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GRAY/08/3925

December 9, 2008

**Statement by Mr. Pereira and Mr. Maciel on Seventh Review of the Fund's Data
Standards Initiatives
(Preliminary)
Executive Board Meeting 08/108
December 10, 2008**

1. We can go along with the staff's proposal of accelerating the work on monetary and financial statistics within the Special Data Dissemination Standard (SDDS) initiative. In particular, we are interested in knowing how the identification of relevant financial statistics will facilitate the extension of the vulnerability exercise to advanced countries in the short term. However, we remain hesitant about the idea of including Financial Soundness Indicators (FSIs) for cross-country analysis. Further progress is needed in harmonizing monetary and financial statistics, methodologies and data compilation practices among the membership as a pre-condition for the development and possible future application of FSIs. Similarly, we underscore that substantive additional efforts are needed to bring these indicators to the considered quality levels necessary for both monitoring and surveillance purposes. Indeed, as recognized by the staff, the development of FSIs is still a work-in-progress.

2. We highlight that the risk of a mechanistic approach in the construction of FSIs cannot be undermined. We are concerned that these indicators will end up being used as early warning signals without sufficient consideration to country-specific circumstances. The different development stages of countries' financial and regulatory systems are critical elements that the staff needs to explore further. It is still not clear to us how the staff intends to compare FSIs, such as capital adequacy, asset quality, earnings, profitability, and liquidity across countries. The danger of producing deceptive information to markets is high and not without economic and financial consequences. The problem of "static" FSIs is also difficult to overcome, so are the dynamics and interlinkages among different variables. The use of "benchmarks" at national or regional levels, the lack of a consistent time series of FSIs and lagged information are issues that deserve careful attention.

3. We share Mr. El-Khoury and Ms. Choueiri's comments and we stress that it was clear from recent past discussions that most CCE participating countries did not support the idea of

including FSIs in the SDDS. Moreover, we wonder how the staff intends to derive FSIs in a context where critical changes must be introduced in countries' financial regulatory and supervisory frameworks. Rather than asserting that financial crises are derived in part by data deficiencies, we state that excessive deregulation and confidence on market self-healing powers are at the root of the problem. At this juncture, *what FSIs could the staff propose within about one year? If the global financial crisis is far from over and the deleveraging process of financial institutions is foreseen to be protracted, how will the staff be in a position to propose FSIs in times of distress? Could transnational financial institutions also be a difficult task to overcome? We would appreciate the staff's comments on these areas.*

4. We observe that progress on the Statistical Data and Metadata Exchange (SDMX) initiative remains slow. It looks like the exchange and dissemination of statistical information among key international organizations is still lagging behind the curve. We are of the view that progress in this area is critical in the Fund's efforts to develop the building blocks of an early warning system, although the staff report does not provide much detail on the causes of the delays. *We would like additional information from the staff on this issue and the envisaged corrective actions.*

5. Turning to the issue of data quality in the SDDS, we support the idea of enhancing the users' own ability to judge the quality of its statistics. We share the view that data quality is indeed the responsibility of subscribing countries. In this regard, we note that it is already a well-established practice to provide documentation on methodology and sources used to prepare the statistics. In fact, most countries already refer to international methodologies when describing their statistical practices, as pointed out in Table 2 of the staff report. It is proposed to assign greater importance to the adoption and implementation of international accepted methodologies on an encouraged basis. Although this could be a sensible proposal, we fail to understand why subscribers will be required to indicate in their metadata where deviations from internationally accepted statistical methodologies occur. Indeed, it will be up to the judgment of the staff if a country does not provide clear indication on possible deviations, calling for the nonobservance of SDDS procedures. These points deserve careful clarification. On the one hand, the staff states that countries will be encouraged (not required) to adopt and implement a suggested list of methodologies. On the other hand, possible deviations from these methodologies are subject to SDDS nonobservance procedures. More importantly, the burden of proof is reversed, allowing the staff to judge if a country is not fulfilling this principle rather than trusting the country's own assessment. The argument does not bode well within the cooperative nature of this initiative. *The staff's comments are welcome.*

6. In this connection, we observe that it will be important for the staff to continue working with participant countries, including through technical assistance. Enhancing countries' capacity to effectively assess the data quality is the right option. Rather than looking for a certification of the metadata, it would be interesting to encourage subscribers to strengthen domestic data quality monitoring frameworks. Alternatively, the staff proposes

that subscribers should undertake these assessments using recognized data quality assessment tools on an encouraged basis. Both options seem to be workable and the decision must be left to the subscriber.

7. On the reserves template, the staff proposes to revisit the treatment of exchange-traded futures to reflect market practices. We support the idea of subscribers being encouraged to report supplementary information that they deem relevant under the new guidelines. We suggest that the date of the effective changes should have the participants' consent.

8. We fully support the proposal to recast the General Data Dissemination System (GDDS) in order to include the needed changes to emphasize data dissemination and graduation to SDDS. These issues have gathered strong support from GDDS subscribers, and rightly address the weaknesses identified in the initiative. Moreover, the participants' answers to STA consultations on this issue stress the high level of satisfaction with the GDDS. In this regard, we believe it is important to provide technical assistance to participants to allow them to modify the legal framework to ensure data collection in a timely fashion. Given the current capacity building framework, this is an important issue that implies additional work by the staff in gathering donors' financing.

9. Finally, regarding the staff's costs for the extra burden, we are not entirely convinced that these costs could be mitigated through automatic SDDS monitoring and web system reporting. Undoubtedly, the current global financial situation could pose an extra burden that would compel the need for extra budgetary resources. *Could the staff elaborate on how these additional funds could be met?*