

Section 1 - Introduction

Genesis of the Group

1.1 During the early 1990s, free or near free movement of capital across the boundaries of nations accelerated the process of globalisation in financial markets. With the integration of different financial markets world-wide and with more and more new innovations, international financial activities took myriad shape, involving multiple domestic and foreign entities. The world economy, during this time, also experienced several crises. One of the major reasons behind the crises was identified as the lack of adequate, timely and reliable information in a standardised form. Such information deficiencies made it difficult to anticipate and respond to crises, while lack of standardization either obscured financial weaknesses and imbalances in countries or led to misinterpretation by the market agents. Internationally, an urgent need was, therefore, felt for introducing a standardised information and dissemination system to minimize the possibility of market participants acting on misinformation or misinterpretation of available information.

1.2 With such considerations in view, in March 1996 the International Monetary Fund (IMF) established, what has come to be known as the Special Data Dissemination Standard (SDDS) for its member countries that have, or that might seek, access to international financial markets. The south-east Asian and other financial crises in more recent years have obviously further reinforced the resolve of the international community to ensure transparency and achieve dissemination of country information on key economic and financial sectors.

1.3 Though subscription to the SDDS was voluntary, India was one of its early subscribers with the subscription starting from January 1, 1997 (There are 48 subscribers now). This happened when discussions on a possibly new International Financial Architecture had centred around the need for evolving sound standards based on recognised best practices in fiscal, financial and accounting areas and for adopting transparency while adhering to the codes. In order to monitor developments in global standards and codes and to consider their applicability to the Indian financial system, a Standing Committee on International Financial Standards and Codes was set up by the Reserve Bank of India jointly with the Government of India in December 1999 with

Dr. Y.V. Reddy, Deputy Governor, Reserve Bank of India as the Chairman and Dr. E. A. S. Sarma, Secretary, Ministry of Finance, as the Alternate Chairman. The Committee, in turn, constituted ten advisory groups to assist it in accomplishing the tasks in varied subject areas. The present Advisory Group on Data Dissemination was one of them, set up with the late Dr. Pravin M. Visaria as Chairman and with Dr. A. Vaidyanathan, Dr. S.L. Shetty and Dr. Ajay Shah as members. Dr. A.C. Kulshreshtha of Central Statistical Organisation (CSO) has been a special invitee. Subsequent to the sad demise of Dr. Visaria, Dr. Vaidyanathan was requested to look after and guide the deliberations of the Group and help finalise its report which was in its final stages.

Terms of Reference

1.4 The terms of reference of Advisory Group were:

- (i) to study present status of applicability and relevance and compliance of relevant standards and codes;
- (ii) to review the feasibility of compliance and the time frame over which this could be achieved given the prevailing legal and institutional practices;
- (iii) to compare the levels of adherence in India, *vis-à-vis* in industrialised and also emerging economies particularly to understand India's position and prioritize actions on some of the more important codes and standards;
- (iv) to advise a course of action for achieving the best practices appropriate to us; and
- (v) to help sensitise the public opinion on the above matters through its reports.

Approach of the Group

1.5 The Group recognised the importance of transparency, that is, accurate and timely information dissemination with regular frequency and in a readily accessible manner. Such transparency is required not only in the context of the international financial system which is the

central concern motivating the framers of the SDDS, but also, in the Group's view, for ensuring the healthy functioning of the domestic system. When such data dissemination is done by a large group of countries in a standardised format, there are advantages of cross-country comparisons and possible derivation of appropriate lessons.

1.6 The Advisory Group made detailed study of the requirements of the IMF under SDDS on the basis of the series of the background documents prepared by the Secretariat. These documents presented the related studies of the compliance by India and other subscribing countries as well as the problems encountered in complying with some of them. The Group noted that while subscribing to SDDS is voluntary, once a country has subscribed, as in the case of India, the observance of the standard becomes important.

1.7 The Group does not find it necessary to go into details on all items in SDDS, and in particular those related to the real sector. Its focus has been mainly on the reporting of data on the domestic and external financial situation and elements of the fiscal systems as related to them.

1.8 In doing so, the Group considered the problems arising from technical and operational aspects in compliance of the standard, the implication in respect of some sensitive items as well as compliance by other subscribers.

1.9 This approach we hope would help the Group to fulfill the terms of reference assigned to it and when this report is in public domain, it will help also sensitising public opinion in these matters.

1.10 In the context of the above wider view of the data requirements, deliberations of the Group did not confine themselves to issues pertaining to SDDS alone. There exists scope for further improvement in regard to data gathering and data dissemination. Therefore, the Group has taken this opportunity to attempt a separate set of recommendations on India's financial sector statistics extending its terms of reference.

Scheme of the Report

1.11 Attempt has been made to keep the main body of the report brief and succinct, as the issues requiring the Group's attention, crucial as they are, are found to be simple and straight forward. Also, considerable thinking had already been bestowed on the subject at the official level which facilitated easy evaluation at the Group's level.

1.12 The Group's main report is, therefore, divided into three brief sections, apart from the present introductory one. Section 2 seeks to highlight the essential aspects of the SDDS and points out how the IMF has expanded its scope by incorporating new data categories, particularly after the south-east Asian and other financial crises. Section 3 is the substantive chapter that elaborates on India's observance of SDDS and the Group's thinking on it and presents its recommendations. A final section (Section 4) sums up the Group's observations and recommendations.

1.13 Apart from these sections, the Report contains 5 Appendices. Appendix I presents, in tabular form, the IMF's specifications in respect of all the data categories under the SDDS, India's current status of fulfilment, the Group's observations and recommendations, and the nature of hyperlink between the IMF website and the national websites on data dissemination.

1.14 Appendix II elaborates on the essential details of the genesis and content of the SDDS and the nature and extent of country subscriptions while Appendix III explains the present status of compliance of SDDS. Appendix IV is a substantive one which examines the new data templates on international reserves and foreign currency liquidity and makes a country-wise comparison of information furnished by subscriber countries. Finally, Appendix V contains a reference to the relevant recommendations of various Working/Technical/Sub Groups' Reports which helped to expand and refine the data base on Indian economy.

Acknowledgements

1.15 Prior to his illness and sad demise, Dr. Pravin M. Visaria had taken a keen interest in the Group's deliberations and guided them to be able to reach some finality. The Group members including the members of its Secretariat in the RBI owe a deep sense of gratitude to the late Dr. Visaria for his invaluable contribution to the preparation of this Report.

1.16 The work of the Group would not have progressed so smoothly as it has turned out but for the initial elaboration of the genesis of the Group's appointment, the rationale for the SDDS and the expectations from the Group by Dr. Y.V. Reddy, Deputy Governor, RBI. The Group wishes to convey its gratefulness to him. Likewise, the Group wishes to convey its sincere thanks to Dr. A. Vasudevan, erstwhile Executive Director, RBI, and to Dr. A.C. Kulshreshtha for their valuable suggestions in various deliberations. Also, many suggestions given by Smt. Shyamala Gopinath, Shri M. R. Nair and Shri R. Gandhi were extremely helpful in clarifying various complex issues. The Group records its gratitude to them.

1.17 Finally, it is the studious and laborious work put in by the members of the Group's Secretariat in the RBI that helped to get various clarifications to complex issues of the SDDS. The Secretariat prepared copious notes and provided country pages on SDDS for the Group's study. It also prepared various appendices attached to the Report. In this respect, the Group wishes to place on record its sincere appreciation of the work done by Shri Pradip Bhuyan of the Department of Statistical Analysis and Computer Services (DESACS), the Nodal Officer, under the overall guidance and supervision of the Member-Secretary Shri K. Kanagasabapathy. Shri Kanagasabapathy has also made special efforts to co-ordinate the Secretariat's work with other departments of the RBI and thus help the Group get the required clarifications on various issues, for which the Group wishes to offer special thanks to him. Besides, officials from different departments of the RBI have individually participated in various deliberations of the Group and helped clarify many important issues. In particular, Dr. Himanshu Joshi, S. Arunachalramanan and Dr. Kaushik Bhattacharya of the Secretariat, Shri S. C. Misra of the Department of External Investments and Operations (DEIO) and Dr. S. Sahoo of the Department of Economic Analysis and Policy (DEAP), who also served as a joint Nodal Officer, deserve special mention. Finally, Mr. A. G. Khiani of the Secretariat, undertook substantial operational

work. The Group wishes to place on record its sincere appreciation of all of their efforts and work.