

**FOR
AGENDA**

SM/00/209

September 14, 2000

To: Members of the Executive Board

From: The Secretary

Subject: **Russian Federation—Report on Observance of Standards and Codes**

The attached report on the observance of standards and codes (ROSC) for the Russian Federation has been prepared in the context of the 2000 Article IV consultation with the Russian Federation (SM/00/196, 8/23/00), which is tentatively scheduled for discussion on Friday, September 15, 2000.

It is expected that following the Board discussion, this report will be published on the Fund's external website.

Mr. Di Calogero (ext. 38011) is available to answer technical or factual questions specifically relating to the data dissemination module; Mr. Allan (ext. 38542) specifically relating to the fiscal module; and Mr. W. Alexander (ext. 35366) specifically relating to the monetary and financial policies module prior to the Board discussion. General inquiries can be directed to Mr. Laursen (ext. 35619).

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Department Heads



RUSSIAN FEDERATION

Report on the Observance of Standards and Codes (ROSC)

Prepared by:

Staff of The International Monetary Fund

Report on the Observance of Standards and Codes: Data Dissemination

Russian Federation

Prepared by a staff team¹ of the International Monetary Fund , on the basis of information provided by the Russian authorities.

The International Monetary Fund
September 2000

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INTERNATIONAL MONETARY FUND

RUSSIAN FEDERATION

**Report on the Observance of Standards and Codes:
Data Dissemination**

Prepared by the Statistics Department
(In consultation with the European II Department)

Approved by Carol S. Carson and John Odling-Smee

September 13, 2000

I.	Data Dissemination Practices	4
A.	Introduction.....	4
B.	Statistical Infrastructure.....	4
C.	Current Dissemination Practices Compared with the SDDS.....	6
II.	Data Quality.....	9
A.	Data Quality Framework.....	10
B.	User's Perspective	15
III.	Summary and Conclusions	17
Box		
1.	The Special Data Dissemination Standard.....	5
Tables		
1.	Data Dissemination Practices vis-à-vis SDDS Data Dimension and ARC	8
2.	Salient Features of the Data Quality Matrix	11
Appendices		
I.	Statistical Infrastructure.....	20
II.	Flexibility and "As Relevant" Options under the SDDS	23
III.	Summary of Current Practices as Compared with the SDDS Data Dimension and ARC	24
IV.	An Approach for the Assessment of Data Quality.....	30
V.	Assessment Within a Data Quality Framework.....	31

Glossary

ARC	Advance Release Calendar
BOP	Balance of Payments
<i>BPM5</i>	<i>Balance of Payments Manual (5th edition)</i>
CBR	Central Bank of Russia
CIS	Commonwealth of Independent States
CPI	Consumer Price Index
DSBB	Dissemination Standards Bulletin Board
GDP	Gross Domestic Product
GED	General Economic Department (CBR)
GFS	Government Finance Statistics
GKO	Short-term Russian government bonds
<i>IFS</i>	<i>International Financial Statistics</i>
IIP	International Investment Position
IMD	International Monetary Department
IMF	International Monetary Fund
MOF	Ministry of Finance
MPS	Material Product System
NA	National Accounts
OFZ	Federal loan bonds
OGNZ	Government nontradeable bonds sold to nonpersons,
OGSZ	Government savings bonds that are only sold to persons,
PARIS21	Partnership In Statistics for Development in the 21 st Century
PPI	Producer Price Index
SCC	State Customs Committee
SCS	State Committee of the Russian Federation on Statistics
SDDS	Special Data Dissemination Standard
SNA	System of National Accounts
STA	Statistics Department (IMF)
STASYS	Statistical System Project
UN	United Nations
US	United States
VAT	Value Added Tax

INTRODUCTION

The data dissemination module of this Report on Observance of Standards and Codes (ROSC) covers two sections. First, it provides an assessment of the data dissemination practices against the IMF's Special Data Dissemination Standard (SDDS) and follows the same structure that has been used for the preparation of ROSCs for other countries. Second, it addresses data quality from two different perspectives. The first perspective provides an assessment of the Russian data using an experimental data quality framework developed at the IMF. The second viewpoint provides the European II Department's (EUR II) perspective on data quality issues.

I. DATA DISSEMINATION PRACTICES

A. Introduction

1. Although the Russian Federation has not subscribed to the Special Data Dissemination Standard (SDDS), the authorities have indicated that Russia intends to subscribe at some stage and have provided SDDS metadata to the IMF for review. In addition, the State Committee of the Russian Federation on Statistics (SCS) maintains metadata in SDDS format and data for the real sector data categories and population, as well as an advance release calendar (ARC) for all data categories on its website. This site is hyperlinked to the data maintained on the individual websites of the Ministry of Finance (MOF) and the Central Bank of Russia (CBR).¹ The SDDS, therefore, has been used as the standard for assessing Russia's data dissemination practices in this report (see Box 1). This section of the ROSC is based on macroeconomic and financial statistics and metadata available to the public in English as of September 1, 2000.

B. Statistical Infrastructure

2. The three institutions responsible for the compilation and dissemination of SDDS data are the SCS, the MOF, and the CBR. The SCS is responsible for data on the real (or nonfinancial) sector and population. The SCS's main objective is to meet the requirements of the State, the public, and international organizations for diverse, objective, and exhaustive information. The MOF is responsible for fiscal data (general and central government operations, and central government debt). The CBR, which is independent under the Constitution of the Russian Federation and other federal laws, is responsible for data on the financial sector, balance of payments, international investment position, merchandise trade, international reserves, interest rates, and exchange rates.² The CBR determines its own data compilation methodology and dissemination practice. Statistical practices of these institutions are governed by a series of laws and decrees (see Appendix I).

¹ Combined, the three websites contain data for all SDDS categories. Metadata for the fiscal sector and an ARC for the data categories under the responsibilities of the MOF also appear in the MOF's website. Metadata for the financial and external sectors do not appear in the CBR's website. Metadata for the financial and external sectors' categories were provided to the Fund for review in December 1998.

² The primary source of merchandise trade data is the Customs.

Box 1. The Special Data Dissemination Standard

The SDDS was established in March 1996 to guide Fund members that have, or that might seek, access to international capital markets in the provision of their economic and financial data to the public. The objectives of the SDDS are to enhance the availability of reliable, timely, and comprehensive statistics and, therefore, contribute to the pursuit of sound macroeconomic policies and improved functioning of financial markets.

The SDDS is a "best practice" standard against which a country's dissemination practices can be measured. It covers four sectors of the economy (real, fiscal, financial, and external), as well as population, and has four dimensions:

- **data** (the coverage, periodicity, and timeliness of the data);
- **access by the public** to those data (advance dissemination of release calendar and simultaneous release to all interested parties);
- **integrity** of the data (dissemination of terms and conditions under which official statistics are produced, identification of international government access to the data prior to release, ministerial commentary accompanying the release of the data, provision of information about revision, and advance notice of major changes in methodology); and
- **quality** of the data (dissemination of documentation on methodology and sources used in preparing statistics and dissemination of data that support statistical cross-checks and provide assurance of reasonableness).

Countries that subscribe to the SDDS are required to provide descriptions of their data dissemination practices (metadata) for posting on the IMF's Dissemination Standards Bulletin Board (DSBB). Subscribers are also required to maintain an Internet website, referred to as a national summary data page (NSDP), which contains the actual data, and to which the DSBB is electronically linked. A NSDP was to be submitted for each subscriber by the end of 1999.

Countries that have subscribed to the SDDS undertake to be in full observance of the Standard by the implementation deadlines that come into effect during 1999 and early 2000 (see the DSBB for a schedule of implementation deadlines). Countries that subscribe in the future will be expected to satisfy the SDDS requirements at the time of subscription. IMF staff monitoring of subscribers' observance of the SDDS is limited to the coverage, periodicity and timeliness of the data and to the dissemination of ARCs.

The SDDS was designed to assist users in assessing data quality by providing information on the DSBB on the dissemination of documentation on methodology and the publication of data that support statistical cross-checks and provide an assurance of the reasonableness of the data. In addition, Summary Methodologies, which describe data compilation practices in some detail and use a standard format, are expected to be disseminated on the DSBB.

3. There have been a number of efforts undertaken to improve the statistical infrastructure of the Russian Federation, including significant endeavors undertaken by the authorities themselves and as a result of substantial technical assistance and cooperation from national agencies and international organizations, including the IMF.³ The work of the Steering Committee on the Coordination of Technical Assistance in Statistics to the Countries of the Former Soviet Union, which was established in 1991 to give support to the technical cooperation program and build on earlier efforts to adapt international standards, methodologies, and reporting systems to the Russian context, is a good example of such effort. More recently, the World Bank Russia State Statistical System Project (STASYS) loan was signed. This US\$30 million project targets the restructuring of the SCS and the strengthening of other data collection agencies and is to be implemented in three phases over a 12-year period. Consequently, the Russian Federation has made significant progress in implementing internationally recommended methodology and in the availability of more reliable macroeconomic and financial statistics in recent years.

C. Current Dissemination Practices Compared with the SDDS

4. Description of data dissemination practices appears on the websites for the SCS, MOF and CBR. The SCS's website (<http://www.gks.ru/eng/ssrd/default.asp>) has a metadata base page⁴ for national accounts, production index, employment, unemployment, wages/earnings, consumer price index, producer price index, and population. Further, it has an ARC covering all data categories specified in the SDDS, including those disseminated by the MOF and CBR. The SCS's ARC is hyperlinked to non-daily data for all data categories that are maintained by the SCS, the MOF and the CBR.

5. The MOF's website (<http://www.minfin.ru/macroeng/sdds.htm>) has a metadata base page for general government operations, central government operations, and central government debt. Further, it has an ARC and the most recent data for these three data categories.

³ Another recent effort in which the Russian Federation is participating is the PARIS21 initiative, which is aimed at statistical capacity building in developing and transition economies. This initiative brings together donors and national statistical agencies in the target countries to help secure adequate funding and support for national statistical systems.

⁴ A base page provides metadata for a prescribed data category. It lists a contact person, the format in which the data are disseminated (news release, bulletin, Internet, diskette, etc.), and provides information on the four dimensions of the SDDS. Specifically, the left side of the page lists from two to four elements of each of the four dimensions of the SDDS and the right side contains textual information provided by the subscriber on how it meets each of these elements.

6. The CBR's website (<http://www.cbr.ru/eng/dp/statistics.html>) contains an ARC and actual data for the two most recent observations for six SDDS data categories. Also, the site contains summary methodology statements for the main aggregates of the analytical accounts of the banking sector, the main aggregates of the analytical accounts of the monetary authorities, interest rates, money market rates, stock market index, balance of payments, international reserves, merchandise trade, international investment position of credit institutions, and the official US Dollar/ Ruble exchange rate.

7. Table 1 summarizes Russia's data dissemination vis-à-vis the data dimension and the ARC of the SDDS as of September 1, 2000. The main points are as follows:⁵

- All data categories required by the SDDS, except for the template on international reserves and foreign currency liquidity, are currently disseminated.⁶
- However, quarterly volume measures of GDP, consumer and producer prices and the production index are not disseminated in time series format that allows different periods to be compared (see Table 2 and Appendix III). Specifically, the GDP volume measures are disseminated in terms of the prices of the same quarter of the previous year and not in terms of a fixed reference base. Similarly, the production index is presented in terms of the previous month and also in terms of the same month of the previous year. Consumer and producer price indices are disseminated in terms of both the previous month and December of the previous year. In each case, indices with different reference and weight bases are not linked together to form longer time series. These data do not follow international best practice and, therefore, do not meet the SDDS requirements.
- In terms of the coverage, periodicity, and timeliness requirements of the SDDS, the following obtain:

Coverage (1) data on general and central government operations lack the breakdown of domestic banking sector and other domestic sectors financing; (2) data on guaranteed debt are not disseminated; and (3) data for the international investment position (IIP) only cover the banking sector, including the CBR. However, the transition period for disseminating a complete IIP expires at the end of 2001.

⁵ Appendix III provides a detailed comparison of current practices with the SDDS data dimension and the ARC.

⁶ The template provides information on the amount and composition of reserve assets, other foreign assets held by the central bank and the government, short-term foreign liabilities, and related activities that can lead to drains on reserves (such as financial derivatives positions and guarantees extended by the government for private borrowing).

Table 1. Russian Federation: Data Dissemination vis-à-vis the SDDS Data Dimension and ARC *

SDDS Data Category	Observance				Remarks (Situation as of September 1, 2000):
	Coverage	Periodicity	Timeliness	ARC	
GDP	See remarks	Yes	Yes	Yes	Volume measures of GDP not disseminated as time series that allows different periods to be compared.
Production Index	See remarks	Yes	Yes	Yes	Data not disseminated as time series that allows different periods to be compared.
Employment	Yes	Higher	Yes	Yes	Monthly periodicity vs. quarterly under SDDS.
Unemployment	Yes	Higher	Yes	Yes	Monthly periodicity vs. quarterly under SDDS.
Wages/earnings	Yes	Higher	Yes	Yes	Monthly periodicity vs. quarterly under SDDS.
Consumer price index	See remarks	Yes	Yes	Yes	Data not disseminated as time series that allows different periods to be compared.
Producer price index	See remarks	Yes	Yes	Yes	Data not disseminated as time series that allows different periods to be compared.
General government operations	No	Yes	Yes	Yes	Domestic financing breakdown not disseminated.
Central government operations	No	Yes	No	Yes	Timeliness of 2 months instead of 1 month. Domestic financing breakdown not disseminated.
Central government debt	No	Yes	Yes	Yes	Guaranteed debt data not disseminated.
Analytical accounts of the banking sector	Yes	Yes	Yes	Yes	Timeliness of 1 month for preliminary data and 5 weeks for final data (due to a large number of credit institutions.)
Analytical accounts of the central bank	Yes	Yes	Yes	Yes	
Interest rates	Yes	Yes	Yes	Yes	
Stock market	Yes	Yes	Yes	Yes	
Balance of payments	Yes	Yes	Yes	Yes	
International reserves	Yes	Yes	Yes	Yes	
Template on International Reserves and Foreign Currency Liquidity	N.A.	N.A.	N.A.	No	Data not disseminated.
Merchandise trade	Yes	Yes	Yes	Yes	
International investment position	No	Higher	Yes	Yes	Coverage only for banking sector, including the CBR. Periodicity: quarterly vs. annual under SDDS.
Exchange rates	Yes	Yes	Yes	Yes	

* For more details, see Appendix III.

Periodicity: all SDDS data categories are disseminated with the required or higher periodicity. Data with a higher periodicity are employment, unemployment, and wages/earnings (all monthly versus quarterly under the SDDS), and the IIP (quarterly versus annual under the SDDS).

Timeliness: All SDDS data categories, except for central government operations (two months versus one month under the SDDS), are disseminated in accordance with the SDDS timeliness requirements. Under the SDDS, a flexibility option would be available for the timeliness of this data category.

An ARC (<http://www.gks.ru/eng/ssrd/plan.asp>)—which meets the SDDS requirement—is disseminated on the SCS's website.

The transition period for implementing the Data Template on International Reserves and Foreign Currency Liquidity expired at the end of March, 2000 and, therefore, all SDDS subscribers were required to begin disseminating the template data for April 2000 by the end of May.

II. DATA QUALITY

8. The SDDS contains prescriptions for the coverage, periodicity, and timeliness of data and for the use of ARCs. However, those parts of the SDDS dealing with data quality, access, and integrity are non-prescriptive; i.e., specific practices are not prescribed and subscribers only need to describe their practices in these areas for public scrutiny. Concerning data quality, the SDDS requires the disclosure of information on the availability of methodologies and other data series that could provide cross-checks on the reasonableness of the data, as well as brief descriptions of the methodology used (summary methodology statements). The SDDS does not try to define a minimum standard for data quality, but instead provides for the dissemination of information that should enable users to form their own judgments.

9. Users of macroeconomic data have become increasingly concerned with data quality issues. Nevertheless, data users in many fields, such as financial market analysts and investment bankers, may lack the background or time or both to make use of the information on data quality already in the public domain. As a consequence, and in the context of the broader movement towards the implementation and monitoring of international standards and codes, there has been increasing pressure to address the issue of data quality directly. Moreover, given the importance of data quality to the Fund's surveillance over members' policies, there has been increased emphasis on data quality issues in the context of the provision of data to the Fund by members.

10. This section addresses data quality from two different perspectives. Section A provides an assessment of the Russian data using an experimental data quality framework developed at the IMF. Section B provides the European II Department's (EU II) perspective on data quality issues.

A. Data Quality Framework

11. The Fund staff has developed an experimental framework for identifying and assessing key aspects in the production and dissemination of data that would have a bearing on quality. This framework draws upon work done in other organizations, especially national statistical offices, and focuses on six areas vital to the production and dissemination of statistics. These areas are as follows:

- the **statistical infrastructure**, including the legal and material basis for data production;
- the **conceptual framework**;
- the **nature and characteristics of the source data**;
- the **statistical techniques** used to compile the data;
- the **serviceability** or usefulness of the data compiled; and
- the **accessibility** of the data and information about the data.

12. This approach is outlined in Appendix IV. Further refinement of this approach to assessing key aspects of data quality is underway.

13. This experimental framework forms the basis for Table 2, which draws upon the experience of the Statistics Department (STA) in providing technical assistance in statistics to the Russian Federation for some of the SDDS data categories, namely national accounts, prices, government finance, money and banking, balance of payments, and international investment position statistics. This table highlights the salient features of the Russian statistical system in each of the six areas of production and dissemination. Appendix V provides a more comprehensive discussion of these features.

Table 2. Russian Federation: Salient Features of the Data Quality Matrix *

	Statistical Infrastructure	Conceptual framework	Source data	Statistical techniques	Serviceability	Accessibility
National accounts	<p>Lingering effect of Material Product System (MPS):</p> <ul style="list-style-type: none"> - Over use of full-count surveys and cumulative reporting - Excessive resources at Oblast (regional) level - Insufficient staffing at SCS headquarters for national accounts development. 	<p>SCS publishes data according to 1993 SNA.</p> <p>Current price (Quarterly and Annual)</p> <ul style="list-style-type: none"> - Production - Expenditure - Income <p>Constant Price [measures changes in volume](Quarterly and Annual)</p> <ul style="list-style-type: none"> - Production - Expenditure 	<p>Production-based estimates are more reliable: difference between production and expenditure estimates is less than 5 percent.</p> <p>Quarterly estimates prior to 1998 largely compiled by de-cumulating source data collected on a cumulative basis. This procedure was prone to errors because:</p> <ul style="list-style-type: none"> - Revisions to previous periods are not reflected in estimates for those periods. - Changes in coverage between two periods distort estimates (difference between two periods.) <p>Progress made in starting the collection of monthly and quarterly source data on a discrete basis.</p>	<p>Official estimates incorporate adjustments for gaps in coverage amounting to about 20 percent of GDP.</p>	<p>Time series analysis seriously hampered by presentation of quarterly volume measures at prices of same quarter of previous year.</p> <p>Lack of published industry (branch) data for output, intermediate consumption, and value added.</p> <p>Differences in the national accounts and balance of payments estimates due to differences in the timing of release of revisions.</p>	<p>Brief compilation methodology, in Russian only, is published in the collection "Methodological Principles in Statistics."</p> <p>Official statistics are published on the SCS web page and hard-copy publications.</p>

* For a more comprehensive discussion of statistical issues, see Appendix V.

Table 2. Russian Federation: Salient Features of the Data Quality Matrix *

	Statistical Infrastructure	Conceptual framework	Source data	Statistical techniques	Serviceability	Accessibility
Price statistics	See national accounts.	The CPI and PPI are constructed as a Laspeyres index and presented with December of the previous year as reference base.	<p>The CPI weights are based on the annual household budget surveys and are updated every year. The sample includes all kinds of households, but may be skewed towards lower income households in industrial centers.</p> <p>The PPI weights are updated annually.</p>	No seasonally adjusted CPI and PPI data are disseminated.	The CPI and PPI are not published in a time series format that facilitates comparison over time. Data are published as changes for each month as percentages of the previous month and December of the previous year	<p>CPI and PPI are published on the SCS web page and hard-copy publications.</p> <p>Information on the methodology for preparing price statistics is published, in Russian only, in the <i>Methodological Guidelines for Statistics</i>.</p>
Government finance statistics		Starting in 1998 the budget classification was changed to incorporate the GFS classification system. However, general government operations and central government debt data do not fully comply with <i>GFS Manual</i> concepts.	Fiscal data are compiled on a cash basis and, owing to extensive revenue and expenditure arrears, do not provide complete coverage of government operations.		Consistency in compilation procedures reflecting methodology of GFS classification system is not known.	<p>Information on the methodology and sources used in the preparation of fiscal data are not published.</p> <p>Official statistics are published on the MOF web page.</p>

Table 2. Russian Federation: Salient Features of the Data Quality Matrix *

	Statistical Infrastructure	Conceptual framework	Source data	Statistical techniques	Serviceability	Accessibility
Money and banking statistics	CBR does not have a legal basis to collect data from nonbank financial institutions.	<p>Financial data are compiled in two different sets by the CBR. One set is compiled for monitoring the IMF financial program. The second set is based on reporting forms submitted for publication in <i>IFS</i>.</p> <p>Differences exist in definitions of some monetary aggregates in <i>IFS</i> and for monitoring the financial program.</p>	<p>The current plans of accounts for the CBR and the credit institutions were introduced in 1998 and are adequate for the compilation of monetary data directly from accounting records.</p> <p>Monetary statistics are compiled by the General Economic Department on the basis of accounting records and adjusted whenever it is necessary to take into consideration more recent information provided by other departments.</p> <p>Need to improve the transparency of data on CBR's foreign assets, foreign liabilities, and international reserves; definition of reserves based on accounting records should be frequently updated and published.</p>		Analytical usefulness could be hindered because balance sheets contain insufficient detail to classify repurchase agreements.	<p>Official statistics are published regularly in the CBR's <i>Bulletin of Banking Statistics</i> and the CBR web page.</p> <p>A special issue of the <i>Bulletin of Banking Statistics</i>, (1999) provided explanatory notes and a detailed description of methodology.</p>

Table 2. Russian Federation: Salient Features of the Data Quality Matrix *

	Statistical Infrastructure	Conceptual framework	Source data	Statistical techniques	Serviceability	Accessibility
Balance of payments and international investment position	<p>Since Russia uses the Survey System to collect data for BOP compilation, the statistical infrastructure is very complicated. A number of state agencies provide the CBR (which is responsible for assembling the BOP statement) with data (mainly the SCC and MOF). In part, the data are collected directly by the CBR. The SCS makes an important contribution.</p>	<p>The BOP in U.S. Dollars is compiled according to BPM5 (Quarterly and Annual). Balances drawn against CIS and non-CIS countries.</p> <p>The IIP is produced on a quarterly basis with the coverage limited to the banking sector of Russia including the CBR.</p>	<p>The primary source of data for goods is the Customs' statistical system. Large adjustments to exports and imports are attributable to shuttle trade, smuggling, and fish sold without crossing the border.</p> <p>The CBR maintains a database of services data for which the SCS surveys form the core. The CBR also gathers additional detail to fill in areas not measured by the surveys.</p> <p>The data on financial transactions of non-bank enterprises originate from the SCS surveys and records on foreign exchange control compiled by the CBR and Customs.</p>	<p>The CBR has developed a number of models for estimation of activities not captured by official statistics; the models are based on indirect indicators and serve the purpose of estimation of the following BOP items: goods purchased by individuals abroad for sale in Russia and goods taken out of the country by individuals for sale abroad ("shuttle trade"); smuggling; migrants' transfers; travel; compensation of employees; change in cash stocks of foreign bank notes with non-banking sector in Russia, and change in stocks of ruble bank notes with non-residents.</p> <p>The CBR also undertakes adjustments for imports of motor vehicles, reexports of goods to the CIS, humanitarian aid, and migrant effects.</p>	<p>Description of methods used to estimate selected operations are published in Vestnik Banka Rossii.</p>	<p>The BOP and the IIP are published on the CBR web page, in the Bulletin of Banking Statistics, Vestnik Banka Rossii and in the Annual Report of the CBR.</p> <p>The Bulletin of Banking Statistics also provides methodological notes. Additionally, Vestnik Banka Rossii provides analytical comments, supplementary tables, lists of data sources and applied report forms, methodological notes, etc.</p>

B. User's Perspective

14. The quality of Russia's statistical database has improved substantially since the initiation of market reforms. However, data are often produced without the ultimate users in mind. For example, consistent time series are often not available for important variables and definitions are frequently changed without notification or production of revised historical series consistent with the new definitions. Also, problems related to coverage and internal coordination continue to hamper data compilation and effective economic analysis in a number of areas.

15. **Real sector data** are produced by the SCS. While the consumer and producer price indices are generally reliable and consistent, the national accounts and their underlying source data continue to suffer from a number of deficiencies, which hamper assessments of changes in economic activity.

16. A monthly consumer price index is produced. The coverage and timeliness of this series are good. The producer price index, based on mining and manufacturing activities for the domestic market, is also available on a monthly basis. However, there are large, unexplained differences between movements in the implicit GDP deflator and indices of domestic and trade prices due, in part, to weaknesses in compiling consistent time series (see below). Additional efforts to decompose and analyze movements in the implicit GDP deflator—in particular, to reconcile them with time series of the price indices for the main components of GDP—would be useful in identifying the sources of other shortcomings.

17. With regard to coverage of output, under-recording of economic activity continues to be a problem; the official GDP estimates are based on adjustments for gaps in coverage and for under-recording that are ad hoc and often imprecise. Also, the economy-wide prevalence of barter has had a very detrimental impact on accurately measuring economic activity. Further, the problems with fiscal data (see below) seriously affect the ability to accurately record public-sector consumption and investment.

18. The accessibility and serviceability of real sector data are significantly hampered by: (a) lack of easy access to sufficiently long time series; (b) the mode of presenting price and volume measures; (c) lack of easy access to sufficiently detailed data; and (d) lack of transparency concerning revisions.

19. Long time series of quarterly volume measures of GDP or of chain-linked CPI and PPI data are not published on the SCS's website. Furthermore, the quarterly volume measures that are published are expressed at the prices of, and as changes from, the same quarter of the previous year, rather than as time series. Similarly, in contrast with international practice, the CPI and PPI data are only published as percentage changes from the end of the previous year or the previous month and not in the form of long index series (annual chain-linked Laspeyres indices) with a fixed period. The serviceability of the national accounts estimates is also hampered by lack of published industry (branch) data for output, intermediate consumption, and value added. Only main aggregates are currently presented. In addition,

published data are continuously revised without being flagged and without any explanations provided for the revisions.

20. With regard to **fiscal data**, Treasury coverage of expenditures has expanded, enabling improved compilation of government financial statistics. Monthly data on revenues, expenditures and financing of the federal and local governments are provided on a regular basis.

21. While quality concerns about fiscal data are addressed in further detail in the review of fiscal transparency, a number of the key problems are described as follows. A complete economic classification of government finance statistics is not published. Also, there are problems with regard to data on arrears and some of the activities of the local governments. Arrears data for the federal government outside of the civilian sector are only available with such long lags that they have had to be excluded from operational definitions under the Fund-supported financial program. With regard to local governments, full information on off-budget and extrabudgetary funds and on offsets, is not available. The latter precludes accurate estimation of cash revenues collected at the general government level.

22. With regard to financing, inadequate coordination between the government and the CBR on data compilation often introduces problems in reconciling data from the two sources. Also, lack of coordination on coverage and definitions between different units within the government responsible for compilation of debt data sometimes introduces unnecessary errors.

23. **Monetary data** for the CBR and the domestic banking sector are reasonably comprehensive. The new plans of accounts that were introduced in the beginning of 1998 for the central bank and commercial banks provide good bases for the compilation of analytical monetary accounts. However, problems of coordination and coverage persist, and data on the operations of commercial banks suffer from the general problems of continuity and consistency identified above.

24. Certain transactions of the CBR, mainly related to precious metals and gems, are considered secret and, as such, movements within broad categories of data often cannot be satisfactorily explained for the monetary authorities. Consolidated accounts for the central bank and its subsidiaries, both domestic and foreign, are also not routinely produced and, therefore, standard monetary statistics have at times not provided an accurate picture of the stance of monetary policy.

25. Significant progress has been made with regard to **balance of payments statistics** and more detailed data have been made available to the public over the recent years. Notably, published merchandise trade statistics enable a user to follow all the adjustments the CBR makes to the Customs data. Also, more comprehensive information is published on the income balance, and additional data on official external debt include a separation of the debt of the former USSR and the new Russian debt, a breakdown by type of government securities

with secondary market transactions presented separately, and detailed data on loan rescheduling and transactions in arrears etc.

26. For estimating the transactions of households and some unregistered transactions of non-financial enterprises (such as smuggling) the CBR has created models which have already been used for several years; the main models are: estimation of foreign trade unregistered by the Customs, estimation of exports and imports of travel item, and estimation of migrants' transfers. The estimation of the balance of foreign currency movement in the form of banknotes, which is of great importance for Russia, is also undertaken by the CBR. The description of the models is published by the CBR, and all the interested users can obtain the detailed calculations. Generally, the CBR publishes several presentations, both neutral and analytical, with various groupings of the BOP items that facilitate optimal user choices.

27. The quality of some statistics, however, still has limitations and requires improvement. Merchandise exports and imports data published by Customs are subject to large adjustments especially for under recording activities of legal entities (e.g., smuggling) and for "shuttle trade" by individuals. The remaining discrepancies between partner country and customs data on imports confirm the necessity of such adjustments. Accurate measurement of trade credit items is difficult as it is implemented on the basis of reconciliation of trade flows with actual receipts and payments.

28. The SCS services survey has improved measurement in this area but is subject to coverage and reporting problems. A number of important items in services balance, mainly travel which covers approximately a half of services credits and debits, is estimated on the basis of the CBR model that requires confirmation via the travellers survey. Efforts would also need to be made to improve the coverage and quality of nonbank corporate sector foreign assets and liabilities. Short-term capital flows that come from illegal capital flight remain unrecorded.

29. Although data on the financial soundness of the banking system are not included in the SDDS (and, therefore, are not reviewed in previous sections), inadequacies in these data have a direct impact on the quality assessment. The absence of international accounting standards precludes proper analysis of the financial condition of the banking sector, a major handicap in the process of bank restructuring. Accounts for commercial banks on a fully consolidated basis are also not produced, and given the complex pattern of holdings and cross-holdings between enterprises and banks in Russia within financial-industrial groups, accurate assessments of banking system vulnerabilities cannot be made on the basis of data routinely available to the authorities.

III. SUMMARY AND CONCLUSIONS

30. Concerning Russia's data dissemination practices vis-à-vis the SDDS data dimension and ARC, the following conclusions apply:

- As of September, 1 2000, using all the flexibility options available under the SDDS (see Appendix II), the Russian Federation would not be in observance of the SDDS because (1) quarterly volume measures of GDP, the production index, and consumer and producer price indices are not disseminated in time series format that allows different periods to be compared; (2) breakdowns of domestic financing into banking sector and other sectors for general government operations and central government operations are not disseminated; and (3) guaranteed central government debt is not disseminated (see Table 1).
- Also, the Russian Federation does not disseminate data according to the template on international reserves and foreign currency liquidity.
- The national website that disseminates SDDS data categories needs adjustments to come into line with the format and presentation of an NSDP.

31. The Russian Federation, therefore, would need to make some adjustments in its dissemination practices to be among the group of countries that meet the data dimension and ARC of the SDDS. Like SDDS subscribers, additional actions would need to be taken to maintain this status in the months and years ahead, i.e., dissemination of complete international investment position data by end-2001, and external debt data by March 2003.

32. Notwithstanding the Russian Federation's status vis-à-vis the SDDS data dimension and ARC, problems persist that have an impact on the quality of the data disseminated. Foremost among these problems are the following:

- Heavy concentration of SCS resources at the regional—as opposed to the national—level, which hampers the compilation of national accounts;
- Institutional rigidities and a lack of coordination among statistics producing agencies;
- Data compilation and presentation methods that hinder time series analysis (national accounts, production index, and prices);
- Lack of comprehensive coverage for most macroeconomic statistics (national accounts, international investment position, and government debt); and
- Methodology that does not conform to international standards or that is not available for public scrutiny (production index, and price statistics). Although government finance statistics largely comply with international standards, the methodology is not available for public scrutiny.

33. These problems will need to be addressed as the Russian statistical system further adapts to meet the challenges of the global financial system. Continued technical assistance from international organizations, including from the Fund, should assist in addressing these

problems. Recent initiatives, including the STASYS, should bolster the authorities' ability to address these problems.

RUSSIAN FEDERATION: STATISTICAL INFRASTRUCTURE

The compilation and dissemination of statistics in the Russian Federation are governed by a series of Federal laws and decrees that guide the activities of the State Committee on Statistics, the Ministry of Finance, and the Central Bank of Russia in this area. A brief review of the legal basis and institutional framework for data compilation and dissemination by institution follows.

A. Legal Basis

State Committee on Statistics

The Decrees and laws currently regulating SCS's operations are:

- Real sector statistics are compiled and disseminated in accordance with the "Statute on Goskomstat of Russia," which was approved by Decree No. 834 of the Government of the Russian Federation on July 9, 1994. This law addresses the compilation and dissemination practices for real sector statistics.
- The Federal Law "On information, informatization and protection of information," approved by the State Duma of the Russian Federation on January 25, 1995 addresses confidentiality of individual responses.

The delay in approving a modernized statistical law that contains, inter alia, realistic penalties for noncompliance with SCS's surveys has been an impediment to further development of real sector statistics in general and the national accounts in particular.

Ministry of Finance

- The fiscal management system is governed by the Budget Code. Fiscal data are compiled in accordance with the annual Law on the Federal Budget, which makes no provision for the compilation of government finance statistics or the dissemination of data to the public.
- The methodology for the compilation of fiscal data is based on the classification system defined in the Federal laws on "The Russian Federation Budget Classification" no. 115 of August 15, 1996 with revisions to no. 40-FZ of March 26, 1998 and on "The Russian Federation 1999 Budget" no. 36-FZ of February 22, 1999 with revisions to October 25, 1999.

Central Bank of Russia

- The legal basis for the Central Bank of Russia is found in the Constitution of the Russian Federation, under the section "About the Central Bank of the Russian Federation."
- The law "On the Russian Federation Central Bank no. 394-1 of December 2, 1990 as revised by Federal Law no. 65-FZ of April 26, 1995 and with amendments and additions (the last amendment dated July 8, 1999 no. 139-FZ) provide a basis for the compilation and dissemination of financial sector statistics under the jurisdiction of the central bank. The law specifies that credit institutions are obliged to provide information to the CBR, provides for the protection of the confidentiality of individual data, and indicates that the CBR publishes aggregated statistical and analytical information on the banking system of the Russian Federation.
- Banks and banking activity are governed by the Law "On Banks and Banking Activity in the Russian Soviet Federative Socialist Republic" no. 395-1 of December 2, 1990 with revisions of June 30, 1998 and July 5 and 8, 1999. The law states that credit organizations are required to report information on their activity to the CBR based on rules specified by the CBR. Banks and banking activity are also governed by the Federal Law "On Amending and Introducing Additions to the Federal Law On Banks and Banking Activity" no. 17-FZ of February 3, 1996.
- Federal Decree no. 849 of July 18, 1994 "On Procedures of Compiling and Reporting the Russian Federation Balance of Payments" provides a basis for the compilation and dissemination of balance of payments statistics. The article 4, item 12 of Federal law on "the Central Bank of Russian Federation" states that the compilation of balance of payments statistics is one of the functions of the CBR.

B. Notes on Institutional Framework

State Committee on Statistics

- The SCS—which is responsible for the compilation of real sector statistics—is highly decentralized; less than 5 percent of about 30,000 employees are located at its headquarters in Moscow. Most of the staff are spread out over 89 oblasts or regional offices in line with the organizational structure established to conduct full-count surveys of industries to monitor plan performance. This structure has proved inefficient for a market economy and has resulted in duplication of effort in data compilation between the regions and the center (Moscow).
- A 1997 IMF/UN/World Bank Interagency Statistical Assessment Mission found that staffing at headquarters could be increased and computer equipment could be modernized if financed by staff reductions in the regional offices. Moreover, the number of regional offices could be reduced; much of the data compiled by these offices is used for

administrative purposes and not for compiling macroeconomic statistics. The SCS headquarters national accounts department is insufficiently staffed.

Ministry of Finance

- A major advance in statistical reporting was the establishment of the Federal Treasury in the Ministry of Finance in 1995. In addition, the authorities established the Government Finance Statistics Section in the Federal Treasury of the Ministry of Finance in October 1999. This unit has the responsibility for compiling fiscal data on the basis of international standards.

Central Bank of Russia

- The CBR is responsible for compiling and publishing data on the banking and external sectors.
- Prior to July 18, 1994, the compilation of the balance of payments was the joint responsibility of the CBR and the SCS. Since July 18, 1994, the institutional responsibility for the compilation of the balance of payments, the international investment position, international reserves statistics and foreign trade statistics now lies within the Balance of Payments Department of the CBR. The Balance of Payments Division in the CBR is well versed in balance of payments methodology and compilation procedures.

FLEXIBILITY AND "AS RELEVANT" OPTIONS UNDER THE SDDS

- A "flexibility option" allows a subscriber to disseminate data with a lower frequency (the periodicity element) or with a greater lag (the timeliness element), or both, than prescribed for the data category under the SDDS. The SDDS allows all subscribers two flexibility options on an ongoing basis. There are some restrictions on the use of flexibility options. No flexibility is available with respect to international reserves. In addition, flexibility may only be taken with respect to the timeliness, but not the periodicity, of data on the national accounts and the balance of payments, and only if the data categories under the SDDS that are indicated as tracking developments in these areas are disseminated with the prescribed periodicity and timeliness. For national accounts, the tracking category is the production index, and the tracking categories for the balance of payments are merchandise trade and international reserves.
- "Calendar flexibilities," which can be taken for a maximum of two data categories, exempt the subscriber from having to publish the precise release date for those data categories. Nevertheless, the one quarter-ahead approximate release dates must still be disseminated.
- Finally, "as relevant" options are available for certain data categories because of structural or institutional factors; these options reflect that certain data categories may not be relevant to the economy of a given country, or it may not be possible to disseminate data with the prescribed periodicity and/or timeliness.

Russian Federation: Summary of Current Practices as Compared with the SDDS Data Dimension and ARC (as of September 1, 2000)

SDDS Data Category	Coverage (meets SDDS requirement)	Periodicity		Timeliness		Status as of September 1, 2000		Remarks
		SDDS	Russian Federation	SDDS	Russian Federation	Due According to ARC	Disseminated	
Real sector								
GDP	See Remarks	Quarterly	Quarterly	1 quarter	NLT 3 months	Q100	Q100	Quarterly volume measures of GDP are compiled and disseminated in terms of the prices of the same quarter of the previous year and not in terms of a fixed reference base.
http://www.gks.ru/scripts/free/1c.exe?XXXX25F.1.1.1.1/000000R								
Production Index	See Remarks	Monthly	Monthly	6 weeks	NLT 4 weeks	JUL00	JUL00	Data are presented in terms of the previous month and of the same month of the previous year; indices with different reference and weight bases are not linked together to form longer time series.
http://www.gks.ru/scripts/free/1c.exe?XXXX25F.1.1.2.1/000010R ; http://www.gks.ru/scripts/free/1c.exe?XXXX25F.1.1.2.1/000020R								
Labor market: employment	Yes	Quarterly	Monthly	1 quarter	NLT 4 weeks	JUL00	JUN00	
http://www.gks.ru/scripts/free/1c.exe?XXXX25F.1.1.3.1/000040R								
Labor market: unemployment	Yes	Quarterly	Monthly	1 quarter	NLT 4 weeks	JUL00	JUN00	
http://www.gks.ru/scripts/free/1c.exe?XXXX25F.1.1.3.1/000040R								
Labor market:	Yes	Quarterly	Monthly	1 quarter	NLT 4 weeks	JUL00	JUN00	

Russian Federation: Summary of Current Practices as Compared with the SDDS Data Dimension and ARC (as of September 1, 2000)

SDDS Data Category	Coverage (meets SDDS requirement)	Periodicity		Timeliness		Status as of September 1, 2000		Remarks
		SDDS	Russian Federation	SDDS	Russian Federation	Due According to ARC	Disseminated	
wages/earnings								
http://www.gks.ru/scripts/free/1c.exe?XXXX25F.1.1.3.1/000050R								
Consumer price index	See Remarks	Monthly	Monthly	1 month	NLT 4 weeks	JUL00	JUL00	Data are presented in terms of the previous month and of December of the previous year; indices with different reference and weight bases are not linked together to form longer time series.
http://www.gks.ru/scripts/free/1c.exe?XXXX25F.1.1.4.1/000030R								
Producer price index	See Remarks	Monthly	Monthly	1 month	NLT 4 weeks	JUL00	JUL00	Data are presented in terms of the previous month and of December of the previous year; indices with different reference and weight bases are not linked together to form longer time series.
http://www.gks.ru/scripts/free/1c.exe?XXXX25F.1.1.4.1/000060R								
Fiscal sector								
General government operations	No	Annually	Annually	2 quarters	6 months	1999	1999	Breakdown of domestic financing between the banking sector and other domestic sectors not disseminated.
http://minfin.ru/macroeng/gg_oprations.htm								
Central	No	Monthly	Monthly	1 month	2 months	JUN00	JUN00	Breakdown of domestic financing

Russian Federation: Summary of Current Practices as Compared with the SDDS Data Dissemination and ARC (as of September 1, 2000)

SDDS Data Category	Coverage (meets SDDS requirement)	Periodicity		Timeliness		Status as of September 1, 2000		Remarks
		SDDS	Russian Federation	SDDS	Russian Federation	Due According to ARC	Disseminated	
government operations								between the banking sector and other domestic sectors not disseminated.
http://minfin.ru/macroeng/cg_oprations.htm								
Central government debt	No	Quarterly	Quarterly	1 quarter	1 quarter	Q100	Q100	Guaranteed debt data not disseminated.
http://minfin.ru/macroeng/cg_debt.htm								
Financial sector								
Analytical accounts of the banking sector	Yes	Monthly	Monthly	1 month	1 month (5 weeks)	JUN00	NOV99 (SCS) JUN00 (CBR)	Timeliness of one month for preliminary data and five weeks for final data taken due to a large number of credit institutions. November 1999 data hyperlinked from the SCS's ARC while June 2000 data disseminated in the CBR's website. SCS's hyperlink, which is to 1999 data, needs to be revised to 2000 data.
http://www.cbr.ru/eng/dp/sdds/data_eng.htm ; http://www.cbr.ru/eng/dp/Denob_00_engl.htm								
Analytical accounts of the central bank	Yes	Monthly	Monthly	2 weeks	2 weeks	JUL00	NOV99 (SCS) JUL00 (CBR)	November 1999 data hyperlinked from the SCS's ARC while July 2000 data disseminated in the CBR's website. SCS's hyperlink, which is to 1999 data, needs to be revised to 2000 data.

Russian Federation: Summary of Current Practices as Compared with the SDDS Data Dimension and ARC (as of September 1, 2000)

SDDS Data Category	Coverage (meets SDDS requirement)	Periodicity		Timeliness		Status as of September 1, 2000		Remarks
		SDDS	Russian Federation	SDDS	Russian Federation	Due According to ARC	Disseminated	
http://www.cbr.ru/eng/dp/sdds/data_eng.htm ; http://www.cbr.ru/eng/dp/Denv1_00_engl.htm								
Interest rates	Yes	Daily	Daily	Daily	Daily	Daily	Daily	
http://www.cbr.ru/eng/dp/sdds/data_eng.htm ; http://www.cbr.ru/eng/markets/deposit.htm ; http://www.cbr.ru/eng/system/SCRIPTS/overn.htm ; http://www.cbr.ru/eng/markets/mkr.html								
Stock market	Yes	Daily	Daily	Daily	Daily	Daily	Daily	
http://www.rtsnet.ru/engl								
External sector								
Balance of payments	Yes	Quarterly	Quarterly	1 quarter	1 quarter	Q100	Q498 (SCS) Q100 (CBR)	Q4 1998 data hyperlinked from the SCS's ARC while Q1 2000 data disseminated in the CBR's website. SCS's hyperlink, which is to 1998 data, needs to be revised to 2000 data.
http://www.cbr.ru/eng/dp/sdds/data_eng.htm ; http://www.cbr.ru/eng/dp/p_balance00.htm								
International reserves	Yes	Monthly	Monthly	1 week	1 week	JUL00	DEC99 (SCS) APR00 (CBR) JUL00 (CBR)	December 1999 data hyperlinked from the SCS's ARC, April 2000 data hyperlinked from CBR's ARC, and data for July 2000 disseminated in a separate location in CBR's website. SCS's hyperlink, which is to 1999 data, needs to be revised to 2000 data and CBR's hyperlink needs to be updated to most recent

Russian Federation: Summary of Current Practices as Compared with the SDDS Data Dimension and ARC (as of September 1, 2000)

SDDS Data Category	Coverage (meets SDDS requirement)	Periodicity		Timeliness		Status as of September 1, 2000		Remarks
		SDDS	Russian Federation	SDDS	Russian Federation	Due According to ARC	Disseminated	
								data.
http://www.cbr.ru/eng/dp/sdds/data_eng.htm ; http://www.cbr.ru/eng/dp/dp_gold_00n_eng.htm								
Template on international reserves and foreign currency liquidity	Not available	Monthly	Not available	1 month	Not available	JUN00	Not available	Not disseminated.
Merchandise trade	Yes	Monthly	Monthly	8 weeks	NLT 6 weeks	JUN00	JUN00	
http://www.cbr.ru/eng/dp/sdds/data_eng.htm ; http://www.cbr.ru/eng/dp/trade_eng.htm								
International investment position	No	Annually	Quarterly	2 quarters	3 months	Q100	Q499 (SCS) Q100 (CBR)	Coverage covers only banking sector, including CBR. Q4 1999 data hyperlinked from the SCS's ARC while Q1 2000 data disseminated in the CBR's website. SCS's hyperlink, which is to 1999 data, needs to be revised to 2000 data.
http://www.cbr.ru/eng/dp/sdds/data_eng.htm ; http://www.cbr.ru/eng/dp/dio00.htm								
Exchange rates	Yes	Daily	Daily	Daily	Daily	Daily	Daily	
http://www.cbr.ru/eng/markets/currency.html								

Russian Federation: Summary of Current Practices as Compared with the SDDS Data Dimension and ARC (as of September 1, 2000)									
SDDS Data Category	Coverage (meets SDDS requirement)	Periodicity		Timeliness		Status as of September 1, 2000		Remarks	
		SDDS	Russian Federation	SDDS	Russian Federation	Due According to ARC	Disseminated		
Addendum: Population	Yes	Annually	Annually	...	7 months	01.01.00	01.01.00		
http://www.gks.ru/scripts/free/lc.exe?XXX25F.1.3.1.1/000070R									

AN APPROACH FOR THE ASSESSMENT OF DATA QUALITY

Statistical infrastructure The institutional and legal foundation for the collection, compilation, and dissemination of macroeconomic statistics.

Rationale: The statistical infrastructure is an important factor underlying the quality of statistics.

Conceptual framework The body of features relating to concepts, definitions, coverage, classification, sectorization, and other aspects of macroeconomic statistics that is intended to provide the analytical basis for the compiled statistics.

Rationale: The conceptual framework attempts to define the intended features of the compiled data. A conceptual framework that is in line with international standards facilitates cross-country comparisons.

Source data The nature of the source data and the manner in which they are processed.

Rationale: The source data are one determinant of the extent to which compiled data attain their intended features.

Statistical techniques The body of statistical estimation, adjustment, and other methods, together with methods of ensuring arithmetic precision, as applied to data collection and processing.

Rationale: Statistical techniques are another determinant of the extent to which compiled data attain their intended features.

Serviceability The features relating to requirements of users in terms of general usefulness, consistency, and revisions policy and practices.

Rationale: Data that are in conformity with best practice in other respects also need to meet these tests of usefulness.

Accessibility The availability of data and metadata to users.

Rationale: Accessibility includes features of a broad concept of data quality.

ASSESSMENT WITHIN A DATA QUALITY FRAMEWORK

A. National Accounts

General

Despite substantial progress in producing *national accounts* estimates on a timely basis and according to the *System of National Accounts 1993* (1993 *SNA*), significant issues remain to be addressed. These issues stem, in part, from the hold of the former Material Product System (MPS) that utilized full-count surveys and cumulative data reporting procedures to monitor performance under annual plan targets and, in part, from the rapid proliferation of private sector establishments whose activities are not fully captured in official source statistics.

Statistical infrastructure

Progress in improving the national accounts estimates is hampered by insufficient resources of the SCS headquarters national accounts department, and by the highly decentralized structure of SCS. The current structure is geared towards full-count surveys of industries to monitor plan performance, which has proved inefficient for a market economy. It has resulted in duplication of efforts in data compilation between the regions and the center (Moscow), and has left the national accounts staff with little control over the details of the compilation procedure.

Progress in improving the source data is also hampered by weaknesses in the current business register that makes it inadequate for statistical purposes. While new enterprises need to register to be able to operate legally and thus may be captured, proper procedures are not in place for keeping the information on the registered units up-to-date. In particular, proper procedures are not in place for continuous updating of the register for changes in the type of activities the units are engaged in, and liquidation of units. Approximately 30 percent of the registered units are assumed to be non-active. This creates substantial problems in using the register for statistical purposes. SCS is aware of the deficiencies in the business register. However, the legal status and the decentralized administration of the current register have prevented SCS from implementing the required procedures for regularly updating the register.

Conceptual framework

SCS publishes discrete quarterly and annual current price production-, expenditure-, and income-based GDP data, and discrete quarterly and annual production-based GDP volume measures on a regular and timely basis in accordance with the 1993 *SNA*. In addition, SCS compiles and publishes on an annual basis discrete quarterly and annual expenditure-based GDP volume measures. The annual GDP volume measures are annual chain-linked measures as recommended in the 1993 *SNA*. The quarterly volume measures, however, follow a non-

standard approach, and are compiled and presented at the prices of the same quarter of the previous year, limiting the possibilities for time series analysis.

Also, significant progress has been made towards developing a complete set of institutional sector accounts (income, outlay, and financial accounts for each sector of the economy) that facilitate cross-checking of the estimates. Preliminary sets of integrated sector accounts for the households, general government, and non-profit institutions serving households sectors as well as for the rest of the world (balance of payments), along with a set of consolidated accounts for the financial and non-financial corporations—derived as a residual—have been published in the national accounts blue book - formally called "National Accounts of Russia 1999."

Seasonally adjusted quarterly GDP data are disseminated through the quarterly and annual bulletins on *Social and Economic Conditions on Russia*.

Source data

The source data are obtained from both full-count and sample surveys of businesses and households supplemented by data from other agencies. Nevertheless, coverage is inadequate and, therefore, official estimates of GDP incorporate adjustments for gaps in coverage amounting to about 20 percent of GDP. Production-based estimates of GDP are considered more reliable than those derived from income or expenditure approaches, as in most countries, because of weaknesses in the source data for household consumption expenditures and changes in inventories. The difference between GDP estimates derived from the production and expenditure approaches is generally less than 5 percent. While substantial problems in coverage remain, there is no evidence to indicate that, on balance, these problems impart a systematic bias to the final national accounts estimates.

The discrete quarterly estimates from 1998 and onwards are based on source data, for large and medium enterprises, which are collected on a discrete basis. Data for small enterprises, data from the federal budget, and tax data are all still reported to SCS on a cumulative basis. The discrete estimates for these areas, as well as for all areas for the years before 1998, are compiled by de-cumulating source data that are collected on a cumulative basis. De-cumulating data collected on a cumulative basis means subtracting the cumulative data for the previous period from the cumulative data for the current period. This procedure can result in errors in the short-term movements of the derived series for two reasons. Firstly, any revisions to data for a previous period will be captured only in the cumulative figure for the later period and, therefore, would be incorrectly included in the later monthly or quarterly estimate. Secondly, changes in the coverage of enterprises reporting between the two periods will distort the estimates obtained as the difference. The estimates for the fourth quarter are particularly affected by the latter issue because the annual estimate includes data for smaller enterprises that report only annually.

Statistical techniques

Limited information is available. However, it is known that commodity flow techniques are used extensively. Seasonal adjusted data are obtained using the US Census Bureau X12-Arima program.

Serviceability

SCS has recently commenced publication of discrete quarterly data, as opposed to their traditional focus on cumulative data, which substantially increase the serviceability of the data. However, the presentation of quarterly volume measures at the prices of the same quarter of the previous year seriously hampers the possibilities for conducting time series analysis. In addition, while SCS's revision policy is well stated on their web site, revision to the data are not flagged in their publications, nor in the data posted on their web site. Moreover, long time series with quarterly estimates are not published.⁷ As a result it is difficult for users, including the Fund (and *IFS*), to maintain long consistent time series.

The serviceability is also hampered by lack of published industry (branch) data for output, intermediate consumption, and value added. Currently, no quarterly or annual constant price data by industry are published, while quarterly current price data are only published for main industry aggregates.

The estimates are cross-checked against data from the balance of payments, budget execution reports, and sector statistics. There is complete consistency in methodology between the NA and BOP, but for practical reasons there are some differences in latest disseminated estimates, mainly due to differences in the timing of release of revisions in the BOP and NA.

Accessibility

A brief compilation methodology documentation, in Russian only, is published in the collection "Methodological Principles in Statistics."

Availability of more detailed series is unknown. Timeliness and frequency are in accordance to international standards.

B. Price Statistics

Statistical infrastructure

See above.

⁷ The quarterly data on SCS web site covers only the last two years. In contrast, the annual time series on SCS web site goes back to 1992.

Conceptual framework

SCS produces a consumer price index (CPI) and a producer price index (PPI) on a monthly basis, in accordance with international practice (no formal international standard exists). In addition, the State Customs Committee produces export and import unit value indices on a quarterly basis (published in the quarterly and annual Customs bulletins).

The CPI is constructed as a Laspeyres index and presented with December of the previous year as reference base. Weights are updated annually. However, indices with different reference and weight base are not linked together to form longer time series. In addition to the aggregate CPI, sub-indices for three main groups of goods and services are published, namely: foodstuffs; non-food products; and services; with further detailed sub-indices.

The PPI is constructed as a Laspeyres index and presented with December of the previous year as reference base. Weights are updated annually. However, indices with different reference and weight base are not linked together to form longer time series.

Source data

CPI

Prices for 380 goods and services are collected monthly in 350 cities covering all regions of the Russian Federation. The CPI includes all major groups of goods and services, covering 400,000 prices and tariffs and 30,000 retail outlets. The prices registration for goods and services is made on the 23–25th of each month.

The weights are based on the annual household budget surveys, and are updated every year. The sample include all kinds of households, but may be skewed towards lower income households in industrial centers.

PPI

The indices are calculated on the basis of a monthly sample survey covering more over 700 representative products, reported by more than 6,000 enterprises on the 20th day of each month. The price quotes represent actual prices at the domestic market (less VAT, excise taxes and other taxes).

The weights are derived from the value of output at basic prices (that is, excluding VAT and excise taxes) and updated annually.

Serviceability

The CPI and PPI data are not published in a time series format, rendering time series analysis difficult. The main focus is on a set of derived measures of change, presented for each month as percentage of a previous period (the previous month and December of the previous year), not as the percentage changes. The presentation differs substantially from practice in the rest of the world of presenting index levels and derived percentage changes, and causes the danger of users confusing the original index with the derived changes.

No seasonally adjusted data are published.

Only aggregates of exports and imports unit value indices, split by *CIS* and *Far Abroad*, are disseminated. Lack of disseminated commodity details hampers the analytical usefulness of the data.

Accessibility

Timeliness and frequency is adequate. Information on the methodology for preparing the price statistics is available, in Russian only, in the "*Methodological Guidelines For Statistics.*"

C. Government Finance Statistics

Conceptual framework

Data on central government operations are compiled generally using *GFS Manual* concepts. Starting in 1998 the budget classification was changed to incorporate the methodology of the GFS classification system. The change included the introduction of functional and economic classifications of expenditure, and the adoption of a revenue classification that more closely accords with GFS definitions. However, general government operations and central government debt data do not comply with *GFS Manual* concepts. General government data cover the consolidated federal and local budgets but exclude off budget operations and interest payments of the local and regional governments. Central government debt data cover the debt of the federal budget but do not provide data on resident and nonresident debt. External and domestic debt is generally defined in terms of foreign and domestic currency debt.

Data released on the operations of the central government budget include the budget balance and the primary deficit compiled in accordance with the definitions of the *GFS Manual*. Revenue data include tax and nontax receipts and revenues of the earmarked budgetary funds. Expenditure is broken down into interest and noninterest expenditure. Sources of budget deficit financing are split into funds contracted (financial and nonfinancial credits),

net transactions in government securities (GKO, OFZ, OGNZ, OGSZ, and other),⁸ receipts from sales of state owned and municipal property, net acquisition of government stocks of precious metals and stones, and changes in federal budget holdings of ruble and foreign exchange balances.

Publicly disseminated central government budgetary data show the budget balance and primary deficit measures calculated according to the *GFS Manual* definitions. Revenue data show five categories of taxes, nontax revenue, and total revenue of budgetary funds. Expenditure is divided into domestic, foreign, and GKO/OFZ interest payments; also total expenditure including its defense, social sphere, and financial aid to regions components. Net domestic and foreign financing is divided into disbursements, amortization, several categories of GKO/OFZ transactions, privatization proceeds, and proceeds from sales of precious metals.

Summary annual general government data are disseminated on the Ministry of Finance website, with the following classifications: tax, nontax, and budgetary funds revenue; interest and noninterest expenditure, deficit, net foreign financing, and net domestic financing.

The MOF disseminates data on the operations of the central government, federal extrabudgetary funds, local governments, and the general government sector. The SCS publishes data on the operations of nonfinancial public enterprises.

Source data

Fiscal data are compiled on a cash basis and, because of extensive revenue and expenditure arrears, do not provide complete coverage of government operations. No data are available on the operations of regional and local government extrabudgetary funds.

The published categories for central government debt do not accord with GFS standards for the presentation of debt statistics.

Serviceability

It is not known how consistently the compilation procedures reflect the methodology of the *GFS Manual*, over time. Provisional GFS data for 1994 and 1995, compiled by GFS missions, are the only ones published in the *GFS Yearbook*. The authorities have not reported new data since, or provided revisions to 1994/95. Monthly data that are provided for publication in *IFS* are broadly consistent with the data disseminated on the Ministry of Finance website.

⁸ GKO, OFZ, OGNZ, and OGSZ are short-term Russian government bonds, Federal loan bonds, government nontradeable bonds sold to nonpersons, and government savings bonds that are only sold to persons, respectively.

Accessibility

Information on the methodology and sources used in the preparation of fiscal data are not available to the general public.

D. Money and Banking Statistics

Conceptual framework

Monetary data are compiled in two different sets by the General Economic Department (GED) of the CBR. One set of data is compiled for purposes of monitoring the IMF financial program. This data set includes both five-day operational data and monthly data. The second set of monetary data is compiled for publication in *IFS*. These data are based on reporting forms developed with the assistance of the Statistics Department (STA) of the IMF. These data are also published in the CBR Bulletin.

Analysis of the two sets of monetary data indicates that differences do not arise from source data (accounting records) as both sets of monthly data are derived from the same source of information, that is, the accounting records of the CBR and credit institutions, and supplementary operational data. Differences are of a technical nature and relate to different definitions of monetary aggregates.

Monetary aggregates for the Russian Federation are compiled only for the operations of the CBR and credit institutions. The monetary aggregates do not include the operations of other financial institutions, which may also accept deposits or issue deposit substitutes. Evidence suggests that the operations of these institutions have expanded rapidly in recent years. The nature and characteristics of the financial instruments issued by these nonbank financial institutions should be examined to determine to what extent they should be included in the financial aggregates. Because the CBR does not have a legal basis to collect data from nonbank financial institutions, laws would need to be drafted to provide a foundation for the collection of data for monetary statistics and policy purposes.

Source data

The current plans of accounts for the CBR and credit institutions were introduced in the beginning of 1998 and are generally adequate for the compilation of monetary data directly from accounting records. They incorporate international statistical standards for distinguishing the residency of economic units, detailed information on currencies used in transactions, sectorization of domestic transactors, and financial instruments. Data on interest rates are prepared by the Research and Information Department of the CBR based on reports provided by the commercial banks.

Because statistical aggregates are compiled by different departments in the CBR, there is a need for close cooperation in the production of financial data. The GED has developed procedures for checking the quality and timeliness of five-day operational data collected for monitoring the financial program with the Fund. Also, the CBR off-balance sheet information is regularly reviewed by the GED staff responsible for compiling the data used for monitoring the financial program with the Fund. Any unusual developments are discussed with CBR's Accounting Department and, if necessary, the balance sheet data are modified. Furthermore, there is a need to verify the significant changes in accounting records of large credit institutions and to discuss with them any irregularity in their balance sheets.

There is also a need to improve the transparency of the data on CBR's foreign assets, foreign liabilities, and international reserves compiled by the International Monetary Department (IMD). A definition of CBR's international reserves, based on CBR's accounting records, should be regularly updated and published by the IMD and agreed with the GED and the Accounting and Reporting Department.

Serviceability

The analytical usefulness of monetary data could be hindered because balance sheets contain insufficient details to properly classify repurchase agreements. Technical assistance missions have recommended that accounting records be modified to provide details on repo operations, such as information on the amount of securities involved, the issuers of securities, and the economic sector of the counterparty to the agreement. This recommendation has yet to be implemented.

Accessibility

Official monetary statistics data are published regularly in the CBR's *Bulletin of Banking Statistics* and also disseminated through the CBR web page. The web page also contains summary methodologies of the major macroeconomic and financial data. A special issue of the CBR's *Bulletin of Banking Statistics* published in the beginning of 1999 provided explanatory notes and a detailed description of methodology for the compilation of monetary aggregates. From that time, methodological comments have been regularly published in each issue of the *Bulletin*, except for those issues that carried regional statistics in supplements.

E. Balance of Payments and International Investment Position

Conceptual framework

The balance of payments for the Russian Federation is compiled on a *BPM5* basis. Significant improvements have been made to improve the quality of balance of payments statistics, but coverage problems still remain both in the current and the capital and financial account.

The balance of payments is compiled with the following breakdown: the Commonwealth of Independent States (CIS) and non-CIS (far abroad) countries. The data are quarterly and annual in U.S. Dollars and are available one quarter following the reference period.

The international investment position for the Russian Federation is also produced on a quarterly basis, but its coverage is limited to the banking sector of Russia including the CBR. The CBR has stated it will develop a full comprehensive IIP within the terms prescribed by the SDDS.

Source of data

The primary source of data on transactions in goods is the Customs' statistical system. Customs data are adjusted for goods not captured in the customs statistics. The largest adjustments for both exports and imports are attributable to shuttle trade, smuggling (e.g., goods which are undercounted, undervalued, or pass free through customs.), and fish sold without crossing the border.

Information on many components of the balance of payments are provided by SCS (e.g., some data on goods, most services, certain transfers and data on inward direct investment), the MOF (for data on federal government debt transactions and federal government current account transactions), and the SCC (for customs data on merchandise trade). The CBR collects directly data on certain services, and information from banks (own-account transactions and transactions of other depository corporations, and government external assets managed by Vnesheconombank as an agent of the government), external debt of local governments, and inward and outward portfolio investment in securities issued by the government and other resident sectors. In addition, the CBR is responsible for assembling the BOP statement, for balance of payments analysis and projections, and for providing leadership and overall direction in the BOP compilation process.

Coordination between the MOF and the CBR for the timely provision of source data for the compilation of balance of payments statistics has improved.

Statistical techniques

As regards the indicators that are not subject to direct reporting, the CBR makes use of a number of models for calculating those indicators. The exports/imports of goods not recorded by the Customs (including shuttle trade and smuggling activity), are estimated on the basis of the analysis of data on retail trade sales. Travel services are estimated on the basis of average daily expenditures broken down by country, and on the basis of the number of residents travelling abroad and non-residents travelling in Russia (data from the Federal Frontier Service), and the estimated duration of their stay.

The estimate of compensation of employees is derived by estimating wages and salaries of Russian residents working abroad and of non-residents employed in Russia based on the number of employees broken down by category (data from the Federal Migration Service of

Russia and the SCS). An estimate of migrants' effects is determined by using the Federal Migration Service of Russia's data on the number of migrants multiplied by an estimated amount per migrant. Estimates of holdings of cash in foreign exchange by non-financial enterprises and households are based on the data on exports/imports of foreign exchange shipped by banks, and estimates of transactions in foreign currency performed by individuals (shuttle traders, travellers, migrants, etc.).

Accessibility

The balance of payments and the IIP are published on the Internet, in the *Bulletin of Banking Statistics*, *Vestnik Banka Rossi* and in the *Annual Report of the CBR*, in the latter two, they are available with commentary, supplementary tables, methodological notes, and description of the data sources.

Report on the Observance of Standards and Codes: Fiscal Transparency

Russian Federation

Prepared by a staff team¹ of the International Monetary Fund, on the basis of information provided by the Russian authorities.

The International Monetary Fund
September 2000

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INTERNATIONAL MONETARY FUND

RUSSIAN FEDERATION

**Report on the Observance of Standards and Codes (ROSC)
Fiscal Transparency Module**

Prepared by the Fiscal Affairs Department
(In consultation with the European II Department)

Approved by Peter S. Heller and John Odling-Smee

September 13, 2000

EXECUTIVE SUMMARY

This report provides an assessment of fiscal transparency practices in the Russian Federation in relation to the requirements of the IMF *Code of Good Practices on Fiscal Transparency—Declaration on Principles* based on the authorities' response to the IMF fiscal transparency questionnaire and other documents provided by the authorities.

The Russian authorities have taken important steps toward establishing a transparent fiscal management system, but the requirements of the fiscal transparency code are not yet met in a number of respects. The budget code, which became effective in FY 2000, constitutes a legal framework that potentially provides for comprehensive coverage of fiscal activity and assurance of full public disclosure, and the treasury system that the authorities intend to put in place will eventually allow comprehensive and timely government accounting and fiscal reporting. But there are at present many gaps in fiscal coverage (notably the ministries of defense and interior) and a number of fiscal activities are carried out by agencies outside general government (for instance, through the energy monopolies). Relationships between the central and regional levels of government are yet to be fully defined and there is a need to focus fiscal policy on agreed targets for general government and to improve transparency at all levels of government.

The staff has proposed a series of measures which build on the progress that has already been made, and also address issues involved in defining the roles of different levels of government more clearly. In the former category, particular emphasis has been given to comprehensive coverage of the treasury system, continuing efforts to eliminate arrears and offsets, and publication of information on contingent liabilities and tax expenditures. With respect to improving intergovernmental relations, emphasis is placed on the establishment of a high-level forum to discuss general government borrowing and fiscal targets, and the adoption of common data standards at all levels of government.

	Contents	Page
I.	Introduction.....	2
II.	Description of Practice.....	2
	A. Clarity of Roles and Responsibilities.....	3
	B. Public Availability of Information.....	7
	C. Open Budget Preparation, Execution, and Reporting.....	7
	D. Independent Assurances of Integrity.....	9
III.	IMF Staff Commentary.....	10

I. INTRODUCTION

1. This draft report provides an assessment of fiscal transparency practices in the Russian Federation. The assessment has two parts. The first part is a description of practices in relation to the requirements of the IMF *Code of Good Practices on Fiscal Transparency—Declaration on Principles*, prepared by the IMF staff on the basis of the authorities' response to the IMF fiscal transparency questionnaire. The second part is an IMF staff commentary on fiscal transparency in the Russian Federation.

II. DESCRIPTION OF PRACTICE

A. Clarity of Roles and Responsibilities

2. The government has made progress in distinguishing general government operations from those of other economic sectors, but many relationships need further clarification and more complete information is required on fiscal activity (particularly with regard to defense spending). Statistics on general government activities in many respects conform to internationally accepted standards.¹ However, in accordance with current legislation, many budget organizations substantially supplement their budget resources through commercial or quasi-commercial practices—some of which amount to informal public sector activity (for instance, renting real estate to the private sector, sometimes in exchange for equity). Budget organizations are required to report commercial incomes on a quarterly basis, and some types of revenue are consolidated on treasury accounts. However, the treasury has no means of independently monitoring the flow of off-budget revenues on “own resource accounts” (ORAs)², as these are not covered by the treasury at the federal or regional levels. As a result, the extent of government activity is understated and the distinctions between public and private sector activity is blurred.

¹ Fiscal data are discussed in more detail in the data dissemination module currently under preparation.

² Such accounts may also be based on receipts of nontax revenue, such as charges, fees, or fines. They are distinguished from formal extrabudgetary funds, such as the Pension Fund, in that the latter are set up under specific legislation, whereas the former are set up under existing broad Civil Code provisions. From 1999, ORAs can only be set up with the permission of the ministry of finance, and the Central Bank of Russia is required to report aggregate ORA balances to the ministry of finance. However, flows through ORAs are not reported, as the civil code prevents the Central Bank of Russia from releasing transaction details. Full transparency of these accounts will only be achieved when all transactions are reported through the treasury.

3. **Government involvement in private sector activity remains far-reaching.** Sales of government assets to the private sector were widely perceived as being nontransparent, but a transparent framework for privatization now exists under the 1997 Privatization Law. Directed lending to enterprises is being limited, but some (e.g., to the coal sector) still occurs and information on such operations at subnational level or from extrabudgetary funds (EBFs) is not readily available. A more pervasive problem has been the implicit fiscal support of enterprises through noncollection of taxes and tax-offset mechanisms, which has contributed to an environment of unrealistic budgeting and an inadequate accountability framework for enterprises. The federal government has abstained from offsets since early 1999, and has taken steps since January 2000, thus far apparently successful, to sharply curtail the use of offsets at the subnational level.

4. **Significant nontransparent government intervention in the market continues to occur.** In particular, the energy monopolies are a major source of hidden subsidies to general manufacturing companies.³ With respect to the fiscal transparency code requirement that regulation of industry be nondiscriminatory, the legal framework for regulating enterprise activity and promoting competition is in place and broadly in line with international standards, but procedures are unwieldy and implementation has been problematic. Government regulatory agencies for public utilities retain strong links with the enterprises that they regulate.

5. **The Central Bank of Russia (CBR) provides budgetary support and has in the past engaged in quasi-fiscal activity.** The law on the CBR of 1990 prohibits the Bank from extending credit to government through the primary market—except in cases stipulated by the law on the federal budget. The latter provision, though intended to cover temporary lending, allows scope for strong pressure on the CBR to provide direct budgetary financing. Quasi-fiscal support is provided by charging less than market rates on government borrowing from the CBR. In the past, (1992–94) the CBR also engaged in quasi-fiscal budgetary support by directing credit on favorable terms to certain sectors of the economy. While the CBR's basic guidelines now prohibit such activities, there is still a significant lack of transparency in the activities of CBR subsidiaries, with potential quasi-fiscal implications.⁴

6. **Relationships with subnational governments are still being defined.** The second tier of government within the Federation consists of some 89 “regions” (these have varying descriptions, including oblast, autonomous oblast, ethnic republic, republic, autonomous republic, krai (region), and okrug (district), but for the most part they have a unified

³ For instance, in August 2000, administrative restrictions were introduced on the export of fuel oil and diesel oil on the grounds that a market-based system of ensuring supplies to vulnerable sectors had not been established. Transparent budget subsidies and temporary increases in export duties would be preferable measures and carry less risk of abuse.

⁴ Details are provided in the monetary and financial policy transparency module currently under preparation.

budgetary relationship with the federal government). Each of the second tiers of government has a third (district) tier, which, in turn, contains subordinated municipalities and townships. Subnational governments account for about 40 percent of enlarged government revenue and expenditure (including EBFs)⁵, but fiscal capacities differ markedly among regions. Through the budget code and Part I of the Tax Code, expenditure responsibilities and revenue powers have been assigned to different levels of government. However, a number of aspects of expenditure assignment (such as education and capital expenditure) are not clearly defined and there are many areas of joint responsibility subject to interpretation. More autonomy has been given to subnational governments with respect to revenue, but most of their revenue sources are still subject to statutory control of the federal government. The main focus of reform in this area has been central and regional levels of government; little attention has yet been paid to the issue of proper revenue assignment to local governments. Further review is therefore needed to achieve a better match of revenue and expenditure assignments, and to improve the incentive structure and accountability of each level of government.

7. Tax-sharing and transfer arrangements between the center and the regions have been greatly improved, but elements of nontransparency remain. Before 2000, tax sharing arrangements provided a strong incentives for the regions to collect taxes in noncash form, since they will thereby have less cash receipts to share with the central government.⁶ The federal government still has limited information on noncash transactions of subnational budgets. From 2000, equalization transfers to the regions are determined using a refined methodology, based on objective indicators (such as the number of students in school) and an assessment of fiscal capacity. However, these cover only a portion of total transfers to regions; the remainder are allocated for specific types of expenditure activity, and are often negotiated on an ad hoc basis. Only a few regions have introduced objective formulae for allocating transfers to lower levels of government within the region.

8. Unfunded federal mandates reduce the accountability and realism of regional budgets. The tendency in recent years has been to transfer unfunded expenditure mandates from the center to the regions,⁷ with the net result that the problem of unrealistic budgeting is shifted from the federal to regional level. The extent of the problem has been recognized by the authorities. A survey by the ministry of finance in 1999, indicated that unfunded mandates in 1998 would have cost around 8 percent of GDP if fully implemented—though subnational governments implemented only around 31 percent of these obligations. These

⁵ Under the *Budget Code of the Russian Federation* (the budget code), tax revenues of the regions must be at least 50 percent of the consolidated budget (Article 48). The consolidated budget, however, is defined to exclude EBFs.

⁶ From 2000, the federal share is to be calculated as a percentage of total tax revenue including offsets, but only cash can be remitted to the center. This should provide a strong disincentive for the regions to engage in offsets.

⁷ Although such transfers were eliminated by a 1993 law and deemed to be of a “recommended” nature, they tend to be interpreted in the courts as obligatory.

reflect a lack of clear definition of responsibilities or an effective mechanism for negotiating fiscal responsibilities between levels of government, and make it difficult to establish clear lines of responsibility for overall fiscal management.

9. **The budget code⁸ provides a comprehensive legal framework for fiscal management.** It covers all levels of government and fiscal relations between levels of government. Article 36 of the Budget Code specifically endorses the principle of openness of the budget regarding mandatory public availability of budget and budget execution reports as well as accessibility of other information based on legislative bodies at all levels of government. It requires that state EBFs, although administered outside the budget, be presented to the legislative bodies at each level of government at the same time as the annual budget law, that their finances should be reported to the federal treasury, and reports on their execution be submitted to the Federal Assembly. The budget code specifies the functions of the minister of finance, the ministry of finance, and the federal treasury in preparing, implementing, and reporting on fiscal activity, and requires that the budget be prepared in the context of a medium-term fiscal plan, which is updated each fiscal year (Article 174). The budget code requires an extensive set of documents providing relevant economic information to be presented to the state Duma at the same time as the annual budget law (Article 192), or any revision to the law (Article 193).

10. **Some aspects of the budget code, however, may limit progress toward full transparency.** Overall, the emphasis of the law is on financial authorization and compliance, with little specific reference to performance and results of budget spending. The code also retains some aspects of central planning by embodying budget norms (Article 177) as the basis for costing of government services. Often, the standards of service set by such norms are not attainable with available resources, and their legislative status thereby encourages potentially unaffordable budget commitments. Long-term earmarked programs (Article 179) could lead to similar problems. Article 235 of the Code makes specific provision for mutual writedown of liabilities by offset, though this provision is limited to transactions not involving tax payments, and is not applicable to transactions between budgetary and commercial enterprises.

11. **A legal basis exists for all taxes, and taxpayers are provided legal assurance of administrative and judicial protection of their rights.** Tax regulations are being significantly clarified with the passing of a new tax code, Part I of which came into effect from January 1999. Many aspects of tax administration, however, continue to be characterized by discretion and negotiation with respect to a number of fiscally significant taxpayers. The tax code now defines taxpayers rights and responsibilities reasonably clearly, although by international standards these rights tend to infringe on the required enforcement powers of the tax authority. Much work also needs to be done to convey information on tax legislation to the population and to train tax officials in observing these elements of the tax code.

⁸ Passed by the Duma in July 1998 and promulgated in July 1999 with effect from January 2000.

B. Public Availability of Information

12. **The budget code gives a strong basis for comprehensive provision of information to the public, but is not yet fully implemented.** The budget code requires that the consolidated budget of the Russian Federation (including federal and subnational governments, but excluding EBFs) be presented to the state Duma with the federal budget law for the forthcoming year. In practice, a key weakness of the budget presentation has been that many ORAs, which involve substantial expenditures, are not included. Reporting on actual spending has been limited until recently by incomplete coverage or noncoverage of the ministries of defense and interior and ORAs. The federal treasury started collecting data on ORAs from 1999 and it is proposed that the report for 1999 fiscal year will give a more comprehensive coverage of central government including such funds. A major gap in fiscal coverage is the noninclusion of the expenditures of the ministries of defense and interior. The intention is to complete the difficult task of including these expenditures in the treasury system during FY 2000. Budgeting and reporting for the four EBFs is carried out independently, with quarterly reports and annual budgets available to the public. Little information is available on the extensive commercial activities of the presidential administration, which are also not subject to adequate financial control mechanisms. Reporting on ORAs at all levels remains problematic and constitutes a larger problem at the regional than the federal level. State secrecy laws also introduce some elements of nontransparency and uncertainty into the fiscal accounts (for instance, changes in stocks of nonmonetary gold and other precious metals are covered by this legislation).

13. **Lags in reporting make it very difficult to provide accurate data on past years' spending in the budget presentation.** In a formal sense, however, comparative data for the previous year are provided. No statements are published with the budget on contingent liabilities, tax expenditures, or quasi-fiscal activities. The budget code does, however, require that the annual budget law place an upper limit on the provision of public guarantees and that such guarantees be included as a type of debt obligation in the sovereign internal debt of the Russian Federation (Article 116).

14. **The Russian Federation is making efforts to meet requirements for subscription to the IMF SDDS.** The State Statistics Committee of the Russian Federation has established a website for publication of data required by the standard. The ministry of finance publishes aggregate budget information on the federal budget showing monthly and year-to-date revenue, expenditure and financing data in comparison with the same period in the preceding year. The ministry also publishes data on domestic and external debt, as well as annual estimates of enlarged government operations.

C. Open Budget Preparation, Execution, and Reporting

15. **Work has been initiated on establishing medium-term aggregate forecasts and setting aggregate targets over the medium term.** The ministry of economy, together with the ministry of finance, have technical capacity to carry out medium-term forecasts and macroeconomic analysis, and basic macroeconomic assumptions (e.g., GDP growth rate,

inflation rate) underlying the budget are published in the budget document. Lack of economic and fiscal stability has meant that such forecasts are frequently revised.

16. **Article 92 of the Budget Code sets constraints on the size of the deficit.** To this end: (1) current expenditures may not exceed current revenues for any level of government; (2) the federal budget deficit may not exceed the total of budgetary investment plus interest expenditures; (3) the deficit of a regional level of government must not exceed 5 percent of regional revenues, excluding federal grants, and must be no greater than investment expenditure (a similar rule applies to local government, but the deficit is restricted to 3 percent of revenues).

17. **These are weaknesses in the reliability and analytical quality of budget data.** Rigorous costing of existing policy commitments of the government is not carried out. Because of the reliance on budget norms and noncoverage of ORAs, budget data are not completely reliable as a guide to likely expenditure nor comprehensive. No formal assessment of fiscal risks is included in the budget documents. The budget classification (which applies to all levels of government) corresponds broadly to international standards and federal budget reports are published on the website in this format. An important deficiency, however, is that information on expenditure outcomes by economic classification is not made available. There appear to be particular problems in ensuring application of the economic classification at subnational government levels. Another important limitation of the budget classification from the point of view of accountability is that the administrative classification is subsumed within a functional classification, which makes it difficult to establish clear responsibilities for implementing policies. The relationship between the estimates and the analytical overall balance is shown clearly in the budget document.

18. **The budget code requires recording of all stages of the payments process.** In principle, it is also in conformity with the eventual adoption of accrual-basis recording and reporting. Practical implementation of these principles is not currently feasible, however. The government has the right to reduce the authority to spend up to 10 percent of the approved budget without reference to the Duma if revenue receipts are less than expected; if a reduction of more than 10 percent is deemed necessary, the state Duma must review the budget and revise the annual budget law accordingly. (See Articles 258/259).

19. **The establishment of a federal treasury and development of a computerized treasury system is a major step forward.** Treasury implementation is contributing to the improvement of timely, reliable, comprehensive, and analytical statements of budget execution. Given the scale of the task, however, establishing a fully effective treasury system throughout government will take some time. In the past, the absence of a realistic basis for the budget and a lack of proper commitments control has led to the treasury being used mainly as a vehicle for cash rationing. The treasury is currently adopting a system of contract registration for budgetary institutions as a significant step forward in the area of commitment control. Summary reports on execution of the federal budget are provided to the Duma monthly and within one month after month-end. Annual reports are audited and presented to the legislature within 12 months of year-end. The final accounts presented to the legislature

also cover consolidated government, but, as noted, the coverage has been deficient with regard to inclusion of the ministries of defense and interior and ORAs, although this coverage is being progressively improved. Some consideration is also being given to including regional transactions in the federal treasury.

20. **Reconciliation of accounts with budget appropriations and with bank accounts are ineffective and not timely.** This is in part because a comprehensive treasury ledger system is not yet established and the accounts classification used by the central bank is not wholly compatible with that of the treasury. Accounting reports for the government as a whole are presently recorded and reported on a cash basis. At a budget institution level, records are maintained in some accrual-related form, but this data is not integrated with the federal treasury accounts. The most timely measure of budgetary arrears (from Goskomstat) covers only civilian expenditures and does not include the defense sector. The ministry of finance is currently implementing a monitoring system to cover budgetary arrears in all sectors, but so far this takes the form of an annual inventory, and information is available only with significant delays. No statement of accounting policies is included in the government budget or final accounts presentation.

21. **Internal control measures are unclear or incomplete in a number of crucial areas.** In several areas, detailed formal guidelines and manuals have not been prepared. Procurement regulations are described as being in place, but unclear or incomplete and only partially observed. Employment practices are considered by the authorities to be well regulated, but the regulations are only partly observed. Internal audit is narrowly focused on regulatory compliance. In this context, procedures are described as adequate, but only partially observed, with insufficient numbers of internal audit staff to give assurance of effective compliance.

D. Independent Assurances of Integrity

22. **The Accounting Chamber of the Russian Federation is independent of the executive branch of government.** It is responsible for auditing government accounts as well as for providing advice on budgetary matters to the Duma. The Accounting Chamber law also gives it the right to pre-audit government expenditures. It is required under the budget code to report to the state Duma on the federal budget execution report within 1.5 months of its submission. The budget code specifies topics on which the Accounting Chamber must give an opinion. In addition, the State Duma may request additional matters to be reviewed. A protocol agreement has been reached between the Accounting Chamber and the government whereby the Accounting Chamber has automatic access to treasury data. It is acknowledged that the Accounting Chamber has, as yet, limited technical capacity to carry out its functions.

23. **Auditing arrangements for the EBFs and the Road Fund remain weak.** Financial management reviews are being initiated for the main social EBFs, but no progress has been made in implementing such a review of the Road Fund.⁹

24. **Macroeconomic forecasts are made public.** They are also open to external scrutiny.

25. **Assurance of technical independence of the Russian Statistics Agency is not provided in legislation.** With regard to fiscal data dissemination standards SDDS requirements for coverage, periodicity, timeliness and advance release calendar (ARC) are met with some exceptions, but, consistent with the findings here, considerable improvements are required to meet an acceptable standard for data quality.

III. IMF STAFF COMMENTARY

26. **The Russian authorities have taken significant steps in recent years toward establishing a transparent fiscal management system.** Notably, the budget code, which became effective in FY 2000, provides a comprehensive legal framework for fiscal management that explicitly requires comprehensive coverage of fiscal activity and full public disclosure; and the treasury system that the authorities intend to progressively establish will eventually be developed into a comprehensive, timely, modern accounting and fiscal reporting system. However, significant gaps remain in the implementation of the budget code and the treasury system has yet to be realized.

27. **Good practice requirements of the fiscal transparency code are not met in a number of important respects.** Specifically: fiscal data cannot yet be assessed as being either reliable or comprehensive; partly for this reason, budget preparation is not based on a clear and realistic assessment of government's existing commitments; and, at a fundamental level, clarity of relationships between different levels of government and between government and other sectors of the economy needs further definition in key aspects. Further progress in defining intergovernmental fiscal relations is particularly critical to achieving transparent and effective fiscal policy decisions.

28. **The legacy of the central planning system and the size and complexity of government institutions and intergovernmental relations in the Russian Federation make improving fiscal transparency a formidable task.** Sustained commitment at a high political level is essential to achievement of this goal. Continued strong direction is needed in two broad areas.

- First, basic budget management processes should be further developed and the treasury system implemented within the framework of the budget code. This aim is

⁹ The draft 2001 budget law proposes the elimination of the Federal Road Fund as an earmarked budgetary fund, which would obviate the need for an auditing review.

already part of the government's program, but it should be strengthened by including objectives to achieve specific elements of good practice of fiscal transparency. Particular emphasis should be placed on production of reliable comprehensive fiscal data.

- Second, aspects of intergovernmental relations need to be reviewed and redefined to focus on achieving general government fiscal targets and improving transparency at all levels of government.

The following actions are recommended as priorities in the first area.

- Initiate a program to incorporate all legitimate ORAs in the treasury system and budget and progressively review all such activities to determine their appropriate treatment in the budget.
- The federal treasury as well as the Accounting Chamber to strengthen application of existing regulations to progressively eliminate irregular activities by budgetary institutions.
- Place continuing emphasis on incorporation of all transactions of the defense and interior ministries in the treasury system.
- Define existing policy expenditure commitments of government in the annual budget process to show clearly that ongoing costs of government services are fully costed and are realistically related to the macroeconomic framework. Develop detailed manuals on budget procedures to implement such a measure.
- Prohibit all noncash transactions and eliminate payment arrears. The treasury accounting system should be developed to provide accounts based reports on arrears to ensure that such problems do not re-emerge.
- Include a report on contingent liabilities in the budget and accounts, listing all contingent liabilities outstanding, giving the cost of each liability if called, listing those liabilities called over the previous year and their treatment in the budget, and indicating what coverage if any is provided in the FY 2000 budget for contingent liabilities (for example, they may be covered in a general contingency provision).
- Include a statement of fiscal risk in the budget showing, in addition to risks from contingent liabilities, risks to the fiscal position that may arise from changes in macroeconomic parameters.
- Include a statement of tax expenditures in the budget giving estimates of revenue foregone by tax and category of tax exemption.

- Identify clearly all fiscal and quasi-fiscal activities of the CBR.¹⁰
- Strengthen financial controls of the EBFs and the Road Fund, including at the subnational level.
- Initiate a review of quasi-fiscal activity in the energy sector and other selected public financial and non-financial enterprises with a view to reporting on their magnitude in the budget or eliminating such activities.
- Strengthen the technical capacity of the Accounting Chamber with regard to ex post or concurrent audit, and including performance audit. The position of the Accounting Chamber with respect to pre-audit, however, should be subject to review. Intervention with the executive function at this stage of the budget process runs counter to general international practice and may be seen to qualify the independent status of the auditor. Similar considerations may apply to its role as general advisor to the Duma on budget matters.

29. **Establishing a clear set of fiscal goals for general government and defining appropriate fiscal responsibilities at each level of government are necessary for effective intergovernmental fiscal relations.** In addition, a wide range of specific administrative issues must be addressed, such as those regarding mechanisms of tax sharing and administrative responsibilities for the regional offices of the Federal treasury. Inadequacies in all of these respects underlie many of the policy difficulties now being faced. Present data limitations, however, will make it difficult to base decisions on reliable general government fiscal statistics in the near future. It should, nonetheless, be an aim of government to produce such data, and structural measures should be introduced toward this end. The following steps should be given priority to produce a clearer definition of responsibilities and each level of government, and to establish common fiscal goals.

- Create a high level forum to discuss general government borrowing and fiscal policy, and necessary data and reporting standards to make such a forum work.
- Introduce the common classification standards established under the budget code at all levels of government—and updating these in line with international standards.
- Progressively implement regional reports to treasury—or treasury processing of regional transactions.
- Review of administrative responsibilities of regional treasury offices.

¹⁰ Although beyond the scope of the fiscal transparency code, elimination of such activities would be the preferred option.

- Review of expenditure and revenue assignments and relevant legislation, particularly with regard to unfunded mandates in the regions.
- Further improve the system of transfers, with particular emphasis on transparency of capital transfers at the lower levels of government.

**Report on the Observance of Standards
and Codes:
Transparency in Monetary and
Financial Policies**

Russian Federation

Prepared by a staff team¹ of the International Monetary Fund, on the basis of information provided by the Russian authorities.

**The International Monetary Fund
September 2000**

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INTERNATIONAL MONETARY FUND

RUSSIAN FEDERATION

**Report on the Observance of Standards and Codes:
Transparency in Monetary and Financial Policies**

Prepared by the Monetary and Exchange Affairs Department
(In consultation with the European II Department)

Approved by Stefan Ingves and John Odling-Smee

September 13, 2000

EXECUTIVE SUMMARY

This report provides an assessment of monetary and financial policy transparency practices in the Russian Federation in the context of the *Code of Good Practices on Transparency in Monetary and Financial Policies*. It covers transparency practices in four policy areas: monetary policy; banking supervision and payments system; securities regulation and supervision; and insurance regulation and supervision.

Monetary policy is uniquely the responsibility of the Central Bank of Russia (CBR); responsibilities for financial policies are divided, with the CBR responsible for banking supervision and payments systems, the Federal Commission for the Securities Market (FCS) responsible for securities market regulation; and the Department of Insurance (of the Ministry of Finance) (DIS) responsible for regulation of the insurance industry. Overall, the Russian Federation follows relatively transparent practices in the first three of these areas. By contrast, transparency practices are relatively weak, and at an early stage of development, in the area of insurance.

In the case of monetary policy, all of the *Code's* practices are either fully or broadly observed. The main areas for improvement relate to financial disclosure of the relationship between the CBR and its various subsidiaries, which does not fully follow good accounting practice, and in providing more systematic disclosure of the reasons underlying a change in monetary policy. It should be noted that the CBR does not fully observe all of the *Code's* recommended practices because it believes that they are not at present appropriate in the context of the Russian economy and Russian society. Financial policy disclosure in all areas could be improved through specification, explanation, and publication of the relationship among the various supervisory agencies. In addition, the quality of banking supervision disclosure would benefit from a simplification of regulations, which are sometimes overlapping or supercede previously issued ones. Accountability mechanisms particularly need to be clarified and disclosed in the case of securities market regulation. Virtually all aspects of insurance regulation transparency need to be defined.

This report was prepared by an MAE-led team in consultation with the Russian authorities in the context of a technical assistance mission in December 1999. The mission team was comprised of Mr. William E. Alexander (head) and Messrs. Udaibir Das, George Iden, and Jan Willem van der Vossen.

Contents	Page
I. Monetary Policy	3
II. Banking Supervision and Payments System	5
III. Securities Regulation and Supervision	7
IV. Insurance Regulation and Supervision	9
 Text Table	
1. Observance of Code of Good Transparency Practices	12

RUSSIAN FEDERATION: TRANSPARENCY IN MONETARY AND FINANCIAL POLICIES¹

1. This assessment of transparency practices covers four policy areas: monetary policy; banking supervision and payments system; securities regulation and oversight; and insurance regulation and supervision. Overall, the Russian Federation follows relatively transparent practices in the first three of these areas. By contrast, transparency practices are relatively weak, and at an early stage of development, in the area of insurance. A tabular summary of consistency with the Code of Good Practices on Transparency is provided in Table 1.

I. MONETARY POLICY

2. Monetary policy in Russia is conducted by the Central Bank of Russia (CBR). Control over the money supply is viewed as the major means of ensuring the ultimate objective of maintaining internal and external stability of the ruble. The principal medium-term objective of monetary policy is to reduce inflation while maintaining a positive or possibly accelerating rate of growth of GDP. Intermediate targets are specified in terms of an annual rate of growth for the broad monetary aggregate, M2. The short-term or operational objective of monetary policy is specified in terms of base money dynamics, with operational procedures based on control over the amount of net international reserves and net domestic assets of the monetary authorities.

3. The CBR has taken measures recently that provide a high degree of transparency in monetary policy. Practices in the Code are broadly observed in the main areas of **clarity of roles, responsibilities, and objectives and open process for formulating and reporting policy decisions**, and are fully observed in the areas of **public availability of information and accountability and assurances of integrity**.

4. The CBR uses several main vehicles for achieving transparency in objectives and implementation of monetary policy, including two annual publications, *The Basic Guidelines of State Integrated Monetary Policy* and *The Central Bank of the Russian Federation Annual Report* (the Annual Report). The CBR and the government also jointly drafts and publishes a *Declaration of the Economic Policy* for the coming year. The main provisions of these documents are explained also in public speeches and interviews of officials. There is also a monthly *Bulletin of Banking Statistics* and a *Newsletter* that is published weekly. Frequent

¹ This module was prepared in consultation with the Russian authorities in the context of a technical assistance mission conducted in Russia by the Monetary and Exchange Affairs Department of the International Monetary Fund in December, 1999. The mission team was comprised of Mr. William E. Alexander (head), Mr. Udaibir Das, Mr. George Iden, and Mr. Jan Willem van der Vossen.

press releases are issued as a means of communicating with the public. Extensive use is made of the CBR website (<http://www.cbr.ru>), in both Russian and English. The website contains a large volume of material on the CBR, including its objectives, history, and functions, and banking and financial statistics. The website also contains the *Annual Report* in full, current press releases, daily market information, and the latest issue of the *Bulletin of Banking Statistics*.

5. **The roles, responsibilities, and objectives** of the CBR are clearly defined in statutes and regulations. The institutional relationship between monetary and fiscal operations is clearly defined, as are agency roles performed by the CBR on behalf of the government. Insofar as the Code specifies that CBR's involvement with the rest of the economy should be conducted in an open and public manner on the basis of clear principles and procedures, there is a need to enhance disclosure of the CBR's equity interest in two domestic banks and in several commercial banks established on the territory of foreign countries. Such participation is transparently described in the CBR law while the *Annual Report* provides additional disclosure on the relationship with domestic and foreign subsidiaries, including a summary of their main activities. However, the results of these operations are not yet fully reflected in the CBR's financial statements and therefore do not constitute the good accounting practice that would be required if these operations were to be conducted in a fully open and transparent manner. CBR has indicated its intention to adopt suitable accounting practices at a future date.

6. **An open process for formulating and reporting policy decisions** is also broadly observed. The CBR Law establishes the basic instruments and methods of monetary policy; specific plans for the year are presented annually in the *Basic Guidelines for State Integrated Monetary Policy*. Changes in the setting of monetary policy instruments are generally announced publicly and explained through published reports, press releases, and on the website. Additional explanations are provided by officials in appearances before the State Duma and in the CBR's *Annual Report*. However, the CBR does not disclose an advanced meeting schedule for meetings of its Board of Directors (the monetary policy-making body). While policy changes are always announced immediately after a decision of the Board, an explanation of the main considerations underlying a change in monetary policy is not systematically disclosed in a timely manner. Such explanations are typically given in an ad hoc manner, often in the form of interviews and unpublished speeches, and sometimes with a considerable time lag. It should be noted that the CBR does not observe these practices because it believes that, in the context of the Russian economy and Russian society, observance of these aspects of the Code would be counterproductive. With respect to the Code's presumption in favor of public consultations when substantive technical changes are proposed to the structure of monetary regulations, the CBR sometimes, but not as a general practice, consults with the public.

7. With respect to the **public availability of information** and, as noted above in paragraph 4, the CBR has an appropriate range of publications. Senior officials of the CBR also make public appearances before the State Duma, give speeches to financial groups, and give media interviews as a means of explaining CBR policy decisions and actions. The CBR

can be particularly commended for its informative website. The CBR regularly discloses its summary balance sheet and aggregate information on market transactions. The presentation and release of data are consistent with Special Data Dissemination Standards (SDDS) while data are released in a timely manner.² Texts of regulations issued by the CBR are readily available to the public.

8. Transparency practices are fully observed in the area of **accountability and assurances of integrity**. The CBR is accountable to the State Duma, which appoints and can discharge the chairman and members of the Board for specified reasons. The CBR is required to submit its *Annual Report*, including audited financial statements, to the Duma. The CBR chairman must make biannual reports to the State Duma, and the State Duma may summon the chairman or members of the Board of Directors to its sessions. Standards for the conduct of the personal financial affairs of officials and staff are established in the CBR Law.

II. BANKING SUPERVISION AND PAYMENTS SYSTEM

9. The CBR is the sole agency responsible for banking regulation and supervision and it is uniquely responsible for oversight of the payments system. The broad objective of the CBR as a financial agency is to ensure the development and strengthening of the banking system. The main objectives of banking regulation and supervision are the maintenance of the stability of the banking system and the protection of the interests of depositors and creditors. The CBR's main responsibilities comprise: lender of last resort; rule-making regarding banking operations; licensing and registration of banking activities; supervising the activities of credit institutions; and regulating their participation in securities markets. The primary objective of payments system oversight is to ensure the efficient and reliable operation of the payments and settlement systems.

10. The CBR has achieved a relatively high degree of transparency in its operations as a financial agency. The CBR is in full observance of most of the Code's transparency practices with regard to **public availability of information and accountability and assurances of integrity**, and is in broad observance with regard to **clarity of roles, responsibilities, and objectives, and open process for formulating and reporting of financial policies**. Consistent with the activities of other central banks that are reacting to newly evolving standards with respect to the operation of payments systems, it has in process a number of measures that will further enhance transparency of payments system transparency.

² At the Second Review of the Fund's Data Standards Initiatives, the IMF Executive Board approved the incorporation of the data template on international reserves and foreign currency liquidity into the SDDS as a prescribed component, and established a transition period for compliance with the SDDS requirements of the template to run through the end of March 2000. Subscribers were required to commence the dissemination of reserves template data for April 2000 at the end of May 2000.

11. The CBR uses essentially the same vehicles for achieving transparency in financial policies as it does for achieving transparency in monetary policies (see paragraph 4 (above)). Aggregate banking statistics are reported on a timely and regular basis. However, the underlying data are compiled according to Russian Accounting Standards; their quality can be expected to improve significantly when International Accounting Standards are fully implemented.

12. With respect to **clarity of roles, responsibilities, and objectives**, the broad objectives and institutional framework for the regulation and supervision of the banking system are clearly defined in the law, and are also disclosed and publicly explained through various publications and officials through commentaries, speeches, and press and media interviews. The CBR's roles and responsibilities with respect to payments system oversight is suitably defined in the law. The CBR works closely with the credit institutions and other payments system participants to formulate the principles and guidelines affecting the operation of the payments system. Ensuing rules, standards, and forms are publicly disclosed. The relationship between financial agencies, in particular between the CBR and the securities and insurance oversight agencies, is not well defined in laws or regulations and depends largely on informal arrangements. There is a need to clarify, publicly disclose, and explain the functional relationships among these agencies.

13. The CBR broadly observes the practices promoting an **open process for formulating and reporting of financial policies**. The CBR law clearly specifies the framework under which banking supervision and regulation shall be conducted, and mandates that all normative acts be published. There is, however, scope for improving the quality of disclosure as it applies to regulations, which are sometimes overlapping or supercede previously issued regulations. The law clearly specifies the confidentiality considerations that impact on the transparency of the policy process. The CBR periodically issues its analysis of the state of the banking system in its *Annual Report* and in its other publications. Key changes in the regulatory framework are published and disclosed through official publications and also on the website. Suitable modalities exist and are used for public consultation on substantive technical changes in the legislative and regulatory framework. While the existence of formal information-sharing arrangements with a number of foreign supervisory agencies has been disclosed, modalities for information sharing and consultation have not been disclosed. Formal arrangements for information sharing among domestic financial agencies are largely undeveloped.

14. The description covering **public availability of information** for monetary policy (paragraph 7 above) applies equally for banking supervision and payments system oversight. While there have been changes recently to the coverage and structure of financial reporting in the *Bulletin of Banking Statistics* that ensure adequate reporting of aggregate statistical data, it is important to note that what is reported for banks is compiled on the basis of Russian Accounting Standards which are quite different in some aspects from International Accounting Standards. Both quality and comparability with other countries' data will improve in future when International Accounting Standards will be adopted.

15. The basic provisions of **accountability and assurances of integrity** as described for monetary policy (paragraph 8 above) also cover its accountability as a financial agency.

III. SECURITIES REGULATION AND SUPERVISION

16. The Federal Commission for the Securities Market (FCS) is the federal executive agency responsible for implementing securities market policy. In its conduct of oversight of the securities market and its participants, the FCS works in close collaboration with two licensed self-regulatory agencies. The FCS' broad objectives are: to supervise the development of Russia's capital market; to ensure protection of investors' rights; and to promote the fair and transparent conduct of market operations. The main responsibilities of the FCS comprise: promulgating and enforcing regulations for securities issuance; maintaining the registered securities registry; supporting the development of securities market infrastructure; licensing; and enforcing regulatory and statutory compliance by issuers, securities market participants, and self-regulatory agencies.

17. While having been established only in 1996, the FCS has already achieved a relatively high degree of transparency in its operations. The FCS has committed to a conscious strategy to maximize the public availability of information, in line with its belief that full and timely disclosure is a policy that best contributes to the efficient operation of organized securities markets. Transparency practices relating to **clarity of roles, responsibilities, and objectives** as well as those relating to **an open process for policy formulation and reporting** are broadly observed, those relating to **public availability of information** are fully observed, and those relating to **accountability and assurances of integrity** are broadly observed.

18. The *Annual Report* is the main record and formal account of the activities of the FCS. In addition, the FCS publishes a monthly *Bulletin* and an English language *Regulatory Update*. The FCS also maintains a website (<http://www.fedcom.ru>), which it uses actively to disseminate information in both Russian and English. The website contains material on the development and regulation of the securities market, FCS organizational matters including its objectives, history, and functions, regulatory, legal, and other acts of the FCS, press releases and other announcements, information on issuers, inspections, securities market statistics, and daily market information on prices and turnover.

19. With respect to the **clarity of roles, responsibilities, and objectives**, the objectives, responsibilities, and most aspects of the institutional framework of the FCS are clearly defined and described in the law, presidential decree, and regulations and orders issued by the FCS. All are readily available to the public. The institutional framework places considerable reliance on the use of self-regulatory agencies, and both the oversight responsibilities of the FCS and transparency practices of the self-regulatory agencies are publicly disclosed. A need exists, however, to define and provide greater clarity regarding the formal mechanisms of accountability. These are not specified in the Securities Law, nor are the procedures for appointment of the FCS' chairman and Board of Directors, their terms of

office and removal criteria. Although the chairman and commissioners are presidential appointments, the accountability relationship with the president has not been disclosed. Since the FCS has some overlapping responsibilities with the CBR in the area of regulation of credit institutions and for settlement in markets in government securities, there is also a need for a clear, publicly announced demarcation of roles and responsibilities between the two institutions. The same applies to the relationship between the FCS and the insurance regulator.

20. An **open process for policy formulation and reporting** is broadly observed. The conduct of financial policy is transparent and consistent with confidentiality considerations. Under law, resolutions and regulations of the FCS are subject to compulsory publication. In addition, the FCS publishes in its monthly *Bulletin* information on termination of licenses, administrative penalties, and court decisions against professional securities market-makers and their self-regulatory organizations. A periodic report on how overall policy objectives are being pursued is provided in the *Annual Report*. Changes to the regulatory and supervisory framework are disclosed through official publications; they are also posted on a timely basis on the website. There is an established process for public consultation for proposed substantive technical changes in the structure of financial regulations: several formal council and consultative committees with various industry groups have been established and information relating to meetings of these councils and consultative groups is posted on the website.

21. Practices relating to **public availability of information** are fully observed. As noted in paragraph 18 above, public information services are well developed and effective use is made of the FCS website. The FCS *Annual Report* contains a review of developments in the securities market, regulatory developments, its dealings with self-regulatory agencies, and an account of its inspection and investigative work. Daily statistics on market turnover and market prices are published on the website, as are texts of all regulations and directives.³ Officials make frequent public appearances to discuss securities market developments and FCS initiatives.

22. As to **accountability and assurances of integrity**, the FCS reports to the government. The chairman, as requested, appears before the State Duma to report on FCS' areas of responsibility. The *Annual Report* provides information on revenues and expenditures, although no balance sheet information is provided. The Accounting Chamber

³ The FCS receives high marks for public availability of information, notwithstanding a perceived unreliability of the financial data that are made available by many issuers of corporate securities. Corporate data are relevant for purposes of the FCS primarily as they relate to requirements for approval for public issuance, listing, and trading of corporate securities. However, the requirements of the *Code* relate to the need for transparent publication of regulations, rather than to good practice in designing the underlying regulations or to the quality of the underlying disclosure of financial information.

of the Russian Federation audits the financial activities of the FCS. Standards of conduct for the financial affairs of officials and staff are governed by the Law on State Employees. However, aside from audit arrangements, internal governance procedures are not disclosed. Officials and staff do not receive special legal protection in the discharge of their duties except insofar as they receive the usual protections afforded to government employees. These protections are not disclosed or explained in any publications of the FCS.

IV. INSURANCE REGULATION AND SUPERVISION

23. The regulation and supervision of the insurance industry is the responsibility of the Department of Insurance (DIS), Ministry of Finance (MOF), a federal executive body. The broad objectives of the DIS comprise: financial stability (through oversight of the investment activities of insurance firms); market and systemic stability (by ensuring the financial stability of the insurers); and competitive and fair markets (by regulation of insurance rates). Development of the insurance industry is still in a relatively nascent stage in Russia; thus, DIS also has a role in providing methodological guidance for insurers in the areas of accounting, statistical record-keeping and reporting, and in establishing cooperation with international organizations in the area of insurance regulation. The DIS' main powers and responsibilities comprise: licensing; maintaining the single State Register of Insurers and their Associations and a register of insurance brokers; regulating rates of insurance and controlling the insurers' paying capacity; establishing rules and regulations governing the formation of accounting rules, and distribution of insurance reserves; drafting normative regulations more generally applicable to the insurance industry; and enforcing compliance, including through recourse to a court of arbitration to force the winding-up of the insurer in the event of habitual noncompliance.

24. Both the insurance industry and the regulatory and supervisory framework governing it are still at an early stage of development. This applies also to transparency practices, where much remains to be done to bring practices up to the relatively high levels of transparency that have been achieved for monetary policy and in the other main areas of financial regulation. While practices governing **clarity of roles, responsibilities, and objectives** are broadly observed, practices are not observed in the areas of **open process for formulating and reporting of financial policies, public availability of information, or accountability and assurances of integrity**.

25. The **roles, responsibilities, and objectives** of the DIS are defined in statute and in regulation, while the relationship and accountability of the DIS to the legislative and executive branches of government are variously defined in the federal constitution, federal laws, presidential decrees, and governmental resolutions and orders. These roles, responsibilities, and objectives are publicly disclosed and explained through written reports to the legislature, and through public appearances by senior officials of the DIS and the MOF. A major shortcoming of the framework is that the Insurance Law does not recognize the possible jurisdictional overlaps among the insurance, securities, and banking regulators and supervisors. Consequently, the relationship to other financial agencies has not been

defined. Given the disparate laws and regulations governing the institutional relationship between the DIS, the MOF, and other government departments and agencies, and the legislature, greater clarity and transparency could be achieved by producing a unified public document providing a simplified explanation and description.

26. With respect to transparency in the area of **formulating and reporting of financial policies**, the authority to conduct financial policies, including enforcement powers and the right to carry out audits of insurance providers, is clearly and publicly explained in the laws and regulations. However, there are no established mechanisms for timely and public explanation of changes in policy, or periodic public reports on the operations of the DIS that are made available on a regular schedule. There also is no established mechanism for public consultations when substantive technical changes in the structure of financial regulations are in process.

27. As to **public availability of information**, the DIS does not have a formal publications program and it is not required to issue any prescribed public report on its performance and achievements in relation to its policy objectives. For dissemination of information, the DIS depends on the MOF's Public Information Services. The DIS does not maintain a website nor does it utilize the MOF's website. The main vehicles for the provision of public information are interviews and speeches of officials.

28. The Insurance Law does not provide any formal mechanisms for **accountability and assurances of integrity**. The DIS operates like any other government department accountable within the general framework of rules and procedures applicable to government departments and government employees. No information on the annual operating expenses and revenues of the DIS is disclosed.

Table 1. Russia: Observance of Code of Good Transparency Practices

Section	Practice	FO ^{1/}	BO ^{2/}	NO ^{3/}	Comments
Monetary Policy					
Clarity of roles, responsibilities, and objectives	Objectives, the institutional framework, the institutional responsibility for foreign exchange policy, the relationship between monetary and fiscal operations, and agency roles are clearly defined in the Constitution of the Russian Federation, the Central Bank of Russia (CBR) Law, and the Law on Foreign Exchange Regulation and Control.		X		The CBR Law also provides for the participation of the CBR in the ownership (equity) of the Savings Bank of Russia, Vneshtorg Bank, and credit organizations established on the territory of foreign countries. While the CBR's ownership stake in these institutions is well known, the financial relationship is not fully disclosed and the indirect effects on the economy that occur because of the activities of these organizations (e.g., quasi-fiscal implications) are not fully transparent.
Open process for formulating and reporting policy decisions	The CBR Law establishes the basic instruments and methods of monetary policy; specific plans for the year ahead are presented annually in the <i>Basic Guidelines for State Integrated Monetary Policy</i> . Changes in the setting of monetary policy instruments are generally announced publicly and explained through published reports, press releases, and on the website. Additional explanations are provided by officials in appearances before the State Duma and in the CBR's <i>Annual Report</i> .		X		The Board of Directors of the CBR has regularly scheduled meetings to discuss monetary policy; however, the advanced meeting schedule is not publicly disclosed. In addition, transparency would benefit from more disciplined and timely explanations of the underlying considerations of a change in monetary policy. The CBR does not observe these practices because they believe that in the context of the Russian economy and Russian society, their adoption would be counterproductive.
Public availability of information	Presentation and releases of data by the CBR are consistent with the SDDS. ^{4/} Summary balance sheets are disclosed on a monthly basis. Aggregate information on selected market transactions is released with a variable lag.	X			The CBR has an active publications program, including its <i>Annual Report</i> , <i>Monthly Bulletin of Statistics</i> , its <i>Newsletter</i> , speeches of officials, and a website.
Accountability and assurances of integrity	The CBR is accountable to the State Duma, which appoints and can discharge the chairman and members of the Board of Directors. The CBR submits an <i>Annual Report</i> , including audited financial statements. The State Duma appoints the auditor. Internal audit requirements	X			

Table 1. Russia: Observance of Code of Good Transparency Practices

Section	Practice	FO ^{1/}	BO ^{2/}	NO ^{3/}	Comments
	and standards of conduct for CBR staff are stipulated in the CBR Law.				
Banking and Payments Systems					
Clarity of roles, responsibilities, and objectives	The broad objectives and institutional framework for the regulation and supervision of the banking system are clearly defined in law. In addition, they are also disclosed and publicly explained through various publications and by officials through commentaries, speeches, and press and media interviews. The CBR's roles and responsibilities with respect to payments system oversight is defined in law.		X		Practice is not fully observed insofar as the relationship between banking and other financial agencies is not fully disclosed. There is need to clarify, publicly disclose, and explain the functional relationship among the banking, securities, and insurance supervisory/regulatory agencies.
Open process for formulating and reporting of financial policies	The CBR periodically issues its analysis of the state of the banking system. A chapter of the <i>Annual Report</i> is devoted to CBR supervisory activities and less formal mechanisms are also used to report on policy issues, including public commentaries and press interviews. Key changes in the regulatory and supervisory framework are published and disclosed through official publications and also on the website. Suitable modalities exist and are used for public consultation on substantive technical changes in the legislative and regulatory framework.		X		Observance is deficient insofar as formal procedures for information-sharing and consultation between financial agencies, domestic and international, have not been disclosed. In addition, there is scope to improve the quality of disclosure. This is especially true of regulations, which are sometimes overlapping or supercede previous regulations.
Public availability of information	Description provided for monetary policy applies equally for banking supervision and payments system oversight.	X			Aggregate banking statistics are based on data that have been generated using Russian Accounting Standards. The quality of these data will improve when International Accounting Standards are fully implemented.
Accountability and assurances of integrity	The basic provisions of accountability of the CBR, as described for monetary policy (above), also cover its accountability as a financial agency.	X			The operating costs and expenses relating to the CBR's supervisory and regulatory functions are consolidated within the overall accounts of the CBR and are not shown separately.

Table 1. Russia: Observance of Code of Good Transparency Practices

Section	Practice	FO ^{1/}	BO ^{2/}	NO ^{3/}	Comments
Clarity of roles, responsibilities, and objectives	The objectives, responsibilities, and most aspects of the institutional framework of the Federal Commission for the Securities Market (FCS) are clearly defined and described in law, presidential decrees, and regulations and orders issued by the FCS, and are readily available to the public. The institutional framework places considerable reliance on self-regulatory organizations (SROs), and the oversight responsibilities of the FCS for these organizations are publicly disclosed. The FCS has overlapping responsibilities with the CBR in the area of regulation of credit institutions and for settlement in markets in government securities.		X		There is need for greater clarity with respect to formal mechanisms of accountability. Since the chairman and commissioners are presidential appointments, the accountability relationship with the president—including appointment procedures and removal criteria—should be publicly disclosed. There is also need for a clear, publicly announced demarcation of roles and responsibilities between the FCS and the CBR and between the FCS and the insurance regulator.
Open process for policy formulation and reporting	The conduct of financial policies is transparent and compatible with confidentiality considerations. Significant changes in financial policies are publicly announced and explained in a timely manner. There is an established process for public consultation for proposed substantive technical changes in the structure of financial regulations.		X		Since the FCS has some overlapping responsibilities with the CBR in the areas of regulations of credit institutions and for settlement in markets in government securities, there is need for a clear public demarcation of their respective roles and responsibilities.
Public availability of information	Public information services are well developed and effective use is made of the FCS' website. The FCS publishes an annual report on its activities; it provides detailed information on securities issuance and on its enforcement operations on a timely basis, and daily statistics on market turnover and market prices. Texts of regulations and directives are available on the website. Officials make frequent public appearances to explain the state of the securities market.	X			The FCS is a federal executive agency with ministerial status. As such, it has no independent balance sheet and does not undertake market transactions.

Table 1. Russia: Observance of Code of Good Transparency Practices

Section	Practice	FO ^{1/}	BO ^{2/}	NO ^{3/}	Comments
Accountability and assurances of integrity	The FCS reports to the government. The chairman, as requested, appears before the State Duma to report on the FCS' area of responsibility. While no balance sheet is provided, the Annual Report provides information on revenue and expenditure. The Accounting Chamber of the Russian Federation audits the financial activities of the FCS. Standards for the conduct of personal financial affairs of officials and staff are governed by the Law on State Employees.		X		Information on the personal financial matters of officials is made available upon a written request from the media with mandatory publication with a maximum delay of one week.
Insurance					
Clarity of roles, responsibilities, and objectives	The broad objectives of financial policy, as well as the institutional framework governing the Department of Insurance (DIS), are defined both in legislation and regulation. However, the relationship among the various financial agencies has not been defined. The Insurance Law does not recognize the possibility of jurisdictional overlaps among the insurance, securities, and banking regulators and supervisors, and no coordinating mechanism exists in practice.		X		Given the wide ranging laws and regulations governing the institutional relationship of the DIS with legislature, the MOF, and other government agencies, it would be useful to provide a simplified description of the institutional framework. Such a document should be publicly disclosed and explained to improve the general understanding of the responsibilities and relationships among the DIS and other agencies.
Open process for formulating and reporting of financial policies	The authority to conduct financial policies, including enforcement powers and the right to carry out audits of insurance providers, is clearly and publicly explained in law and regulation. However, there are no established mechanisms for the timely and public explanation of changes in policy; periodic public reports on the operations of the DIS are made available on a regular schedule. There is also no established mechanism for public consultations when substantive technical changes in the structure of financial regulations are in process.			X	The DIS is initiating several steps to make the regulatory and supervisory framework consistent with IAIS core supervisory principles.

Table 1. Russia: Observance of Code of Good Transparency Practices

Section	Practice	FO ^{1/}	BO ^{2/}	NO ^{3/}	Comments
Public availability of information	The DIS is not required to issue any prescribed public report on its performance and achievements in relation to its policy objectives. It does not have a formal publications program to disclose and explain the functions and responsibilities relating to the insurance sector.			X	The DIS depends on the facilities of the MOF's Public Information Services. However, it does not use the MOF's website for dissemination or disclosure of information nor does it maintain its own website. On occasion, officials of the DIS and the MOF do speak with the press and make public statements.
Accountability and assurances of integrity	The DIS operates like any other government department of the government accountable within the general framework of rules and procedures as applicable to government departments and the civil service. The broad modalities of accountability consist of written reports, public appearances, and publications.			X	The Insurance Law does not prescribe any formal accountability mechanism for the DIS in relation to its responsibilities relating to the formulation and enforcement of insurance policies. No information on the annual operating expenses and revenues of the DIS is disclosed.

^{1/} FO: Fully observed.

^{2/} BO: Broadly observed or largely observed.

^{3/} NO: Not observed.

^{4/} At the Second Review of the Fund's Data Standards Initiatives, the IMF Executive Board approved the incorporation of the data template on international reserves and foreign currency liquidity into the SDDS as a prescribed component, and established a transition period for compliance with the SDDS requirements of the template to run through the end of March 2000. Subscribers were required to commence the dissemination of reserves template data for April 2000 at the end of May 2000.

