door to cover all the rollovers.

The Chairman commented that it could not necessarily be assumed that the international banking community was acting with the certainty that the guarantee of August 25, 1997 was valid, even though the international banking community might be pretending that it was valid, for the reason of preserving its position for possible future litigation.

Ms. Lissakers replied that, whether the guarantee was legally binding or not, there was a doubt whether Korea had the foreign exchange reserves to make good on the guarantee. Approval by the National Assembly of the guarantee was not likely to change that. That made it all the more incumbent on the Korean government to secure the money from the Fund and others to pay out. If the guarantee was made legally binding, the government would in effect have no legal alternative but to make the payments.

The Director of the Asia and Pacific Department remarked that both the international community and the Korean government had acted thus far as if the guarantee were valid. However, with foreign exchange reserves coming down toward zero, the guarantee was losing credibility. If a new explicit and legally valid guarantee were given, it would be given for longer maturities, which would make it more credible. The commercial bank could then say to its creditor bank that, if it were willing to roll over the debt for six months or one year, that rolled-over deposit would have a legally valid guarantee from the government. In any case, such a guarantee would be more credible than the present guarantee, which guaranteed deposits, even if they were just overnight deposits.

The Chairman commented that the proposals for dealing with the debt falling due made sense only if Korea replenished at the same time the central bank's foreign exchange reserves. The operations needed to be seen together; first, an operation that replenished the reserves; and second, a guarantee that reassured the holders of Korean paper, but which also provided for the payment of the money from the reserves if they wished to exit.

The Director of the Asia and Pacific Department added that, if the schemes were successful, they would, in effect, result in a restructuring of Korea's short-term debt in a voluntary and market-based way. The guarantee would be fully legal, and would apply for a relatively short period of time, and to rollovers bearing a minimum maturity.

Mr. Toribio stated that he wondered whether the negotiations with foreign banks for a syndicated loan of $10 billion involved all the banks that were creditors of Korea, or only a small number of banks that had not been previously involved.

The Director of the Asia and Pacific Department replied that the staff did not know at the current stage how many banks were involved in the negotiations. It had been his understanding that the negotiations had begun with one lead bank, and that it would be a separate operation, however. Because the loan would have to be placed very quickly, it was likely that a more limited number of banks would be involved.

Mr. Donecker stated that he had read in the newspapers about the improvement in the Korean capital market, and the fact that private capital inflows to Korea continued. He wondered whether the staff knew anything about the asset position of the Korean banks, and whether they kept such inflows on their correspondent bank accounts abroad. In particular, he wondered whether the Korean central bank could tap those resources, instead of paying out to banks that needed foreign exchange.

The Director of the Asia and Pacific Department replied that the staff had no information on inflows other than routine inflows. If such inflows were occurring, they were not yet reaching the Bank of Korea, because the staff had data on the Bank of Korea's external reserves.

2. GENERAL DATA DISSEMINATION SYSTEM

The Executive Directors considered a staff paper on the development of standards for the dissemination of economic and financial statistics to the public by member countries (SM/97/275, 11/26/97; and Cor. 1, 12/17/97).

The Director of the Statistics Department stated that a number of international organizations had followed the development of the data dissemination standards with great interest. An expert in sociodemographic data from the United Nations had accompanied the Fund team putting together the trial set of metadata samples. The International Labor Organization continued to work toward dissemination standards consistent with the Fund's. In that context, then, if the Board agreed, copies of the paper on the General Data Dissemination System could be made available to the statistical units of the OECD, the statistical office of the European Union (EUROSTAT), the several regional commissions of the United Nations, the United Nations Statistical Division in New York, the International Labor Organization, and the World Bank.

Mr. Yao said that he would appreciate it if copies of the staff paper could also be made available to AFRISTAT and the UN Economic Commission for Africa.

Mr. Bernes and Ms. Turner-Huggins submitted the following statement:

> We agree with the purposes and orientation of the General Data Dissemination System. The approach outlined by the staff is sound, comprehensive, and clear and we concur with the major recommendations. In particular, we welcome the emphasis on the improvement in data quality within a comprehensive framework and the inclusion of social indicators in the GDDS. For the small island economies in our constituency, the need to improve the infrastructure for statistics gathering and dissemination is critical and deserves urgent attention and support. We view the GDDS as an important element in the promotion of transparency, good governance, and in laying the foundation for better input into economic decision making.
>
> We do not consider the approach suggested by the staff overly demanding and would encourage movement toward the highest standards at the earliest possible date. Having said that, we do recognize the limitations faced by many countries, including human resource capacity, which will have to be overcome. Another problem lies in the absence of an information culture given the general paucity of reliable, timely, and useful information. Somehow this needs to be addressed in a way that increases society's awareness of the usefulness of statistical and economic information. Staff ideas on how this can be dealt with would be helpful.

We agree on the proposals on the implementation of the General System. We agree with the supply-driven phased approach to implementation. We note however, that technical assistance in some areas would fall on other international organizations. On this aspect we expect that the Fund would play a major role in the identification and coordination of such technical assistance. We lay great store on the suggestion (paragraph. 11) that cognizance would be taken of recent past measures to improve data quality and we would like to mention the efforts of the ECCB countries in developing a comprehensive project to improve the quality of data in these countries. This project is currently before the World Bank seeking resources for the implementation of some aspects of the project. It was also discussed with the Statistics Department during the annual meetings in Hong Kong. The project has many elements which are totally in concert with the GDDS. Given that the member countries of the ECCB are committed to the implementation of the project and have made budgetary allocation for the implementation of some aspects of the project, we believe that all of the countries would elect to participate in the GDDS at an early stage. We would welcome the training which the Fund would provide to develop the metadata as well as assistance to bring the project in line with the GDDS.

The identification of the English-speaking Caribbean site for one of the eight regional workshops is an extremely positive step and we would encourage the staff to limit the workshop to this region. The regional approach to the implementation as referred to in paragraph. 43 is a useful mode of implementation where possible and we agree that the Fund should build on the longstanding relationship with ECCB and others for this purpose.

Although the implementation plan for the GDDS mentions technical assistance for developing the metadata, i.e., current statistical procedures and dissemination practices, and plans for short-term and long-term improvements, it does not directly mention assistance in developing the capacity to actually produce improved data. If the GDDS is to go beyond that stage in many developing countries financial resources and technical assistance will have to be identified for capacity building. Staff may wish to consider tying technical assistance to demonstrated efforts on the part of countries as an additional incentive for participation. Given that technical assistance is a limited resource, countries ought to show that it is being put to good use.

On a technical note, the GDDS should be responsive to the data peculiarities of small developing states where the conventional statistical techniques have limited applicability. For example, the usual statistical inference from sampling techniques may be meaningless in small countries where the number of economic units may stretch the assumption of repeated sampling from an infinite population.

We support dissemination of the metadata and encourage the use of an electronic bulletin board.

We can go along with Staff's proposals in this area and view this as a positive incentive for countries to participate in the GDDS. Further, the Fund should consider ways to help in the distribution of data of the GDDS subscribers to shorten lags.

Mr. Disanayaka, speaking on behalf of Mr. Sivaraman, made the following statement:

I agree with the staff proposal regarding the purposes and orientation of the GDDS. I would suggest in this context that a model legislation could be prepared by the staff with the assistance of the World Bank and UN agencies which could be suitably adopted by each country subscribing to the GDDS to enable the statistical authorities to collect data as is required for compliance of the GDDS as well as the SDDS in future. In the absence of a legal authority, statistical authorities will find it difficult to obtain information from private sources belonging to banking and other sectors which have to submit accurate and timely information for the compliance of the requirements of the GDDS.

Mr. Yao made the following statement:

I welcome the examination of the paper on the General Data Dissemination System, and I commend the staff for producing a well-written and comprehensive paper that takes into account the Board comments during our last meetings. It is important to note that data issues have become a primary concern in the relations between countries in my constituency and the Fund. Too often, because of data weaknesses, the negotiation of Fund-supported programs has generally been difficult, and what has been interpreted as poor governance at times is actually the inability of a government to produce reliable data. Against this background, I strongly support the purposes of the GDDS and the proposed approach to its implementation.

I support the implementation of the GDDS, as it puts emphasis on the improvement of data quality, which will strengthen member countries' ability to formulate sound economic policy and improve the monitoring of Fund-supported programs. Moreover, its implementation will also help identify strengths and weaknesses in data systems and enhance coordination among the different agencies in member countries, thus contributing to greater transparency. In addition, by providing a framework to evaluate the need for data improvement, the Fund and the authorities could set priorities and the allocation of scarce resources of technical assistance to meet those objectives.

Overall, I encourage the staff to work with the countries and other international organizations on the data dimension of the GDDS, as shown in Table 1 of the staff paper. It is our expectation and hope that the seminar and workshop that will be organized by the staff will address all the concerns regarding coordination and harmonization at a regional level, and the effective use of the available human resources in the dissemination of material in several languages.

The data dimension is ambitious, and its implementation should be viewed in a medium-term framework. I have no difficulty in supporting the proposal to link closely the data dimension to the quality dimension, because plans for improving data quality will form an integral part of the system. In addition, it is encouraging to note that participation in the system will be on a voluntary basis, and that the general system is less prescriptive than the SDDS.

I also support the inclusion of social and demographic data within the data system, and I concur with the view that development of such indicators, and the related technical assistance, will fall to other international organization having more expertise in the area of social and demographic data. The information just provided by the Director of the Statistics Department regarding the role played by other organizations is welcome. In this context also, I wonder what role the Fund will be playing in the coordination of the activities of various international organizations. This is a major issue of concern to my authorities, based on their past experience and the speed at which other international organizations have tried to meet their commitments.

As potential GDDS members, countries in my constituency can be grouped into two categories. The first category relates to countries that could graduate to the SDDS following the implementation of the GDDS. For those countries, what is needed will be enhancing the coordination among various statistical agencies. That by itself could improve rapidly the quality of the data.

For the second category, which comprises countries with rudimentary data, the emphasis should be on the development and production of the data. I am therefore pleased to note that the system proposed by the staff is flexible enough to accommodate the diverse characteristics and capabilities of the member countries.

In light of the diversity of countries, I support the phased approach. I can also endorse the staff's proposal focusing on education and training and intensive work with countries, since the enhancement of data production and dissemination can only be achieved in the context of a medium-term framework. I reiterate the importance of training in a regional context in order to achieve the critical mass of participation.

With regard to the dissemination of the metadata of countries that participate in the general system, I can agree with the staff that this can be done through an electronic bulletin board, and that the Fund should play a key role in this regard. However, for those users who do not have access to the Internet, I believe that timely information provided through occasional hard copy publication would better respond to the need.

The key question is who will benefit from the implementation of a GDDS. I agree with the staff that it will benefit three groups: first, the participating countries; second, the Fund; and third, the data users. One additional benefit could also be mentioned: there could be an improved relationship between the Fund and member countries, particularly countries using Fund resources.

Mr. Yakusha made the following statement:

As the staff rightly points out, the flow of reliable statistics is indispensable to informed policy making, while the availability of data helps provide discipline by supporting informed public debate and market discipline. In this light, the implementation of the general system by interested members and the provision of the dissemination vehicles by the Fund would serve the declared purposes well. The GDDS will also provide the Fund with a better analytical understanding of the data and will help to better assess the current economic processes in these countries.

We broadly support the proposed framework for the GDDS as a way to improve statistical systems of members over time. We agree with the notion that the general system should be less prescriptive in terms of timeliness for most of the data categories, as trade-offs between quality and timeliness do exist in many member countries. However, even with an understanding of the difficulties that participants may encounter in implementing the new system, we are not entirely convinced that the somewhat vague schedule of the implementation of the general system over a nonspecified medium-term period, as proposed by the staff, is a good idea. In our view, it would be better to send a clear message to potential participants at the outset of the approval of the general system, stating what is expected from them, as far as the time framework is concerned, in moving from commitment to preparing the required metadata. For the Fund, this clear formulation of the timetable will help produce more precise calculations of the cost of the GDDS.

It is our opinion that the use of Fund resources for the implementation of the general system may surpass the estimate of three or four staff years annually. The staff may wish to comment on that. In case that proves to be correct, the limited availability of Fund staff should not automatically be compensated by the hiring of consultants. Under such circumstances, we would prefer the Fund to invite statistical experts from other countries to participate in the GDDS. It might therefore be useful to involve this technical assistance in the early stages of the implementation of the general system.

With respect to the data dimension, and as mentioned in our previous interventions, we are still not convinced of the necessity of social and demographic indicators within the proposed general system. We are somewhat puzzled by the fact that the consultations with other international institutions that are supposed to provide assistance in preparing some of the socioeconomic data have apparently not produced sufficient coverage for Fund purposes—that relates, first of all, to labor market indicators—while some of the demographic indicators covered more extensively may be less relevant to our mandate. We would prefer more extensive and timely coverage of employment, particularly in the public sector and general government. The same could be applied to wages and salary statistics.

Finally, we would like to call for a more extensive use of an electronic bulletin board rather than conventional publications.

Mr. Pascual made the following statement:

In the recent Board meeting on the provision of information for surveillance, the problems of data accessibility, coverage and quality were thoroughly discussed. In this regard, the proposed GDDS, together with the SDDS, is most welcome, because it provides an adequate instrument to address these issues.

Since the last discussion of the GDDS, the description of its purpose has become more precise, showing a number of objectives. Not that the scope of the GDDS has widened, but the participative approach toward member countries, which is very constructive, has been highlighted in this way. In general, successful implementation of technical assistance recommendations requires a strong commitment and participation of local counterparts. Simply providing a guide for improving the statistical framework would not be enough. Encouraging member countries to improve data quality, the first objective, is necessary and, in this connection, voluntary participation is an indication of the commitment of a member. The participative approach is also reflected in the second objective. Accordingly, the evaluation of national data systems would be followed by plans to address weaknesses and the priorities would be set in accordance with local authorities. Furthermore, the inclusion of progress assessments should reinforce continuity and fulfillment of the objectives.

Regarding the data dimension and the quality dimension in the GDDS, I agree with the staff recommendations. The focus on improvement in data quality and the distinction between frameworks and indicators have already been discussed and are appropriate. The new distinction between "core" and "encouraged" frameworks and indicators is quite useful, because in this way the staff have integrated some of the suggestions made in the last discussion on the GDDS, as well as some of those made in the discussion on provision of information for surveillance. Nevertheless, a few of the encouraged indicators should rather be "highly encouraged" or may even be core indicators, particularly in the cases of reserve related liabilities and money or interbank market interest rates. Countries that have or have had programs with the Fund in the past probably already compile this information, given that program reserve targets are usually set in terms of net international reserves.

Recent events in Southeast Asia have demonstrated the importance of having prudential information about the banking system. This was also an issue when the provision of information for surveillance was discussed. In that occasion, some caveats were made regarding difficulties on prudential data compilation and interpretation, which could limit the usefulness of having this type of indicators on a general basis. However, this type of information eventually will be not just useful, but necessary to all member countries. It was also mentioned that MAE is currently working on a set of indicators on banking soundness, which could be used on a case-by-case basis. Therefore, it would be desirable to include prudential banking information as an encouraged extension to the financial sector framework. At least, this could be considered on a subsequent phase of implementation of the GDDS, once the appropriate indicators have been developed. To properly take into account the different needs and priorities in this area among countries, the "as relevant" clause, which appears on several of the encouraged indicators, should be added if this proposal were accepted.

The inclusion in the GDDS of the socio-demographic data category is propitious. In the last discussion, there was some concern that the Fund might be stepping in areas in which other institutions have more expertise than the Fund. In this respect, I share the staff's view, that is, the development of a system of socio-economic indicators is a responsibility of the countries and other institutions. Yet, this initiative provides a convenient opportunity to encourage countries to strengthen the information system in this area, seizing possible economies of scale while ensuring proper coordination.

The phased approach for the implementation of the GDDS is sensible. Although, substantial resources for the first phase are needed apparently, it is good to know that resource reallocation might suffice for the second phase. Nevertheless, full implementation of the GDDS by a large number of member countries will take a long time. In this respect, perhaps more could be achieved, following the same approach intended for the first phase, that is, relying on external financing and the support of regional organizations. In particular, GDDS implementation could proceed more quickly and, perhaps, with less technical support from the Fund, if this initiative were organized as a series of regional cooperation projects in which the experience accumulated by one country could be used as a "showcase" to others, setting up regional coordinators and encouraging bilateral staff exchange.

Finally the provision of metadata by participating countries would be very valuable to regular and potential country data users and should be encouraged. In this connection, the electronic bulletin board seems to be the most efficient way to disseminate it.

Mr. Mahdavian made the following statement:

We commend the staff for the extensive consultation with users and producers of statistics, national authorities, and international organizations and agencies in preparation of the current paper and the data dissemination initiative in general. The previous Board's deliberation, aimed at the establishment of standards, included the merits of a two-tier approach that was meant to encompass a general standard with a focus on improvement in data quality for all member countries. We are pleased to note that the proposed General Data Dissemination System, as proposed, includes all aspects of data that are conceived to be important for the economic analysis over the medium term.

Two aspects of GDDS merit closer attention. First, the new proposal places a more-than- expected emphasis on data quality improvement to the extent that the dissemination of metadata, plans for improvement, and Fund's assessment of country practices have become the primary objectives of the current exercise. This approach is somewhat different from the original one of designing a general standard for dissemination of economic and financial statistics. We agree with the staff that the quality of data needs to be addressed for the general system. The major objective of data dissemination, however, should not be hampered by requiring that members upgrade their statistical infrastructure.

Second, except for its periodicity and timeliness dimensions, the GDDS seems to be more ambitious than the SDDS. This is in contrast to the original objective of the two-tier approach that was meant to encompass a general standard for all member countries and a more demanding set of norms for those with a more expanded statistical system. In previous Board discussions, it was assumed that the more demanding set of indicators was a mere magnification of the otherwise reduced general standard. Thus, the understanding is that the staff's proposed comprehensive framework for GDDS participating countries is as important for data quality improvement and assessment as for SDDS subscribers. In fact, the Data Categories and Indicators, as subcategory of data dimensions in the GDDS, are a less ambitious version than those of the SDDS, except for the indicators of the social sector. The GDDS was originally designed in a way as to avoid being unduly prescriptive, specific, and detailed.

Therefore, the staff should be encouraged to take a pragmatic approach and to rely more on data categories and indicators of the general system for submission and early implementation by the bulk of membership as a minimum standard for the enhancement of current practices. The comprehensive statistical framework is certainly a useful bedrock on which indicators are developed and which will provide a long-term framework of data production for all member countries. There is much merit in the concomitant attention to both data dissemination and quality improvement.

Turning to the issues for discussion, the main purpose and orientation of the GDDS should lie in data dissemination with emphasis on the need to improve quality. A balanced approach to address both issues create sufficient incentives to participating members to make accessible to the public their economic and financial data and to benefit from the quality assessment process.

It does not seem appropriate for the Fund to take an active role in quality assessment of data or metadata and to publish its evaluation. The Fund's role is to promote greater transparency and to encourage the publication of data by its membership. However, this role should not be extended to public assessment of the data quality; markets can judge for themselves, and experience has shown that they are capable of identifying data weaknesses and of delivering appropriate messages.

Mrs. Sein made the following statement:

This chair wishes to put on record that it appreciates the efforts of the staff in producing the paper on GDDS. We agree in general with the staff's views.

We are in agreement on the purposes and orientation as well as with the proposals on the implementation of GDDS as outlined by the staff. The data dimensions appear adequate at present. However as the GDDS gets into stride, there could be suggestions for improvement. The phased approach proposed by the staff is agreeable to us as it would reflect the progress and capability and of the countries concerned. We also concur with the staff on the dissemination of metadata of participants and do not have difficulty in accepting the electronic bulletin board as the preferred means of dissemination.

The GDDS is going to serve a very useful purpose for Fund's policy in the area of statistics. Therefore, the staff's proposal to focus on education and training as a start will not only be essential but will also play an important role in helping launch the System. The regional seminars and workshops should not be confined only to participants; nonparticipants should also have access to it so as to serve as an inducement to become participants. As this Chair has stated before, some developing countries may still lack technical expertise in data collection and production as well as dissemination of data. Thus any kind of technical assistance would be much appreciated to benefit participants and prospective participants.

Mr. Iradian made the following statement:

The primary focus of the GDDS should be strengthening the macroeconomic data framework and improving indicators of concern to the Fund, as required in Article IV consultations, program work, and ongoing surveillance. We hope that, eventually, the general system will replace the current multiple reporting arrangements that the Fund has with its member countries.

In light of cost considerations and limits on the absorptive capacity of many potential participating countries, we agree with the phased implementation of the general system, as highlighted in the paper. There are two important reasons for carrying out the system over the medium term. First, to be successful, member countries need to be provided with user-friendly information on all aspects of such a complex system. Second, countries will need time to assess whether and when to begin participation. In some cases technical assistance may be needed before countries can decide on participation. Given the limited resources of the Fund, it would be appropriate first to focus on education and training and subsequently on direct work with countries. In this connection, we welcome the plan to conduct eight regional seminars/workshops over the next two years.

Finally, we agree with the staff that the most efficient way to disseminate the metadata of countries that participate in the general system is via an electronic bulletin board. We also welcome the idea of occasional hard copy publications, which would meet the needs of the users who do not have access to the Internet.

Mr. Han made the following statement:

Since the last Board meeting on the GDDS, before the spring meetings, some progress has been made. I appreciate the staff's efforts to help member countries improve their statistical systems and data to meet the GDDS criteria. I agree that a primary focus of the GDDS, which is different from the higher standards of the SDDS, is an improvement in data quality. The GDDS is less prescriptive with regard to periodicity and timeliness of data dissemination than the SDDS.

The GDDS has several purposes: to encourage member countries to improve data quality, to provide a framework for evaluating the need for data improvement, setting priorities and targets in this respect, and guiding member countries in the dissemination of comprehensive and reliable economic, financial, and social-demographic statistics to the public. I generally support the purposes and the orientation of SDDS as proposed by the staff, and hope that the purposes of establishing the GDDS will benefit the participating member countries, the Fund, and the public.

On the data dimension, I have no problems with the staff's proposal, but I am puzzled by one element of the category of periodicity. We should have a consistent and unified benchmark for member countries to pursue, in consideration of GDDS coverage for all the Fund's member countries. The standard should require the member countries to emphasize data quality rather than periodicity.

I agree with the approach proposed for implementing the GDDS. The staff is advised to spend more time with the individual countries' statistical agencies to help them to identify weaknesses in the data and to develop plans for improvement. The problem now for a large number of member countries is that they do not have a capacity to deal with the data problems by themselves. In this regard, the Fund's technical assistance is necessary.

On the dissemination of information to the public, I can trust the staff that the most efficient way will be employed to provide metadata of elected participants to the public. Before doing this, the staff needs to be in close consultation with the participants to maximize the benefits for the participating members, the Fund, and the public users.

Mr. Fujii made the following statement:

I would like to thank the staff for preparing a refined proposal for establishing the GDDS, in line with the Board discussion of last March and subsequent consultations with international and regional institutions and member countries. As I mentioned at the last discussion, the GDDS is as important as the SDDS for improving data production and dissemination. An increase in the number of member countries disseminating detailed information about their statistical systems is certainly beneficial for data users. Also, given that the statistical systems of potential members tend to be at an early stage of development, the GDDS is correctly designed to encourage members to improve their statistical systems. The GDDS focuses on improvements in data quality, as well as data dissemination practices, while it is less prescriptive with regard to periodicity and timeliness of data dissemination, and allows for the process of improvement to be in the long term. More importantly, the GDDS promotes coordination among agencies producing statistics by designating a country coordinator as the main counterpart to the Fund.

The GDDS also makes clear the strengths and weaknesses of current statistical systems by requiring not only metadata of current practices, but also plans for short- and long-term improvements in these practices. These characteristics would certainly be helpful for developing immature statistical systems.

Regarding the data dimension, I have no difficulty in supporting Table 1, including the distinction between comprehensive frameworks and indicators and between core categories and encouraged categories. As for sociodemographic data, I think this is appropriate, since these data could provide basic information on uncaptured economic activities, which are significant in many transition or developing countries. Given the prospect that considerable human and financial resources will be used for developing the SDDS during 1998, and the fact that the training period, including regional seminars and workshops, will be useful for potential GDDS countries with immature statistical systems, I support the phased approach recommended by the staff.

Finally, I agree that the use of an electronic bulletin board will be most useful and most efficient. At the same time, however, in order to avoid confusion on the part of users, in addition to establishing separate bulletin boards, I would again note that it is necessary to make clear to the public the differences of purposes and orientation between the SDDS and the GDDS before establishing the GDDS bulletin board.

Mr. Andersen made the following statement:

I can be brief. The staff paper is comprehensive and enlightening, and I am in broad agreement with the staff's proposals. I have only three remarks.

First, on the primary focus of the GDDS, last week's discussion on the provision of information to the Fund shows that there were serious deficiencies in the quality in some of the data provided to the Fund. This strengthens my view that the main focus of this exercise should be on improvement in data quality.

Second, as regards the proposed data dimension, I agree in principle with the outline in Table 1. However, on the details, I somewhat feel that the suggested accessibility of the production index is unrealistic. On the other hand, I would have preferred if the ambitions for the timeliness as concerns data on government debt, and especially central bank aggregates, would have been somewhat higher.

Finally, on the issue of disseminating data, I agree that the Fund should have the role of being the disseminator, but it is crucial that the SDDS bulletin board and a bulletin board related to the GDDS are clearly separated in order to minimize the risk that the two lists are mixed up.

Mr. Vernikov made the following statement:

GDDS will clearly have its role in improving the quality of economic data provided by participants. Like Mr. Yao said, there will be a group of countries that will first implement the GDDS and then will build further on that basis toward a more sophisticated and demanding standard. I agree that an increased flow of information would indeed benefit the data user community and may eventually enhance interest toward those countries. After all, the list of emerging markets will have new entries in the future, and it can only grow with the inclusion of new developing countries.

I share the staff's assessment of the purposes and the orientation of the GDDS as outlined in the report. Participation in the System should be voluntary, and I agree with the course for its implementation, and with the data dimension proposals contained in the report. Here, I would like to note that as the System includes the provision of social indicators, it is important to enhance coordination between the Fund and other international organizations. As a matter of fact, I share Mr. Yakusha's doubt about the need for inclusion of socio-demographic indicators. Why don't we focus on the information relevant to the core business of the Fund?

The proposed phased approach is agreeable. As the experience with SDDS shows, an electronic bulletin board as a means of dissemination is a useful tool, and I support the notion that it should be used. In fact, since the inception of the SDDS and the electronic bulletin board, this chair has suggested that we place metadata on the electronic bulletin board on as many members as possible, regardless of which data dissemination standard they adhere to. I am glad that this view has finally prevailed.

As for the timing of implementation, I wonder whether the number of participants can be increased more speedily, as GDDS standards are less stringent. Staff comments would be appreciated.

Mr. Fremann stated that, like his colleagues, he supported the approach outlined by the staff, and he commended the staff for its work. The supply-driven approach to the implementation of the GDDS was a major condition for his authorities' support for the initiative, and with that in mind, he hoped that the staff would resist pressures from members to move faster than appropriate. All governments would be invited to subscribe to the GDDS, and in order to ensure that those invitations met a positive response, the pressure to move too quickly should be avoided.

Another concern was the cost of the initiative, as Mr. Bernes had noted, Mr. Fremann continued. In that connection, while the implementation plans for the GDDS mentioned technical assistance for developing the metadata, they did not explicitly mention technical assistance for the production of data. For that reason, he feared that the ultimate technical assistance costs would be greater than what was anticipated at present. That concern was magnified by the experience of the SDDS, which showed that the Fund had not fully anticipated subscribers' needs.

He could go along with the staff proposal to set up an electronic bulletin board, which should be an additional incentive for countries to participate in the GDDS, Mr. Fremann concluded. However, the Fund needed to be cautious—perhaps more cautious even than it had been in the context of the SDDS—in establishing hyperlinks before the country had made at least limited progress in its statistical infrastructure and data quality. Therefore, he would suggest waiting a while before authorizing hyperlinks. With regard to monitoring the process of improving data standards, he wondered whether an assessment of progress could not be made a standard part of Article IV consultations, especially for those countries that subscribed to the GDDS.

Mr. Al-Turki made the following statement:

> I thank the staff for its efforts to produce this informative paper. The primary focus of the General Data Dissemination System on improvements in data quality is well placed. I also see merit in the General System as a framework for evaluation and as a guide for member countries to improve their data systems. This framework would also improve the effectiveness of technical assistance by permitting more accurate identification of priorities.
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> It is important that the system be implemented in a flexible manner, so as to take into account each country's special circumstances and statistical needs. Here, I agree with the staff that achieving the full objectives of this system could only be accomplished over a long period, and with phased implementation. Indeed, the staff estimates of the time needed may be on the optimistic side. In this regard, I believe that, given the financial and personnel constraints, more time will be needed for training than envisaged in the paper. This is especially the case for the many countries with serious weaknesses in their data systems.
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> Regarding metadata, I remain of the view that the benefits of establishing a mechanism within the Fund to disseminate such information are not clear. The Fund should simply announce the system, and encourage members to adhere to it and enhance their own dissemination practices. Here, I note that operating the SDDS costs about $1 million per year. Are there any estimates of the cost of establishing a new bulletin board for the GDDS?
>
> The scope of the General System seems to be too broad, especially by including sociodemographic data. In this connection, I share the view expressed by Mr. Yakusha.
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> It is important to coordinate with regional and international organizations to avoid duplication and reduce the stress on Fund resources. In this regard, I fully support the transmission of the GDDS paper to all relevant regional and international organizations.

Finally, like Mr. Taylor in his memorandum to the Evaluation Group on November 26, 1997, I would like to know if the data compiled by the area and Statistics departments are consistent in terms of concept, definition, and methodology. In this regard, it also seems desirable to evaluate the effectiveness of the Fund's own statistical system.

Mr. Prader made the following statement:

We can agree with the staff's proposals, in particular the emphasis on the improvement of data quality. The GDDS is an ambitious and essential endeavor. If the objective of this project can be realized, the Fund will have made a major contribution to facilitating and rationalizing the work of economists and the policy dialogue between the Fund and its members. Possibly there will be significant benefits for participants outside the Fund's area of operation. In this connection, I have to caution against the demands of some Directors for more coordination with other international organizations. From our experience with the establishment of the Joint Vienna Institute we know that coordination can be very time consuming and can greatly slow down a project. If an organization like the Fund is willing and able to undertake such a long-term challenge as improving the quality of economic and financial data, we should not overcomplicate the project terms of reference which will weigh it down and possibly make it fail. Therefore I am for coordination only cum grano salis, which is to say only to the extent that it does not prevent the Fund from implementing its project on time.

I would like to address one question, and make one additional observation. On the question whether the Fund should disseminate the metadata of countries participating in the General System, the answer should be "Yes." The Fund's own standards of openness, good governance, and transparency leave no other choice. This dissemination should of course be accomplished according to the technical standard presently available, i.e., the internet, rather than by outdated "conventional" methods of communication. Hard copies should be the exception.

But once we also put the General Standard on the internet, users will ask questions about the difference between the two standards, and only Fund specialists will be able to tell the difference between the general and the special standards. This foreseeable outcome is at variance with the original intentions, but I think it is a positive, and eventually inevitable, development.

Mr. Estrella made the following statement:

In general, we can agree with the proposed GDDS outlined in the staff papers since the proposed framework takes into account, across a broad range of countries, the diversity of their economies, and the developmental requirements of their statistical systems. Indeed, the data quality focus of the GDDS is very important, in contrast with the SDDS, where the focus is on dissemination. Moreover, the GDDS recognizes that improvements in data production and dissemination may only be achieved in the long run since the total proposed implementation period for countries that voluntarily decide to subscribe would be about six or seven years.

In many developing countries, high data quality standards have not been achieved and, therefore, there is no doubt that it is very important for them to improve data quality, evaluate the needs for data improvement, and set priorities in this respect. The GDDS will also encourage developing countries to disseminate to the public comprehensive, timely, accessible, and reliable economic, financial, and socio-demographic statistics.

We also support the proposed steps for the implementation of the GDDS and the proposals with regard to the data dimension concerning coverage, periodicity, and timeliness of the data. The staff has also proposed a phased implementation of the GDDS taking into account the resource costs to the Fund and members countries as well as limits on the absorptive capacity of many potential participating countries. Therefore, we agree with the two phases proposed by the staff, i.e, the training phase and the direct staff work with countries phase, to assist them in producing their metadata and plans for improvement.

Finally, we also agree that the Fund should disseminate the metadata of countries that participate in the GDDS by means of an electronic bulletin board as is the current case for the SDDS countries.

Mr. Heinbuecher made the following statement:

Let me first commend the staff for providing us with a comprehensive but well written and organized paper on the proposed General Data Dissemination System. Like the staff we welcome efforts to improve the quality and provision of the important commodity "good statistical data" for sound economic analysis within and outside a country as a well justified investment by member countries and the Fund. The recent financial crises in Asia again has reminded us of the crucial importance of transparency of the economic situation in a country also to facilitate the proper functioning of international financial markets and decision making by market participants. The GDDS is designed to cover basically all member countries that are not yet in a position to fulfill SDDS requirements. Although many countries of the target group have not yet full access to international financial markets, quite a number of these countries could approach this stage during the intended rather long implementation period of six to seven years. The quality and comprehensiveness of data provision at this stage could well be an important factor for the ease of access to these markets and very likely also for the conditions of access. We, therefore, would like to encourage those member countries and others to invest in the improvement of their statistical systems also for their own benefits. The GDDS seems to provide a useful framework for these efforts. However, countries seeking access to the international financial markets should strive to go beyond GDDS guidelines in order to be in a position to subscribe to the SDDS as soon as possible.

Let me now turn briefly to the issues for discussion:

First, we agree with the purposes and orientation of the GDDS outlined in the report and can also support the proposals on its implementation. Progress under the GDDS could also be monitored and encouraged in the context of Article IV-consultation or Fund supported adjustment programs. We also see merit in the dissemination of the metadata by the Fund via its electronic bulletin board, which could also provide a hyperlink to the data published by participating countries. In this context we share the call of Mr. Fujii and Mr. Andersen for a clear separation of the bulletin boards for the SDDS and the GDDS.

Secondly, on the proposed data dimensions we basically agree with the staff's proposals. However, with respect to coverage we are not sure whether the Fund should actively engage and provide resources for the area of socio-economic indicators. The principle of division of labor and the rather limited resources of the Fund in our view clearly speak in favor of concentrating on the Fund's business. Socio-economic indicators fit much better to the mandate and activities of other international institutions like the World Bank and others who should take care of improvement of such data if they feel it necessary.

Thirdly, we agree with the proposed phased approach. The implementation of six to seven years looks rather long. In light of my earlier general remarks a more speedy implementation would be preferable, if this does not require additional resources. In this context we wonder whether it is intended to charge a fee for the seminars, at least from participants of more affluent countries.

Ms. Honeyfield made the following statement:

The GDDS is an important initiative for the Fund and its members, and I agree with its purposes. Essentially, the Fund is proposing that members create a public plan, setting out where there are important deficiencies in their data systems, and how and when improvements will be made. This type of planning is the essence of good public sector management practice, and should be encouraged in all members across the whole range of public functions, not just statistics.

The nature of the General System, as described in the paper, is appropriate; but given that the System is a voluntary one, I am concerned that there may not be sufficient incentives for members to join the GDDS. While the bulletin board should provide an incentive for members who are close to meeting the SDDS standard to join, the staff has indicated that these countries may in fact not wish to sign up to the initiative, because they do not feel that the GDDS will add to their credibility. It is very important for the market to have information on the strengths and weaknesses of data systems in these particular economies, as they are likely to be the candidates for growing levels of capital inflows. I would like to ask the staff how can we make it more attractive for these particular countries to join the GDDS as a transition to the SDDS.

For countries that are a long way from meeting the SDDS standard, the bulletin board may provide a disincentive, as public commitment to the GDDS may be perceived as restricting their ability to shift resources to other priorities when required, so their incentives to join may also be low. One solution to this might be to introduce an element of compulsion, that is, to require countries that wish to receive technical assistance from the Fund in the field of statistics to join the GDDS as a prerequisite. In this way, the Fund can also ensure that its technical assistance efforts are the most relevant and effective, and not wasted on countries that are not prepared to logically plan out a path for data system improvement. I can definitely see the downside to this proposal, as alluded to by Mr. Pascual, but I would appreciate further staff comments.

Regarding the staff's proposals with regard to the data dimension, I have looked at the standards. The proposed GDDS covers a wide range of countries at very different stages of data system development. This wide span of membership naturally raises questions about the appropriateness of the data dimension. Are the benchmark standards that the Fund has set suitable? Is the Fund requiring too much of its smaller members, or, conversely, has the Fund lowered the bar too much in order to accommodate its less developed members? I am reasonably satisfied that the requirements should be within the realm of attainment by most Fund members, and that they are appropriate to achieve the objectives associated with raising data system standards. However, I am concerned that, for very small members in my constituency, and possibly in others, these requirements are both beyond the capacity and in excess of the needs of these members, and I presume that they will choose not to sign up to the initiative. Yet, some data improvement to reach a certain standard is clearly necessary for these countries, and they should not be allowed to slip through the cracks. Could the staff please elaborate on how these particular countries might be dealt with?

The phased implementation of the initiative seems entirely appropriate. I am particularly impressed by the Statistics Department's clear and careful assessment of the likely costs of the initiative, and the way in which it has proposed to reallocate resources within the department to cope with the additional resources required to implement the initiative.

Clearly, and in contrast to the SDDS, dissemination of the metadata in the context of the GDSS is less important than the actual formulation and implementation of plans and work programs. However, to the extent that it does provide an incentive for some members to join the initiative, allows for external monitoring, and is consistent with the Fund's wider goal of promoting transparency, I agree that the Fund should disseminate metadata through an electronic bulletin board.

Mr. Newman made the following statement:

The GDDS clearly represents an ambitious, long-term strategy to improve the quality of the data collected and distributed by member countries. While we are in broad agreement with the staff's approach, there are a few areas where we have some reservations and concerns.

We understand clearly the importance of having good quality data, but we are concerned that our pursuit of the best in this area may be the enemy of the good, and that looking for the best statistical methodologies in all of our members may detract from what I consider as equally important and which I believe Mr. Mahdavian raised earlier. The importance of also getting the data disseminated as expeditiously as possible. In that regard, I hope that as we seek good quality data, we not lose sight of the importance of meeting the provisions in Part B of Table 1 regarding specific case data requirements and their timeliness.

It is in the Part B area where I have some concerns. Unlike Ms. Honeyfield, I think we may have gone too far in setting standards that are not sufficiently ambitious, and I have a couple of areas, in particular, in mind. I would certainly agree with Mr. Pascual and Mr. Andersen regarding the importance of having more comprehensive reserve and banking data, but I also remain concerned that despite the efforts to include more encouraged areas, we still do not have as part of our core data disaggregated national income accounts data, that we do not have fiscal data that goes very much below the central government to include sub-national authorities, public enterprises or off-budget activities, particularly as we have seen that these have been especially sensitive areas with great potential for difficulty as recent events show.

On the external side, I still find it surprising that we do not have, as part of the core data, key capital market or capital flow data in light of our experience and the growing role of globalized capital markets. Therefore, I think it is important that we try to include these as part of the core data, not on an encouraged basis but on a prescribed basis, even if it is necessary for us to adapt the timeliness and periodicity standards to take account of the situation of a wide range of our members. I would note that much of this data is either included in program documents for those countries seeking Fund resources, and is often included even in the REDs that we publish describing a country's economic policies and practices. Therefore, I think it should be a hurdle that the vast majority of potential participants in the GDDS could leap.

I appreciate the staff's efforts to quantify the resource costs of the GDDS for the Fund and to reallocate resources within the Statistics Department. But, like Mr. Fremann and Mr. Yakusha, I anticipate that the costs are going to be higher than the staff has projected, particularly since the technical assistance that are being provided in connection with the GDDS will be at no cost to the beneficiary.

In that regard, I consider it particularly important, therefore, to see if we can actually get cost sharing arrangements from other bodies, even if it does require us to do some coordination with them on data collection. The payoff may well be worth it. I would also appreciate the staff comments on how they would intend to prioritize who would receive the limited technical assistance resources available, since I expect the demand to be much greater than they may anticipate. The way the staff seems to have it structured now is a first-come, first-serve basis. Even if it is a supply-driven activity, you still are going to have to prioritize among the many requests for assistance.

Finally, with regard to publication on the bulletin board, I do not have a problem with using the electronic bulletin board as a means of disseminating the metadata. The concern I have is when you actually put a country on the bulletin board. I am concerned that the staff's approach creates the wrong incentives in that a country gets the publicity value of joining the GDDS at the outset, but then does not have any real incentives through the bulletin board to actually implement what has been agreed. Therefore, it seems to me that it would be preferable to include a country on the bulletin board after it has implemented the bulk of its GDDS plan. I think that would also serve to diminish the potential risk of confusion between the GDDS and the SDDS, because then we will be having relatively high standards in both areas.

Mr. Eyzaguirre made the following statement:

We welcome today's discussion and commend the staff for the constructive consultation approach followed with other international and regional agencies, as well as with member countries, removing possible reservations regarding the role of the Fund. Having said this, I will confine my remarks to the issues for discussion.

Regarding the purposes and orientation of the GDDS we fully agree with the staff that the General system should be aimed, first and foremost, at improving data quality, therefore directly benefiting the participating member countries from GDDS. In this connection, as we mentioned in our March meeting, a flexible framework that takes into account the diversity of economic structures as well as the levels of development is, in our view, appropriate. We also agree that GDDS would provide benefits to the Fund and the end-user of data and that it will serve to provide a framework to evaluate the need for data improvement and to guide member countries in the timely and comprehensive dissemination of data to the public.

In relation to the implementation of the system, we fully agree that participation should be voluntary and serve to identify weaknesses, improve quality of data, set medium-term objectives, and facilitate data monitoring. Furthermore, this framework should help not only to flag data deficiencies but also to identify areas that urgently require technical assistance. In this regard, we will encourage strengthening regional approach to facilitate the implementation of the standard.

In relation to data dimension, as we noted in our March meeting, coverage timeliness and periodicity of data under the GDDS should be less prescriptive that under the SDDS. The proposed comprehensive frameworks and data categories and indicators suggested in table 1 seem broadly appropriate. Nevertheless, given the importance that financial systems are acquiring in today's globalized and integrated markets, countries should also be encouraged to provide prudential-type bank indicators.

Implementation of the GDDS would entail the allocation of significant resources by both the Fund and participating member countries. Thus, we can agree with a phased implementation of the system starting with a training phase that would consist of completing the documentation on the General System and the organization of regional seminars and workshops. Since most of the countries participating in the GDDS will not have the capability of producing their metadata, Fund staff should provide adequate technical assistance in this effort, as well as in the development of a medium-term plan for improving data quality. The latter should include clear objectives and benchmarks, as well as the areas where the Fund (and other IFI's) would provide technical assistance. In this context it is important to enhance coordination and cooperation with the World Bank, the UN and other regional organizations, so as to maximize the available technical assistance and avoid unnecessary duplications. The effectiveness of the technical assistance would depend on the underlaying factors that preclude the development of national statistical systems. In this regard, could the staff elaborate on the obstacles, i.e., legal, institutional, budgetary, etc., that countries face while developing their statistical systems?

Finally, we agree that the Fund should play an important role in disseminating metadata for countries that subscribe to the GDDS. To this end we believe that the Fund should establish a new electronic bulletin board different, but linked, to the SDDS.

Mr. Kaufmann made the following statement:

We thank the staff for submitting to the Executive Board a well readable paper on the GDDS. We read two basic messages in this document. First, the project we are going to implement is a very ambitious one. And second, it will bind quite a lot of the staff and financial resources of the Fund.

We are convinced that if the project is well implemented, the improved data production and dissemination will bring much benefit to the countries concerned, the Fund, and private data users all over the world. However, one has to carefully weigh these potential benefits with the cost. In doing so, we feel that the project would need to focus more on core issues.

In the spring discussion, we mentioned that the GDDS seems to become a kind of a broad statistical development program. We still have this impression. Certainly, we have nothing against that the Fund provides substantial technical assistance in statistics aimed at long-term results. However, we always thought that the GDDS should be somewhat different. In our view, it should be an instrument to address the urgent need for a more effective monitoring of macroeconomic developments. That means we should concentrate on a narrower set of data and try to spread the implementation work over a shorter period of time. According to the staff project, however, it will take us quite many years to implement the work on the GDDS.

Consequently, like several other Directors, we still think that the Fund should focus attention on macroeconomic data and let other institutions do the job with regard to socio-economic data. A narrower focus would also bind fewer resources in our member countries and thus stimulate their willingness to get involved in this ambitious endeavor.

Lastly, we agree with the staff on the crucial role of the country coordinator and that the Fund should disseminate the metadata of countries that participate in the General System. We think that for the latter a distribution through an Electronic Bulletin Board is preferable to other means of dissemination.

Mr. Akatu made the following statement:

We commend the staff for the progress that has been made to bring the Fund closer to the establishment of the GDDS. We agree generally with the proposals put forward by the staff.

We agree with the staff that the GDDS should be implemented in a phased manner over the medium term. According to the staff's own evaluation, the first year and a half would be devoted to training, and full implementation would span 6-7 years. Based on its calculation, the staff would be able to work with about 15 countries each year to prepare the metadata. The pace of preparing the metadata should be accelerated, because, after all, the metadata is intended to serve, in the first place, as a frame of reference to enable countries to assess their current practices and the plans that they have for improving their data system. If this is not done, and we stick to what we consider to be a rather long schedule, the improvements we are talking about and, indeed, the bulletin board, seem to be at least a decade away.

On the proposal to use available training centers for the proposed series of seminars and workshops, we endorse the suggestions made by the staff, but would like to suggest for consideration a number of institutions—two in particular—that were established recently with the support of the Fund. One is the West African Institute for Economic Management, and the second is the Macroeconomic and Financial Management Institute of Eastern and Southern Africa. We believe these are institutions that would be appropriate for the purpose that the staff has in mind.

Finally, we agree that the bulletin board would be the efficient dissemination medium. However, for those of our members that would have difficulty in establishing access to the Internet, I believe that, at least for a while, occasional publication in hard copy form will continue to be necessary.

The Director of the Statistics Department stated that the role of the Fund in statistics in general and its coordination with other international organizations involved in statistics were important questions. Experience with the SDDS had shown that the Fund needed to move carefully and work to the advantage of statistics as a whole in a coordinated way. Several international organizations were particularly welcoming the inclusion in the GDDS of sociodemographic data. In particular, they felt that for the SDDS, the balance toward economic and financial data had been skewed, because there was no recognition of that other set of very important data. Several organizations, including the UN, had seen that they would be able to fit into the framework that the Fund had provided in that regard, for example, in providing metadata for the sociodemographic data. The Fund did not see itself as being as deeply involved in that, but it would be able to work with the other international organizations on the metadata that they had already put together for those particular indicators.

The Fund should, for the furtherance of statistics, take advantage of the fact that it was viewed as being quick on its feet, the Director continued. The Fund had a strong organizational framework that allowed it to work efficiently and expeditiously, including in the statistical area. The Fund had been working over the preceding months to make sure that the other organizations felt they were being brought into the process, which would be important in going forward.

One of the Fund's continuing roles would be to work with countries on the provision of the metadata, the Director observed. The staff would take a regional approach, looking first for countries that volunteered to be models, so that some model metadata could be put together that would be particularly relevant in the region. The staff would welcome coordinating with regional organizations in sponsoring seminars and other similar efforts in that regard.

The Fund would continue to play a strong role in economic and financial data, leaving to other organizations technical assistance in fields that had proved to be outside of the Fund's special expertise, the Director emphasized. That echoed the strong role the Statistics Department had played before in providing technical assistance on only the Fund's core statistics.

There was likely to be a severe supply constraint in the provision of technical assistance, the Director considered, as an assessment of the staff available from other international organizations and on a consultancy basis to provide such assistance had shown. There would be constraints in terms of the ability of a group of statisticians to work with countries across the full range of data included in the GDDS. The staff did not wish to set up a system for which the necessary support, especially in terms of human resources, could not be found. The proposed structure was one that the staff was fairly confident could be adequately staffed. The staff had also been aware of the limits to the absorptive capacity of member countries.

The prime incentive to subscribe to the system was public recognition, the Director remarked. The staff's approach used that prime incentive at the point at which countries had already made a substantial commitment to the process, in terms of the metadata, and plans for improvement in the data. That was a substantial step forward. Nevertheless, measures could be taken to make participation in the GDDS more attractive. Article IV consultations would be part of the process of reviewing the progress that countries had made in their improvement plans, and in that sense, progress would be noted by their peers in the Fund. The prospect of better relations with the Fund, as mentioned by Mr. Yao, could be another incentive. The prime incentive of public recognition should be achievable at an early enough stage that the members did not see it as a far distant and unrealistic goal.

The concern about prioritization arose only if it were assumed that enough incentives would be provided to entice many countries to participate, the Director concluded. That was a real concern, and the staff would have to deal with it. The situation was not unlike that of prioritizing technical assistance. The country concerned would need to understand that it had to make a commitment to work with the Fund in preparing metadata, and coordinating with the Fund and other international organizations, to qualify for that assistance.

The staff representative from the Statistics Department stated that it appeared that the GDDS might be applicable to about 120 countries. In that vein, it might be recalled that the SDDS had about 60 subscribing countries. It was hard to develop a single system that could accurately pitch itself to such a range of countries. Ms. Honeyfield had raised the specific issue of the involvement of small island countries, which was a problem that the staff recognized. The staff would continue its work in that area. Regional seminars might be an appropriate vehicle for encouraging participation. At the same time, the staff was aware that it would not be sensible to recommend to the very smallest members that they develop complete and detailed systems of national accounts, as those countries did not have the resources to support that.

The standard would have to be tailored to individual circumstances, and applied flexibly, the staff representative acknowledged. For those countries that were likely to be able to subscribe to the SDDS in a few years, the current GDDS requirements should work well. For countries that were further away from the SDDS, some amendment of the requirements might be contemplated. The staff hoped to use the seminars as a means for determining capabilities, taking an inventory of current practices, and perhaps deciding on what would be more appropriate for certain countries.

There had been a number of useful suggestions about the data coverage within the GDDS, in particular with respect to banking soundness indicators, the staff representative recalled. The staff would encourage countries to develop and disseminate whatever bank soundness indicators they had, and over time, perhaps agreement could be reached on a common set of banking soundness indicators. The staff would review the tables for the timeliness issues that had been raised by a number of Directors. The staff had attempted to establish a spectrum with respect to timeliness, with one end equaling the requirement of the SDDS. The staff recognized the trade-offs between quality and timeliness.

A greater breakdown of national accounts aggregates had been suggested by Mr. Newman as an example of the kind of data that should be part of the more comprehensive framework category, rather than the encouraged category, the staff representative concluded. The staff would clearly wish to encourage the development of timely measurements for savings, for GNP, for disposal income, and for GDP. The staff would look again at the balance between those aggregates that had been categorized as within the framework, and those that had been specified as indicators.

The staff representative from the Policy Development and Review Department commented that data issues were key to the Article IV consultation process, in particular for prospective participants in the GDDS; addressing those issues should be well within the spirit of the Article IV consultations. The area departments had generally been very supportive of the preparation of the GDDS, and had seen many countries for which the GDDS would be a useful vehicle for improving statistical systems. The encouragement to members to participate in the GDDS, in the context of the Article IV consultation process, would be consistent with the provision of technical assistance in the statistical area. However, monitoring of progress made in perfecting statistical indicators in the context of the GDDS might go beyond the scope of a mission for an Article IV consultation.

The Director of the Statistics Department stated that, with respect to the relationship between the GDDS, a mission for an Article IV consultation, and other parts of the Fund's business, there would be genuine concern about calling the GDDS a voluntary standard and then making participation in it a requirement for technical assistance. The Statistics Department had asked the area departments whether they saw scope for making participation in the GDDS a part of a program requirement. The area departments had pointed out that program requirements were typically of a shorter-term nature, and the programs were designed to deal with very specific issues. From that perspective again, it would appear wiser to make participation in the GDDS voluntary. Similarly, to make technical assistance conditional on participation in the GDDS would be difficult. A country could continue to work with the Statistics Department, in cooperation with an area department, in providing data for Fund publications and to improve its statistics, either as a participant or as a nonparticipant in the GDDS, at any stage of its development.

The staff saw no problem in establishing a bulletin board that made a clear distinction between the part that encompassed the GDDS and the part that encompassed the SDDS, the Director continued. It was technically possible to make them look, feel, and act different.

There were a number of obstacles in working with countries, the Director acknowledged. The clearest one was the issue of coordination among agencies that manifested itself in inter-sectoral inconsistencies in data. Other obstacles were the machinery for data dissemination, and unwillingness to take surveys in situations in which a full accounting had always been the tradition. One of the advantages of an initiative like the GDDS was that the seminar approach could be used, through which countries could share information and experiences. For example, at the seminar held in Singapore in the preceding week, some of the obstacles to better data systems had been widely discussed among the participants. The staff believed that the GDDS, like the SDDS, was likely to prove an efficient way of tackling, sometimes for the first time, coordination issues.

Responding to a question from Mr. Heinbuecher, the Director said that the staff hoped that agencies coordinating the seminars would help to finance the participants. The Fund had a general policy about technical assistance, on which the cost recovery for GDDS-related seminars would be based. Most of the potential GDDS countries would not be asked to make the maximum contribution, and probably many of them would not be asked to make any contribution at all.

With respect to the next steps, the GDDS would need to evolve, the Director concluded. The Fund would communicate with its members that the GDDS had been established, it would provide them with material that showed them what it was, and it would inform them of the schedule ahead. Over the coming quarter, the staff would be working on the guide to the GDDS, which would become a module of the guide to the data dissemination standards. Members would be invited to participate in the seminars and workshops, of which there would be no more than eight, that would begin in the middle of 1998.

The Acting Chairman made the following summing up:

> Executive Directors welcomed the report provided in SM/97/275 and the staff proposal for the establishment of the General Data Dissemination System. They recognized that the establishment of the GDDS was an important step for all Fund members not only in providing guidance in the provision of

data to the public, but also in encouraging improvements in the quality and accessibility of economic, financial, and socio-demographic data.

In light of the above considerations, the Executive Board approved today the establishment of the GDDS, whose scope, operational characteristics, and mode of implementation are set forth in the revised draft Annex V of SM/97/275, Correction 1.

Executive Directors generally agreed with the purposes and orientation of the GDDS. In particular, Directors supported a system that recognized that for many countries improvements in data quality were a necessary precursor to enhanced dissemination of data to the public. The GDDS was seen as a useful framework for development of a broad range of statistics, including major macroeconomic and financial data, as well as socio-demographic indicators.

Directors endorsed the staff's proposals concerning implementation by countries of the General System. They agreed that participation in the GDDS should be voluntary, and they supported the three elements of participation: commitment to use the GDDS as a framework for statistical development; designation of a country coordinator to work with the Fund; and development of metadata. The metadata were considered important as a means for identifying strengths and weaknesses in existing data systems, developing plans for improving data, and providing users with a means for assessing countries' practices and developmental plans against the objectives recommended by the General System. As the GDDS was recognized as a long-term exercise for many countries, the metadata were also seen as useful for tracking countries' improvements over time. The recommendation in the GDDS to focus primarily on a set of core frameworks and indicators, supplemented by encouraged data systems and categories, was viewed as useful, as it made the General System relevant to a very broad range of countries and provided a clear set of links between the GDDS and the SDDS. These links would be particularly helpful to countries that wished to use participation in the GDDS as a step toward subscription to the SDDS.

A few Directors suggested a number of additions to the core data specifications of the GDDS, including in the areas of national accounts, and more fiscal data, including off-budget transactions, and the accounts of local and regional governments. The staff will explore these suggestions and report in the context of the next review of the GDDS.

Most Directors supported inclusion in the GDDS of a set of socio-demographic indicators because of the importance of these data in assessing economic developments in many of the likely participating countries. However, some Directors reiterated that the responsibility for development of social indicators should be left primarily to other international organizations, and some expressed doubts regarding the appropriateness of inclusion of these data in the GDDS. Directors agreed that there should be close cooperation with regional and other international organizations.

Directors acknowledged the importance of the access and integrity dimensions of the GDDS, as aspects of openness and transparency. The principles embodied in these dimensions were not yet standard practice in many countries, and it was therefore considered appropriate that the GDDS focus on the development of these dimensions in the practices of data compiling and disseminating agencies.

Most Directors supported a phased approach to the implementation of the GDDS that focused first on education and training through development of appropriate documentation and presentation of seminars and workshops. It was recognized that the GDDS was a very ambitious project, both for the Fund and for countries that might wish to participate, and many Directors agreed that a longer-term approach to implementation was appropriate in recognition of the substantial resource costs to the Fund and the resource costs to, and absorptive capacity of, participating countries.

Executive Directors agreed with the staff's proposal to begin the compilation of metadata on participating countries' statistical practices and plans for improvement. Most Directors endorsed the proposal that the Fund disseminate these metadata to the public through an electronic bulletin board, as the most efficient means. However, Directors agreed not to preclude other means of communication, given the different situations of members. Directors also pointed out the need to clearly distinguish between the bulletin boards for the GDDS and the SDDS.

3. SPECIAL DATA DISSEMINATION STANDARD—REVIEW

The Executive Directors considered the staff paper on the first review of the Special Data Dissemination Standard (SM/97/278, 11/26/97).

The staff representative of the Statistics Department stated that, with the addition of Latvia, there were currently 37 SDDS subscribers that had metadata posted on the DSBB.

Mr. Watal, speaking on behalf of Mr. Sivaraman, made the following statement:

We welcome this opportunity to discuss the progress under the Special Data Dissemination Standard (SDDS) as we are toward the close of the first half of the transition period. It is heartening to note that we have 43 subscribers to the SDDS and that we can expect some more to be added to the list soon. It is encouraging to note that a number of them are very close to being in full observance.

The staff has mentioned in paragraph 10 of their report that the SDDS has not resulted in any major change in subscribers' practices with respect to coverage, periodicity and timeliness of the data disseminated. We are not very clear as to what were the expectations of the staff in this regard. It would be useful to have a clarification on this matter.

It seems that timeliness is an issue for the fiscal sector and more importantly coverage of data is a major issue. As fiscal sector is fully under the control of the governments, it should be possible to eliminate the deficiencies here. The current subscribers to the SDDS should be having advance systems of budgeting and account keeping. It would be useful to know from such members the reason why they have not been able to adhere to timeliness and coverage.

We see the problems subscribers face in regard to advance release calendars. It is quite likely that many of them are upgrading their statistical systems to meet with this requirement. It would, therefore, be preferable to ascertain from the members who are having problems in regard to advance release calendars to examine the need, if any, for flexibility in the transition plans relating to them. We must recognize the fact that some members who are market conscious must have subscribed to the SDDS with a view to not being misunderstood that they were not prepared to disseminate all required statistics. Undoubtedly, the staff would have gauged the preparedness of the members to be subscribers to the SDDS. Nevertheless, we have to keep in view the possibility of members requiring time to fulfil the requirements.

As regards hyper links, I wonder whether the staff desires that such links should be established in respect of all the metadata pages or whether it could be done in stages. Many subscribers may be having facilities for hyper link access to data most widely used. In regard to others, they may have to build up the facilities.

Regarding updating the special standards, we agree with the general principles indicated in paragraph 22. In recent Board discussions, some Directors have pointed out the need for the Fund to obtain more detailed information on composition of foreign exchange reserves, debt, profits, maturities of debt, interest rates and so on. In the initial stages, while this information could be obtained for the purposes of the Fund's analysis of a country's monetary and exchange rate situation, we could incorporate them as a requirement of the SDDS after ascertaining from the member their readiness to do so. Therefore, I agree with the suggestion contained in paragraph 31 of the report to broaden the components on information pertaining to reserves. Subscribers should be given time to put in position a system to get this information on a periodical basis so that it can be accessed by the Fund as well as by the users of the SDDS. Similarly, in regard to prudential type bank indicators and short term foreign liabilities of the private and nonbank sector, we could incorporate this additional data into the SDDS, but subscribers should be given adequate time to be ready to meet with the requirements of the SDDS. In regard to certain data categories like national accounts where SDDS requires quarterly availability of the data, in the case of those countries which still have substantial proportion of GDP/GNP arising out of agriculture, methodologies may have to be established for computation on a quarterly basis. In any case, these are likely to be substantially revised when actual data on agricultural income is available. This is largely due to the fixed periodicity of cropping seasons and bulk of the agricultural income accruing during those specified periods when major crops are harvested. So when countries in this category revise the data on national accounts based on actual figures of agricultural income, one should not get overly worried.

I fully support the staff on their suggestions relating to the Dissemination Standards Bulletin Board and coordination with other international organizations.

Observance is indeed a ticklish issue as it would be difficult for users to raise issues on shortfalls, integrity and quality of the data while there can be complaints about accessibility. In this context, defining nonobservance also becomes difficult. Only when a subscriber persistently defaults in observing the standard procedures established by the SDDS, we can say that its data has lost credibility. Market users would be able to discern critically and evaluate the information only after some lapse of time when they have had occasions to cross-check data available through the bulletin board with other sources. I therefore agree with the suggestion contained in paragraph 49 regarding when to declare a subscriber to be a nonobserver of the provisions of the SDDS.

The staff has made useful suggestions to adopt a two-track approach in resolving the observance issues. This is fair to the subscriber and I have no difficulty in supporting it.

As far as recovery of cost is concerned, I suggest the acceptance of the staff proposal that the costs associated with the SDDS and maintenance of the DSBB be not recovered from users at least till such time the data services utility and credibility are fully established.

Mr. Akatu, speaking on behalf of Mr. Morais, made the following statement:

I welcome this first opportunity to review our experience with the implementation of the SDDS. The high usage of data, in terms of both the number of "hits" and the number of hosts, as well as feedback from subscribing members is an encouraging indication that the SDDS is beginning to serve one of the main purposes for which it was established. In this regard, I wonder if the staff have an indication of the extent to which market participants, an important target audience, are utilizing the Bulletin Board.

While we agree with the need to update the framework of the SDDS to ensure its relevance, we also believe that it is very important that the desire of national authorities to subscribe to the system should not be frustrated by frequent and demanding changes to it. In this context, we consider it necessary that proposed changes to the framework should be implemented only after sufficient consultation with authorities. This is of particular importance as regards information on reserve-related liabilities, indicators of bank soundness and nonbank private sector foreign debt. While timely access to these data have assumed great importance, especially in view of the recent crises in financial markets, it is important to acknowledge the sensitivity of some of this information, as well as the complexities of definition and lack of uniformity of treatment across countries. At this stage it might be more appropriate to discuss the importance of including such information in the SDDS with subscribers and to develop a time frame for the inclusion thereof. Regarding the staff's statement in last sentence of paragraph 28, although we acknowledge that the disclosure of this information could have the desirable effect of discouraging certain practices, we cannot support the use of any statistical framework/initiative to affect specific changes in the conduct of economic policies. If a member's policy actions are judged to be inappropriate, policy advice should be communicated in a transparent way through the normal channels of surveillance.

It is evident from Box 1 that a substantial amount of work remains to be done by current subscribers in order to satisfy all of the requirements of the SDDS at the end of the transition phase. We therefore believe that the staff should, in view of the importance of this initiative, maintain close contact with all current subscribers to ensure that transitional plans are completed timeously. My authorities are furthermore in favor of the staff's suggestion to develop instruments that would enable them to submit metadata to the Fund electronically.

Regarding procedures to deal with nonobservance, we can generally support the staff's recommendations to deal with those cases where a member may not be in full observance of the system. Our feeling is that such cases should in any event be limited because of the damage to credibility that would result from the removal of a country from the system.

Regarding cost recovery, it is our belief that the staff's work with national authorities to move toward participation in the SDDS as well as the GDDS should be viewed as part of the Fund's ongoing work to improve data timeliness and quality in general. Technical assistance in this regard should therefore be administered according to the Fund's policy on technical assistance in general. We furthermore agree with the staff that the development of both initiatives carry externalities, and that we should therefore seek to encourage global use of the data dissemination systems. We can therefore support the staff's recommendation that the Fund should not seek to recover the costs associated with the maintenance of this system.

Mr. Andersen made the following statement:

My comments would be structured around the suggested issues for discussion, so let me begin with a few remarks on the implementation progress. Although the number of subscribers to the SDDS became quite significant soon after it started, I was somewhat surprised on the relatively low compliance for different reasons to the standards among the current subscribers. We are still in the transition period. There seems to be quite some way to go in bringing statistical practices of subscribers into line with the SDDS during 1998. Assisting subscribers in implementing transition plans should therefore be given high priority. In order to maintain momentum in country work and credibility in the standards, moreover, we agree with the staff that it is prudent and important for new members subscribing during next year to carefully assess the likelihood of being able to come into full observance of the SDDS by the end of transition period, before making a decision on subscription.

For the same reasons, I think we need to be firm on keeping the deadline for the transition period.

It is important that the number of members subscribing keeps growing also after the transition period. Therefore, advanced GDDS countries should be assisted and strongly encouraged by the staff in meeting the SDDS requirements. I broadly agree with the staff's proposal for an updating procedure, and I would like to emphasize that the standards should rely on internationally recommended statistical practices.

On possible modification of the component coverage of data on international reserves, I am strongly in favor of trying to improve the reporting requirements. The staff's proposal appears to be a useful starting point for discussion on the requirements. I agree with the suggestion that the staff initiate a process of consultation with relevant parties in order to ascertain the relevance of the different proposed categories for the purposes described, including in order to present a perhaps more realistic proposal regarding the timeliness.

In this context, we should not forget the all more important aspect of providing reserve-related information to the Fund. Also, I agree with the staff that the possibility of including financial system soundness indicators as well as a more precise timetable for the dissemination of data on international investment positions could be revisited at a later stage, such as by the time of the next review of the SDDS when we also presumably are able to draw on some experience in the use of guidelines for financial system surveillance.

On the issue of possible nonobservance with the standards, I believe that it is important for the credibility of the SDDS and the bulletin board that one finds a suitable way of handling such cases of nonobservance with firmness after the transition period. The description of recent nonobservance cases provided in box 2, although occurring during the transition period, illustrates that such a need exists. One way of contributing to assuring observance is to encourage users to monitor subscribers' compliance. Another more important way is, of course, to develop internal procedures like those suggested by the staff. I can support the broad outline of these procedures with a preference for that relatively short time frames be assigned to the various steps that would be followed to resolving situations of nonobservance. As regards cost recovery, this chair has earlier been open to finding ways for at least partial recovery of the costs associated with the SDDS and the DSBB. However, as the staff points out, it is useful to study the experience of other organizations that have introduced charging on the Internet. These experiences, and our own personal experiences, indeed show that users would have heightened expectations if they are charged for this service. The abundant amount of free information on the Internet contributes to this, and it would risk requiring the Fund to devote substantially more resources to the maintenance of the bulletin board.

On balance, I therefore agree with the staff that the positive external effects associated with the DSBB and the strong interests of the Fund to reach as many users as possible indicate that we should refrain from seeking cost recovery. Another aspect of cost recovery concerns the possibility to seek financial contributions from subscribing countries to meet the costs associated with technical assistance relating to the SDDS. We share the view of the staff that practice in this area should be consistent with the Fund's general policy on cost sharing for technical assistance. However, I think that the demands for assistance in this field which has been and will be adding further burdens to the strained staff once again highlights the need for the Fund to be more active in recovering the costs associated with technical assistance from the recipients. As a start, this could be sought on a voluntary basis on the part of high and middle income technical assistance recipients.

Mr. Yakusha made the following statement:

Clearly all the expectations that preceded the establishment of the Special Data Dissemination Standard have been fulfilled to the extent of the stated objectives of the Standard, if not more. Therefore, the question whether Directors are seeing the progress on implementing the SDDS is a rather rhetorical one. The staff that have participated in the implementation of the Standard need to be commended for an excellent performance and timely actions in the making the statistical practices of roughly one quarter of the Fund membership as transparent as possible via special standard bulletin board.

In setting such an example, these countries have facilitated making qualified judgments on the underlying economic processes to all the interested market participants, which is of essential importance if markets are to function properly. However, the increased transparency and accessibility of metadata is just a first step in assisting the markets. Transition plans to which the SDDS subscribers are committed need to be implemented by the end of the transition period and high priority, indeed, needs to be given to providing assistance to those subscribers that need so in order to meet the transition plans deadline. Careful assessment of the ability to come into full observance of the Standard is called for in the case of all the countries interested in subscribing to the SDDS during 1998. Failing to meet some of the elements of the SDDS after publicly stating that the country in question is able to subscribe to the Standard would harm the market perception of the authorities' capability to judge themselves in terms of statistical achievements.

On modifications of the SDDS, it seems reasonable to shift reserve-related liabilities from an encouraged to a prescribed component of the external sector statistics as well as adding a prescribed component for net commitments under derivative positions. In retrospect, prior knowledge of the details of international reserves in several cases could have easily led this Board and the staff to different decisions or actions in a number of cases. What is said with respect to net reserves can also be applied to prudential type bank indicators and short-term foreign liabilities of the private nonbank sector. Insufficient information about the financial sector and private debt has and still is affecting market confidence in the Asian countries in a negative way. Lack of information in this field also hampers the Fund in the managements of the crisis. Also, we agree with the inclusion of this kind of information in the SDDS in the short term might be difficult because of different accounting practices and insufficient data collection. We think that these difficulties should not be prohibitive. The inclusion of such data in the SDDS, which we would support as a matter of priority, should be used as a means to accelerate the process of harmonization of these indicators, namely, prudential-type indicators, and to improve the collection of data. During the process of harmonization, national publications on banking indicators should in the meantime also explain the used accounting practices.

A more precise timetable for the dissemination of data on the international investment positions that would include short-term liabilities of the private nonbank sector by subscribing countries seems a reasonable additional request that could be supported. As previously mentioned, the importance of this particular item for accessing the sustainability of a given country's external situation can not be overstated. The countries that actively participates in international financial markets should again set an example in meeting such an additional request.

Preliminary proposals on defining and responding to possible nonobservance of a subscriber to the SDDS after the end of the transition period which is essentially a gradual encouragement to correct such possible nonobservance rather than abrupt reacting to it, makes sense in the light of all of the efforts of the current SDDS subscribers to participate in the Standard. It is our opinion that the minor transitory slippages should not be responded to in an inappropriate manner which such an abrupt decision could entail. Furthermore, it is consistent with the transparency of the Standard that the indicative time frames be included here by the time the next review, and we can support such cores of actions.

Reaching as many users as possible has been the nexus of the action on the Standard from its very inception. Therefore, if the costs that are associated with the Standard and maintenance of the Bulletin Board are to be recovered from the users, we would turn against the initial idea of the Standard. As the staff has suggested, the Fund and more widely the financial community that is represented by the Fund has a strong interest here and therefore we would find it appropriate if these costs are to be recovered else where.

Finally, we would again point out the discrepancy between the periods within which the European Union and the Fund require publication of certain indicators. Would it be possible for the statistical department to discuss these discrepancies with Eurostat in order to harmonize these requirements? The staff may wish to comment on that.

Mr. Duenwald made the following statement:

We welcome this first review of the SDDS, particularly as it provides us with an opportunity to make further refinements. The timing of the review is especially appropriate as recent developments in Southeast and East Asia demonstrate the need for broader data coverage and greater disclosure. The key issue from our perspective is the modification of the SDDS to include a few new data categories.

On progress in implementing the SDDS, the staff report indicates that subscribers have identified most of the work to be done to comply with the

SDDS by the end of the transition period. While the number of these transition plans is large, the staff notes that the degree of difficulty in implementing the required changes is quite varied. It is therefore difficult to judge whether the process is on track. Timeliness in releasing the data appears to be a common problem. While efforts should be made to improve timeliness, it is important that data quality not be compromised in the process.

In the wake of recent financial crises, which demonstrated the need for comprehensive, timely, and accurate data and their public disclosure, it would seem that the case has already been made to give a high priority to assisting subscribers in implementing their transition plans. Of particular importance to data users in this regard is developing Internet hyperlinks to country statistics for the various reported categories. I wonder whether, given that even for countries with sophisticated statistical systems compliance with the SDDS is proving to be quite a challenge, the 7 to 8 additional potential subscribers in 1998 are aware of the task they face, with a much shorter transition time. I presume these countries are cognizant of the fact that nonobservance as a subscriber has consequences.

On modification of the SDDS, we agree that policies for updating the SDDS should be clear and that subscribers be consulted about future modification of the Standard. The proposed procedures seem adequate. In particular, we concur with the principle that, while the Standard should be open to periodic review, it is important that subscribers are not constantly trying to hit a moving target. In other words, modifications must be well justified.

The modifications proposed by the staff seem to be well justified. ecent events in Asia underscore the importance of publishing a fuller picture of the international reserve position. Our recent discussion on data provision to the Fund for surveillance suggests that there is considerable support among members for improving disclosure of such data. We are therefore also favorably inclined toward providing a fuller picture on the overall reserve position so that financial markets can undertake appropriate risk assessment. However, a variety of definitional issues will have to be ironed out. We have no concern agreeing to making gross reserves a prescribed component. There may also be advantages to reporting any lines of credit or standing swap arrangements. With regard to reserve-related liabilities, we would be prepared to move to this type of reporting if this were done in unison with other subscribers. We would note, however, that the staff may be making a distinction between "owned" and "borrowed" reserves that is not particularly meaningful for a developed country such as Canada with an internationally traded currency. Thus, Canada funds its reserves primarily through the issuance of foreign currency debt and thus its "owned" reserves are typically quite small and may indeed be negative. In addition, countries that build up their reserves by borrowing on domestic markets at higher costs than on international markets—which would not increase their foreign liabilities—would be incurring unwarranted fiscal costs. We would therefore encourage the Fund to ask for reserve-related liabilities on a term structure basis. While we also agree to add a prescribed component for net commitments under derivative positions, we would like to ensure that these positions are provided on a face value and a mark-to-market value basis net of any offsetting positions (i.e., where used as hedges).

We agree that the SDDS should not currently be modified to include indicators of financial soundness as international accounting standards and adequate loan classification and provisioning rules are not universally applied. However, we encourage MAE to continue its work in this area, and in the meantime urge countries to adopt and follow the Basle core principles. We also agree that subscribers should be encouraged to move forward on the development of statistics to compute their international investment position. While data on short-term liabilities of the nonbank, private sector would be useful, subscribers should be canvassed on the feasibility of providing this information and asked to provide an assessment of its reliability.

On observance issues, we support a two-track, graduated approach for resolving observance issues and for removing nonobservers from the DSBB after the end of the transition period. However, I think we need to provide a clear distinction between trivial and serious breaches to the Standard.

Finally, on cost recovery, we agree with the staff that the SDDS and the associated electronic bulletin board provide positive externalities, and therefore do not see a need for the Fund to seek cost recovery from users. In any case, the Fund would not be providing technical support to users nor guaranteeing the accuracy of the statistical information provided by subscribers so that users would probably not be prepared to pay much for this service.

The Acting Chairman considered that the Fund should not wait until the next crisis to discover what data components were missing. There was a tendency to update the data requirements based on the previous crisis; instead, the Fund should take a forward looking approach and anticipate what additional data countries should be required to provide.

Mrs. Sein made the following statement:

Let me begin by extending our thanks to the staff for the comprehensive report. Looking through the paper, we note that the feedback from the subscribers is quite encouraging and positive. The progress of the implementation of the SDDS should be considered satisfactory. Concerning the magnitude of the project and, as a successful conclusion to the transition plan is indeed vital to the credibility of both the Fund and the subscribers, we definitely are of the opinion that high priority should be given to assist subscribers in implementing their transition plans. We are also happy to note that the staff will be making available to subscribers a detailed guide on issues associated with the introduction of advance calendars which would be very useful for the subscribing countries that do not have experience in this area.

We note that the Fund has taken into account the recent development in the context of the implication for SDDS and has responded with the need for broadening the data coverage to which we are in agreement. The staff's proposal for procedures to be followed in updating the SDDS is acceptable to us. Nevertheless, a major concern for us is that a subscriber may not be able to comply with the SDDS if, for example, a new data category is added and the subscriber is not able to meet the requirements of this new data category. Does this mean that it has to withdraw from the SDDS? If so, this would have adverse implications for the subscriber. The Board could perhaps consider that any modifications to the SDDS should be placed under "encouraged" rather than "prescribed" requirements.

As international reserves are treated as an important indicator of a country's external position, some countries are rather reluctant to provide data on reserves and would wish to do so only after being assured by the Fund that they would be treated as confidential. In light of the prevailing circumstances, we acknowledge that efforts to improve data dissemination and transparency are essential. However, the data desired under the SDDS is quite detailed concerning international reserves, and in a way providing such details would make a country's external position extremely transparent. Use of it for policy guidance would be suitable but would not be suitable for public dissemination. In view of the sensitivity of the data, it would therefore be appropriate to specify net contract value of derivatives only as an encouraged component with the Fund providing the confidential assurance.

We support the proposal to include a broad range of financial indicators in the coverage of the Data Dissemination in the SDDS. The staff is right in indicating that the time is not yet right to include prudential- type bank indicators. However we should take this matter up, in the future, as we make headway with the implementation of the SDDS since these indicators and information would be useful in evaluating the risks and soundness of the banking system.

As some subscribing countries are not yet able to provide information on international investment position that would include short-term liabilities of the private, nonbank sector, we agree with the staff that this issue be considered by the Board in the context of the second review of the SDDS.

With regard to the issue of nonobservance, we are agreeable to the staff's proposal for a two-track approach. However, we are of the view that the term "persistent" nonobservance needs a clearer definition. In particular, a persistent nonobservance should only refer to cases where subscribers regularly fail to provide timely metadata updates. It should not, however, include the timeliness of responding to the staff requests, as the satisfactory solution which is expected, quote—"within a short period (presumably a few days)"- unquote may not be feasible given the coordination efforts required between different domestic departments and agencies. In this regard, we believe that the authorities should be given some flexibility and discretion as to the timeliness of metadata updates as long as it is within a reasonable period and not persistent.

Finally, concerning recovery of the costs of using SDDS from subscribers, we are in agreement with the staff recommendation in not asking for the recovery of the costs of the SDDS and the maintenance of the DSBB.

Mr. Coumbis made the following statement:

On progress in implementing SDDS, I was surprised to see in the report that: (a) the SDDS has not resulted in much actual change in subscribers' practices with respect to coverage, periodicity, and timeliness—page 7, paragraph 10; (b) that only 12 subscribers have implemented some of their transition plans; and (c) none of the subscribers with metadata on the DSBB fully meet the requirements relating to the dissemination of advanced release calendar, only 12 meet the requirements for a substantial number of data categories, and most of these countries already did so previously.

I think all this evidence provided by the staff indicates that either some of the subscribers are not doing enough to fulfil the requirements of the SDDS or it is too difficult for certain members to meet these requirements up to the end of 1998, or certain members should not have subscribed in the first place. From the feedback of the subscribers, it is clear that all are fully committed to observing the SDDS and all have seen their initial experience as positive, given that subscription to SDDS provided incentives for a better coordination among national statistical agencies and for improvement in data dissemination practices. The only problem is whether some of them have the human and/or financial resources and expertise to fulfil their obligations. Have the staff the necessary resources, human or financial, to support them? I would appreciate some comments of the staff on this issue.

On modification of the SDDS, I agree with the staff's proposal about the indicators of financial soundness and the dissemination of data on international investment positions that would include short-term liabilities of private nonbank sectors. With respect to the staff's proposal to consider now a modification of the coverage of international reserves, while in principle I am in favor of this proposal, I have some doubts, given the turbulence in the international markets, whether now is the right time for the staff to start discussions and negotiations with subscribers about this subject, in view of the statistical problems and the reluctance of some of the authorities to provide this data.

On observance issues, I am well aware that the subject is very delicate, but I think that after 1998 we should remove all those that are not fulfilling all the requirements of the SDDS. Otherwise, we would be doing an injustice to those members of the Fund who very carefully evaluated the situation in their statistical departments and, taking into account their weaknesses, decided not to subscribe to the SDDS from the very beginning.

On defining nonobservance, I agree with the staff's suggestions. On the definition of nonobservance after the end of the transition period, that should cover the two situations described by the staff on page 24 in the first two paragraphs. I also agree with the staff on the process to be followed by the management and the Board in cases of nonobservance.

Finally, on cost recovery, I also agree with the staff that the relevant policy with respect to member country subscribers should be consistent with the Fund's general policy on cost sharing for technical assistance. With respect to the users of the DSBB, I also believe that the services may be considered as public good and, therefore, the cost associated with SDDS should not be recovered from them.

Mr. Saha made the following statement:

I welcome this opportunity to review progress under the Special Data Dissemination Standard, which was launched a year ago. I commend the staff for its comprehensive paper, and would like to make the following comments.

On progress in implementing the SDDS, I believe that overall it has been significant, with 37 subscribers on the Bulletin Board. There has also been a sharp increase in the number of visitors to the site, including an increasing number of market participants. In addition, I note and welcome the efforts made to establish a hyperlink between the metadata and actual data, which has enhanced the user-friendliness of the metadata on the bulletin board. All of these positive developments are encouraging. Much more, however, still needs to be done by the current subscribers, since the completion of the transitional period hinges on the successful implementation of a larger number of the transition plans. These plans in some specific areas, including the national accounts, the fiscal data, and the international reserve position, deserve timely Fund technical assistance and concerted effort with other international organizations. I therefore recommend that the Fund take the strong leadership for this undertaking, where it has a comparative advantage.

Moreover, I note that at the end of the transition period only 25 percent of the membership would have subscribed to the SDDS. Surprisingly, as highlighted in Table 1 of page 8 of the staff report, the major difficulties in meeting the special data, particularly in terms of coverage and timeliness, lie in the fiscal and external sectors, where Fund technical assistance through Article IV consultations has been more intensive. One would wonder why the larger number of the transition plans is more concentrated in these two sectors. Drawing on the experience of the current subscribers, I would encourage future subscribing countries to make every effort to complete successfully the transition period once they commit themselves to the SDDS.

On modification of the SDDS, I share the views expressed by previous speakers. Indeed, left without clear guidelines, the modification of the SDDS under individual country initiative over time could introduce bias in the data standard and thereby affect the user-friendliness of the SDDS in cross-country comparisons. Therefore, the provisions outlined in paragraph 24 and 25 in the staff paper go in the right direction. Furthermore, in light of the recent financial crises, I encourage the staff to broaden the coverage of the data category for international reserves.

The staff has raised difficult technical issues in assessing the reserve-related liabilities and derivative positions. In this context, while encouraging the staff to release a brief paper highlighting these technical difficulties for market participants, I would urge the subscribers to the SDDS to provide basic data on the reserve-related liabilities and net commitments and their derivative positions. I am not in favor of prescribing components, since the methodology on these issues carries a substantial judgmental factor.

On the inclusion of the indicators of financial soundness in the SDDS, I believe that this step will provide a real impetus to countries to make progress toward the strengthening of financial soundness. But the Fund should proceed cautiously so as to avoid undue market sentiment. In this context, I am inclined to recommend that the Board take further steps on this only when the guidelines for financial systems surveillance in the study are completed. I would ask the staff if it could provide some information on this work.

On the dissemination of the data on the international investment position, the availability of reliable data on the short-term liability of the private sector and other nonbank foreign debt will certainly contribute to the effectiveness of the Fund's surveillance. There are, however, considerable obstacles, including the confidentiality factor and possibly fear for additional taxation to gather high-quality data in this area. I will therefore encourage the subscribing countries to make greater efforts in this area, with the understanding that the staff should remain flexible in judging their efforts.

On observance issues, the case studies of persistent behavior illustrate the time consuming process in monitoring the data standard. Such behavior, if not corrected, could undermine the credibility of the DSBB and the SDDS when best practices are not followed strictly or when the metadata on the DSBB is not accurate or timely updated. I therefore support the suggestions contained in paragraph 49 of the staff report to assess the nonobservance cases. The Board should, however, be well informed before a subscriber country is declared not observing the underlying practices of the SDDS.

On cost recovery, I support the arguments given by Mr. Morais, and I support the staff proposal for free access to the SDDS.

Mr. Han made the following statement:

I welcome today's discussion on data issues, which are becoming increasingly important under the current situation. The SDDS was established in the wake of the Mexican financial crisis in early 1995, when it became clear that there was an urgent need for timely and comprehensive economic and financial data, especially for the developing economies. At present, there are 43 subscribers, including Hong Kong, more than half of which are developing or transition economies. According to the staff information, in 1998 there will be some more added.

We are satisfied with the progress to date on the rate of participation in the SDDS. This encouraging development will provide valuable experience to others for their future endeavors. We are also pleased to see that those SDDS subscribers are trying to improve their data quality to be in full observance of

SDDS by the end of 1998. Furthermore, the credibility of the Fund and SDDS subscribers has been successfully established. More and more external users place their attention on the reliable information provided through the DSBB.

We encourage the staff to do more in helping subscribers to meet the standards within the transition period. High priority will be given to those subscribers that need the Fund's technical assistance in tackling the difficulties which are beyond their control. For those potential subscribers, a clear message will be sent to them that they need to make an overall assessment on themselves. They are obliged to have a full observance of the special standards after they make decisions on the subscription.

On the modification of the SDDS, I understand the staff's concern, but I have to say that the Fund should ensure a degree of stability so that the subscribers are not constantly pursuing a moving target. On the inclusion of indicators of financial soundness in SDDS, given the limited experience of the staff and the difficulties of quantitative interpretation, I tend to agree that at this moment no modifications on the inclusion of indicators of financial soundness will be made. This issue will be reconsidered at the next review.

On the modification of component coverage of the data category for international reserves in the SDDS, recent events in Asia suggest that dissemination of gross reserves data is not adequate for evaluating the true international reserve positions of the member. Thus the Fund's proposed amendment is appropriate and merits serious consideration. In the case of Hong Kong, the reserve-related liabilities and the net outstanding value of forward transactions are available on a monthly basis. In principle, we support such a breakdown as a prescribed component of the international reserves category of the SDDS.

On short-term foreign liabilities of the private nonbank sector to be included in the SDDS, we recognize the importance of the data, as highlighted in the recent Asian crisis. However, what we are facing right now is that the subscribers have difficulties in collecting data and to provide precise information to the Fund and, secondly, time lags sometimes could distort our judgment. In this connection, it would be better for us to come back to this issue in the next review in late 1998 and encourage the staff to work out a more precise timetable for the dissemination of the data with the subscribing members.

On nonobservance issues, we generally agree with the spirit of the Fund's proposal for practical purposes. However, the meaning of the words "persist" and "persistently" should be made more specific. As mentioned in the staff paper, if a subscriber does not provide satisfactory resolution to the Fund's queries in a few days, the staff would bring the issue to the attention of the Executive Director. But I believe for some economies many statistical agencies are involved. The SDDS coordinator may not have sufficient time to resolve the problems within a few days. Therefore, the Fund should set out a specific and realistic time frame.

On the cost recovery, we agree with the principle that costs associated with SDDS and the maintenance of a DSBB should not be recovered from users. The SDDS initiative has been motivated by the recognition of the global benefits that accrue from great transparency of the financial markets. Accessability to the information on the DSBB is therefore of great value. Charging a user fee would diminish accessibility.

Finally, a word on the issue of accuracy and timeliness of the data in SDDS. The purpose of the establishment of the SDDS is to provide timely and accurate data to the users through the DSBB. The staff should closely monitor this important aspect so as to provide reliable data to the public. It is expected that much improvement will be made when we have the next review in late 1998.

Mr. Iradian made the following statement:

While there has been some progress to date in member subscriptions, the SDDS has not yet resulted in significant change in subscribers' practices with respect to the coverage, periodicity, and timeliness of the data they disseminate. In this connection, we share the staff view that new members should assess carefully the likelihood of being able to come into full observance of the Special Standard by the end of the transition period before making a decision on subscription.

With respect to modifications of the SDDS, we believe that the prescribed coverage of international reserves should be broadened to include gross reserves as currently defined within the standard; reserve-related liabilities; and net outstanding contract value of forwards, swaps, and other derivative operations. For the time being, however, the SDDS should not be modified to include prudential-type indicators. This issue could be revisited after the MAE staff gain experience in the use of the guidelines for financial system surveillance that is currently under development. While data on the external position of the nonbank private sector are typically difficult to collect, we could encourage the staff to establish a more precise timetable for the dissemination of this data in view of the progress being made by several countries in the development of the international investment position.

In general, I agree with the staff's views on the issues raised for discussion, except the cost recovery. Therefore, I will be brief and focus my comments only on this issue.

On the cost recovery issue, I am not entirely convinced by the argument made in paragraphs 58 and 59, and believe that consideration should be given to recouping the costs to the Fund associated with the SDDS and maintenance of the DSBB. The cost recovery could come through the introduction of fees on users rather than charging subscribing members. Cost recovery would obviously lessen the budgetary impact of maintaining the SDDS and the DSBB. It would also provide additional resources to increase Fund technical assistance in statistical methodologies to low income developing countries. Incidentally, the Fund charges certain fees on users of the different publications, including the IFS, and I wonder why this could not be the case for the SDDS.

Mr. Fujii made the following statement:

It is welcome that since the establishment of the SDDS in March 1996, 43 countries have subscribed to it, broadly in line with our expectations. It is also encouraging that during 1998, seven or eight more members will participate in the SDDS and that total subscriptions will cover more than 25 percent of the members of the Fund.

My authorities have not only subscribed to the SDDS but have also provided metadata to the DSBB and opened a hyperlink between the DSBB and our country data. In addition, a transitional plan, which can be seen in a summary page of observance and transition plan and an advanced release calendar on the DSBB, is expected to be completed by the end of 1998. It is to be hoped that as many members as possible will subscribe to the SDDS before the end of the transition period. However, in order to maintain the credibility of the SDDS, members interested in subscribing would need to assess carefully whether they can fully observe the Special Standard by the end of 1998. I encourage other subscribers to complete the necessary transition plans to meet the Special Standard during the transition period. In this context, it is understandable that the staff should give high priority to assisting subscribers in implementing their transition plans.

Regarding the procedure for the modification of the SDDS, I fully share the staff's view that general principles, such as the need for consultations with data producers and users and the provision of a specific period to accommodate modifications, should be taken into consideration. I hope the staff will make a more specific and elaborate proposal on this issue in the coming months.

As I mentioned at the discussion of the provision of information to the Fund for surveillance, in light of the recent experiences of the financial crisis in South East and East Asia, improving transparency in the external sector is crucial. At the same time, as Mr. Sivaraman and Mr. Morais mentioned in their statements, it should be noted that the proposed changes to the framework should be implemented only after sufficient consultation with the authorities. In this context, dissemination of reserve-related liabilities, as well as the net commitments under derivative positions, are basically steps in the right direction. However, my authorities have reservations about disclosure to the public of detailed operations of the reserve positions, including interventions, although they have not engaged in any derivative transactions for the reserve operations. We also share concerns with Mr. Duenwald that reserve-related liabilities are not a well-defined term in statistical methodology, as a considerable amount of judgment is needed. In this context, I think it is appropriate to keep reserve-related liabilities as an encouraged component.

It is desirable to include indicators of banking soundness such as asset quality, supervisory autonomy and authority, and bank governance. However, it is difficult at this time to obtain reliable data on these indicators in line with international standards. Coverage, periodicity, and timeliness of prudential-type bank indicators have to be discussed in the medium term, taking into consideration the technical development of data collection. In this regard, it is an encouraging first step that MAE has recently issued a guidance note for the monitoring of financial systems under Article IV surveillance. I will be interested in seeing the contents of this guidance note in the near future.

The recent financial crisis in Asia points to the importance of disseminating information about the foreign liabilities of the private nonbanks. I therefore support the staff's proposal that the next review of the SDDS in late 1998 should include a discussion on establishing a more precise timetable for the dissemination of data on the international investment position (IIP). I also encourage subscribers to move toward dissemination of the IIP components consistent with the Fund's balance of payments manual, fifth edition, as soon as possible.

I have no objection to the staff's preliminary proposal on nonobservance issues, including its definition and procedures. These issues should be solved before the end of the transition period, and I hope the staff will provide a refined proposal by the time of the next review. Given that DSBB users, rather than the Fund staff, are expected to take the lead role in monitoring the observance of subscribers, it would be necessary that the staff's proposal cover efficient ways in which users are able to implement effective monitoring and have their views sufficiently reflected in the nonobservance procedures.

Finally, regarding cost recovery, I support the staff's proposal in light of the importance of encouraging as many users as possible to have access to the SDDS.

Mr. Shields made the following statement:

I have been very impressed to date with the progress that has been made on the technical side of the SDDS, getting agreement on all the components, getting the system operating, and indeed with the use that has actually been made of the system now it is technically up and running, as we can see from the number of "hits" that have been made on the pages.

On the other hand, as the report notes, and as others have said, it is a bit disappointing that individual subscribers have not made more progress between the time of their subscription and their contact with the staff, and now in making good deficiencies. They are allowed to have those deficiencies under the transitional arrangements. Nevertheless, one would have hoped that the process itself would have given them more encouragement and perhaps incentive to bring their standards up to what is required as quickly as possible.

So I hope that the staff will continue to encourage them to do so, reminding them that the transitional period comes to an end in a year's time and that the sooner they get these things arranged, the better. It might also perhaps be useful if management were to consider writing to individual countries reminding them of this and also putting it perhaps in the context of the turbulence in foreign exchange markets, particularly in Southeast Asia, over the last few months, and how much that has really taught us about the importance of adequate timely and consistent data.

On the suggestions about modifying the special standards, I agree with the staff's proposals on procedures.

On the three issues that are presented in terms of modification, I agree very strongly on modifying the component coverage of the data category for international reserves. I accept that there are some definitional problems here. "Reserve-related liabilities" is not a very concise term. But, again, because of what we have been seeing in the markets recently, I think the sooner we can move to a more transparent situation, the better, even if there are minor deficiencies and differences. I think it is an advance on nothing, which is the situation for most countries at the moment. They have gross reserves but no indication of what the potential calls on these reserves will be. I know the United Kingdom authorities were very reluctant to provide information about their forward book for a long time, but they have moved over the last few months. We now do a quarterly release specifying full details of operations on the reserves, and so far this has met with a good response, and I would encourage others to try the same. Again, I think our experience shows that if one leaves this information until too late, if the market finds out only in the middle of a crisis, it simply worsens events. Better to have it out there regularly as soon as possible.

On the other two modifications, it would be good to move to more information on prudential-type indicators and also on being able to have details of short-term liabilities to the private nonbank sector. It will take time in both these areas, and we do want, obviously, to see what is happening, particularly with work being done on the banking side, but I think we just need to keep the pressure up here and be able to move across as soon as we can. Similarly, if we look again next year on the private liabilities side, that would also be very important.

I agree fully with what the staff has to say about observance. They seem sensible sets of procedures. I think, to maintain the integrity of the standards themselves, it is important not only that there are these arrangements which can remove subscribers from the list, but also that people are aware of the fact that there is some policing going on, and therefore they can give them a little bit more confidence over time, which could obviously be based on information from outside. But finally the judgment must be made by the Board.

Finally, on the question of cost recovery, we have always been keen to cover this as much as possible. On the other hand, I do accept what the staff has to say about the difficulties of using charges on the Internet. Initially we were hoping or we were thinking in terms of other electronic transmission methods, which I think it would have been easier to charge for, but probably it would be difficult, and perhaps costly, for us, and obviously act as a certain disincentive, so I accept that at the moment that does not look plausible.

As far as countries that receive technical assistance are concerned, we continue to think that there is probably rather more scope for charging for technical assistance to medium and high income countries.

Mr. Vernikov made the following statement:

I am impressed by the progress achieved in implementing the SDDS in the course of this year. This initiative has already positively influenced the process of dissemination of statistical data among participating members, as well as those willing and able to participate in the future. I was encouraged to note from the report that almost all participants consider their initial experience with the SDDS as positive. Staff should give every possible assistance to subscribers in speedy implementation of their transition plans to allow full participation.

On the procedures for updating the special standard. I agree that we need to have a common understanding on when the updating of the System could occur, and the exact ways to proceed with it. The course of action proposed in paragraphs 24-25 is, in my view, acceptable.

The addition of prudential-type bank indicators may be difficult in the short-run due to data deficiencies, ambiguity of definitions, and, in some cases, sensitivity of these data. However, we might find a realistic way and time framework for integrating this category of data. To a certain extent, the same refers to reserve-related data on BOP, such as the net value of forwards, swaps and other derivative positions. Maybe they could become an encouraged component, as suggested by my Japanese colleague.

On resolving observance issues. I find the proposed framework for dealing with these issues as reasonable and well-balanced.

On the cost recovery, I have sympathy toward what Mr. Iradian had to say, namely, that if we really need to impose charges for cost recovery, then we should rather charge data users than the country authorities.

I am looking forward to our next review of the SDDS.

Finally, I congratulate Ms. Carson and the staff of the Statistical Department for the job they are doing in the area of SDDS. My authorities are highly appreciative of the useful initiatives and activities the staff of the STA has developed to assist the country in formulating the framework of improving Russia's statistical standards and practices toward SDDS.

Mr. Eyzaguirre made the following statement:

The recent experiences with Asia have shown the importance and necessity of rapid and significant Fund involvement in situations of financial distress, in order to avoid the international propagation of negative shocks. In this regard, a parallel with the endeavors of central banks could be drawn. However, this parallel does not hold anymore when the quality of country information available to the Fund is assessed. The development of transparent, timely, complete, and reliable statistical macro-economic and financial information among the membership is not only urgent but also a necessary condition for an adequate exercise of Fund surveillance in this increasingly integrated world. Moreover, the general diffusion of that information constitutes a necessity for an appropriate working of market discipline, which in turn would facilitate the accomplishment of Fund's objectives.

We assign a high priority to the SDDS. In this regard, we are encouraged by the fact that three member countries of this Chair have already subscribed to the SDDS and two of them have hyperlinks from the DSBB to national sites.

Forty-three countries have subscribed to the Special Standard, while only 36 have metadata and 12 have hyperlinks to national data sites. These numbers are a bit disappointing, not only because they represent less than a quarter of Fund's members but also because some countries with active participation in the international capital markets have not yet subscribed to the SDDS. A special effort to add new countries should be pursued, keeping in mind the cooperative character of this institution and the growing speed and magnitude of contagion effects.

The SDDS provides the right incentives for the improvement of statistical information. However, we should avoid giving any impression of a certification of quality, which may create undue confidence. The fact that five members currently under financial distress have subscribed to the system and the acknowledgment of its incompleteness through the proposed addition of new strategic economic indicators are clear symptoms that we still have a long way to go in terms of providing a complete, reliable and timely set of information to economic agents. In that regard the system has to be transparent, with a clear information to the public of both its shortcomings as well as the steps the Fund is taking to include relevant new economic data. The proposal made by the staff regarding the inclusion of these new indicators seems feasible, although we could support a shorter timetable.

Turning to a more technical matter, we note from the staff paper that none of the 36 subscribers currently on the DSBB fully meets the prescription of the SDDS for Data and Access Dimension. Maybe a unique ideal standard is not strictly necessary and full advantage of the current information already available in the countries should be taken. The Fund should remain flexible in countries with adequate statistical systems and closely cooperate with the authorities in identifying the more relevant economic indicators in each particular case. Additionally, instead of requiring the official publication of information already in the market, focus should remain on ensuring that information is made available to the public.

It is not surprising that the overwhelming majority of users that provided comments on the SDDS have suggested that the DSBB would be more useful if it were to include the actual data as well as metadata for more countries, while also underscoring the importance of accessability to the information and consequently the favorable contribution made by hyperlinks. We hope member countries will take into account those demands in the future. Advantage should be taken from hyperlinks and their possible interaction with Fund department's databases to alleviate the statistical reporting burden on member countries. Linking the national sites with other international organizations should be encouraged.

We share the need to move quickly on issues of possible nonobservance through specific and relatively short time frames. Regarding the procedures proposed by the staff, we would like to add that the Executive Director of the country involved should be informed as soon as a deficiency is detected.

Turning to the next review, we would welcome detailed information regarding countries' observance of the standards before the end of the transition period. Finally, costs should not be recovered from users on the basis of positive externalities.

Mr. Fremann made the following statement:

I think the report proves that recent developments as well as the SDDS implementation raises very interesting issues. I must say I can agree with most of the staff proposals. Nevertheless, I have some comments on some of the issues proposed for discussion.

First, on the progress made so far in the implementation of the SDDS, I share most of the concerns expressed by Mr. Coumbis. That is why I am not very comfortable with the question put forward by the staff, do Directors agree that the staff should give high priority to assisting subscribers in implementing transitional plans. I think if this proposal means that we need huge resources, human resources and financial, to assist members in the period ahead, I think probably my answer would be no.

I think if the staff indeed is anticipating major problems to complete the transition plan, I think two solutions would have my preference. One—but this is probably going too far—is probably to postpone the deadline for one year of the transition plan. The other one could be perhaps to anticipate the exclusion of members and to adopt a more adequate period or time frame in order to allow these members to meet the SDDS requirements. This comment leads me to welcome the strategy elaborated by the staff on the observance issues. I think they give the right answer to possible nonobservance by a subscriber to the SDDS.

My last comment is a question from my authorities of the component coverage of data for international reserves. Clearly, my authorities so far, for the time being, are reluctant to adopt the staff proposal to push for publication of a broader concept of reserves. Broadly speaking, my authorities do not think that more transparency on reserves is a good strategy for dealing with speculative crises. We have some specific history on that matter. So, for the time being, they have clearly a strong preference—I must say their only preference is to make the publication of a broader concept of reserves an option. To conclude, I am afraid that prior to 1999 it would be quite difficult to obtain some concession from my authorities on that matter.

More generally, the staff notes that the EMU agenda is clearly challenging the current country-by-country approach. Unfortunately, this transition period is coinciding with the likely emergence of EMU. I think the issue of reserves as well as other issues will have to be addressed very soon in order to update the SDDS in 1999.

My last comment is on the cost recovery. In fact, I agree with the staff. But I think there was some point made by Mr. Iradian which was interesting on the question of cost recovery, so I am looking for the answer of the staff.

Mr. Alosaimi made the following statement:

I would like to thank the staff for their work in preparing this paper. Actually, on several occasions, this chair has expressed its view on the issue of data dissemination, and I do not want to repeat them at this point. Therefore, I will limit my comments to a few specific points for emphasis.

First, in light of experience. And as mentioned by Mrs. Sein and Mr. Coumbis, the requirements of the Special Standard could be made more realistic and pay due attention to market sensitivity. For instance, none of the subscribers at present meets the prescription of the SDDS for data dimension and the access dimension relating to the dissemination of advance release calendars.

Also, the staff mentioned that the timeliness appears to be the predominant issue for the real and financial sectors, and a major issue for the external sector. As Mr. Sivaraman pointed out, the current subscribers to the SDDS have not been able to meet the requirements for timeliness and coverage. This fact is worth considering and needs to be taken as a sign of going beyond the subscriber's ability.

While the Special Standard is work in progress, the transition period that will end at the close of 1998 seems short and needs to be extended, as mentioned by Mr. Fremann to allow more time for the Fund and country members to evaluate the experience and adjust to the system. Otherwise, as indicated by the staff, many subscribers have to introduce many changes which seem difficult to do in order to come into full observance of the Special Standard by the end of the transition period.

Taking into account the data peculiarities of member countries, the Special Standard should have the flexibility to allow more countries to subscribe to it.

On the modifications of the SDDS, I am not clear about the staff's suggestion to shift reserve-related liabilities from an encouraged to a prescribed component despite the fact that only 6 of 36 subscribers indicated that they disseminate data on reserve-related liabilities, as mentioned in Footnote 12. Indeed, this component is still not well-defined in the statistical methodology. In this regard, I support Mr. Fujii's suggestion.

Finally, any premature stipulation of nonobservance conditions may well be counterproductive at this stage and could discourage participation.

Mr. Guzmán-Calafell made the following statement:

The staff report leaves mixed feelings regarding progress made to date on the implementation of the Special Data Dissemination Standard. On the one hand, I am glad to see that subscriptions to the SDDS have proceeded as envisaged and that user access to the DSBB has grown substantially since its opening. On the other hand, however, I am concerned by the pace with which subscribing countries are advancing in trying to meet the prescriptions of the SDDS. As explained in the report, as of today, none of them are in full observance of the requirements under the SDDS, and there are in total 300 transition plans outstanding.

It is also worrisome to see in footnote 7 that two thirds of outstanding transition plans seemed to require substantial effort to develop new compilation methodologies and procedures to effect the necessary changes. I realize that we still have one year before the transition period comes to a tend and that subscribers remain committed to achieving the requirements set by the SDDS. But I believe an adequate understanding of this phenomenon is essential, both to shape our future policies and as a background for other members wishing to subscribe to the SDDS. Therefore, I would appreciate some further staff comments on this issue. Also, I fully agree that in these circumstances the staff should give high priority to assisting member countries in implementing transition plans.

Another area where a lot of the staff attention is needed is the establishment of electronic links. At present, hyperlinks are in place for only 12 subscribers. This is disappointing, since clearly this is a crucial feature of our dissemination standards. The information provided in the report is very clear in this respect. The value attached by users to hyperlinks is reflected in the fact that the opening of this option led to a marked up surge in the number of accesses. Not surprisingly, the overwhelming majority of users has suggested that the DSBB would be more useful if it included both the metadata and the actual data for more countries. Thus, I welcome the staff's intention to give high priority to the establishment of hyperlinks in 1998, and I would appreciate some elaboration on their expectations in this regard.

I agree in general with the staff's proposals on the procedures to be followed in updating the Special Standard. I would only have one comment. In paragraph 25, the staff notes that, after Board consideration of a preliminary proposal, the latter would be subject to consultation with interested parties, and that a key feature of this consultative process would be the posting of the proposal on the DSBB to invite comments and questions by users. I have no objection to this, but I believe that any proposal must be submitted for comments by users only after the comments from data producers have been received. Otherwise, we risk facing situations in which, for instance, expectations are generated among users on the availability of data which producers deem undesirable to disseminate.

The publication of more complete data on reserves is indeed desirable. The staff explains very well the arguments in favor of more information on reserve-related liabilities, forwards, swaps, etc., and I do not need to repeat them here. I note, on the other hand, that we are not standing on very firm ground on this. Reserve-related liabilities are not well defined statistically and the problem is even more acute in the area of derivative transactions or positions. Therefore, while I concur with the suggestion to broaden the coverage of the international reserves category of the SDDS, it is evident that this is an area where we have to proceed cautiously.

I agree with the staff proposals on prudential-type bank indicators and on short-term foreign liabilities of the private nonbanking sector. In including additional variables in the SDDS, we have to be ambitious but realistic. The incorporation of variables in which expectations of observance are low would be of little use, particularly considering the experience with the transition plans thus far.

On observance issues, I can go along in general with the staff's two-track approach. Nevertheless, I note that in the case of the second track, i.e. when the staff has concerns about a member's obligation to provide accurate and timely metadata, the response is not as gradual as in the case of the first track, that is to say when the problem emerges because a member ceases to follow the practices prescribed by the special standard. I believe that nonobservance under the second track must involve, first, a contact between the staff and the SDDS coordinator; then a contact with the Executive Director; then a note in the DSBB; and after a reasonable period, cancellation of user access.

Finally, on cost recovery, like Mr. Iradian and Mr. Vernikov, I am not persuaded by the staff's pit explanation. It is true that the institution has an interest in making a wide dissemination of the information available on the DSBB. However, as explained very clearly in the paper, market participants are the intended primary audience of the bulletin board. It is difficult to see why we should provide a service which is, in their own interest, free of cost. In addition to compensating the Fund for the budgetary impact of the DSBB, a charge on its use would provide a reliable indicator of the value which market participants attach to this service. If full cost recovery is not a realistic option, we should attempt at least to recover partially the costs involved in the operation of the DSBB. Obviously, charging subscribers of the DSBB would make little sense since our objective is to encourage—not to discourage—participation in the Bulletin Board.

Finally, on the issue of cost recovery of technical assistance provided under the SDDS, I agree with the staff that we have to adhere to the Fund's general policy in this connection.

Mr. Daco made the following statement:

It is encouraging to see good progress being made with the SDDS. But a word of caution is called for. When we launched the SDDS initiative in the wake of the Mexican crisis, we thought that providing adequate and timely information to market participants was a condition for their proper functioning. But lately it has been shown that providing good information, while necessary, is not sufficient to ensure smooth functioning of the markets.

This means that we should the SDDS, and also that our efforts to improve surveillance cannot stop with the provision of information to the markets. We also need to give greater continuity to the surveillance process, improve the Fund's dialogue with its members, and continue improving multilateral surveillance. None of this is new; all was to be found in the Whittome Report.

Let me now make a few remarks about today's topics.

First, it is welcome news that SDDS subscribers are broadly satisfied with their experience with the SDDS, which has given them a challenging framework for improving their data dissemination practices. The Fund should use the positive experiences reported by subscribers to encourage other members to join the initiative. The staff should not only strive to attract new subscribers, but should also ensure that present subscribers are in full conformity with the SDDS by the end of 1998. Subscribers should also be encouraged to develop hyperlinks with the SDDS. However, I note that the progress of some countries in this area could be hampered by confidential considerations.

Second, we can support the proposals on the data for international reserves. Reserve related liabilities should move to a prescribed category, and net commitments under derivative positions should be added. Since these are new requirements for subscribers, they should automatically be subject to the transition period. Meanwhile, the staff should be encouraged to obtain these data in the course of its surveillance activities on a confidential basis.

On the issue of including indicators of financial soundness, we recognize that we had to wait for the results of the work of the MAE on guidelines for financial system surveillance. However, we should be ambitious in our efforts and should not be content with a wait and see attitude, but we would like to make rapid progress in including in the SDDS indicators of financial soundness and of the net international investment positions, in particular short-term liabilities. We can go along with the staff proposals for responding to possible nonobservance by a SDDS subscriber. We feel that the Fund should more actively explore ways and means of reducing the costs of the SDDS for users of the DSBB. Here, it is certain that externalities are at work, but at the same time the financial markets are capable of paying for an information system that is essential for their activities.

My last remark is really a question to the staff. Is a subscriber to the SDDS required to observe the GDDS as well? In my view, the answer should be "Yes," because the GDDS requirements are broader and specifically include social indicators.

Mr. Estrella made the following statement:

We welcome the progress already made in implementing the SDDS since subscriptions are in line with expectations, and since it has improved statistical practices of subscriber countries. Therefore, to secure the future credibility of the SDDS we can agree with the staff that the Fund should give a high priority to assist subscribers in implementing the transition plans. In our constituency, Colombia has so far subscribed to the SDDS and they are working very hard to successfully implement the necessary changes by the end of 1998 to comply with all the requirements of the SDDS. In this regard, and taking into account that it is expected that during 1998 about seven or eight more countries will subscribe, we agree with the staff that members interested in subscribing during the rest of the transition period should carefully consider the likelihood of being able to come into full observance of the SDDS by end-1998 before making such a decision.

The SDDS was approved by the Executive Board following extensive consultations with members and after receiving comments from market participants and other interested parties. Today, however, the staff is proposing a modification to the coverage for international reserves by shifting reserve-related liabilities from an encouraged to a prescribed component and by adding a prescribed component for net commitments under derivative positions. Although it does not seem appropriate, as a general principle, to change the rules in the middle of the transition period, we want to mention that the member of our constituency which has already subscribed to the SDDS has, in principle, no difficulties in complying with these changes.

With regard to the staff proposal for a two-track approach for cases of nonobservance after the end of the transition period, we need to see the staff's final proposal at the time of the next review, before making any decision. However, in principle, we can agree with the idea of a two-track approach for cases of nonobservance.

Finally, we understand and agree with the argument made by the staff not to recover the costs associated with the SDDS from users on the basis that there are positive externalities.

Mr. Newman made the following statement:

The SDDS has gotten off to a successful launch for the growing number of participants and increasing use of the bulletin board. It is clearly important, however, that we maintain this momentum by obtaining greater participation, by completing the process of developing metadata, and by expanding, where possible, the hyperlinks.

Recent events demonstrate the need to continue our efforts to improve data provision and transparency in this area in order for markets to function smoothly. We take Mr. Duenwald's point that we need to be careful that we do not simply fight the last crisis but prepare for the next one; but we should also learn some of the lessons of the last crisis as we do prepare for the next one. In that regard, we welcome some of the staffs's suggestions, but have a few comments.

We agree with the staff's proposals with regard to international reserves and, in particular, including reserve-related liabilities and the net outstanding contract value of various forwards, swaps, and other derivative positions as prescribed data requirements. We recognize, however, that there is more work to be done in this area to define carefully the reserve-related liabilities, and there are a couple of areas in particular to which we would draw the staff's attention, including, for example, how the treatment of reserves held by a finance ministry would be incorporated with those of a central bank; whether there are other central government entities that are sometimes used to raise reserves and how they should be treated in the context of the staff's proposals; and the question whether or not the contract value approach that might be appropriate for spot, forwards, futures, and swap transactions may not be as useful when we look at foreign exchange options. The staff may want to consider this a bit more.

Finally in this area, I think recent experience demonstrates the importance of having timely information on gross and net reserves and, therefore, we would urge the staff to consider adopting a more rigorous standard with regard to timeliness, possibly a weekly reporting requirement with a one week lag.

With regard to measures of financial soundness, we recognize that there is no international standard and that the practices of countries differ widely. We wonder, however, whether there are some steps that might be taken during the transition period to a standard that would help increase transparency in this area. I think a previous speaker may have mentioned this. But it might be useful, for example, to have a country include in its metadata its description of the standards that it uses to assess banking soundness, including its definition of nonperforming loans, the classification of impaired loans, loan loss provisioning, and the definition of regulatory capital. With those standards clearly spelt out on the metadata, it might also consider actually publishing the data with regard to developments in its own banking system, including individual and aggregate data for balance sheets and income statements of deposit taking and lending institutions, which again would include, for example, data on nonperforming loans, asset quality in general, regulatory capital and bank profits, again using its own definitions until we can come up with a standard one.

With regard to the data on private nonbank external debt, we understand some of the staff's concerns in this area, and we would simply urge them to move as expeditiously as possible in developing appropriate measures, as well as to encouraging the development and the publication on the international investment positions.

We are in broad agreement with the approach the staff has proposed in dealing with possible nonobservance by subscribers to the SDDS after the end of the transition period. The key issue, of course, is how much time is provided to a member to correct the situation of nonobservance before removal from the bulletin board. While we believe that such a time limit should be reasonable, it must, of course, not be so long as to mislead uses of the bulletin board and thereby undermine the credibility of the SDDS and its Fund sponsor. In these circumstances, we believe shorter is likely to be better than later.

On cost recovery, we recognize the staff's point that the provision of this service has some elements of a public good, but we do not see why this should be an argument for having no cost recovery whatsoever. We note, for example, that the Fund charges users who wish to acquire its various publications and access to the IFS and the computer runs on the IFS. We therefore continue to believe that some cost recovery from users of the SDDS should be sought, and understand that it is technically feasible to do so. We would like to ask the staff whether it might be possible to develop approaches that would focus cost recovery on large institutions which benefit financially from access to the SDDS while providing scope for small infrequent users to access the bulletin board on a nominal or a no cost basis.

The Acting Chairman observed that a consensus would have to be reached before they could require subscribers to provide weekly reserves data with a one-week lag.

Mr. Newman remarked that his authorities were willing to change their data practices and provide weekly reserves data with a one-week lag. Such a requirement would also require some changes in the Fund because a large portion of members' reserves were in the form of Fund-related assets, and the Fund would need to provide members with up-to-date information on that.

Mr. Merino noted that Argentina provided information on its daily international reserves position, with a one-week lag.

The Acting Chairman considered that having such a requirement would result in countries changing their behavior as well. He could imagine that some countries would be reluctant to provide weekly reserves data for fear that if they were to ever find themselves in a crisis situation, widespread knowledge of their reserves positions could worsen the crisis. At the same time, the very fact that they were providing markets with such information would deter them from following imprudent policies. Directors might wish to reflect on that in considering Mr. Newman's proposal.

Mr. Kaufmann made the following statement:

I thank the staff for having prepared a very valuable paper on the experiences with the Special Data Dissemination Standard. I am pleased to note that there are currently more than 40 subscribers, and that another 7 to 8 subscriptions are expected for the coming months. This shows that members are not indifferent to the standard. However, I also note that no subscriber currently fully meets the requirements of the SDDS. Even more disturbing is the fact that progress toward this objective is very slow. According to the staff only three subscribers have made 'significant' progress in implementing transition plans. In my view, this is difficult to reconcile with the staff's assessment that subscribers are strongly committed and attach much importance to the SDDS. The fact, mentioned in a footnote of the staff report, that for roughly one third of the transition plans the data would be easily available but are not disseminated solely for administrative or policy reasons might indicate that commitment is rather lukewarm. I would be interested to hear how the staff explains the discrepancy between their positive impressions and the absence of concrete actions.

Concerning the Dissemination Standards Bulletin Board, the upward trend in the number of visitors is certainly encouraging. However, about 600,000 hits from 80,000 unique hosts over one year is not a breathtaking performance on the Internet. I have heard, for example, of an Internet site where one can dissect a virtual frog and which is making twice as many hits in half the time. Of course, this example is not comparable with the DSBB. But the staff's discussion at the end of the paper, concerning cost recovery, clearly shows that the bulletin board can not quite be considered a popular place. Thus, an ongoing effort to make the DSBB better known—and to make it more user-friendly—is called for.

The introduction of hyperlinks was an important step in the right direction. It has indeed led to a marked increase in the number of visitors. In my opinion, this shows that many of the DSBB users are actually not looking for metadata but for the actual data. Therefore, in order to assure a maximum impact of the bulletin board, we should try to enrich the DSBB into this direction. One step would be to establish direct hyperlinks from the dissemination formats page of the DSBB to the homepage of the corresponding statistical agency.

On cost recovery I agree with the staff that the Fund should not try to recover the costs of the DSBB from its users. I think that such a step would drastically reduce the number of users—which is detrimental to the final objective of the SDDS.

Turning to the procedure for adding new elements to the SDDS, I can say that I like the principle that subscribers should not have to chase a moving target, in particular because the standard is already quite ambitious. However, in practice, any addition to the requirements of the SDDS basically indeed means that the target is moving. Therefore, as this chair already stated in the context of provision of information to the Fund, we must be careful when we add more and more items to the to-do-list. Another problem of modifications is the fact that they make it more difficult for the public to understand which country is meeting what version of the standard. In sum, while recognizing that the SDDS is work-in-progress, I think that modifications to the standard should be rare and be made with care.

Nevertheless, I recognize that the recent events in Southeast Asia raise the question if the coverage of the current version of the SDDS is sufficient to assure that the standard is meeting its objective. In fact, it is somewhat disturbing that the subscription of some of the major actors in Southern Asia to the SDDS have not prevented a sudden shift of investors' sentiment. However, we should probably first wait until the end of the transition period before we make a judgment about the impact of the SDDS.

As concerns the three data categories mentioned in the report, I would like to comment as follows:

On reserve-related liabilities: I agree with the staff that an inclusion of reserve-related liabilities in the prescribed components would be useful. However, I am somewhat less convinced that we should prescribe the dissemination of data on the net outstanding contract value of forwards, swaps, and other derivative positions. I wonder if it is realistic to include these data in a standard for dissemination of information to the public, in light of the Fund's problems to obtain them for surveillance. It might be more appropriate to add them as an encouraged component.

On prudential-type bank regulations, I agree with the staff.

On short-term foreign liabilities of the private, nonbank sector, the staff proposes to prepare a timetable until the next review of the SDDS. I agree that such a timetable is, in principle, desirable. However, I believe that the work of next year should focus on the conclusion of the transition period and that the discussion of such a timetable can possibly wait until 1999.

Finally, as concerns the procedures for resolving observance issues, I have no problem with the staff proposal which is transparent and provides for a uniform treatment of all members.

Mr. Heinbuecher made the following statement:

The staff is to be commended for providing us with a comprehensive and well-written report on the first review of the special data dissemination standard. Developments under the SDDS so far seem encouraging in terms of the number of subscribing countries, the progress being made by subscribing countries, as well as the increased interest of users. According to the report, substantial work remains to be done in a large number of subscribing countries. In this context, I would like to express our appreciation to the staff for the intense efforts to get the standard going, to assist current or prospective subscribers in implementing or designing their transition plans and for being prepared to take account of long-standing and well-developed national practices in the statistical area as far as possible.

On the suggested issues for discussion, I can be rather brief. We basically agree with the staff's proposals and have only a few remarks.

On the third issue, we see also merit in allowing for an appropriate transition period beyond the beginning of 1999 for countries subscribing to the SDDS during 1998 if technical problems, for instance, with respect to the advance release calendar could not be solved in time.

On the fourth issue, namely the procedures for updating the SDDS, my authorities assume that the staff's proposals include the understanding that the preliminary conclusion of the Board in the first step are indeed preliminary to facilitate an open discussion with interested parties in step two. In any case, it would be appropriate to discuss any ideas of the staff for amending the SDDS at an early stage with the national statistical experts and data producers of the subscribing countries to get a clear picture of the feasibility of implementing such changes on the national level.

On the fifth issue, my authorities can support the staff's proposals. However, in this context it seems important to keep in mind the remarks made by Mr. Fremann that it is not yet finally decided how this issue will be dealt with in the context of EMU.

On the seventh issue, my authorities have some doubts about the feasibility of shortening the timeliness provision for the overall international investment position. However, in their view, consideration should be given to a shorter timeliness provision, maybe for short-term external debt of the nonbanking sector.

Finally, I have two further comments. First, on the short-term liabilities of the private nonbank sector, my authorities are wondering whether a broader use of the quite comprehensive international banking statistics would facilitate the provision of data on foreign liabilities of the private nonbank sector and on the international investment position. Second, on the differences between data requirements for the SDDS and by the European Union, the planned discussion with the ECB should not be limited only to financial data but should also include the category of price indices.

Mr. Mahdavian made the following statement:

We thank the staff for the timely review of the Special Data Dissemination Standard (SDDS). The SDDS is part of an improved early warning system, so that the Fund and the markets can quickly act to prevent or handle financial crises. It has been correctly argued that prevention of financial crises is the preferred course of action, and this could be achieved partly through improved and effective surveillance of economic policies and financial market developments. Timely and fuller disclosure of economic and financial data to the public creates a better environment for market participants to provide sharper messages to countries that appear to be avoiding necessary actions. Therefore, our efforts should aim at assessing how the SDDS contribute to necessary policy correction and more informed market reactions. The SDDS is an important element of the Fund's improved and effective surveillance of national economic policies, and, in that regard, its assessment should focus on the capacity and the efficiency with which it serves the intended purpose.

We are in broad agreement with the staff's proposed general principles and procedure for updating the Special Standard. The staff's two-phase approach in proposing any updating of the SDDS is appropriate. This approach involves a preliminary proposal for modification which could be initiated by the staff, or requested by the Executive Board. The Board's consideration of the preliminary proposal would then form the basis for consultation with interested parties. We generally agree with this procedure. However, it is imperative that this procedure receives feedback from market participants and builds upon the experience from the recent turmoil in financial markets, especially in expanding the scope of the SDDS. We encourage the staff to consult closely with SDDS subscribers, as well as with market participants, in designing a work plan for modification of the Special Standard for Board consideration.

Regarding the procedure for observance, we agree that some degree of flexibility is warranted during the transition period. However, we consider it imperative for the Fund to take the leading role in monitoring observance in practices prescribed as well as the provision of accurate and timely metadata.

On the issue of cost recovery, like Mr. Iradian, we are in favor of lessening the budgetary impact of this exercise to the extent feasible. The Fund is a quota-based institution and, therefore, its major concern and obligation should be to provide its services to member countries. Moreover, market participants and DSBB users can certainly afford to recover costs, partially or fully. This would also enable the Fund to carry out a cost-benefit analysis of Dissemination Standards based on market considerations.

Ms. Honeyfield made the following statement:

I agree with most of the staff's proposals, and I would also like to associate myself with the views of Mr. Duenwald by and large, so I will concentrate on three issues, question five, question nine, and question one in the staff's proposals.

On question five, listening to what others have said around the room, I agree there clearly could be definitional problems, but I do not think that should stop the staff from going ahead with the consultation process with members. And, we will see, then, if we can iron out the definitional and other problems in the consultation process.

On question nine, although I am still in the minority, I would like to associate myself with Mr. Guzmán-Calafell, Mr. Iradian, Mr. Mahdavian, Mr. Newman. I believe cost recovery is appropriate and I would like to ask the staff to look carefully at Mr. Newman's proposals for discriminating between commercial and noncommercial users.

Turning to question one, like Mr. Guzmán-Calafell I was disappointed that so far the SDDS has not resulted in much actual change to subscribers' practices. I suspect one of the reasons is that members have not been pressured by the international financial community to improve, as we might have hoped. And given this, I was disappointed to see that the staff have not yet tried to determine whether users are actually monitoring compliance. As is the key determinant of where the initiative is working in the way it was set up to, I would urge the staff to canvass this issue with users as soon as possible. If it turns out that users are not monitoring country's practices as we had hoped, then I would ask the staff to let the Board know this as soon as they have this information rather than waiting until their next annual review. The other suggestion I had was to help get a better understanding of user behavior. I believe it would be helpful to make user registration a compulsory precondition of access. I wondered if the staff could comment on whether that would be feasible.

Finally, but importantly, I would like to stress that we must not lose sight of data quality issues in basic statistics, as we continue to add new components to the SDDS and speed toward the end-1998 deadline for compliance. Specifically, some of my authorities are concerned that we may be setting the bar too high in the periodicity and timeliness dimensions without sufficient focus on improving the quality of the data. One example they cite is the requirement for monthly consumer price index. They note a rigorously compiled and thoroughly documented quarterly consumer price index that is reviewed regularly and externally is far better than a monthly consumer price index that is of more dubious quality. I wondered if the staff may want to comment on this issue.

The Director of the Statistics Department observed that, while the majority of countries prepared a monthly consumer price index, some countries prepared a quarterly consumer price index. The SDDS was flexible in that it allowed countries to publish quarterly or monthly consumer price index, as long as the authorities felt that the particular periodicity was useful for their own country's needs.

On the question of the likelihood of countries moving to full observance at the end of the transition period—that is, end-1998—the staff was optimistic that, despite the large number of transition plans outstanding, countries subscribing to the SDDS would in fact meet all the requirements by end-1998, the Director continued. There were some requirements for full observance, such as expressing reserves in US dollar terms, which were relatively easy to meet and should take no time. However, there were other requirements, such as the production of national accounts on a quarterly basis, which would take longer to meet, and several countries would probably only be able to complete work toward the end of the transition period. The staff had held several seminars—and more were planned—to help countries make the transition to quarterly national accounts. The staff had had numerous conversations with country statisticians, country SDDS coordinators, and in some cases, with the Executive Directors, to assess the likelihood of the countries meeting the Standard by end-1998. One country, which had had a very high number of transition plans, had made progress on them; the staff had spoken with the Executive Director, who in turn, had followed up on progress being made with the authorities. The staff had embarked on plans to be in contact with members during the transition period, which included the staff visits to provide technical assistance and/or encouragement to meet the Standard. The staff was also preparing material that it would provide to the authorities, which would help them complete the transition. The staff hoped that, with the conclusion of the first review of the SDDS, it would be able to reinforce the importance of the end-1998 deadline, and hoped that the Executive Directors would do the same. The high priority attached to the provision of reliable and comprehensive data by Fund management would also bring the message home to countries.

Reference had been made to the fact that several of the countries affected by the Asian crisis were SDDS subscribers, the Director noted. It should be borne in mind that work was still in progress in several of these countries and, as evidenced from the summary pages on observance of the SDDS, they had a number of transition plans to complete before they could be considered as having established statistical practices in line with the SDDS.

The staff had explained to the seven to eight countries that intended to subscribe to the SDDS the implications of their commitment in terms of being in full observance by end-1998, and had shown them the DSBB entries for a number of countries' practices so that they were aware of what was expected of them, the Director stated.

The staff had spoken to Eurostat regarding differences in timeliness for some of the data categories between the SDDS and the EU, the Director noted. Eurostat had put together its standards before it had known what the European Central Bank (ECB) would require. The ECB could be asking members to provide more timely data. The staff was in touch with the European Monetary Institute and hoped to get a better picture of the SDDS requirements compared with the EU requirements.

On the question of whether users of the DSBB could be charged a fee, like the buyers of IFS or other Fund statistical publications, it should be noted that the IFS and DSBB were not exactly comparable, the Director considered. Buyers of the IFS were not charged for the total cost of producing the IFS, but were charged a marginal cost of distribution. Taking a similar approach for the SDDS would not yield much as the marginal cost of maintaining the DSBB was negligible. The issue that arose was whether it was worth the administrative problems to try to recoup costs. Mr. Newman's proposal to charge large institutional users one fee and smaller users a nominal fee, while technically feasible, would be administratively difficult to implement. It would involve giving users passwords and charging them based on their passwords; it would also require maintaining different subscription lists. Moreover, the biggest impediment to charging a fee was that the metadata belonged to countries; countries had a strong sense of ownership about their metadata and might not view favorably the Fund's recouping charges for its use of their metadata. It might be worth bearing in mind that some of the national summary data pages to which the DSBB had a hyperlink had a copyright for it.

SDDS subscribers were not required to participate in the General Data Dissemination System (GDDS), the Director of the Statistics Department observed. It would be useful if the SDDS subscribers made available some of the data that were not included in the SDDS, but which were part of the GDDS, and SDDS subscribers had the option to submit metadata for two categories in the GDDS if they so wished.

The staff representative from the Statistics Department observed that the staff expected that the majority of the SDDS subscribers should have hyperlinks in place by the end of 1998. Nearly all the subscribers had said that they intended to build websites but were experiencing problems in setting them up. In some cases, there were administrative issues that needed to resolved, such as designating a lead agency in maintaining the site; in other cases, there were technical problems that needed to be sorted out. Overall, however, the prospects for most of the subscribers having hyperlinks by end-1998 were favorable.

The staff representative from the Policy Development and Review Department noted that, following the biennial surveillance review earlier that year, the staff had prepared a guidance note for the staff on monitoring the financial sector. The note outlined the growing emphasis on the financial sector in the context of surveillance; of course current events would put more emphasis on that. Financial sector surveillance was an area in which collaboration with other institutions, particularly the World Bank, which had a comparative advantage in that area, was particularly important. The staff would keep the Board informed of its work on financial sector issues.

The Acting Chairman said that the staff guidance note would be circulated to the Executive Board.

Mr. Guzmán-Calafell noted that the current subscribers to the SDDS were countries with the most advanced statistical systems in the world. Yet, those countries were facing difficulties in being in full observance of the SDDS within a two-year transition period. In view of that, he wondered how it could be expected that new subscribers—after the end of the transition period in 1998—could be in full observance right away, particularly as their statistical systems were much less advanced than those of the initial SDDS subscribers. In those circumstances, he wondered whether consideration should be given to having a transition period for all subscribers, regardless of when they chose to subscribe.

The Director of the Statistics Department responded that the staff was working with the seven to eight potential new subscribers to ensure that they would be in full observance by end-1998. Indeed, some of them may have fewer transition plans in the next few months than the current subscribers. It should be noted that countries were free to subscribe whenever they chose, but after 1998, they would need to be in full observance of the Standard at the time of subscription. Thus, countries could come up with their own transition plans to enable them to be in full compliance. The staff was willing to help countries that had indicated their intention to subscribe, just as it was helping the current subscribers. The rationale for having a transition period for the original subscribers was to send a strong signal to markets about the purpose of the DSBB and to convey to the public countries' intentions to meet the SDDS. After the end of the transition period, the staff might consider how to send a signal to markets about the new subscribers. The GDDS would also be in operation by then.

Ms. Honeyfield asked whether the voluntary user registration scheme should be made compulsory so as to obtain better information about the users of the DSBB.

The Director of the Statistics Department replied that, as the DSBB was still relatively new, a compulsory registration scheme might have the effect of deterring users from accessing the DSBB, even before the DSBB had become widely known. That would defeat the purpose of encouraging the public to use the DSBB. Currently there were 2,500 DSBB users that had registered their interest in receiving updates on DSBB developments and 4 percent of those were financial market participants; of those about 80 percent had indicated a willingness to respond to questions and so forth. That should provide substantial information, albeit from a biased sample.

Mr. Newman remarked that he was not fully convinced by the staff's argument that the data were proprietary information and therefore the Fund could not charge users of the DSBB a fee. The same argument could be applied to the IFS or the World Economic Outlook, which used data provided by the countries themselves, and for which the Fund charged a fee. The administrative costs would need to be factored into the price levied for accessing the DSBB.

On the possible inclusion of reserve-related liabilities in the SDDS, while most Directors tended to look at it in terms of what impact it would have for their own countries, one might perhaps consider what would be the cost of not providing such information on a timely basis, Mr. Newman contended. The Fund in the past few months had committed about $60 billion to deal with problems that had arisen partly because information on countries' reserve-related liabilities and derivatives operations was lacking. That had triggered extreme reaction from the markets, with a run on countries' currencies. Eventually the Fund had had to step in to restore confidence. He would ask Directors to consider that when assessing the costs and benefits of providing such information to the Fund and to markets.

The Acting Chairman made the following summing up:

> In reviewing developments to date, Executive Directors were encouraged by the progress made in the implementation of the Special Data Dissemination Standard (SDDS). They noted that the number of subscriptions had been about in line with expectations at the time the SDDS had been established, and hoped that, over time, even more members would subscribe. Directors welcomed the growing external use of the Dissemination Standards Bulletin Board (DSBB), especially since the introduction of hyperlinks from the DSBB to national data sites, as well as the generally positive views of subscribers on their initial experience with the Special Standard, which was seen as providing incentives and a structure for improvements in data dissemination practices.
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> Directors noted that the staff's proposals on updating the SDDS are timely, given recent developments in Southeast Asia and elsewhere. They endorsed the procedures proposed by the staff for modification of the SDDS, which are in keeping with the consultative and transparent process underlying its establishment. On broadening the data coverage of the SDDS, the Board concluded that consideration should be given to modifying the component coverage of the data category for international reserves in the SDDS by shifting reserve-related liabilities from an encouraged to a prescribed component, and by adding a prescribed component for net commitments under derivative positions. However, some Directors expressed reservations in this regard, pointing to definitional problems as well as to issues of confidentiality. Directors called on the staff to initiate a process of consultation with interested parties with a view to formulating a more refined proposal for Board consideration.

In contrast, Directors concluded that modification of the SDDS to include indicators of financial soundness should await the development of standards for disclosure of macro prudential data, and should draw upon the work of other organizations, including the BIS. Current staff work would be beneficial in this regard, and Directors agreed to consider modifying the SDDS in this area once relevant experience has been gained. Likewise, Directors agreed that, in the context of the next review of the SDDS in late 1998, the Executive Board should give consideration to the possibility of establishing a more precise timetable for the dissemination of data on the international investment position, which would include data for the short-term external indebtedness of the private nonbank sector by subscribing countries.

Turning to the work ahead, Directors were of the view that the credibility of the Fund and of SDDS subscribers rested heavily on ensuring that members that had subscribed to the Special Standard implemented the necessary changes to their dissemination practices so that they would be in full observance of the SDDS by the end of 1998. Noting the limited progress that had been made in completing the outstanding actions by a number of the current subscribers, Directors urged members to implement rapidly their announced transition plans, and stressed the need for the staff to give priority to assisting subscribers in successfully concluding the transition period. In this regard, some Directors cautioned that, in light of limited resources, staffing implications would need to be carefully considered. A few Directors favored an extension of the transition period in light of the number of outstanding plans. Directors noted the need to continue to improve the DSBB, including through the addition of more hyperlinks, and to coordinate closely with other international organizations.

Directors agreed that it would be prudent for members interested in subscribing during 1998 to assess carefully the likelihood of being able to come into full observance of the Special Standard by the end of the transition period before making a decision on subscription.

Directors agreed with the staff's preliminary proposals on dealing with possible nonobservance by a subscriber to the SDDS after the end of the transition period. Some Directors referred to the need to differentiate in this regard between minor and serious breaches. Directors agreed that the staff should present a refined proposal for dealing with possible nonobservance, which might include indicative time frames, at the time of the next review in late 1998 and in light of Directors' comments today.

On cost recovery, Directors agreed that, for the present, the costs associated with the SDDS and maintenance of the DSBB should not be recovered from DSBB users on the grounds that there are positive externalities and that it will be to the benefit of the entire international community to have the DSBB reach as many users as possible. Some Directors, however, believed that some form of cost recovery should be further explored. A few Directors also saw scope for requiring payments from subscriber countries for Fund technical assistance for improving data standards, especially for high and middle-income countries.

4. **REPUBLIC OF TAJIKISTAN—1997 ARTICLE IV CONSULTATION; AND PURCHASE TRANSACTION—EMERGENCY POST-CONFLICT ASSISTANCE**

The Executive Directors considered the staff report for the 1997 Article IV consultation with the Republic of Tajikistan and its request for a purchase in an amount equivalent to SDR 7.5 million under the Fund's policy on emergency assistance for post-conflict countries (EBS/97/224, 12/5/97; Sup. 1, 12/18/97; and Sup. 2, 12/19/97). They also had before them a background paper on recent economic developments in the Republic of Tajikistan (SM/97/280, 12/5/97).

The staff representative from the European II Department said that, in the period since the supplement to the staff report (EBS/97/224, Sup. 2, 12/19/97) had been circulated, the staff had been informed that further progress had been made in collecting foreign-exchange-denominated credits extended by the Ministry of Finance. According to the most recent available information, total collections amounted to $3.3 million, or about 44 percent of the outstanding stock. Thus, the prior action related to those foreign-exchange-denominated credits had been more than fully met.

In addition, the central bank had conducted the first credit auction on the morning of December 19, 1997, the staff representative stated. At that auction four banks had made bids, and sales had involved some TR 40 million, which amounted to about 10 percent of programmed central bank credit during the first quarter of the program. The resulting auction interest rate was 6.25 percent per month, which was slightly higher than the prevailing refinancing rate and in compliance with the prior action targeting the positive level of the real interest rate. Thus, the structural benchmark for end-December under the program on launching credit auctions had been observed.

Mr. Cippa made the following statement:

> On June 27, 1997 the Tajik government and the United Tajik Opposition (UTO) signed a peace agreement which after five years of civil war offers the prospects of political normalization and the resumption of normal economic activity in Tajikistan. Much has already been done since the signing of the peace agreement to deepen the peace process. The Commission on National Reconciliation (CNR) and its subcommittees have begun to work on the integration of the armed forces of the UTO into the governmental power structures and have been preparing proposals and recommendations on changing the Constitution and the Election Law. Furthermore, a final agreement should soon be reached between the government and the UTO on the distribution of key ministries and departments.
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> However, much remains to be done to fully reintegrate the opposition in the social, political and cultural life, to create a democratic society, to resettle the returning refugees, and to demobilize and reintegrate the former combatants. Unfortunately, the political and social normalization process is still disturbed by some armed groups who are less supportive of the peace process. Notwithstanding all the difficulties, it can be said however, that the process of real reconciliation and mutual trust in Tajikistan is gaining momentum, and that the social-political climate has begun to normalize. The government is fully

committed to the implementation of the peace accord and will take all necessary measures and decisive actions to prevent and hinder any attempts to disturb the peace process.

My authorities are determined to use the window of opportunity opened by the peace agreement to renew their efforts in macroeconomic stabilization and comprehensive economic reforms. Since June 1997, they have taken a number of steps to address the severe economic imbalances which had developed in the first half of 1997. The public expenditures were compressed and net lending reduced, the granting of directed credits was prohibited, central bank credits to banks and the government were strictly limited, regular foreign exchange auctions were restarted, the curb market for foreign exchange was decriminalized, and trade policies were again liberalized. The impact of these measures is already evident. Inflation came down from the very high levels observed in July and August to an average of 3 percent in October—November, and the nominal exchange rate has remained stable since early September.

To further strengthen these efforts, the government and the National Bank of Tajikistan (NBT), with the support of the Fund staff, developed an ambitious economic program for October 1997 to June 1998 and request now for Emergency Post-Conflict Assistance in the amount of SDR 15 million. The main purposes of the program are to reestablish macroeconomic stability, to strengthen the capacity to implement sound economic policy in a market environment, and to lay the foundation for sustainable growth by enhancing the role of, and opportunities for, the private sector in Tajikistan. The key macroeconomic objectives are to limit inflation to no more than 21 percent during 1998, to achieve a 4-5 percent increase in real GDP in 1998; to make further progress toward a viable external balance of payments, including by increasing the international reserves of the NBT to cover 4 weeks of imports by the end of June 1998, and to complete the process of normalizing the relations with the external creditors.

In order to achieve these objectives, the fiscal deficit will be further reduced and central bank financing of the budget will be strictly limited. The latest projections show that the fiscal deficit target for the fourth quarter of 1997 of 0.6 percent of GDP can be reached thanks to high revenues from the sales tax. The 1998 state budget, which is consistent with the program, has been approved by the Parliament. It envisages a decline in the overall cash deficit to 2.8 percent of GDP. On the revenue side, the improvement of the collection of the sales tax will remain a key element. To strengthen the tax base, it also has been decided to eliminate most of the remaining value-added tax exemptions and to extend the coverage of the excise taxes. In addition, to streamline, harmonize and simplify the tax system, my authorities introduced a unified import tariff of 5 percent, harmonized the excise tax for domestic and imported goods, reduced the enterprise profit tax rate, and, finally, simplified the accounting procedures for small enterprises.

Expenditure policy needs to be balanced between the requirements of the peace process and fiscal prudence. Savings will be made by the reduction of subsidies for irrigation and public utilities, as well as from the efforts to restrain personnel outlays. Expenditures on health and education will be at least 9 and 13 percent of total expenditures, respectively. And capital expenditures are projected to increase faster than GDP, due to the need to rebuild the damaged infrastructure. With regard to the expenditures on the social safety net, the government will aim at better targeting of social benefits. In implementing measures to improve the social safety net, the government will ensure that their financing remains consistent with the overall budget objective and the financial program. The cumulative stock of arrears on wages and compensation payments will be reduced by at least 50 percent by end-March 1998.

The NBT will support the inflation reduction effort by maintaining an appropriately tight monetary stance. To ensure the most efficient allocation of NBT credit to the economy, credit auctions are being introduced. The first auction will take place in the next few days, and further auctions will be held at a rhythm of two per month. Furthermore, in order to establish a flexible source of financing for government expenditures, a government treasury bill market will be introduced during 1998.

The balance of payments position is difficult and major improvements can only be expected gradually, particularly as reconstruction efforts will result in increased import needs, while the recovery of exports can be expected to take place slowly. For 1997 and 1998 the overall balance of payment deficit is projected to be 1.9 and 4.4 percent of GDP, respectively. Tajikistan will therefore remain dependent on strong international support. Over the program period, an estimated financing gap of $40 million is expected to be filled by post-conflict provisions from the Fund ($21 million), the World Bank ($10 million), and by a grant from the European Union ($9 million). In addition, a considerable amount of assistance was pledged at the UN-sponsored donor conference in Vienna for the implementation of the peace agreement. The remaining gab could be filled in a Consultative Group meeting to be held in spring 1998.

Tajikistan is burdened by a large external debt (84 percent of GDP), including very significant amounts of external arrears. Several creditor meetings were held with external creditors. As a result, bilateral creditors have agreed to enter into discussions aimed at rescheduling debts which are either overdue or fall due this year. The special debt service account contains enough funds to cover all obligations (after rescheduling) for 1996 and 1997 to all creditors that have been asked to reschedule, except for Uzbekistan, and the 1998 budget envisages sufficient transfers to cover all debt obligations which will fall due in 1998 under the proposed rescheduling terms. Arrears, which arose on the debt that is not currently subject to rescheduling negotiations, including to the European Union, will be reduced substantially by the end of the year, and eliminated completely by end-June 1998.

On structural policies and institution building, the program calls for a significant acceleration of the small-scale privatization with the aim of completing it by end-September 1998. In the agricultural sector, the authorities intend to accelerate the breakup of collective farms and the privatization of state farms. Furthermore, the banking sector will be strengthened by forcing the banks to meet prudential requirements. In a second step, a comprehensive bank restructuring program will be designed in cooperation with the Fund and the World Bank, on the basis of assessments of the true net worth of the big banks. Furthermore, my authorities are going to substantially accelerate the reforms of the cotton sector by privatizing Tajik Cotton Company and completing the privatization of the cotton ginneries. The TADAZ aluminum plant will be downsized by separating activities unrelated to aluminum production. To further develop and improve the regulatory environment for private business, several laws (Law on Property, Law on Securities and the Stock Market, and the Bankruptcy Law) will be reviewed and, if necessary, amended. A new Banking Law will be submitted to the Parliament, and a timetable will be established for the completion of a commercial code. Finally, it is planned to restructure the overall institutional set up for administering and collecting taxes, and enforcing tax laws, on the basis of recommendations to be made by the Fund staff.

With its ambitious stabilization targets and far-reaching structural adjustment objectives, the program goes in many aspects well beyond a usual post-conflict arrangement. But my authorities have realized that building up both domestic and international confidence in the Tajik economy requires a drastic and convincing turnaround of past trends. Moreover, the achievement of strong macroeconomic stability and the building up of institutions and administrative capacity is a first step toward a comprehensive multi-year economic reform program that could be supported by an ESAF arrangement. They are fully committed to the implementation of the program. To demonstrate their commitment, they have satisfied all the prior actions as they have been outlined in the Memorandum of Economic Policies. Furthermore, they agreed on a number of quantitative performance targets and structural benchmarks in key policy areas, the satisfactory implementation of which will be a condition for the completion of the mid-term review and the approval of the second purchase.

To conclude, my authorities wish to thank the international community for its support of the ongoing peace process in Tajikistan and the rehabilitation of the infrastructure. They would also like to thank Fund management and the staff, including the resident representative in Dushanbe, for their highly professional support, courage, and devotion, shown during this important period. They are also very grateful for the technical assistance provided by the Fund.

Mr. Ahmed made the following statement:

The renewal of violence in late 1996 dealt a severe blow to the government's stabilization and reform program. As a consequence, the program veered sharply off course amid widening economic imbalances and accelerating inflation. However, as the staff report and Mr. Cippa's statement note, the signing of the peace agreement in mid-1997 opens a new window of opportunity for the authorities to renew their efforts in macroeconomic stabilization and reform. We join the staff in commending the authorities for their "swift switch of gears back to economic stabilization." This is evidenced by the significant turnaround in economic and financial performance.

There is no doubt that the risks to the economic program are high given the unsettled security situation and the recognition that restoring full normalcy in the social and political sphere will take time. But, notwithstanding the difficulties, the government's decisive actions and strong commitment to economic adjustment and reform deserve the fullest support of the Fund and, indeed, of the international community.

The task ahead is daunting. The economic program, anchored on strong fiscal adjustment, a firm monetary policy, and structural reforms, is ambitious. Its implementation should help achieve a turnaround in confidence and lay the basis for rapid disinflation and a resumption of growth. The achievement of the fiscal target will depend critically on establishing a stronger tax base through, inter alia, the elimination of most value-added tax exemptions, the new turnover tax, and the introduction of the unified 5 percent import tariff with minimum exemptions. We welcome the structural content of these measures and support the intention to include performance under the sales tax as an explicit performance target.

Maintaining a tight expenditure stance will also present challenges in light of the need to strike the right balance between "the requirements of the peace process and fiscal prudence." Here again, the authorities and the staff deserve to be commended for putting together an expenditure policy that focuses on the right set of priorities—cutting subsidies and instituting a hiring freeze, increasing the real wages in government agencies to stem the loss of skilled personnel, protecting expenditures on health and education, raising capital spending, especially on infrastructure, and requiring that at least 50 percent of the existing wage and cash compensation arrears be repaid by end-March 1998. The staff is right to underscore the need for efficient and disciplined implementation of the new tax measures and to adhere strictly to the expenditure plan.

Reinforcing the tight fiscal stance is a cautious monetary program that should help in achieving rapid disinflation. We note, however, that the inflation target is particularly ambitious, but one that is well worth aiming for, given the importance that decisive progress on the inflation front will have for the program's success, in general, and protecting the social safety net. The asymmetric approach to exchange rate policy appears to be appropriate to the present situation. While the staff is right in arguing that the expected appreciation is not a cause for concern—given the very low level of the monthly dollar wage, compared to other countries in the region—this is an aspect of policy that warrants careful monitoring in light of Tajikistan's difficult external position. We hope that the consultative group meeting, to be held in the spring of 1998, will send a strong signal of support for the authorities economic program and that an expeditious resolution to the external debt problem will be found.

Progress in structural policy measures and institution building are central to the sustainability of the economic recovery. Banking sector reforms and key public enterprises are areas that deserve special recognition. We look forward to a firm implementation of the two-step strategy in the banking sector, described in the staff report, and note the important role being played by other multilateral and bilateral official institutions in the provision of technical assistance. With the peace agreement and the establishment of a unified government, the authorities have the opportunity to accelerate the pace of privatization of state owned enterprises and farms.

We join the staff in welcoming the authorities' intention to move to a multi-year program that could be supported by an ESAF arrangement.

Mr. Yakusha made the following statement:

I am in broad agreement with the staff analysis on recent economic developments in Tajikistan. It is unfortunate that after a good initial performance under the first credit tranche of the Stand-By Arrangement, the renewed violence and social instability in late 1996 have hampered government efforts to achieve further gains toward macroeconomic stability. The signing of the peace agreement in mid-1997, however, should open a new window of opportunity for Tajikistan. I welcome the indications both in Mr. Cippa's opening statement and in the staff report about the authorities' commitment and determination to use this opportunity to change the country's economic prospects.

Having in mind the stage of the transformation process of the Tajik economy, I share the staff's view that the most appropriate way to financially support Tajikistan would be to make use of the Fund's post-conflict emergency mechanism. To this end, I can support the authorities' request. I can also agree that, as a next step toward consolidating the progress on economic stabilization and structural reform, a comprehensive medium-term adjustment program with Tajikistan could be supported by an enhanced structural adjustment arrangement. It will be important, however, for the authorities to show a convincing performance under the program supported by emergency post-conflict assistance and to restore their track record for stabilization and reform before moving to a longer-term program with the Fund.

As I generally agree with the key objectives and features of the government's economic program, I will highlight only a few points for the current discussion. It is of utmost importance for the authorities to improve the financial policy performance. Restoration of financial stability in the country will depend on successful fiscal adjustment and preservation of a tight monetary stance. I agree with the staff that efficient implementation of the envisaged tax measures, close attention to budget expenditure management, and substantial reduction of the monetization of the fiscal deficit are all critical parts of the program.

Given the serious risks to the program described by the staff, it is reassuring to note the staff's comments for the current discussion. I would emphasize that only solid performance and fiscal monetary management will allow achievement of the ambitious inflation target and resumption of economic growth.

Macroeconomic stabilization can be achieved and, more important, maintained only if a critical mass of structural reform has already been executed. An important aspect of the overall process of transformation of the economy is institution building. Thus, I agree with the staff that structural policy measures and institution building are extremely important to sustain economic recovery and enhance policy implementation capacity. The authorities' plans in these areas are well presented in the memorandum of economic policies, and seem to cover all major aspects of the reform process. Indeed, it could be argued that the envisaged measures could stress the implementation capacity of the government and the central bank. To this end, a rapid but orderly improvement in tax administration and expenditure management, strengthening of the central bank operations, and comprehensive legal reform are necessary. Given the importance of all these components, of the process of institution building, and the establishment of most of them as structural benchmarks under the program, I acknowledge the authorities' commitment to structural reforms and look forward to the successful completion of the difficult tasks in the period ahead.

Mr. Mozhin made the following statement:

First of all I would like to express my hope that the peace agreement signed with the opposition movement this June will be long lasting. The staff papers clearly demonstrate that during periods of political normalization the Tajik government can be quite successful in its efforts to stabilize the economy. On the other hand, economic recovery and rising living standards of the population may well help to further strengthen the peace process. Therefore, the proposed decision to provide the country with financial assistance from the Fund under the post-conflict emergency assistance mechanism seems to be logical.

The government's economic program up to the end of June 1998 looks reasonable and addresses the key issues. My comments on this program are as follows.

While admitting the urgent need for disinflation and stabilization of the exchange rate, I would suggest that resumption of economic growth, and, more specifically, an increase in agricultural production is of no less importance. This is because the monetary sector of the economy is under-developed and there may be no supply response even if financial stability is attained. In this regard, privatization and land reform are crucial for the eventual success of the program. It is regrettable that until now there has been so little progress in these areas. The staff paper indicates that in 1996 private farmers produced almost half of all agricultural output, having only 18 percent of arable land in their possession. At the same time, collective and state farms continue to dominate as a main form of an agricultural enterprise. Due to their under performance they threaten the provision of the country with food as well as the prospects of cotton production.

Apart from cotton, aluminum production is the second key sector of the economy, which utilizes the country's natural advantage in producing cheap electricity at hydro-power stations. However, the data on aluminum output are alarming: between 1990 and 1996 there was a contraction of 66 percent. At the same time, the drop in electricity production at hydro-power stations over the same period was only 12 percent. In this regard, I would be interested to hear from the staff: Why aluminum production is in the process of decay, and why the input prices are so high that production costs are reported to be above world market levels.

Given the limited amount of external financing, fiscal consolidation is rightly considered to be a top priority, since the budget deficit being financed by the central bank is immediately translated into price inflation and depreciation of the exchange rate. The capacity of the government to reduce expenditures is limited due to the dire conditions of the social safety net, health and education facilities and a need to finance the war damaged infrastructure. Hence, the main emphasis should be placed on the improvement of tax collection, especially sales taxes, representing the largest share of overall tax revenue. In this context I welcome the treatment of sales taxes as a special performance target for the program.

The envisaged tightening of monetary policy reflects the authorities' intention to substantially reduce the monetization of the fiscal deficit. While commending the authorities for their bold stance, I would note that the risks associated with the monetary program are also high. In my view, the assumption of full repayment of the foreign exchange loans, extended in 1997 by the Ministry of Finance and the National Bank of Tajikistan, is very strong and the authorities should be prepared to make necessary adjustments to the program if this does not happen. I agree that a flexible exchange rate arrangement is now more appropriate for Tajikistan as a fixed rate regime would lack credibility. However, the commitment of the National Bank to avoid depreciation during the program period also looks rather binding in view of the risks related to the fiscal program. With regard to the level of the nominal exchange rate, I was somewhat puzzled by the size of the minimum pension which is below $2 per month and the average monthly wages of $7. I wonder what is misleading here: the exchange rate, the wage level or both.

The balance of payments position of the country is extremely vulnerable, with a financing gap in 1998 projected at the level of $90 million after already committed debt relief is taken into account. This amount is only slightly less than the expected increase in imports of nearly $100 million. While the source of funds to finance the gap in full is still not clear, a question arises about whether it makes sense to expect such a large import growth.

In conclusion I would like to reiterate that I endorse the proposed decision and wish the Tajik authorities success in their stabilization and reform efforts.

Mr. Santos made the following statement:

Tajikistan has made a strong effort to put the economy back on track, building the momentum for the adoption of the program to be supported by emergency post-conflict assistance currently under consideration. In view of the significant steps already taken toward re-establishing macroeconomic stabilization and economic growth, the program rightly focuses on delivering structural adjustment reforms, including institutional and infrastructure rebuilding, while also calling for a reduction of the main domestic and external imbalances.

We believe that the authorities' commitment toward structural adjustment and macroeconomic stabilization deserves strong support from the international community, which, along with strengthening fiscal adjustment, should be instrumental in closing the budgetary and the balance of payments financing gaps. We hope that the successful implementation of the program supported by emergency post-conflict assistance, in particular with respect to the improvement in the country's institutional and administrative capacity, may pave the way for the negotiation of a more comprehensive macroeconomic and structural adjustment program that could be supported by an enhanced structural adjustment arrangement. Such an arrangement would be more appropriate to cope with the country's difficult external position, including the external debt situation.

Having said that, we would like to comment on a few specific areas. With respect to monetary policy, we were told that, in the absence of indirect monetary policy instruments, the principal mechanism to manage liquidity conditions in the economy will be through sales of foreign exchange in the interbank currency exchange. For the time being, that practice may not lead to serious tensions between the monetary target and the somewhat flexible exchange rate goal. However, in the future, the national bank should develop other instruments of liquidity management so that intervention in the foreign exchange market can be made with a higher degree of autonomy.

As to the exchange rate strategy, while some appreciation of the real effective exchange rate over the medium term may seem appropriate in view of the low cost of labor vis-à-vis neighboring countries, the case for a strong pace of appreciation, as projected, is less clear, especially in view of the difficult medium-term balance of payments outlook. The proposed strategy places a heavy burden on the implementation of structural and supply-side reforms that improve the overall efficiency of the economy, which should help neutralize any loss of competitiveness arising from the currency appreciation.

With respect to the banking sector, the monetary survey shows that the ratio of cash outside banks to total deposits has continued to increase in 1997 from an already high level, signaling a further decline in bank intermediation. Moreover, most bank deposits are held in foreign currencies. Both of these trends reflect a lack of confidence in the domestic banking system and the national currency. Unfortunately, no major improvements are expected in the immediate future, as cash outside banks should continue accounting for most of broad money in 1998. We would appreciate the staff comments on what measures are in the pipeline to address this problem and when they should deliver results.

Any serious attempt to increase confidence in domestic banks should focus on increasing transparency and competition in the banking sector. More generally, it is imperative to build a sound financial environment that is more conducive to investment and growth. For that to happen, it is necessary to improve transparency in financial transactions across all economic agencies, which should include clearance of all interenterprise and domestic payment arrears.

Mr. O'Loghlin made the following statement:

The Tajik authorities are to be commended for the speed with which they returned economic policy to center-stage following the cessation of hostilities in June last. Progress since has been considerable: the exchange rate has broadly stabilized; the fiscal balance has improved strongly; the deteriorating trend in the balance of payments has been reversed; more recently, the rate of price increases seems to have ameliorated; and, of course, some major further steps have been taken along the path to a market economy.

But there is a long way to go before a basis for sustained, market-driven, growth is established. International reserves are precariously low, in particular bearing in mind the deficit on the balance of payments current account and the extremely high level of external debt. While the country may have significant exploitable natural resources, its existing industry is weak and unable to harness that potential—affected as it must be by the diminished infrastructural investment and economic dislocation prompted by civil strife, and a very widespread absence of financial discipline—judging by the degree to which energy bills are not being paid. At the same time, the banking system seems fragile, saddled as the major banks are with substantial amounts of nonperforming loans. These features in combination—external weakness, disregard for the norms of commercial relations and fragility of the banking system—strongly undermine prospects for the investment, including foreign direct investment, which seems critical if Tajikistan's economic potential is to be realized. At the same time prospects for agricultural output, still a significant component of GDP, continue to be restrained by an undesirably slow shift from collectivized to private farming.

Against this background it is appropriate that the authorities concentrate at this stage on key issues connected with strengthening the investment climate—primarily, to achieve broad price stability in terms of lower domestic inflation and exchange stability, to underpin that with a stronger balance of payments current account position (at least in an underlying sense), and to strengthen the environment for private sector activity.

From this standpoint, the 'asymmetric' exchange stance adopted by the authorities seems appropriate to anchor expectations. Given the strong depreciation of the Tajik ruble in recent times and the reality of industrial wages there (about $20 monthly), their approach would not seem to pose any competitiveness risks.

Nominal stability needs to be supported, however, by structural reform aimed critically at improving the environment for commerce. Apart from faster agricultural privatization, vital issues include the strengthening of the banking system, restoring financial discipline through effective bankruptcy provisions, and codification of taxation law as it affects enterprise. Indeed, the envisaged speeding-up of small enterprise privatisation can offer limited benefits without effective, accompanying, measures in these areas.

The broad shape of 1998 budgetary intent is commendable. It promises to strongly reduce the high external debt/GDP ratio—and with it, the uncertainties to which heavy external indebtedness gives rise. It is even more commendable for the priority it accords to capital formation, to arrears reduction and to enhancing the social safety net. But I agree with the staff that the deficit goal which has been adopted is demanding, given peace-related pressures on the spending side; and that full implementation of the revenue proposals for 1998 is crucial. I therefore welcome the news that the Tajik parliament has adopted the 1998 budget, including proposals for elimination of most value-added tax exemptions.

Of course, progress in Tajikistan is even more dependent on the continued absence of unrest than on any measures of an economic nature. We hope that the peace of recent months will endure and deepen, and in this context believe that Fund support, as proposed, is warranted. We support the proposed decision, and wish the Tajik authorities and the country every success in the period ahead.

Mr. Watal made the following statement:

The objective of the Tajik authorities to re-establish macroeconomic stability and create an environment to promote growth in 1998 is laudable. Mr. Cippa's helpful opening statement and the well-written staff report provide the details of the fiscal, monetary, external, and structural adjustment policies. The tasks before the authorities are challenging and still full of risks and uncertainties.

The staff report conveys the impression that the security environment in the country is still not normal. Tajikistan is emerging from a highly debilitating period of civil strife, which has been very costly. The peace agreement signed between the government and the United Tajik Opposition is in the process of being implemented. Meanwhile, pressure is still being placed on this accord by armed groups within the country. In any event, this Board should take direction from the ground-level assessment provided by the staff and Mr. Cippa, and agree that Tajikistan is in a post-conflict stage and, therefore, deserves emergency assistance.

The Tajik authorities are to be congratulated for satisfying the prior actions described in the memorandum of economic policies. The commitment of the authorities is clear, and our chair would encourage them to use what has been described as the window of opportunity opened by the peace agreement and the macroeconomic measures implemented since the agreement. The authorities must give primacy to building up administrative and institutional capacities, especially in the areas of the treasury and tax administration, because these will remain the foundations on which the policy objectives on inflation control, stable exchange rate, strong balance of payments, and structural adjustment would be achieved.

The expectations described in the staff report are optimistic and contingent on very strong fiscal and monetary discipline and growth expectations. While it is commendable that the fiscal deficit in the last quarter of 1997 will be limited to 0.6 percent of GDP, it would have been preferable to have had a greater contribution by the authorities, because this target is being achieved by the drawdown of the counterpart funds of the World Bank's post-conflict credit and privatization proceeds. In addition, there seem to be added risks related to sales tax collections and repayments of outstanding foreign exchange denominated loans, although in the latter case there have been a lot of improvement.

Any divergence from the program during the year would impinge on the fiscal performance of 1998. We agree with the staff's suggestion that taxation should be strengthened and exemptions should be eliminated. The expenditure policy also is fraught with heavy risks. Converting wartime expenditure patterns into peacetime socially oriented expenditures is normally not an easy task. Could the staff elaborate on how the pledged funds of the UN-sponsored donors conference would be dovetailed into the 1998 budget? We would encourage the authorities to follow the staff recommendations concerning priorities on wages, health, education, and the social safety net.

Monetary policy correctly will be targeted toward an ambitious goal for reducing inflation. The ceiling on central bank net domestic assets and foreign net international reserves would help in keeping a check on reserve money expansion during the year. As the staff has pointed out, it would also be appropriate for the central bank to ensure positive real interest rates. It is pleasing to note the National Bank of Tajikistan's proposal to introduce a treasury bill market during the program period.

The improvements in banking supervision still have a long way to go. Technical assistance in this area should be further strengthened. The flexible exchange rate regime envisaged seems to be consistent with the objective of maintaining stability and making necessary adjustments on the fiscal front when the need arises. However, the external account will remain fragile despite the infusions from the Fund, the World Bank, and the European Union. The external financing gap still has many loose ends. Coupled with this, Tajikistan is saddled with an extremely heavy debt burden, both in arrears and current payments. We welcome the proposal to have the Consultative Group meeting next year to address the issue of rescheduling commitments in the shortest possible period.

As to the structural reform effort, the importance of the agricultural sector reform should remain at the forefront, especially since cotton will remain the most important cash crop in the country. I agree with the staff suggestions regarding the reforms in the banking sector and the enterprise sector, although these would really kick in after the middle of next year, while the next few months will be extremely crucial for Tajikistan.

In conclusion, our chair would like to wish the authorities the very best in their challenging policy endeavors. Given the satisfactory macroeconomic achievements, we support the staff's suggestion for financial assistance under the post-conflict emergency assistance mechanism.

Mr. Melese d'Hospital made the following statement:

I would like to thank the staff for a transparent and very comprehensive set of papers. As I agree with staff's analysis and prescriptions, I will focus my comments in a few areas which deserve particular attention.

The authorities deserve praise for some significant recent achievements under extremely trying circumstances, including notably in areas of fiscal and monetary policy. More broadly, they appear to have a clear-headed approach to policy-making which takes realistic account of the advantages and drawbacks of Tajikistan's current position and draws the correct conclusions. Thus, they have embarked on the path of macroeconomic stability and greater openness to the world economy, rejecting failed nostrums of central planning and illusory "third ways" which in reality lead nowhere. This clear-headed policy approach could well be one of Tajikistan's prime economic assets going forward, helping to distinguish the country as a good place in the region for production, trade and investment over the coming years.

However, there remains a long and difficult path to be traveled before the authorities' policies bear full fruit in the form of economic stability and substantially increased living standards. The next section of this path is establishment of a more substantial track-record of monetary and fiscal management, one which could build the case for a successor ESAF arrangement to the post-conflict program we are discussing today. In this light, it is vital that Tajikistan stick to the program targets in such areas as cash deficit (programmed 2.8 percent of GDP in 1998), inflation (programmed 21 percent in 1998), and rebuilding of the external position (including asymmetric exchange rate policy biased toward real appreciation, and growth of reserves to four weeks of import cover from two weeks). Slippages in any of these areas would be unfortunate, and should be immediately addressed through further tightening of policies in close coordination with the Fund. In addition, further progress on normalization of relations with external creditors is of paramount importance for stabilization of government finances and, more broadly, for Tajikistan's overall policy credibility. This will require cooperation on all sides.

Looking beyond the immediate need to establish a fiscal and monetary track-record, I would like to align myself with the comments made by Mr. Mozhin on the importance of progress on privatization and land reform to the development of a market economy. As he has commented on land reform, I will focus my comments on privatization. Unfortunately this is an area where reforms are lagging. I noted that only 100 or so small-scale enterprises were privatized in October-November, a rate which will have to be accelerated sharply to hit the program target of 1200 small-scale firms privatized by end-March 1998. Further, the staff currently estimates that only about 100 medium- and large-scale enterprises will be converted to joint-stock companies by end-December versus the program target of 200. Progress in these areas will be crucial in correcting misallocation of resources, improving incentives and fostering healthy growth based on Tajikistan's natural advantages. Perhaps equally importantly in the immediate future, such progress will be instrumental in cutting the strings between the state budget and enterprise finances, with important knock-on effects for confidence in Tajikistan's macroeconomic stability.

Mr. Borpujari made the following statement:

Developments in Tajikistan over the past 6 months are encouraging. Since the signing of the peace agreement last June, the focus has shifted rightly to rebuilding the economy. The progress made in tightening financial policies attest to the authorities' seriousness in moving ahead. Therefore, I support their request for post conflict emergency assistance.

I am in agreement with much of the staff appraisal and will only make a few comments.

The authorities are to be commended for the progress made in reducing the fiscal deficit. While a tight fiscal stance remains necessary, it is important that the fiscal target be realistic. In this regard, I have some doubts about the prospects for further fiscal tightening in view of the weak revenue administration, the need for post-war reconstruction, and the costs of integrating the opposition into the military and the civil service. Staff comments will be appreciated.

I welcome the progress made in debt rescheduling. However, like other Directors, I believe further efforts are still needed. It is indeed crucial that with all creditors be normalized in a manner compatible with the country's ability to pay.

Turning to structural reform, I agree with the priorities detailed in the staff report. With this in mind, I would emphasize the importance this chair attaches land ownership. It is critical that institution of well-defined private land ownership rights and creation of a functioning land market be given high priority.

In conclusion, the program clearly faces major risks and uncertainties which are well detailed in the staff paper. However, the commitment of the authorities is reassuring and deserves our support. I wish them success in this challenging endeavor.

Ms. Lu made the following statement:

I share the views that most Directors presented in the discussion, and understand that the renewal of violence in late 1996 did interrupt the process of macroeconomic stabilization, and feel sympathetic to the hardship the authorities experienced. I also think that the efforts and commitment the authorities made after signing the Peace Agreement, deserve commendation.

I appreciate the achievements the authorities accomplished in economic stabilization and structural reform, including their efforts in expenditure cuts, net lending reduction, and tax/tariff rate unification and exemptions.

I welcome the authorities' ambitious economic program which aimed at rapid disinflation and a stronger balance of payments. However, I understand that there are some challenges we should be aware of.

First, since imports are expected to recover more quickly than exports, the widening of the trade deficit may deteriorate the balance of payments. And the high level of external debt may in turn limit the authorities' capacity of external financing.

Second, banking reform challenges enterprise restructuring, and the hardening of enterprise budget constraints may take time to achieve. Further more, because the strict limits on central bank financing of the budget are essential to tight monetary policy, the hardening enterprise budget becomes more important.

Third, for the banking sector itself, the recapitalization of the banking system may have to be significantly impaired by the financial constraints of the authorities. On the other hand, the establishment of a sound banking sector also takes time to achieve.

Fourth, even though the authorities' resolution of strong fiscal adjustment deserves commendation, given the unsettled security situation, expenditure discipline may have to be challenged.

Fifth, the ambitious inflation target is also a challenge for the authorities. In this sense, the authorities' asymmetric policy with regard to the exchange rate will be critical to its successful monetary policy. So the development of the exchange rate needs to be closely monitored.

With the above remarks, I wish the authorities every success in the future.

Mr. Phan made the following statement:

The authorities are commended for having taken prompt bold actions , since the signing of the peace agreement on June 27,1997, in implementing a post-conflict agenda with two key objectives. On the one hand, they are doing their best in such a short length of time to consolidate the peace process, build up administrative and institutional capacity for efficient policy implementation, and establish macroeconomic stability. On the other, they are getting down to the preparation for a comprehensive multi-year economic reform program that could be supported by an ESAF arrangement from the Fund. Such enormous efforts deserve international support and assistance.

Given the fact that the total cost of implementing all elements of peace process is estimated to amount to about 6.5 percent of the 1997 GDP, equivalent to $65 million, as pointed out in the staff paper, the authorities are encouraged to pay proper attention to sale tax collection from the aluminum company and cotton sector as well as scheduled repayments of outstanding foreign exchange denominated loans. Strict expenditure policies, a stronger tax base and a full recognition of the external debt service are required. In addition, priority in the expenditure policy should be given to wages, public health, education and the social safety net as already suggested by the Executive Board in the previous Article IV Consultation with Tajikistan.

Turning to monetary and exchange rate policies, the authorities are encouraged to implement a tight monetary policy if they are to achieve the program's inflation target. Reserve money should be restricted by setting ceilings for central bank net domestic assets, in particular for the increase in credit to the government. Efforts should be made to ensure the key interest rate to be positive in real terms. Banking supervision should be promoted, including external audit of major banks. A flexible exchange rate regime is required even though the authorities intend to manage the exchange rate so as to avoid depreciation during the program period.

The authorities are encouraged to push ahead with the four most important areas of structural reforms under the program, namely privatization, land reform, bank restructuring and enterprise reform. The planned completion of small-scale privatization by end-September 1998 and the identification of 1,500 medium and large-scale enterprises for privatization are commendable. To ensure a successful land reform, it is necessary to accelerate the breakup of collective farms, the privatization of state farms, and the transfer of farmland to private farmers. Since the bank restructuring is essential for the sustained economic recovery, priority should be given to the strengthening of banks' capital base and the promotion of prudential requirements. A comprehensive banking reform program should be worked out. Heavily indebted and nonviable major state-owned enterprises should be specially restructured or even liquidated under a comprehensive restructuring program.

With these remarks, I support the authorities' request for financial assistance from the Fund under the post-conflict emergency assistance mechanism. The authorities' intention to proceed with formulating a Fund-financed multi-year economic program is highly welcome.

The staff representative from the European II Department noted that the aluminum factory was very large, and its production capacity had been built up to cover the overall market of the former Soviet Union. Given the changes that had taken place in that market, the factory had an overcapacity that could not easily be utilized. In addition, the factory had production lines other than aluminum. Thus, the factory clearly needed restructuring aimed at cutting down production and bringing it into line with market demands. In addition, the factory had been at the center of the political battle during the period of the civil war. It had been governed by warlords at times and by the government at other times. That had disrupted any attempts at rational planning and production.

Another reason for the decline in aluminum production was the high price of inputs for the factory, the staff representative said, one of which was the high cost of transportation to Tajikistan. Moreover, the trade agreements with suppliers of raw materials had been made at prices that were above world market levels. As indicated in the staff report, there was a need to review and renegotiate those trade agreements.

As to the levels of compensation and pensions, the data on monthly average wages, at $7, and minimum pensions were likely underestimated, the staff representative stated. As in many other countries, there seemed to be an underreporting of total wages. For example, the data currently available on wages would indicate that the share of the wage bill in total value-added was extremely low, while the share of profits was implausibly high. There was clearly a problem of reliability with respect to the current data on wages and compensations.

With respect to the social safety net, it was important to bear in mind that the minimum pension represented only a small part of household income, the staff representative considered. Families in Tajikistan were large, and the elderly typically lived in the same households as income earners. Thus, in attempting to evaluate the overall effectiveness of the social safety net, it would be reasonable to look at total household income. The staff and the authorities had agreed that, once the review of the financial situation of the social protection fund was completed, the level of social benefits, such as child allowances and pensions would be examined carefully. It was hoped that that work could be done in early 1998. Meanwhile, the staff was cautiously optimistic that the performance on collecting payroll taxes would create some room for maneuver to make further improvements in the social safety net. In that context, it should be noted that the social protection fund was relatively new, having emerged as the result of the merger of three former social institutions. It would be useful to see the social protection fund establish a track record for success in terms of its ability to collect revenues before substantially extending the scope of its operations.

As to the high level of imports envisaged over the coming two years, it was important to note that imports had been depressed considerably in the recent past, owing to the civil war, the staff representative commented. As a small, landlocked economy with little natural resources, Tajikistan's growth was dependent on the availability of imported inputs. For example, the raw materials needed for aluminum production were all imported. In addition, the cotton sector, which had been in decay, required imported fertilizers, pesticides, and machinery. It should also be noted that imports had been compressed in 1997, owing to the lack of foreign financing. Imports were expected to increase substantially in 1998, owing in part to the new project financing from the World Bank and assistance mobilized by the UN, as well as the new arrangements expected from the Fund and, possibly the World Bank. Still, the level of imports that could be financed would remain at about 55–60 percent of GDP, which was relatively low for a land-locked, open economy.

At the present stage, about 1.8 percent of GDP had been budgeted to cover the costs of the peace process, the staff representative said. The UN-sponsored conference held in Vienna, Austria in November 1997 had given rise to pledges of about $56 million over the next several years. However, it was not yet clear to what extent those funds would be disbursed over the coming year or the extent to which they would be allocated to the budget. Clearly, part of those funds would be disbursed through nongovernmental organizations and some would be disbursed outside the budget. The staff hoped to have more specific information on the contents of the pledges and the discussions between the authorities and donors soon.

While the expected peace dividend, in terms of reduced spending for military equipment, fuel, and munitions was not expected to be large, there would clearly be increased costs associated with the integration of opposition soldiers into the defense establishment, the resettlement of refugees, and the demobilization of soldiers, the staff representative stated. That was an area that the UN-sponsored conference had focused on in seeking pledges. The estimated cost of the demobilization of soldiers was about $3–4 million.

At the same time, the revenue forecasts built into the program were conservative, the staff representative noted. For example, the extended coverage of the value-added tax and the elimination of tax exemptions, including for agricultural products, was estimated by some experts to yield additional revenues of as much as 4 percent of GDP, while the staff's forecast was based on a revenue increase of only 0.3 percent of GDP. It should also be noted that the progress in sales tax collection had been better than originally expected. While the program target called for sales tax collection of $12 million over the past quarter, actual collections had amounted to about $14 million. It was to be hoped that such performance would continue.

With respect to the overall fiscal adjustment strategy, the last line of defense was in the mandate parliament had given to the government in approving the 1998 budget, the staff representative considered. As the government had been given the mandate and the authority to further expand the tax base in the areas of excise taxes and import duties, that avenue could be used, if the need for additional fiscal measures arose.

The staff had not yet discussed the reform of the banking sector with the authorities in detail, the staff representative from the European II Department stated. Nevertheless, the staff considered that the reform should be carried out in a two-step approach. There was a need to focus, first, on the operational restructuring of the banking sector, and, then, on the financial restructuring, possibly including the recapitalization of the former state banks. The next staff mission to Tajikistan would discuss with the authorities issues such as setting up the workout units to collect overdue loans, giving instructions from the central bank to banks that do not meet prudential requirements, and possibly restricting the access of banks that do not meet prudential requirements to central bank financing. The staff and the authorities would also discuss ways to streamline the banking sector, including possibly through mergers. Meanwhile, it would be critically important to address the issues related to internal controls in the banks, risk assessments, and the need to look for foreign expertise in running the banks.

Mr. Cippa made the following closing statement:

On behalf of my Tajik authorities, I would like to thank Executive Directors for the sincere interest shown in Tajikistan, for their valuable comments and advice, and for their support for the authorities' request for emergency post-conflict assistance. I will convey these comments to my authorities, underlining perhaps the concern of the Board about the slow progress in the field of privatization and reform, and the restructuring of the banking sector.

I share the sentiments expressed by the Board that this is indeed a critical time for my Tajik authorities to ensure full implementation of the June 27 peace agreement. My authorities are also well aware of that, and strongly believe that peace and stability need to be firmly established to ensure long-term economic growth.

The program under consideration is ambitious, and, in many respects, it goes well beyond the common post-conflict arrangement. My authorities are conscious of the challenges set forward in the program, and they are strongly committed to implementing all the necessary measures to keep it on track. They are also aware that performance and policy implementation in the coming months will be a critical determinant in establishing whether Tajikistan will move into a comprehensive multiyear reform program financed by ESAF resources. A good track record would also be crucial for access to additional World Bank financing and for a successful pledging session of the international donor community at the Consultative Group meeting to be held in May 1998.

With respect to this last point, I would like to reiterate my authorities' gratitude to the international community for all the support extended so far, in particular to the Russian Federation and Kazakhstan for accepting to reschedule the Tajik debt. My authorities also attach great importance to the conclusion of debt negotiations with other countries.

To conclude, I am grateful to the Fund management and the staff for their extremely valuable support and assistance. My authorities are particularly grateful to the Fund resident representative for the courage and professional competence displayed under the most adverse circumstances.

The Acting Chairman made the following summing up:

Directors agreed with the thrust of the staff appraisal. They welcomed the signing of the peace agreement on June 27, 1997, formally ending Tajikistan's long civil war. Directors regretted the policy slippages that had occurred in late 1996 and the first half of 1997, and urged the authorities to take advantage of the new window of opportunity presented by the peace process to intensify their efforts to establish macroeconomic stability and to accelerate structural reforms. They, therefore, welcomed the progress made in the six months since the signing of the peace agreement. They commended the authorities for the tightening of fiscal and monetary policies, and were encouraged by the resulting sharp reduction in inflation and stabilization of the exchange rate. They congratulated the authorities on the re-establishment of a relatively liberal exchange and trade regime, their satisfactory implementation of the prior actions, and their early progress in meeting the program's structural benchmarks for end-1997.

Directors urged the authorities to persist with forceful implementation of the program, and to stand ready to implement additional measures if needed. In particular, they called for further strengthening of macroeconomic discipline and for accelerated structural reforms, especially in view of the ambitious targets for inflation reduction and resumption of growth. They emphasized the need to strengthen fiscal revenue performance through a strengthening of the tax base, including elimination of value-added tax exemptions, and introduction of the new turnover tax. On the expenditure side, while recognizing the needs of the peace process, Directors called for broad expenditure restraint.

Directors endorsed the authorities' asymmetric approach to exchange rate policy—accepting appreciation, but tightening financial policies in the event of pressure for depreciation—which is well suited to the current situation. However, some Directors felt that developments in the exchange market should be monitored carefully, in view of the difficult external position. In that regard, they also stressed the importance of ensuring a freely functioning and efficient foreign exchange market, and urged the authorities to hold foreign exchange auctions on a more frequent basis.

Directors stressed that progress on structural reforms will be essential to help sustain the recovery. They, therefore, regretted the slow progress to date on privatization, enterprise reform, and the establishment of the legislative basis for an efficient market economy. They urged the authorities to intensify their efforts in these areas, especially in privatization, banking sector reforms and prudential supervision, land reform, and institution-building, with the assistance of the international community.

Directors welcomed the assurances received from most of Tajikistan's creditors regarding their willingness to enter into comprehensive and highly concessional debt rescheduling agreements, but regretted that more progress has not been made in that regard. They urged Tajikistan and its creditors to strengthen their efforts to find a lasting solution to the problem of Tajikistan's external debt consistent with its ability to pay and with comparability of treatment of creditors. They hoped that a resolution of the external debt problem would be reached at the Consultative Group meeting in the spring of 1998.

Directors noted with satisfaction the outcome of the recent United Nations-sponsored donor conference and stressed the importance of international assistance in helping to fund the costs of the peace process. Directors also welcomed the continued provision of humanitarian assistance and noted that Tajikistan's reform efforts will need to be supported by international assistance.

Directors endorsed the provision of post-conflict emergency assistance in support of Tajikistan's program, while noting that the program entailed considerable risks, owing to the uncertainties in the peace process, the continued security problems, the high level of external debt, and the limited foreign exchange reserves. They urged the government and the United Tajik Opposition to take all necessary steps to ensure the success of the peace process and to improve the security situation in Tajikistan.

Directors emphasized the importance of establishing a credible track record of policy implementation in order to ensure the continued support of donors and creditors. Institution- building and rehabilitation of the economic infrastructure would be challenging tasks, and they stressed that progress in those areas was critical for laying the foundation for a possible successor program under the Enhanced Structural Adjustment Facility.

It is expected that the next Article IV consultation with the Republic of Tajikistan will be held on the standard 12-month cycle.

The Executive Board took the following decision:

1. The government of the Republic of Tajikistan has requested a purchase in an amount equivalent to SDR 7.5 million (12.5 percent of quota) under the Fund's policy on emergency post-conflict assistance.

2. The Fund notes the intentions of the government of the Republic of Tajikistan as stated in its Memorandum on Economic and Financial Policies for October 1, 1997–June 30, 1998 dated December 5, 1997 (attached to EBS/97/224), and approves the purchase in accordance with the request.

Decision No. 11630-(97/125), adopted
December 19, 1997

5. EXECUTIVE DIRECTOR

The Acting Chairman bade farewell to Mr. Andersen on the completion of his service as Alternate Executive Director for Denmark, the Republic of Estonia, Finland, Iceland, the Republic of Latvia, the Republic of Lithuania, Norway, and Sweden.

DECISION TAKEN SINCE PREVIOUS BOARD MEETING

The following decision was adopted by the Executive Board without meeting in the period between EBM/97/124 (12/18/97) and EBM/97/125 (12/19/97).

6. **EXECUTIVE BOARD TRAVEL**

Travel by Executive Directors and by Advisors to Executive Directors as set forth in EBAM/97/195 (12/17/97) is approved.

APPROVAL: January 4, 1999

REINHARD H. MUNZBERG
Secretary