

Section 3 - SDDS: Status of India's Observance and the Group's Recommendations

Bulk of the Categories Observed

3.1 As detailed in Appendix II, India's record of SDDS compliance is truly commendable. India meets almost all SDDS' original specifications for the coverage, periodicity and timeliness of the data, as also for the dissemination of advance release calendars. Thanks to its more advanced information base built over decades, there are a large number of data categories under which India has been disseminating information more frequently and with a shorter time-lag than those prescribed by the IMF under the SDDS.

Four Grey Areas

3.2 Appendix II presents the nature of India's observance in respect of all data categories in the form of data coverage, periodicity and timeliness. A summary picture of these observance is presented in [Table 3.1](#) below. As is evident therein, India has chosen to exercise the flexibility option available under the SDDS in respect of the following two categories.

- (i) Labour market (real sector) seeking data on employment/unemployment and wages/earnings, and
- (ii) General government or public sector operations (fiscal sector).

However, in respect of the following two categories under the external sector, there is some gap in fulfilment.

- (iii) International investment position (IIP)
- (iv) Data template on international reserves and foreign currency liquidity.

Table 3.1. Summary Page on Observance and Transition Plan: India

(as provided by India as a subscriber to the SDDS*)

Check marks (x) indicate that the specifications of the SDDS for data coverage, periodicity, and timeliness are met. Where India has made use of the SDDS's flexibility on these elements or presented plans to meet the specifications during the transition period, the table shows

India's present practice and a footnote that indicates the use of the flexibility or the transition plan.

	Category (and, if different, national descriptor)	Coverage	Periodicity	Timeliness
Real Sector	National accounts (Gross Domestic Product)	x	x	x
	Production index (Index of Industrial Production)	x	x	x
	Labor market: Employment	x	Annual 1/	24 months 1/
	Labor market: Unemployment	x	Annual 1/	24 months 1/
	Labor market: Wages/Earnings	x	Every five years 1/	24 months 1/
	Price indices: Consumer prices (Consumer Price Index (CPI) for Industrial Workers, CPI for Rural Labourers & CPI for Urban Non-Manual Employees)	x	x	x
	Price indices: Producer prices (Wholesale Price Index)	x	x	x
Fiscal Sector	General government or public sector operations (Budgetary Transactions of the Central and State Governments and Union Territories)	x	x	9 months 2/
	Central government operations	x	x	x
	Central government debt	x	x	x
Financial Sector	Analytical accounts of the banking sector	x	x	x
	Analytical accounts of the central bank	x	x	x
	Interest rates	x	x	N.S.
	Stock market: Share price index	x	x	N.S.
External Sector	Balance of payments	x	x	x
	International reserves **	x	x	x
	Merchandise trade	x	x	x
	International investment position	3/	x	3 years 3/
	Exchange rates	x	x	N.S.
	Population	x	x	N.S.

***Last update: November 22,1999; N.S.: Not Specified by the IMF.**

1/ Labour market data do not have the same macroeconomic implications for India as they do for highly industrialized countries in the sense that they are not considered to be useful indicators of short-run pressures on the economy, particularly in view of the substantial proportion of value-added generated by the agricultural sector and the structure of that sector. India will therefore use the "as relevant" flexibility of the SDDS for the labour market data category.

2/ A flexibility option is being taken on the timeliness of the data on general government operations.

3/ Annual IIP data for the components prescribed by the SDDS that have been compiled in accordance with the recommendations of the fifth edition of the IMF's "Balance of Payments Manual", and that meet the timeliness requirements of the SDDS, will be disseminated no later than September 30, 2002 (that is, six months after the end of the 2001/2002 fiscal year which ends on March 31, 2002).

**Special Note: This data category was replaced by the new data category International reserves and foreign currency liquidity by the IMF's second review of the SDDS in 1999.

Labour market

3.3 The official position has been to take recourse to the "flexibility" option allowed under the SDDS, as explained in Appendix II. It has been rightly explained in the official presentation that:

"Labour market data do not have the same macroeconomic implications for India as they do for highly industrialized countries in the sense that they are not considered to be useful indicators of short-run pressures on the economy, particularly in view of the substantial proportion of value-added generated by the agricultural sector and the structure of that sector. India will therefore use the "as relevant" flexibility of the SDDS for the labour market data category" (See [Table 3.1](#) above).

3.4 Considering the complex structural features of the Indian economy, data presently generated and disseminated by India on its employment-unemployment trends are sufficiently scientific and well received. But, the kind of quarterly data that the SDDS proposes on labour market (employment, unemployment and wages/earnings) using the ILO's sophisticated concepts, definitions and classifications, are impossible of generation if only because of the large agricultural sector and also of sizeable unorganised segments in the non-farm sector. Therefore, the Group concurs with the position taken by the official agencies in this respect.

General government or public sector corporations

3.5 In respect of this data category also, the government has taken recourse to the flexibility option. As a result, there are two sub-categories of this general government which would stand

excluded; they are: non-departmental non-banking public sector undertakings both at the centre and states level as well as local bodies.

3.6 Though hitherto the above two sub-categories have not contributed as part of the general government as a tracking indicator providing a more frequent and timely indicator of fiscal stance, it has been so entirely because of the non-availability of data in a consistent manner. Once the central and state government finances are actively used to measure the fiscal stance, it would be extremely useful to extend the measurements of surplus/deficit to the entire general government including public sector undertakings and local bodies. In any case, this sub-category would emerge as a growing segment of general government in the wake of decentralisation measures being undertaken in different parts of the country. Irrespective of its size, it is necessary for the policy-making bodies as well as the public at large to have an insight into the overall size of the local body finances. Therefore, the Group suggests that the Government of India, the RBI, State Governments and the CSO co-ordinate their data gathering activities in these respects and agree to disseminate full sets of data in respect of general government including those for (i) public sector undertakings and (ii) local bodies. In this respect, the authorities may put forward a time-table for the dissemination of data for general government operations (or total public sector operations) including these two sub-sectors.

International investment position (IIP)

3.7 Subscribers to the SDDS have had time up to the end of the year 2001 to compile and disseminate IIP data. India has had a tradition of compiling the IIP data but of late, as one of the fall outs of liberalisation, there is apparently a considerable disruption in the flow of response for the relevant survey.

3.8 The Group understands, however, that the IIP data for the components prescribed by the SDDS are being compiled and that they will be disseminated not later than September 30, 2002, that is six months after the end of the financial year 2001-02. In fact, this would meet with the timeliness requirements of the SDDS because subscribers were given time up to the end of December 2001 but in India's case calendar year data are not being generated. If the above is

achieved, the data for the immediate next financial year ending March 31 2002 would be made available within six months after the end of that year.

New data template on international reserves and foreign currency liquidity

3.9 As explained earlier, this data template was a later development subsequent to the south-east Asian crisis. Until then India was fully complying with the dissemination guidelines regarding international reserves position. The March 1999 decision of the IMF Executive Board radically altered the data content on the subject. The four parts of the new template are:

1. Official reserve assets and other foreign currency assets (approximate market value)
2. Predetermined short-term net drains on foreign currency assets (nominal value)
3. Contingent short-term net drains on foreign currency assets (nominal value)
4. Memo items

3.10 The template is intended to apply to the monetary authorities and to the central government. In India, the RBI does not take any foreign currency loans nor does it give any guarantee. But the central government resorts to foreign currency loans as well as stands as guarantor for such types of loans taken by its public sector units. However, information on 'foreign currency loans, securities and deposits' pertaining to the central government in the section 2 viz. 'predetermined short-term net drains on foreign currency assets (nominal value)' and also data on, 'contingent liabilities in foreign currency' under section 3, viz., 'contingent short-term net drain on foreign currency assets (nominal value)' pertaining to the central government have not been disseminated.

Sensitive Issues and Disclosure by Central Banks

3.11 One of the major concerns of a central bank is to maintain the stability of the domestic currency's exchange rate. The issue is crucial in developing countries where foreign exchange markets are generally thin and it becomes essential to intervene at times in the foreign exchange market to contain the volatility. It is an established view that if central banks reveal their full

position to the market in the name of transparency, the intervention will not be effective as the market will precisely know the striking power of the central bank.

3.12 In developing markets where free cross border capital movement is yet to be permitted (as in India), forward rate in the domestic market is normally not determined by the interest rate differential between the domestic currency and US Dollar, but by the expectations of the spot dollar rate and temporary demand-supply balance in the spot market. Central banks in such circumstances have to operate both in the spot and forward market to keep the volatility in the market under check as also to maintain the forward curve at a desirable level. Full transparency in forward liabilities of the central bank would reveal positions to the market players and in the process, reduce the effectiveness of intervention operations.

3.13 Another issue relating to disclosure is the component of the total reserves. The investment pattern, investment horizon and any predominant reliance on any particular type of asset reflects the position of the central bank, its risk taking ability and views on risk taking, liquidity needs, etc. While disclosure on the holding of bonds of sovereigns (where market is vast and sale/purchase of securities of a reasonable magnitude by any single country is not likely to have any impact on the price of such bonds in the market), disclosure of placement of deposits with commercial banks abroad is on a different footing.

3.14 Disclosure of the total deposits entails three disadvantages:

- (i) The market will know what percentage of total reserves are kept as deposits and then derive what amount is available in liquid instruments. This may reveal the striking power of the central bank in the event of an intervention.
- (ii) The counterparty banks will know what is their share in the total deposits. This will influence their decision as to whether to give a favourable status or not to us. This may result in reduction of return on funds placed as deposits.
- (iii) Such placement of deposits with foreign banks may evoke uninformed nationalist sentiment and political reaction.

3.15 Taking these considerations into account, the official response to the template is as shown below in [Table 3.2](#):

3.16 As brought out in the official position described above, the question of disclosing certain aspects of foreign exchange reserves such as currency composition of RBI's foreign exchange assets or the maturity break-up of forward liabilities, is an extremely sensitive issue.

3.17 Also, interestingly the data put out by India under the template compares favourably with that put out by many other countries. It is found that other countries keep certain columns blank. Significantly, there is no evidence either of the IMF raising questions about the quality of such compliance. As depicted in Appendix IV, columns are kept blank in respect of 'other reserve assets' and 'foreign currency assets' by a number of countries such as, the USA and the Netherlands.

3.18 In view of the above considerations, it is better that India takes a view, which may go to support similar positions being taken by many other developing countries, that at this stage of the country's market depth and development, it is not possible for the country to comply with some of the sensitive details on currency composition of foreign exchange and the maturity break-up of forward liabilities.

Table 3.2. Official Position on the Data Template on International Reserves and Foreign Currency Liquidity

Section	Item No.	Particulars	Comments
(1) Sec 1	(2) 1	(3) Foreign Currency Reserves	(4) To be disclosed
	1(a)	Securities	To be disclosed
	1(b)	Total currency and deposits with:	The combined data for (b) (i), (ii) and (iii) will be disclosed at 1(b). Data for 1(b) (ii) will be disclosed. Data in respect b(i) and (iii) will not be disclosed as these are considered sensitive. Data in respect of the second part of item b (iii) to be disclosed.
		(i) other national central banks, BIS and IMF	
		(ii) banks headquartered in the reporting country of which: located abroad	
		(iii) banks headquartered outside the reporting country of which: located in the reporting country	
	2	IMF Reserve Position	To be disclosed

	3	SDRs	To be disclosed
	4	Gold (volume and value)	To be disclosed
	B	Other foreign currency Assets	To be disclosed
Sec II	1	Foreign Currency Loans, securities and deposits	To be disclosed
	2	Aggregate short and long positions in forwards and futures in foreign currencies	Net position of forward liabilities to be disclosed. Maturity break up will not be given as that is considered market sensitive information.
	3	Others	To be disclosed
	3	Foreign currency funds under Exchange guarantee	To be disclosed
Sec III	All items	Contingent short term net drains	To be disclosed
Pro Memoria	All items		To be disclosed
	a		
Sec IV	1	Memo items	To be disclosed
	2	Currencies in SDR/non SDR Basket	To be disclosed
		Periodicity of disclosure	Full compliance

3.19 The template on international reserves and foreign currency liquidity has to be separately disseminated for (a) monetary authority and (b) central government. The template put out on web site, it appears is only in respect of the RBI; information in respect of the Government of India pertaining to sections II and III above, are not found on the web site. The Group has no knowledge as to what has been the reaction of the IMF in this respect. The Group believes that the required data on short-term loans and contingent liabilities based on residual maturity should be compiled by the Government of India and transmitted to the RBI for timely dissemination in the SDDS format.

Forward Looking Indicator

3.20 At present India has not disseminated any information under the data category 'Forward looking indicators' which is classified as 'encouraged' under the SDDS. However the Group suggests that forward looking indicators should be disseminated in certain sectors viz. the surveys of business expectations.

National Summary Data Page (NSDP) and Hyperlink to the Dissemination Standard Bulletin Board (DSSB)

3.21 Under the second review of the SDDS (December 1998), the Executive Board made the establishment of a hyperlink from the DSBB – an electronic bulletin board of the IMF – to the NSDP mandatory for each subscriber to enable monitoring of the SDDS by the IMF staff. As reported by the IMF on the third review (March 2000) of their Data Standard's Initiatives a total of 42 SDDS subscribers [subsequently increased to 48] have established NSDP web sites on which all the SDDS data categories are disseminated.

3.22 At present, in the case of India, the Union Ministry of Finance disseminates SDDS data in respect of all sectors of the economy. However, there are two key lacunae which deserve immediate attention. First, The NSDP is updated only monthly. For some of the data categories appearing on the NSDP, information is available on weekly/fortnightly basis also which deserve to be incorporated in the NSDP.

3.23 Secondly and more importantly, the site today establishes no hyper-link with the IMF's electronic bulletin board (DSBB). In order to further facilitate wider use of data by the public at large, the system of hyper-link has to be further extended to take care of the links with more disaggregated information available in respect of the concerned sectors of the economy.

Summary Methodology

3.24 The SDDS prescribes that subscribing member will provide a summary description of methodology for each data category on the DSBB including statements of major differences from international guidelines. The purpose of the summary methodology is to enable users to assess the suitability of the data for their purposes and the quality of the data. At present India has given summary methodology for the data category 'Producer prices' in the Real sector only.

The Group suggests that summary methodologies should be presented by the country for all the data categories under the SDDS.