

INDIA'S FINANCIAL SECTOR AN ASSESSMENT

Volume VI

**Advisory Panel
on
Transparency Standards**

Committee on Financial Sector Assessment

March 2009



**भारत सरकार
GOVERNMENT OF INDIA**



**भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA**

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Composition of the Advisory Panel on Transparency Standards

Shri Nitin Desai	Former Under-Secretary-General United Nations	Chairman
Dr. Jaimini Bhagwati	Additional Secretary Government of India	Member
Shri Shubhashis Gangopadhyay	Director India Development Foundation	Member
Dr. Rajiv Kumar	Director and Chief Executive Indian Council for Research on International Economic Relations	Member
Dr. Rajas Parchure	Faculty Gokhale Institute of Politics and Economics Pune	Member
Dr. Indira Rajaraman	Reserve Bank Chair Professor National Institute of Public Finance and Policy	Member
Shri Mahesh Vyas	Managing Director & CEO Centre for Monitoring Indian Economy	Member

Special Invitees

Shri Jitesh Khosla	Joint Secretary Ministry of Corporate Affairs Government of India	
Dr. M.C.Singhi	Economic Advisor Department of Economic Affairs Ministry of Finance Government of India	
Dr. R.B.Barman	Executive Director Reserve Bank of India	
Shri P.K.Nagpal	Executive Director Securities and Exchange Board of India	

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List of Acronyms

AD	Authorised Dealer	DICGC	Deposit Insurance and Credit Guarantee Corporation
ARC	Advance Release Calendar		
BCSBI	Banking Codes and Standards Board of India	DIF	Deposit Insurance Fund
BFS	Board for Financial Supervision	DIPP	Department of Industrial Policy & Promotion
BO	Banking Ombudsman	DMO	Debt Management Office
BoP	Balance of Payments	DNBS	Department of Non-banking Supervision
BPM	Balance of Payments Manual		
BPSS	Board for Payment and Settlement Systems	DQAF	Data Quality Assessment Framework
BRBNML	Bharatiya Reserve Bank Note Mudran Ltd.	DSBB	Dissemination Standards Bulletin Board
CAG	Comptroller and Auditor General of India	ECS	Electronic Credit Service
CBLO	Collateralised Borrowing and Lending Obligation	EFT	Electronic Funds Transfer
CCIL	Clearing Corporation of India Limited	FCI	Food Corporation of India
CCP	Central Counterparty	FEDAI	Foreign Exchange Dealers' Association of India
CGD	Central Government Debt	FEMA	Foreign Exchange Management Act
CGO	Central Government Operations	FIMMDA	Fixed Income Money Market and Derivatives Association of India
CIF	Cost Insurance Freight		
CPI	Consumer Price Index	FoB	Free-on-Board
CPI-IW	Consumer Price Index-Industrial Workers	FRBM Act	Fiscal Responsibility and Budget Management Act
CRR	Cash Reserve Ratio	FSAP	Financial Sector Assessment Programme
CSO	Central Statistical Organisation		
DBOD	Department of Banking Operations and Development	GDP	Gross Domestic Product
DBS	Department of Banking Supervision	GFD	Gross Fiscal Deficit
DFI	Development Financial Institutions	GFSM	Government Finance Statistics Manual
DGCI&S	Directorate-General of Commercial Intelligence & Statistics	GGO	General Government Operations
		GS Act	Government Securities Act
		GSDP	Gross State Domestic Product

HLCCFM	High Level Co-ordination Committee on Financial Markets	NTPC	National Thermal Power Corporation
ILAF	Interim Liquidity Adjustment Facility	OMO	Open Market Operations
IIP	International Investment Position/Index of Industrial Production	PDS	Public Distribution System
IMF	International Monetary Fund	PPI	Producers' Price Index
IRDA	Insurance Regulatory and Development Authority	PPP	Public-private Partnership
ITF	Inflation Targeting Framework	PSBR	Public Sector Borrowing Requirement
LAF	Liquidity Adjustment Facility	PSO	Public Sector Operations
LOLR	Lender of Last Resort	PSU	Public Sector Undertakings
MICR	Magnetic Ink Character Recognition	RBI	Reserve Bank of India
MoU	Memorandum of Understanding	RD	Revenue Deficit
MPLADS	Member of Parliament Local Area Development Scheme	RIA	Right to Information Act
NABARD	National Bank for Agriculture and Rural Development	ROSC	Report on Observance of Standards & Codes
NAS	National Accounts Statistics	RTGS	Real Time Gross Settlement
NBFC	Non-banking Financial Companies	SBI	State Bank of India
NDS	Negotiated Dealing System	SCRA	Securities Contract Regulation Act
NEFT	National Electronic Funds Transfer	SDDS	Special Data Dissemination Standard
NHB	National Housing Bank	SEBI	Securities and Exchange Board of India
NREGS	National Rural Employment Guarantee Scheme	SLR	Statutory Liquidity Ratio
NSD-OM	Negotiated Dealing System - Order Matching	SNA	System of National Accounts
NSDP	National Summary Data Page	SRO	Self-regulatory Organisation
NSSF	National Small Savings Fund	STACFR	Standing Technical Advisory Committee for Financial Regulations
NSSO	National Sample Survey Organisation	TAC	Technical Advisory Committee
		TACMP	Technical Advisory Committee on Monetary Policy
		WPI	Wholesale Price Index



Chapter I

Approach to Assessment

The Government of India, in consultation with the Reserve Bank, constituted the Committee on Financial Sector Assessment (CFSA) in September 2006, with a mandate to undertake a comprehensive assessment of the Indian financial sector focusing upon stability and development. The CFSA was chaired by Dr. Rakesh Mohan, Deputy Governor, Reserve Bank of India. The Co-Chairmen were Shri Ashok Jha, Dr. D. Subbarao and Shri Ashok Chawla, Secretary, Economic Affairs, Government of India. The Committee also had officials from the Government of India as its members.

Taking into account the legal, regulatory and supervisory architecture in India, it was felt that there was a need for involving and associating closely all the major regulatory institutions, *viz.*, Reserve Bank of India (RBI), Securities and Exchange Board of India (SEBI) and Insurance Regulatory and Development Authority (IRDA), in addition to representatives from the Government for this exercise. In order to leverage the available expertise to the maximum possible extent, it was also deemed fit to involve, besides the regulatory authorities, other agencies as relevant to the work.

To assist the Committee in the process of assessment, the CFSA constituted four Advisory Panels for Financial Stability Assessment and Stress Testing, Financial Regulation and Supervision, Institutions and Market Structure and Transparency Standards in August 2007. While the Panel on Financial Stability

Assessment and Stress Testing conducted macro-prudential surveillance to assess the soundness and stability and developmental aspects of financial system, the other three Panels identified and evaluated the implementation of relevant standards and codes in different areas. All Panels have dealt with measures for strengthening the financial system from a medium-term perspective. The Panels were assisted by Technical Groups comprising mainly officials from relevant organisations to provide technical inputs and data support, as appropriate to the respective Advisory Panels. A Secretariat was constituted within the Monetary Policy Department in the Reserve Bank to provide logistical and organisational support to the Advisory Panels and Technical Groups.

Advisory Panel on Transparency Standards

As part of the assessment of standards and codes, the terms of reference of the Advisory Panel on Transparency Standards were to identify and consider the relevant standards and codes as currently prescribed and applicable for transparency in monetary and financial policies, fiscal transparency and data dissemination standards and evaluate their implementation in the Indian context; identify the gaps in adherence to these standards and codes and the reasons therefor; and suggest possible roadmap addressing, *inter alia*, the developmental issues relating to these standards and codes, in a medium-term

perspective. The Advisory Panel, chaired by Shri Nitin Desai, comprised non-official experts as members and officials representing Government and other agencies as special invitees (**Annex A**).

Technical Group on Transparency Standards

A Technical Group comprising officials drawn from Government and other agencies, who are directly associated with handling respective areas of work, assisted the Advisory Panel in preparing preliminary assessments and background material which served as inputs to the Advisory Panel's work (Please see **Annex B** for the composition of the Technical Group and terms of reference). Apart from the officials indicated in the Annex B the Panel also benefited from the inputs of the officials indicated in **Annex C**.

Approach and Methodology

The Technical Group identified the IMF's Code of Good Practices on Transparency in Monetary and Financial Policies (1999) as the relevant standard applicable for the assessment of transparency in monetary policy by the central banks and transparency in financial policies by financial agencies. The templates developed by the IMF for conducting Financial Sector Assessment Programme (FSAP) were utilised for the assessment.

Likewise, the IMF's Code of Good Practices on Fiscal Transparency (2007) was identified as the relevant international standard applicable to assess fiscal transparency of Central and State Governments.

The adherence to data dissemination standards was assessed based on the IMF's Special Data Dissemination Standard (SDDS) (2007) and the Data Quality Assessment Framework (DQAF) for evaluating data quality.

The preliminary assessments made by the Technical Groups were considered by the Advisory Panel with closer involvement of four sub-panels (**Annex D**) in the areas of transparency in monetary and financial policies, fiscal transparency and data dissemination standards. The Advisory Panel had a total of four meetings to consider the assessments and recommendations and to finalise its Report.

Peer Review

At the request of the CFSA, three international experts on areas relating to transparency in monetary policy, fiscal transparency and data dissemination standards peer-reviewed the draft Reports on respective assessments and recommendations (**Annex E**).

The Advisory Panel considered in depth the comments made by the peer reviewers and appropriately modified the Report after incorporating the comments/suggestions. The Panel had also the option of not concurring with the peer reviewers' comments, if they were considered not appropriate, particularly in the Indian context. In the interest of transparency, the comments of the peer reviewers and the stance taken by the Panel are provided appropriately in respective parts of this Report.

Scheme of the Report

The Report is divided into six chapters. After the 'Approach to Assessment' in this Chapter, Chapter II covers the assessment of transparency in monetary policy. Chapter III covers the assessment of transparency in financial policies. Chapter IV covers the assessment of fiscal transparency. Chapter V covers the assessment of adherence to data dissemination standards and Chapter VI gives the summary of recommendations of the Panel.

Annex A

RESERVE BANK OF INDIA
CENTRAL OFFICE
SHAHID BHAGAT SINGH ROAD
MUMBAI – 400 001, INDIA

DEPUTY GOVERNOR

MEMORANDUM

Constitution of Advisory Panel on Transparency Standards

A Committee on Financial Sector Assessment (CFSA) has been constituted by the Government of India in consultation with the Reserve Bank, with the objective of undertaking a self-assessment of financial sector stability and development. One of the analytical components of Financial Sector Assessment would encompass a comprehensive assessment of the status and implementation of various international financial standards and codes.

2. In this connection, the CFSA has decided to constitute an Advisory Panel on Transparency Standards comprising the following:

No.	Name	Designation/Institution	
1.	Shri Nitin Desai	Former Under Secretary-General, United Nations	Chairman
2.	Dr. Jaimini Bhagwati	Additional Secretary, Ministry of External Affairs, Government of India	Member
3.	Shri Shubhashis Gangopadhyay	Director, India Development Foundation	Member
4.	Dr. Rajiv Kumar	Director and Chief Executive, Indian Council for Research on International Economic Relations	Member
5.	Dr. Rajas Parchure	Faculty, Gokhale Institute of Politics and Economics, Pune	Member
6.	Dr. Indira Rajaraman	Reserve Bank Chair Professor, National Institute of Public Finance and Policy	Member
7.	Shri Mahesh Vyas	Managing Director and Chief Executive Officer, Centre for Monitoring Indian Economy	Member

3. In addition, the Advisory Panel can utilise the expertise of the following *ex-officio* Special Invitees:

No.	Name	Designation/Organisation
1.	Shri Jitesh Khosla	Joint Secretary (Corporate Affairs), Ministry of Corporate Affairs, Government of India
2.	Dr. M.C.Singhi	Economic Advisor, Department of Economic Affairs, Ministry of Finance, Government of India
3.	Dr. R.B.Barman	Executive Director, Reserve Bank of India
4.	Shri P.K.Nagpal	Executive Director, Securities and Exchange Board of India

4. The Advisory Panel will have the following terms of reference:

- (i) to identify and consider the relevant standards and codes as currently prescribed and applicable for transparency in monetary, financial, fiscal and data dissemination policies and evaluate their implementation in the Indian context;
- (ii) to identify the gaps in adherence to the respective standards and codes and the reasons therefor; and
- (iii) to suggest possible roadmaps addressing, *inter alia*, the developmental issues relating to respective standards and codes, in the medium-term perspective.

5. The Advisory Panel would have the option of co-opting as Special Invitees any other experts as they deem fit.

6. The secretarial assistance to the Advisory Panel will be provided by the Reserve Bank of India. The Technical Group on Transparency Standards constituted by the Reserve Bank at the instance of the Committee has already progressed with the technical work with regard to above terms of reference. The technical notes and background material prepared by these groups would *inter alia* form the basis for discussion by the Panel and in drafting of the Report.

7. The Advisory Panel will prepare a detailed Report covering the above aspects and the Government of India/Reserve Bank of India will have the discretion of making the Report public, after a peer review, as they may deem fit.

8. The Advisory Panel is expected to submit its Report in about three months from the date of its first meeting.

(Rakesh Mohan)

Mumbai
August 10, 2007

Deputy Governor and
Chairman of the Committee on Financial Sector Assessment

Annex B

RESERVE BANK OF INDIA
CENTRAL OFFICE
SHAHID BHAGAT SINGH ROAD
MUMBAI – 400 001, INDIA

DEPUTY GOVERNOR

MEMORANDUM

Constitution of Technical Group on Transparency Standards

The Committee on Financial Sector Assessment (CFSA) will undertake a self-assessment of financial sector stability and development. One of the analytical components of Financial Sector Assessment would encompass a comprehensive assessment of the status and implementation of various international financial standards and codes. CFSA has decided to constitute a Technical Group on Transparency Standards comprising the following:

No.	Name	Designation	
1.	Dr. K.S. Ramachandra Rao	Principal Adviser, DESACS	Member
2.	Dr. R.K. Pattnaik	Adviser, DEAP	Member
3.	Dr. M.D. Patra	Adviser-in-Charge, MPD	Member
4.	Shri P. Vijaya Bhaskar	Chief General Manager, DBOD	Member
5.	Shri S.V. Raghavan	Chief General Manager, DBS	Member
6.	Shri R.N. Kar	General Manager, IDMD	Member
7.	Shri R.N. Dubey	Additional Economic Adviser, MoF	Member
8.	P.K. Bindlish	Chief General Manager, SEBI	Member
9.	Shri R.S. Jagpal	Deputy Director, IRDA	Member
10.	Shri K. Kanagasabapathy	Secretary to CFSA	Convenor

2. The Group will have the following terms of reference:
- to identify the relevant standards and codes as currently prescribed and applicable for transparency in monetary, financial, fiscal and data dissemination policies;
 - to compile relevant data and information on follow-up of earlier assessments and recommendations made by the earlier FSAP and also internally by the Standing Committee on International Financial Standards and Codes on the relevant standards;
 - to contribute to technical work in the relevant area and provide a fair and independent assessment on the matters under the consideration of the Technical Group;

- (iv) to identify the gaps in adherence to the respective standards and codes and the reasons therefor;
 - (v) to suggest possible roadmaps addressing, *inter alia*, the developmental issues in the medium-term perspective; and
 - (vi) to provide such inputs for discussion to the relevant Advisory Group as constituted by the Reserve Bank.
3. The Group would function under the overall guidance of Shri V.K. Sharma, Executive Director, Reserve Bank of India.
 4. The Group will also be directed by decisions taken in the Advisory Panel for Transparency Standards.
 5. A list of Special Invitees who could act as resource persons to the Group and whose expertise can be called upon by the Group while preparing inputs for the Advisory Panels is provided in Annex C. The Group may co-opt as special invitees, one or more of the identified officials, or any other officials from the Reserve Bank, Government or other agencies as they deem appropriate.
 6. The Group is expected to complete its task in the minimum possible time which, in any case, would not go beyond three months from the date of its constitution.

(Rakesh Mohan)
Chairman
March 1, 2007

Annex C

List of Officials who Assisted the Advisory Panel

The Panel acknowledges the contributions made by the following officials in preparation of the Report.

No.	Name	Designation
1.	Dr. Janak Raj	Adviser, RBI
2.	Dr. B. K. Bhoi	Adviser, RBI
3.	Shri B. M. Misra	Adviser, RBI
4.	Shri M. R. Anand	Additional Economic Adviser, GoI
5.	Shri A. B. Balwatkar	General Manager, RBI
6.	Dr. Mohua Roy	Director, RBI
7.	Ms. Saraswathi Shyamprasad	General Manager, RBI
8.	Shri Rajiv Ranjan	Director, RBI
9.	Smt. Rekha Misra	Director, RBI
10.	Shri J. K. Khundrakpam	Director, RBI
11.	Smt. Kumudini Hajra	Director, RBI
12.	Shri D.Sathish Kumar	Assistant General Manager, RBI
13.	Shri M. Ramaiah	Assistant Adviser, RBI
14.	Shri Nishanth Gopinath	Assistant General Manager, RBI
15.	Shri S. Venkateswaran	Assistant General Manager, SEBI
16.	Shri H. K. Behera	Research Officer, RBI

Annex D

**Details of Sub-Panels formed by the Advisory Panel on
Transparency Standards**

Subject Area	Members of Sub-Panel
Transparency in Monetary Policy	Dr Jaimini Bhagwati Dr Rajiv Kumar
Transparency in Financial Policies	Dr Shubhashis Gangopadhyay Dr Rajas Parchure
Fiscal Transparency	Prof. Indira Rajaraman
Data Dissemination Standards	Shri Mahesh Vyas

Annex E

List of Peer Reviewers who Reviewed the Assessments

No.	Subject	Name of the Peer Reviewer
1.	Transparency in Monetary Policy	Sir Andrew Large, Former Deputy Governor, Bank of England
2.	Fiscal Transparency	Mr. Vito Tanzi, Former Director, Fiscal Affairs, IMF
3.	Data Dissemination Standards	Mr. Neil Patterson, Former Director, Statistics Department, IMF

Chapter II

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Chapter II

Assessment of Transparency in Monetary Policy

1. Introduction and Background

Transparency in monetary policy refers to an environment where the objectives of the policy, the legal and institutional framework, rationale and data relating to the formulation of the policy are disseminated to the public in an understandable and accessible manner. Transparency in monetary policy should be viewed as a part of the good governance policy of a central bank. A transparent monetary policy improves the financial markets' understanding of the conduct of monetary policy and, thereby, reduces uncertainty. As a result, monetary policy formulation becomes increasingly consultative, clear and participative. At the same time, there is increasing focus on technical analysis and co-ordination in the preparation of monetary policy.

There could be a limit to transparency as the publication of detailed results of a central bank's economic projections may eliminate the element of surprise, which may be necessary, considering the nature of a central bank's operations in the financial market. The extent of transparency would depend on the nature of the economy, the dominance of domestic *vis-à-vis* global factors, maturity of the financial markets, degree of uncertainty affecting policies and the monetary policy objectives and framework. This is recognised by the IMF – the

standard-setter – for transparency in monetary policy.

1.1 Earlier Assessments of Monetary Policy Transparency

1.1.1 Financial Sector Assessment Programme (FSAP) - 2001

A joint IMF-World Bank team assessed India's compliance with the Code of Good Practices on Transparency in Monetary and Financial Policies as part of the Financial Sector Assessment Programme (FSAP) and the Report was released in May 2001. The Report covered transparency practices of:

- i) Reserve Bank of India as regards Monetary Policy and Banking Supervision;
- ii) Securities and Exchange Board of India (SEBI) for regulation and supervision of Securities Markets; and
- iii) Deposit Insurance and Credit Guarantee Corporation of India as regards Deposit Insurance.

The FSAP Report had concluded that the transparency practices in monetary policy as they related to the broad principles underlying the Code were satisfactory, and that India had made substantial progress in constituting a transparent framework for monetary policy operations.

The Report recommended that transparency could be further strengthened by explicitly specifying the grounds for removal of the head and members of the Central Board of the Reserve Bank. Further, a multiplicity of financial sector regulators increases the importance of a clear demarcation of roles and responsibilities between the different regulatory agencies and of instituting a transparent framework for exchange of information among these agencies.

1.1.2 Advisory Group on Transparency in Monetary and Financial Policies

The Standing Committee on International Financial Standards and Codes set up by the Government of India and the Reserve Bank in 1999, constituted an Advisory Group to study the assessment of observance of standards and codes relevant to Transparency in Monetary and Financial Policies. The Advisory Group in its Report released in September 2000, recommended legislative amendment to the RBI Act to give a sharper focus to the objectives of monetary policy. The Group suggested setting out monetary policy objectives by the Government, seeking parliamentary debate on these objectives as also any change in these objectives thereafter. This would reduce the possibility of counter-productive conflict between the Government and the Reserve Bank. The Group was of the view that greater transparency would compel the authorities to bring about a greater degree of rigour in the formulation of strategies and choice of instruments and there are advantages in a well-informed public debate on the objectives and instruments. The Group stated that the Reserve Bank should be given a clear and explicit

mandate to achieve the objectives of monetary policy. Transparency in monetary policy and greater responsibility and accountability for the Reserve Bank would be meaningful only if there is legislative amendment of the RBI Act to provide the necessary autonomy to the Reserve Bank to fulfill its objectives. The Group was of the view that it would be necessary to provide, through legislative amendments, reasonable security of tenure to the top management of the Reserve Bank. This was essential if the Reserve Bank is to be clearly assigned specific responsibilities in the conduct of monetary policy and be accountable for the same to the public. The Group also recommended that debt management should be separated from monetary management in a phased manner and the Government should set up its own Debt Management Office (DMO). This would be a necessary but not sufficient condition for effective monetary policy. Setting of interest rates should be exclusively a monetary policy function. The Advisory Group recommended that the Reserve Bank should set up a Monetary Policy Committee as a committee of the Central Board, for formulating monetary policy and stated further that the Government should consider setting out to the Reserve Bank a single objective for monetary policy, *viz.*, control inflation rate and it should be given unfettered instrument freedom and held accountable for attaining this objective.

1.2 Evolution of Monetary Policy Framework

The monetary policy framework in India from the mid-1980s till 1997-98 can, by and large, be characterised as a monetary targeting framework on the lines recommended by the

Chakravarty Committee¹. Because of the reasonable stability of the money demand function, the annual growth in broad money (M_3) was used as an intermediate target of monetary policy to achieve monetary objectives. In theory, monetary targeting involves working out a broad money growth rate through the money demand function consistent with a projected GDP growth and a tolerable level of inflation. In practice, however, the monetary targeting approach was used in a flexible manner with a 'feedback' from the developments in the real sector.

The monetary system in India is still evolving and the various inter-sectoral linkages in the economy are undergoing changes. There is now some evidence on transmission channels that suggest that the rate channels are gradually gaining importance over the quantum channel. The econometric evidence produced by the Third Working Group on Money Supply² indicated that an expansionary monetary policy increases credit and output. However, output response to expansionary monetary policy operating through interest rate was found to be stronger and more persistent than that of the credit channel. In the deregulated environment, the interest rate channel has the potential of emerging as a critical variable influencing the credit aggregate. The results showed that an expansionary monetary policy would reduce the interest rate and depreciate the exchange rate and would lead to an increase in inflation. The impact of an expansionary monetary policy on inflation was found to be stronger through interest rates rather than the exchange rate, given the relatively limited openness of the economy and prevalence of external capital controls.

In 1998, the Reserve Bank announced that it would follow a multiple-indicator approach. In this approach, interest rates or rates of return

in different markets along with movements in currency, credit, fiscal position, trade, capital flows, inflation rate, exchange rate, refinancing and transactions in foreign exchange – available on high frequency basis – are juxtaposed with output data for drawing policy perspectives. This shift was the logical outcome of measures taken over the 1990s.

1.3 Objectives and Instruments of Monetary Policy in India

The Code of Good Practices does not envisage any particular objective for monetary policy. However, the code requires that the objectives of monetary policy must be provided in the law with clarity. The objectives of monetary policy are drawn from the RBI Act, 1934. This Act sets out the Reserve Bank's objective as 'to regulate the issue of Bank notes and keeping of reserves with a view to securing monetary stability and generally to operate the currency and credit system of the country to its advantage.' Securing monetary stability was the predominant objective of the Reserve Bank which was set up essentially as a monetary authority.

Although there has not been any explicit mandate, the major objectives of monetary policy in India, as evolved over the years through policy statements, have been those of maintaining price stability and ensuring adequate flow of credit to the productive sectors of the economy. The growth objective is subsumed in the credit objective.

With economic liberalisation, the objective of financial stability has gained importance. The relative emphasis between the objectives depends on the underlying economic conditions, and is spelt out from time to time. Compared to many other developing economies, over the years, India has been able to maintain a moderate level of inflation; historically,

¹ Reserve Bank of India (1985): *Report of the Committee to Review the Working of the Monetary System* (Chairman: Sukhamoy Chakravarty)

² Reserve Bank of India (1998): *Report of the Working Group on Money Supply: Analytics and Methodology of Compilation*, (Chairman: Dr. Y.V.Reddy)

inflation rates in India rarely have touched double-digit levels. While excessive money supply growth, contributed by high levels of fiscal deficits during 1980s might have contributed to inflationary pressures, in most cases, these were the result of supply shocks either in the form of increase in agricultural commodity prices or in the form of increase in international prices of crude oil.

The RBI Act has provisions relating to the use of various monetary policy instruments such as the cash reserve ratio (CRR), the Bank Rate, refinance facilities and open market operations (OMO) for achieving its monetary policy objectives. Prior to 1991, given the command and control nature of the economy, the Reserve Bank had to resort to direct instruments like interest rate regulations, selective credit control and the CRR as major monetary policy instruments. These instruments were used intermittently to mitigate the monetary impact of the Government's budgetary operations.

The administered interest rate regime in the pre-reform period kept the yield rate of the government securities artificially low. The demand for these securities was created through intermittent hikes in the statutory liquidity ratio (SLR). The task before the Reserve Bank was, therefore, to develop the markets to prepare the ground for indirect operations.

As a first step, yields on government securities were made market-related. At the same time, the Reserve Bank helped create an array of other market-related financial products. At the next stage, the interest rate structure was simultaneously rationalised and banks were given the freedom to determine their major

rates. As a result of these developments, the Reserve Bank could use OMO as an effective instrument for liquidity management, including to curb short-term volatility in the foreign exchange market.

Another important and significant change introduced during the period is the reactivation of the Bank Rate by initially linking it to all other rates including the Reserve Bank's refinance rates (April 1997). The subsequent introduction of fixed rate repo (December 1997) and an interim liquidity adjustment facility (ILAF) (1999) helped in creating an informal corridor in the money market, with the reverse repo rate as floor and the Bank Rate as the ceiling. The use of these two instruments in conjunction with OMO enabled the Reserve Bank to keep the call rate within this informal corridor for most of the time. Subsequently, the introduction of the full-fledged liquidity adjustment facility (LAF) from June 2000 enabled the modulation of liquidity conditions on a daily basis and also of the short-term interest rates through the LAF window, while signalling the stance of policy from medium-term perspective through changes in the Bank Rate.

1.4 Transparency through Communication in the Reserve Bank

The more complex is the mandate for the central bank, more is the necessity of communication. The Reserve Bank has multiple objectives. Apart from pursuing monetary policy goals, financial stability is one of the overriding concerns of the Reserve Bank. Within the objective of monetary policy, both control of inflation and providing adequate credit to the productive sectors of the economy so as to foster

growth are equally important. This apart, the Reserve Bank acts as a banking regulator, public debt manager, government debt market regulator and currency issuer. Faced with such multiple tasks and complex mandates, clearer communication on the part of the Reserve Bank is crucial to the functioning of the financial markets.

Traditionally, the process of monetary policy formulation in India had been largely internal with only the end product of actions being made public. But a process of openness was initiated in late 1990s, and has since been widened, deepened and intensified. The process has become relatively more articulate, consultative and participative with external orientation, while the internal work processes have also been re-engineered to focus on technical analysis, co-ordination, rapid responses and being *au fait* with markets.

The stance of monetary policy and the rationale are communicated in a variety of ways, the most important being the annual monetary policy statement of Governor in April and the mid-term review in October. Quarterly reviews of January and July were introduced in 2005, with a pre-announcement of dates. The statements, though technically extra-statutory in nature, have become over time more analytical and elaborate giving a comprehensive assessment of the economy in all its dimensions, as a backdrop to the policy stance. These statements are accompanied by a detailed macroeconomic review of the economy as a supplement. Monetary measures are undertaken as and when the circumstances warrant, but the rationale for such measures is given in the press releases and also in statements made by Governor and Deputy Governors. The means of communicating the policy stance include several statutory and non-statutory publications, speeches and press releases. Of late, the Reserve Bank's website has become a very effective medium of communication and is rated by experts as one

of the best among central bank websites in content, presentation and timeliness. The Reserve Bank's communication strategy and provision of information have facilitated greater transparency in the conduct of policy in an increasingly market-oriented environment.

Several institutional arrangements and work processes have also been put in place to enhance the consultative process in policy making. At the apex of policy process is the Governor, assisted closely by Deputy Governors and guided by the deliberations of a Board of Directors. A Committee of the Board meets every week to review the monetary, economic and financial conditions and advise or decide appropriately. Much of the data used by the Committee is available to the public with about a week's lag. Periodic consultations with academics, market participants and financial intermediaries take place through Standing Committees and *ad hoc* Groups, in addition to mechanisms such as resource management discussions with banks, pre-policy meetings with representatives from the financial sector, trade and industry. Within the Reserve Bank, the supervisory data, market information, economic and statistical analysis are re-oriented to suit the changing needs. A Financial Markets Committee focuses on the day-to-day assessment of market and liquidity conditions and evolves market operations and tactics, while a Monetary Policy Strategy Group analyses strategies on an ongoing basis.

Another step towards strengthening the consultative process in monetary policy formulation is the formation of various Technical Advisory Committees (TACs) with representatives from market participants, other regulators and experts. In line with the international best practices and with a view to further strengthening the consultative process in monetary policy, the Reserve Bank, in July 2005, has set up a separate Technical Advisory Committee on Monetary Policy (TACMP) with external experts in the areas of monetary

economics, central banking, financial markets and public finance to give advice on the stance of monetary policy. Periodic consultations with the Government, mainly with the Ministry of Finance, also take place. In brief, there are increasingly significant technical, analytical, institutional and dynamic inputs that go into the process of monetary policy-making.

1.5 Responsibilities other than Monetary Policy

While set up essentially as monetary authority, besides being a debt manager and banker to Governments, as delineated in the RBI Act, the areas of regulatory and supervisory jurisdictions of the Reserve Bank have expanded over time through various legislations and amendments to the RBI Act, 1934.

The major legislations in this regard, other than the RBI Act, are: the Banking Regulation Act 1949; the Foreign Exchange Management Act, 2000; the Fiscal Responsibility and Budget Management Act, 2003; the Government Securities Act, 2006; and the Payment and Settlement Systems Act, 2007.

The RBI Act contains specific provisions regarding the Reserve Bank's relationship with the Central and State Governments. The Banking Regulation Act, 1949 gives the Reserve Bank extensive powers for regulation and supervision of banks. The Fiscal Responsibility and Budget Management (FRBM) Act, 2003 *inter alia* precludes the Reserve Bank from participating in the primary issuance of government securities. The Foreign Exchange Management Act (FEMA), 2000 gives powers to the Reserve Bank to regulate, prohibit and

restrict activities pertaining to foreign exchange transactions. The Government Securities Act, 2006 gives the operational details on issuance and trading in government securities which is administered by the Reserve Bank. The Payment and Settlement Systems Act, 2007 gives the Reserve Bank powers for the regulation and oversight of all payment and settlement systems operating in the country. Amendments to the RBI Act have provided added responsibilities of regulation and supervision over co-operative institutions, non-banking financial companies and financial institutions. The Amendment of 2006 provided operational flexibility in using policy instruments such as the CRR and the SLR and clarified the Reserve Bank's role in regulating and supervising financial markets – money, government securities and foreign exchange and related derivatives.

2. Methodology and Summary of Assessment

Transparency in monetary policy has been assessed by the Panel for compliance with the *Code of Good Practices on Transparency in Monetary and Financial Policies* brought out by the IMF. This Code of Good Practices is the widely accepted benchmark for assessing monetary policy transparency. The Code focuses on four major areas, *viz.*,

- i) clarity of roles, responsibilities and objectives of central banks,
- ii) open processes for formulating and reporting of monetary policy decisions by the central bank,
- iii) public availability of information on monetary policy, and

- iv) accountability and assurances of integrity by the central bank.

Each of the above four broad areas are further distilled into specific transparency practices.

The IMF's Code also outlines some guiding principles by which major areas/practices can be assessed for their compliance status into 'Observed', 'Broadly Observed', 'Partly Observed', 'Not Observed' and 'Not Applicable'. The Panel closely followed this guidance and has assessed each area/practice for compliance, as objectively as possible, though some informed judgments needed to be exercised in view of the complexities in interpretations of certain practices.

A summary of assessment with regard to each of the four major areas is provided in this section. Detailed assessment is provided in **Annex I**.

2.1 Clarity of Roles, Responsibilities and Objectives

2.1.1 Objectives

A cross-country array of objectives of monetary policy are set out in Box 1. In India, the responsibility and authority of the Reserve Bank to conduct monetary policy are derived from the provisions of the RBI Act. The institutional relationship between the Central Government and the Reserve Bank is also defined in the Act. Though not statutorily mandated, the Governor's statements on monetary policy articulate the main objectives of price stability, financial stability and ensuring adequate flow of credit to productive sectors to sustain growth. The stance of monetary policy from time to time reflects the varying emphasis upon growth, price stability and financial stability depending upon evolving circumstances.

Box 1: Objectives of Monetary Policy

Traditionally, central banks' functions were more clearly specified in their legislation, rather than their objectives. The objectives of central banks in statutes were couched in very general terms such as, to be in the interest of the nation, consistent with general economic policy, *etc.* Such general public interest objectives are open to wide interpretation and do not offer substantial guidance in handling situations where two or more functions would come into conflict. However, in the last two decades, some central banks, especially the ones which have adopted inflation targeting, have explicitly specified their monetary policy objectives in legislation; this implied a substantial improvement in the clarity of guidance provided to these central banks. It helps in objective assessment of the fulfillment of objectives and formulation of corrective measures.

Monetary policy objectives of 50 central banks, as specified in legislation, have been surveyed by the BIS and it has been seen that there is considerable divergence, in practice. In the US, the specific mandate for the Federal Reserve for objectives of

monetary policy was added to the Federal Reserve Act in 1977. Though not explicit, the mandate is interpreted as a dual mandate for full employment and price stability. The Federal Reserve has not set an explicit, numerical objective for inflation. In recent years, though bills have been introduced that would have made price stability the sole or primary objective for monetary policy and required the Fed to set an explicit numerical inflation target, these are yet to be passed by the Senate. In case of some inflation targeting countries such as the UK, New Zealand, South Korea and Philippines, the objective is a single one for the central bank and it is explicitly stated in legislation. However, for some inflation targeters such as Canada and Australia, there are multiple objectives. In the case of India, though the statute incorporates the objective for the central bank as monetary stability, evolution over the years, in practice, has enhanced the scope into multiple objectives, such as price stability, provision of adequate credit to support growth and financial stability. However, these are yet to be explicitly incorporated in the legislation.

2.1.2 Accountability

In the absence of specific monetary and operational autonomy statutorily provided to the Reserve Bank, the accountability of the Reserve Bank to the Parliament is through the Ministry of Finance, the executive wing of the Government. The top management of the Reserve Bank may appear, upon request, before the Parliament or its Committees for explaining the Reserve Bank's position with regard to its policies. Besides, Government's power to issue directions and supersede the

Board of Directors and remove the Governor and Deputy Governors without assigning any reason makes the Reserve Bank *de jure* less autonomous. (Cross-country practices are detailed in Box 2). However, in practice, through conventions, agreements and MoUs in specific areas, Reserve Bank has gained, over time, a greater degree of operational independence in performing its monetary policy function. Also, since its constitution in 1935, there has been no occasion of abrupt removal of the Governor/Deputy Governors³ or supersession of the Board, as such actions

Box 2: Appointment and Removal of Governor/Deputy Governors of Central Banks

The IMF's Code of Good Practices on Transparency in Monetary Policy states that the procedures for appointment, terms of office, and any general criteria for removal of the heads and members of the governing body of the central bank should be specified in legislation. Although the legal procedure of appointment of senior officials of central banks varies between countries, they are generally appointed through some governmental process at a very high level indicating the stature of the position. The Governor is generally appointed by the head of the state or government or by the minister of finance. The Governor of the multi-state ECB is appointed by consensus of the heads of states or governments of the European Union countries.

Generally, the appointment process involves more than one institution which helps to preserve the impartiality of the process, prevents undue political interference, ensures stability of tenure in case of changes in Government and gives the central bank substantial credibility in the financial system. For example, in New Zealand, the Reserve Bank's Board formally proposes the Governor who is then appointed by the Minister of Finance. The

procedures of appointment are generally outlined in law. However, sometimes the actual procedure may be more stringent than the one legally laid down. For example, in Canada, Chile and Finland, the Government may appoint a search committee which will interview potential candidates before nomination or appointment.

Almost all central bank legislations permit the dismissal of the Governor and specify the conditions under which a governor can be dismissed, so that improper behaviour by senior central bank officials may not adversely impinge upon the credibility of the central bank and its performance and efficiency. The legal conditions range from specific, work-related conditions such as non-performance, acting against Government policy, *etc.*, or general person-specific condition like misconduct, conviction or poor behaviour/performance. The Reserve Bank of New Zealand Governor can be dismissed for adopting a wrong policy. However, a few countries' legislation permits dismissal, but do not specify conditions as in India. In contrast to the appointment procedure, the power of dismissal generally rests with one body, mostly the executive.

³ Shri Benegal Rama Rau, Governor (1949-1957) resigned from the post on account of differences with the Finance Minister over one of the supplementary taxation proposals that envisaged an increase in the stamp duty on bills under the bill market scheme (Ref: *The Reserve Bank of India: 1951-1967, Vol. 2*). Shri K.R.Puri, Governor (1975-1977) was removed from his post, presumably for strong political affiliations (Ref: *The Reserve Bank of India: 1967-1981, Vol. 3*).

are fraught with reputation risks. However, the Panel feels that improvement in transparency of process of the removal of the top management would in itself improve the autonomy of the central bank. Thus, while *de facto*, the Reserve Bank seems to have gained a greater degree of autonomy, particularly in regard to monetary and financial market operations, there is merit in amending the basic legislation to accord a greater *de jure* autonomy to the Reserve Bank. The Panel strongly recommends further review of the related provisions of the RBI Act for according greater operational autonomy to the Reserve Bank.

Directions to the Reserve Bank from the Government are more informal in nature at present and not transparent. (Select country practices in Box 3). Since such a power is in the nature of public interest, such directions should be taken on record. The transparency of process is the best antidote to 'unwarranted' Government interference. This arises both by reducing the perceived need for such override, and the fact that if Governments choose to try to override other than through proper process set up by the legislation itself, this would raise questions about their motives for so doing.

2.1.3 Public Debt

The institutional relationship between the monetary and fiscal authority is set out in the RBI Act. The Reserve Bank is the manager of

public debt and banker to the Government. The instruments for borrowing, the volume of borrowing and timing is decided in consultation with the Central Government and the details of the government borrowing programme are publicly disclosed in a transparent manner. An in-principle decision has been taken to separate debt management function from monetary management and the Central Government, in the budget for 2007-08, has announced setting up of a Middle Office as a precursor to a full-fledged DMO (Box 4). To be functionally independent, the proposed DMO should be set up as a statute-based entity. However, it is also necessary to underline the importance for information to be made available to the Reserve Bank on all matters that could affect financial stability. This argues for the necessity to ensure adequate, immediate, and continuing channels of communication between the proposed DMO and the Reserve Bank. This aspect should be laid out in statute and implemented in letter and spirit.

2.1.4 Exchange Rate Management

The exchange rate policy of the Reserve Bank has been guided by broad principles of careful monitoring and management of exchange rates with flexibility without a fixed target or a band coupled with the ability to intervene when necessary. The Reserve Bank's role as a manager of the country's foreign exchange, fiscal agent of

Box 3: Directives from Government to Central Bank – Issues and Approaches

The IMF's Code of Good Practices on Transparency in Monetary Policy states that if, in exceptional circumstances, the Government has the authority to override central bank policy decisions, the conditions under which this authority may be invoked and the manner in which it is publicly disclosed should be specified in legislation.

The Government has the statutory power in several countries such as Canada, South Korea, Malaysia and New Zealand to give written directions to the central bank, with varying procedures. In all cases, the directive needs to be published within a specified time period. Though this provision of issuing

directive is deemed to be detrimental to central bank autonomy, the elements of transparency embedded in the procedure helps in resolving conflicts between the central bank and the Government without necessitating changes in central bank law.

Under the RBI Act, the Central Government may give such directions to the bank as it may, after consultation with the Governor of the bank, consider necessary in the public interest. In practice, as issues are resolved through mutual consultations, where necessary, there are no such directions on record.

Box 4: Separation of Debt Management from Monetary Management

There are certain inherent conflicts in objectives and operations between debt management and monetary management and, therefore, for effective discharge of both, functional separation is considered desirable. In the case of the Reserve Bank, conflicts also arise from its roles as a regulator and supervisor of the banking system which is predominantly owned by the Government. The triangular conflicts of interest for the Reserve Bank in its roles of debt manager, regulator of banking system and as the monetary authority could relate to the possibilities of:

- (i) Explicit or implicit pressure from the Government to monetise fiscal deficit;
- (ii) Imposing large mandatory reserve requirements on banks and financial institutions to reduce costs of Government borrowing;
- (iii) Manoeuvring with the monetary policy to successfully complete borrowing programme by:
 - a. Absorbing excess liquidity through issuance of government securities, thus increasing the size of borrowings and servicing costs;
 - b. Creating conducive liquidity environment to facilitate easy market borrowing; and
 - c. Undertaking unavoidable monetary policy decisions on interest rate changes immediately before or after a stock issue which have undesirable and unintended effects like windfall gains and losses among those holding long and short positions.
- (iv) Enlarging volumes of short-term debt under the expectation of rollovers at lower yields in later years, thus bringing about distortions in the debt maturity profile.

The issue of conflict between the debt management and monetary management functions has received considerable attention in several official committees/working groups in the last decade. This issue was addressed and the separation of the two was recommended first by the Committee on Capital Account Convertibility (1997) (Chairman: Shri S.S. Tarapore) which suggested that the Government may set up its own Office of Public Debt and that the Reserve Bank should not participate in the primary issues of Government borrowing. An Internal Working Group constituted in 1997 broadly agreed with the above recommendation and suggested that the debt management be handed over to a wholly-owned subsidiary of the Reserve Bank. It also considered alternatively handing over the function to a company jointly owned by Central and State

Governments. The matter was extensively examined internally, but it was decided to put the decision on hold. In September 2000, the Advisory Group on Transparency in Monetary and Financial Policies has also suggested the separation and advised that there should be well-calibrated legislative measures to separate debt management and monetary policy function and recommended that the Government may set up its own independent DMO.

In the Annual Policy Statement, 2001-02 announced in April 2001, the decision to separate the two functions was considered desirable in principle, subject however to three preconditions, *viz.*, development of financial markets; reasonable control over fiscal deficit; and necessary legal changes. Following this, the Internal Expert Group set up by the Central Government recommended a two-stage approach to setting up of an autonomous DMO in May 2001. The Review Group constituted for updating the recommendations of the Standing Committee on International Financial Standards & Codes (2004) opined that such separation could be effected with appropriate institutional and legal changes, once the enabling conditions are created. The Committee on Fuller Capital Account Convertibility in 2006 has reiterated the recommendation made in 1997 about setting up of the Office of Public Debt for an effective functional separation enabling more efficient debt management as also monetary management.

The Finance Minister while presenting the Union Budget for 2007-08, announced Government's proposal to set up an autonomous Debt Management Office as follows:

'World over, debt management is distinct from monetary management. The establishment of a Debt Management Office (DMO) in the Government has been advocated for quite some time. The fiscal consolidation achieved so far has encouraged us to take the first step. Accordingly, I propose to set up an autonomous DMO and, in the first phase, a Middle Office will be set up to facilitate the transition to a full-fledged DMO.'

A close co-ordination, *albeit* without undue influence, would be required between the monetary authority and the debt manager to ensure that the two authorities do not act at cross purposes. The transition to a DMO should be handled smoothly with institution of in-built mechanisms to ensure efficiency of both debt and monetary management and carving out management functions carefully from other purely routine agency functions. Ideally, the DMO should be functionally independent and statute-based.

the Government and as an advisor on economic and financial policies are also clearly defined and publicly disclosed.

2.1.5 Responsibilities of the Reserve Bank other than Monetary Policy

The RBI Act gives the Reserve Bank extensive powers for regulation and supervision of banks. The FRBM Act, 2003 precludes the Reserve Bank from participating in the primary issuance of government securities. The Foreign Exchange Management Act (FEMA), 2000 gives powers to the Reserve Bank to regulate, prohibit and restrict activities in the foreign exchange market. The provisions of the Government Securities Act, 2006 which give the operational details on trading in government securities, is administered by the Reserve Bank. The Payment and Settlement Systems Act, 2007 gives the Reserve Bank powers for the regulation and oversight of payment systems. With the amendments of 2006 in the RBI Act, the Reserve Bank has gained operational flexibility in the use of monetary instruments like CRR, SLR, repo and reverse repo operations and further clarity in regulation and supervision over financial markets – money, foreign exchange, government securities and gold-related securities. However, the roles and responsibilities of the Reserve Bank as a regulator and supervisor are subject to considerable overlaps with the Government and other regulators. For example, there are overlaps between the Reserve Bank and the Registrar of Co-operative Societies in the regulation and supervision of urban co-operative banks; the regulation of Chit Funds and *Nidhis* is a shared responsibility between the Reserve Bank and the Registrar of Chits; the Reserve Bank regulates only their deposit-taking activities and interest rates on deposits, the other concerned aspects are within the regulatory purview of the Registrar of Chits of the concerned States; the Reserve Bank regulates regional rural and rural co-operative banks, but they are supervised by the National Bank for Agriculture and Rural Development (NABARD).

2.2 Open Process for Formulating and Reporting Monetary Policy Decisions

The framework, instruments and targets of monetary policy are publicly disclosed and explained through various channels like the Governor's statements, monthly bulletins, press releases, speeches by the Governor, Deputy Governors, *etc.*, and the Reserve Bank's website. Any changes in the monetary policy stance are also publicly disclosed. There are legislative guidelines on the reporting of data by the financial institutions to the Reserve Bank for monetary policy purposes.

The Reserve Bank does not have a permanent policy making body to assess the economic developments and monitor progress towards achieving monetary policy objectives. However, in July 2005, the Reserve Bank has set up a Technical Advisory Committee on Monetary Policy (TACMP) with external experts in the areas of monetary economics, central banking, financial markets and public finance. The Committee meets at least once in a quarter to review the macroeconomic and monetary developments and advises on the stance of monetary policy. The role of TACMP is purely advisory in nature. The responsibility, accountability and time-paths for decision-making are not formally constrained by the meetings of the TACMP, nor are the minutes made public as in the case of the Monetary Policy Committee of the UK. These institutional arrangements are explained in various publications including the Annual Report. The Reserve Bank extensively adopts a consultative approach while formulating its policy guidelines by holding pre-policy meetings with representatives from the financial sector, trade and industry.

2.3 Public Availability of Information

Information on monetary policy and its operations and data related to it fully comply with the Special Data Dissemination Standards (SDDS) of the IMF. The Reserve Bank publishes

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a weekly summary balance sheet and an audited Annual Statement of Accounts and these are made available on the Reserve Bank's website. Information on the monetary operations carried out by the Reserve Bank is available to the public in the case of LAF, auctions of government securities, *etc.* The text of regulations issued by the central bank is also made readily available to the public. Information on India's foreign exchange assets are also publicly disclosed on a weekly basis. All these disclosures are consistent with the requirements of SDDS. The Reserve Bank has a separate Department of Communications which interacts with the press and the public.

2.4 Accountability and Assurances of Integrity

Senior officials of the Reserve Bank appear, upon request, before Parliamentary/ Central Government Committees for the purpose of explaining the Reserve Bank's position with regard to inquiries about the Bank's policies. The aggregate information on expenses and revenues of the Central Bank as well as internal governance procedures are reported through the annual balance sheet of the Reserve Bank. The conduct and discipline of the Reserve Bank's staff are governed by the Reserve Bank (Staff) Regulations, 1948.

Table 1: Summary of Assessment of Transparency in Monetary Policy

No.	Area/Practices	Assessment
I.	Clarity of Roles, Responsibilities and Objectives of Central Banks for Monetary Policy	
1.1	Objectives and institutional framework of monetary policy to be defined in legislation	PO
1.1.1	Public disclosure of objectives of monetary policy in legislation	BO
1.1.2	Responsibilities of the central bank to be defined in legislation	O
1.1.3	Legislative authority to the central bank to utilise monetary policy instruments	O
1.1.4	Public disclosure of institutional responsibility for foreign exchange policy	O
1.1.5	Modalities of accountability for conduct of monetary policy and any other responsibilities to be defined in legislation	O
1.1.6	Overriding of central bank policies by the government	O
1.1.7	Legislative clarity on appointment of central bank top management	PO
1.2	Institutional relationship between monetary and fiscal operations	O

1.2.1	Public disclosure of conditions for granting credits, advances, or overdrafts to the government	O
1.2.2	Public disclosure of amounts and terms of credits, advances or overdraft to the government and deposits of the government	O
1.2.3	Public disclosure of procedures for central bank participation in primary and secondary markets for government securities	O
1.2.4	Public disclosure of central bank involvement in the rest of the economy	O
1.2.5	Public disclosure of allocation of central bank profits and maintenance of capital	O
1.3	Agency roles performed by central bank on behalf of the government to be clearly defined	O
1.3.1	Public disclosure of other responsibilities of central bank like fiscal agent to the government and management of foreign exchange reserves	O
1.3.2	Public disclosure of allocation of responsibilities between the central bank and the government for primary and secondary issues of government securities	O
II.	Open Process for Formulating and Reporting Monetary Policy Decisions	
2.1	Public disclosure of framework, instruments and targets used to pursue objectives of monetary policy	O
2.1.1	Public disclosure of procedures and practices governing monetary policy instruments	O
2.1.2	Public disclosure of rules and procedures for central bank's relationship with counterparties in its monetary operations	O
2.2	Public disclosure of the composition, structure and functions of a permanent monetary policy-making body	NA
2.2.1	Public disclosure of advance meeting schedule of the policy-making body	NA
2.3	Public disclosure of changes in the setting of monetary policy instruments	O
2.3.1	Public disclosure of main considerations underlying its policy decisions	O
2.4	Issue of periodic public statements on progress towards achieving policy objectives	O
2.4.1	Central bank to present policy objectives to public specifying <i>inter alia</i> their rationale, quantitative targets, instruments and assumptions	O

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2.4.2	Issue of a report on the evolving macroeconomic situation and its implications for policy objectives	O
2.5	Public consultations for proposed substantive technical changes to the structure of monetary regulations	O
2.6	Public disclosure of regulations on data reporting by financial institutions to the central bank	O
III.	Public Availability of Information on Monetary Policy	
3.1	Central bank data disclosures to be compliant with IMF's SDDS	O
3.2	Public disclosure of central bank balance sheet on a pre-announced schedule and information on aggregate market transactions	O
3.2.1	Public disclosure of summary central bank balance sheet on a frequent and pre-announced schedule	O
3.2.2	Public disclosure of information on central bank's monetary operations on a pre-announced schedule	O
3.2.3	Disclosure of emergency financial support by central bank	PO
3.2.4	Public disclosure of a country's foreign exchange reserve assets, liabilities and commitments by the monetary authorities on a pre-announced schedule	O
3.3	Central bank to maintain public information services	O
3.3.1	Central bank to have a publications programme including an Annual Report	O
3.3.2	Senior central bank officials to explain the institutional objectives to the public	O
3.4	Public availability of texts of regulations issued by the central bank	O
IV.	Accountability and Assurances of Integrity by the Central Bank	
4.1	Central bank officials to appear before a designated public authority to report on the conduct of monetary policy	O
4.2	Public disclosures of audited financial statements of its operations on a pre-announced schedule	O
4.2.1	Public disclosure of information on accounting policies and independent audit of the financial statements	O

4.2.2	Public disclosure of internal governance procedures					O
4.3	Public disclosure of information on expenses and revenues in operating the central bank					O
4.4	Public disclosure of standards for the conduct of the staff of the central bank					O
4.4.1	Public disclosure of information about legal protection for officials of the central bank					O
<i>Memo Items:</i>						
Assessment		I	II	III	IV	Total
O		14	10	9	7	40
BO		1	–	–	–	1
PO		2	–	1	–	3
NA		–	2	–	–	2

O - Observed; BO - Broadly Observed; PO - Partly Observed; NA - Not Applicable

3. Transparency: Some Key Issues

Specific issues related to reaching greater transparency in monetary policy in India require attention.

3.1 Multiple Objectives of Monetary Policy in India

The Reserve Bank has several objectives and it is often opined that it should adopt a single objective because multiple objectives can be mutually conflicting. Many central banks have, in the recent years, adopted a single objective for monetary policy, generally inflation targeting. It needs pointing out here that though inflation is not explicitly targeted in India, price stability continues to be a key objective of monetary policy. Given the current domestic and international complexities, the Reserve Bank may need to continue with a flexible framework for monetary policy. In the current circumstances, it is felt that the Reserve Bank does not need a rigid approach such as inflation targeting. Earlier, the Committee on Fuller Capital Account Convertibility (CFCAC) (Chairman: Shri S.S. Tarapore) and the Advisory

Group on Transparency in Monetary and Financial Policies (2000) (Chairman: Shri M. Narasimham) had suggested that the Reserve Bank move towards an Inflation Targeting Framework (ITF). However, the benefits of ITF have not yet been conclusively proved, especially in emerging market economies. Inflation targeting relies heavily on a reliable price index and forecasts and, thus, requires sophisticated forecasting models. This is an important constraint in the implementation of ITF in developing economies. Inaccurate forecasts can obscure central bank objectives and reduce its credibility. There is also a risk that inflation targeting could lead to inefficient output stabilisation. This can occur particularly in the event of significant supply side shocks such as a sharp change in the price of oil. Also, though many central banks have adopted inflation targeting as the monetary policy framework, it has been seen that several of them have been impelled by unfolding circumstances to take policy actions to achieve other objectives, such as exchange rate management, as well. This has been specifically observed in the case of

New Zealand, Thailand and South Korea in the recent period, which have found it difficult, in practice, to adhere to a single objective because of globalisation and increased global capital flows. That said, given the unfolding of current national and global developments, the existing institutional and operating framework of monetary policy is expected to be broadly suitable for the situation in India on account of its flexibility. Nevertheless, as the Indian economy becomes increasingly open, concomitant with fuller capital account convertibility, the objective of progressively bringing inflation down to near international levels and maintaining price stability has assumed greater importance. In this connection, it is also necessary to ensure that the other objectives of the Reserve Bank do not impinge on the maintenance of price stability.

The 'objectives' of the Reserve Bank might usefully be described as being twofold – monetary stability and financial stability – in the interest of achieving an overall objective of an optimum level of sustainable growth. Each of financial stability and monetary stability has its own features, in terms both of necessary powers to be able to conduct them, and relationships, particularly with Government (and potentially with other agencies). There seems to have been a tendency over time for the responsibilities and objectives of central banks to be made more explicit in relation to monetary policy rather than for financial stability. There would be merit in considering explicit treatment of the financial stability objective as well as that for monetary policy

within the Act. This would both require a detailed analysis of the nature of monetary policy and financial stability activities and processes so as to accommodate appropriate treatment of both the objectives themselves, and the enabling powers to achieve them.

As for financial stability, any mention of this in the Act would need to take into account the very different nature of the financial stability process. There are three enabling features or ingredients:

- Maintenance of financial stability requires access to supervisory data, analysis of macro and micro trends, intelligence and analysis of data in relation to possible transmission path of shocks.
- Preparations for handling instability 'events' require to be put in place: both in terms of necessary legal and institutional structures and relationships and in terms of testing, planning and training.
- Handling instability events require powers of intervention, clear lines of responsibility - both of the central bank but also of other regulatory authorities and, of course, the Government – and success is dependent on adequacy of co-ordination and preparation.

In the context of maintenance of financial stability, it is noticed that though the Reserve Bank has supervisory control over banks and non-banking financial institutions, it is not privy to information pertaining to mutual funds,

insurance companies and broking companies. It is necessary that the Reserve Bank has access to information across the spectrum of markets and leveraged financial firms – banks and non-banks - whose activities may require potential support in times of instability. There would be value in terms of transparency of ensuring due clarity of the roles, not just of the Reserve Bank, but of agencies with whom it interacts in the interests of a robust approach to handling financial stability issues. This takes on added significance given the increasing openness of the economy and the concomitant exposure to global trends and patterns of behaviour.

While recognising that the relative emphasis may change over time, there may be merit in clarifying the importance assigned to different objectives and the *inter se* relationship between them.

3.2 Choice of an Inflation Indicator

At present, headline inflation in India is generally indicated by the weekly release of the All-India Wholesale Price Index (WPI) by the Government. The WPI is available on a weekly basis, with a two-week lag, whereas the consumer price indices (CPIs) are available only on a monthly basis, and with a two-month lag. The WPI, as it is computed, does not include services sector prices. Given the increasing weight of this sector in the GDP and also in household consumption, this is a major weakness. Moreover, the WPI also includes trade margins which may vary over time and across locations and, thus, distort the price trends. Owing to these weaknesses, the WPI may not be the best measure for gauging inflationary trends in the economy.

Most countries use the CPI instead. In India, the CPIs are based on occupational classification and category of residence (rural or urban). Four broad measures of CPIs are available at the national level to capture prices of a defined basket of goods and services

consumed by a particular segment of the population:

- (i) CPI for Agricultural Labourers (CPI-AL);
- (ii) CPI for Rural Labourers (CPI-RL);
- (iii) CPI for Industrial Workers (CPI-IW); and
- (iv) CPI for Urban Non-Manual Employees (CPI-UNME)

While these various measures of CPI do move together in the long-run, significant variations are observed in the short-run. Moreover, food and fuel items, together having a weight of 52.6 per cent in CPI-IW, are prone to supply shocks, both domestic and global, which contribute to sudden spikes in the consumer price inflation rate. In India, there is also a considerable regional variation in the same CPI given the widely-differing consumption baskets between the rich and the poor and between rural and urban areas. As a result, this renders the assessment of inflationary pressures difficult which, in turn, complicates the process of monetary policy formulation.

An appropriate inflation indicator should reflect price changes of constituent items accurately and provide some understanding of headline inflation. Whereas it is feasible to construct an economy-wide consumer price index on the lines of the harmonised consumer price index (HICP) adopted in the UK and the Euro Area, it is not clear how useful it would be as an indicator of the general price level, given the widely differing consumption baskets between rich and poor, between rural and urban areas and even between regions in India. In fact, a measure of producers' prices, to which the WPI is akin, is likely to be more representative and familiar, since these prices are more likely to be uniform across the country. Accordingly, an appropriate commodity/services-based price index should be seen eventually to be a useful replacement for the WPI, as an indicator/information variable for defining the headline inflation in the economy.

3.3 Availability of Output Indicators for Monetary Policy

Monetary policy operates with a lag and, hence, it needs to be implemented in a forward-looking manner. It should also be more explicitly associated with managing inflationary expectations along with current inflation. Accordingly, the guiding criterion for inclusion of a variable in the inflation indicators panel should be the information content regarding future inflation⁴. An important sub-set would be real sector indicators of future inflation such as variability of output around trend/potential, capacity utilisation, inventory, corporate performance, industrial/investment expectations and other indicators of aggregate demand. The Reserve Bank has initiated greater quantitative technical work, available internally, in these areas over the last couple of years to better inform monetary policy-making with a forward-looking approach. The Reserve Bank has also initiated inflation expectation surveys so that it can have some direct indicators of changing inflation expectations of the public. These quarterly surveys are still in the pilot/testing stage and so their results are not yet widely available.

3.4 Multiple Responsibilities of the Reserve Bank

In the evolution of central banks, their functions have changed almost continuously in response to evolving circumstances. In fact, it is the occurrence of financial instability that led to the formation of some central banks, most

notably, the founding of the US Federal Reserve after the 1907 financial crisis in the US. Recent international financial developments have provoked a re-assessment of the appropriate role, responsibilities and objectives of central banks for conduct of monetary policy.

Globally, over the last decade or two, it would appear that the focus of central banks has been narrowing relative to the more complex responsibilities that they have traditionally shouldered. In some countries, the regulatory structure itself has been altered to move central banks to being relatively pure monetary authorities. However, as the sub-prime crisis suggests, it is becoming evident that central banks do have a role beyond being a monetary authority alone. In 'normal' times it might make sense on grounds of size/scope/conflict resolution and avoiding too much power residing in the hands of the central bank for prudential supervision to be carried out by a separate agency, but there is a potential cost to doing so during times of crisis. If prudential supervision is split away from the central bank then the central bank loses the explicit responsibility for handling liquidity and confidence-related issues at times of instability or crisis: whether these relate to individual institutions or to the markets, more generally. Systemic issues arise when concerns develop about whether otherwise solvent institutions can be relied on to pay commitments when due. The central bank, with its monopoly of the creation of risk-free money, and operational mechanisms to inject it, has a key role in seeking

⁴ The state of inflation expectations greatly influences actual inflation and, thus, the central bank's ability to achieve price stability. Public tend to form expectations about future inflation based on past trends and the central bank's ability to contain inflation on a consistent basis. Managing these expectations through a transparent policy framework and effective communications is crucial in achieving the objective of price stability.

to preserve confidence that recent events have highlighted. No other institution is capable of carrying out the function of liquidity injection effectively. So any ambiguity as to where this operational responsibility resides can undermine confidence further at the very time it is needed. And there is no realistic way that a non-central bank supervisor can provide this confidence. This aspect needs to be kept in mind while reviewing the RBI Act and it should be made clear that it is the central bank that has specific operational responsibilities in this area, constrained as they need to be by the threat that liquidity injection may require to be socialised by the taxpayer, which in turn requires transparency of process and accountability in relation to Government and the necessity to minimise moral hazard. All these aspects need to be kept in mind while reviewing the RBI Act.

In the context of the recent financial market turmoil, it has been experienced that central banks, in their roles as lenders of last resort and in discharging their responsibilities as the guardians of financial stability, need to perform functions that are more complex. As a greater recognition and appreciation of the appropriate role of central banks gains ground, it is possible that this will result in further rethinking on the functioning of central banks. A case in point is the separation of financial regulation and supervision from monetary policy that could have resulted in ineffective and inadequate surveillance in the context of the current sub-prime crisis. There is a view that problems of information asymmetry might have got further aggravated with central banks having given up direct supervisory functions. For example, when providing lender of last resort liquidity support, central banks need to make a judgment on the solvency of institutions to which it is providing liquidity and for this purpose central banks would need to possess supervisory information regarding banks. That said, the multiple responsibilities of the central bank would also need to be well-defined.

4. Summary of Recommendations

Given the situation prevalent in India with respect to transparency in the monetary policy framework, and taking into account the attendant debates embedded therein, the movement forward will need to be chalked out in concrete and cogent terms, with an appropriate road-map. The Panel has, therefore, made the following recommendations:

4.1 Legislative mandate for objectives of monetary policy

The Reserve Bank has several objectives of monetary policy. While recognising that the relative emphasis on each of these objectives may change over time, there may be merit in clarifying the importance assigned to different objectives and the *inter se* relationship between them. The objectives of monetary policy are not precisely mandated or stated in the RBI Act. Given the changes in the economic environment in the country and the economic experience in monetary management and the national experience since independence, there is a necessity to re-examine the provisions of the RBI Act, particularly with regard to objectives and mandate specified in the Act on the roles and responsibilities of the Reserve Bank, including its relationship with the Government, for achieving legislative clarity.

The exact mandate and objectives of monetary policy may be suitably incorporated in the RBI Act. There would be merit in considering explicit treatment of the financial stability objective as well as that for monetary policy within the Act. This would require both a detailed analysis of the nature of monetary policy and financial stability activities and processes so as to accommodate appropriate treatment of both the objectives themselves, and the enabling powers to achieve them. The Panel recommends that a Working Group may be constituted to comprehensively review the current legislation.

To the extent that prudential supervision is fragmented away from the central bank, there needs to be some mechanism in place to enable the central bank to be adequately informed, and to be able to take on the necessary powers to handle liquidity-related events which appear at times of stress. This aspect needs to be kept in mind while reviewing the RBI Act and it should be made clear that it is the central bank that has specific operational responsibilities in this area, constrained as they need to be by the threat that liquidity injection may require to be socialised by the taxpayer, which in turn requires transparency of process and accountability in relation to the Government and the necessity to minimise moral hazard.

4.2 Overlaps in the responsibilities of the Reserve Bank in regulation and supervision of various institutions

The responsibilities of the Reserve Bank in regulating and supervising entities like rural financial institutions, urban co-operative banks, chit funds and *nidhis* are not clearly specified in legislation. There are considerable overlaps with the Government and other regulators in this area. The regulatory and supervisory jurisdictions of the Reserve Bank over varied categories of institutions and markets need to be given greater clarity and re-definition through amendments in the RBI Act and the Banking Regulation Act. This should be done with a view to meeting current and future requirements. The multiple responsibilities of the central bank would need to be well-defined. The proposed amendment of the RBI Act should include in specific language that the Reserve Bank

nominees will not serve in any regulated entity, e.g., any bank. This will over-ride the SBI, NHB and other Acts which provide for the Reserve Bank nominees on their Boards.

Though the Reserve Bank has supervisory control over banks and non-banking financial institutions, it is not privy to information pertaining to mutual funds, insurance companies and broking companies. It is necessary that the Reserve Bank has unfettered access to information across the spectrum of markets and leveraged financial firms – banks and non-banks – whose activities may require potential support in times of instability. There would be value in terms of transparency for ensuring due clarity of the roles not just of the Reserve Bank, but of agencies with whom it interacts in the interest of a robust approach to handling financial stability issues. This takes on added significance given the increasing openness of the economy and the concomitant exposure to global trends and patterns of behaviour.

4.3 Criteria for removal of the heads and members of the governing bodies of the central bank

Section 11 of the RBI Act specifies that the Central Government may remove from office, the Governor, or a Deputy Governor or any Director or any member of the Local Board. However, the grounds for removal of the head and members of the Central Board are not specified in the Act. In the interest of central bank autonomy, the procedure and grounds for removal of the Governor and the Deputy Governors and supersession of the Board need to be specified in the Act.

4.4 Objectives of exchange rate management

The objectives of exchange rate management are not specified. The responsibility for exchange rate management should be made consistent with the other objectives of the Reserve Bank.

4.5 Relationship between the Government and the Reserve Bank

The RBI Act specifies that the Central Government may, from time to time, give such directions to the Bank as it may, after consultation with the Governor, Reserve Bank, consider necessary in the public interest. In practice, as issues are resolved through mutual consultations, where necessary, there are no such directions on record. The conditions under which the Government issues directions to the Reserve Bank and the manner of disclosure are not specified in the legislation. There is merit in taking such directions on record to ensure transparency of processes.

4.6 Separation of debt management from monetary management

In terms of the FRBM Act, 2003 the Reserve Bank is precluded from participating in the primary issuance process of Central Government securities. The Budget for the year 2007-08 proposed the setting up of an autonomous Debt Management Office (DMO) to keep debt management distinct from monetary management. The preclusion of the Reserve Bank from participating in primary issues of government securities has provided greater maneuverability to the Reserve Bank in containing the monetised deficit. To be functionally independent, the Panel recommends that the proposed DMO should be set up as a statute-based entity, when the conditions are favourable. However, it is necessary to underline the importance for full information access to be made available from the DMO to the Reserve Bank on all matters as

requested by it. This aspect should be laid out in statute and implemented fully.

4.7 Role of the Technical Advisory Committee on Monetary Policy

The Technical Advisory Committee on Monetary Policy (TACMP) reviews the macro-economic and monetary developments and advises on the stance of monetary policy. The TACMP is advisory in nature and provides guidance on the policy stance from time to time to the Governor, Reserve Bank. As such, the responsibility, accountability and time-paths for decision-making are not formally constrained by the meetings of the TACMP. These institutional arrangements are explained in various publications of the Reserve Bank. The role of the TACMP and its mandate should be reviewed for strengthening its functioning. This review may be undertaken in conjunction with the review of the RBI Act, recommended earlier.

4.8 Price index for measuring inflation

Headline inflation in India is generally indicated by the WPI. The WPI, as it is presently computed, does not include the services sector prices. Given the rising weight of this sector in the GDP and also in household consumption, this is a major weakness. Moreover, the WPI also includes trade margins which may vary over time and across locations and, thus, distort the price trends. Due to these weaknesses, the Panel considers that the WPI may not be suitable for measuring inflationary trends in the economy. An appropriate inflation indicator should (i) reflect price changes of constituent items accurately and (ii) provide some understanding of headline inflation. The Reserve Bank may, therefore, consider using a combination of Producers' Price Index (PPI) and Consumer Price Indices (CPIs) which will come closest to the first-best option of using the GDP deflator for measuring inflation. Given the likely variation of CPI across different regions, the Reserve Bank

would have to design a suitable aggregating measure for preparing an economy-wide CPI that is reportedly under preparation, which, when used together with the PPI, may yield the best results.

4.9 Clarity on monetary policy statements

In line with the several recent initiatives taken to improve financial literacy in India, the language of the monetary policy statements may be simplified further.

Annex I

Detailed Assessment of Code of Good Practices on Transparency in Monetary Policy

I. Clarity of Roles, Responsibilities and Objectives of Central Banks for Monetary Policy	
1.1	<i>The ultimate objective(s) and institutional framework of monetary policy should be clearly defined in relevant legislation or regulation, including, where appropriate, a central bank law.</i>
Previous Assessment (FSAP - 2001)	Partly Observed
Description	The RBI Act 1934, the legislation based on which the Reserve Bank was established, states '...constitute a Reserve Bank of India to regulate the issue of the Bank notes and keeping of reserves with a view to securing monetary stability in India and generally to operate the currency and credit system of the country to its advantage.' Thus, set up as essentially as a monetary authority, with the mandate for monetary stability, the role, responsibility and objectives of the Reserve Bank to conduct monetary policy are specified in the Act. Though not specifically mandated in law, the objectives of monetary policy have been clearly stated in policy statements of the Reserve Bank from time to time. The formulation and framework of monetary policy, including institutional mechanisms have evolved around the objectives of growth, price stability and financial stability. A continuous process of rebalancing the relative emphasis between these objectives is undertaken and this is transparently reflected in the stance of monetary policy set out in Policy Statements/Reviews. It has also been providing suitable guidance on medium-term inflation objectives (not targets) <i>suo moto</i> .
Present Assessment	Partly Observed
Comments	See comments in 1.1.1.
1.1.1	<i>The ultimate objective(s) of monetary policy should be specified in legislation and publicly disclosed and explained.</i>
Previous Assessment (FSAP - 2001)	Observed
Description	The objectives of the Reserve Bank are stated in the RBI Act, 1934 in broad terms (see 1.1). The main policy objectives (and any changes thereof), instruments, and the stance of monetary policy are communicated regularly and transparently to the public through: (i) the Reserve Bank's website; (ii) the Annual statements on Monetary Policy and quarterly reviews of the Annual statements; (iii) frequent speeches by the Governor, Deputy Governors and senior functionaries of the Reserve Bank at various fora; (iv) press releases; and (v) Reports and publications by the Reserve Bank. See 1.1 for setting of priorities between objectives.

	<p>The 'objectives' of the Reserve Bank might usefully be described as being two-fold – monetary stability and financial stability – in the interest of achieving an overall objective of an optimum level of sustainable growth. Each of the objectives have their own features, in terms both of necessary powers to be able to conduct them, and relationships, particularly with the Government (and potentially with other agencies). There seems to have been a tendency over time for the responsibilities and objectives of central banks to be made more explicit in relation to monetary policy than for financial stability. There would be merit in considering explicit treatment of the financial stability objective as well as that for monetary policy within the Act. This would both require a detailed analysis of the nature of monetary policy and financial stability activities and processes so as to accommodate appropriate treatment of both: the objectives themselves and the enabling powers to achieve them.</p>
Present Assessment	Broadly Observed
Comments	<p>Though the main monetary policy objectives and any changes thereof are publicly disclosed and explained regularly, these objectives are not precisely mandated or stated in the RBI Act or any other legislation. Also, <i>inter se</i> prioritisation of objectives and related policy actions need to be clarified further.</p>
1.1.2	<i>The responsibilities of the central bank should be specified in legislation.</i>
Previous Assessment (FSAP - 2001)	Observed
Description	<p>The responsibilities of the Reserve Bank are derived from the RBI Act and amendments to it and also from several other legislations. The RBI Act specifies <i>inter alia</i> the responsibilities of the Reserve Bank and use of monetary policy instruments. The Act entrusts the Reserve Bank with (i) the issuance of bank notes (Section 22); (ii) transacting government business including management of public debt (Section 20 and 21); (iii) transacting government business of states on agreement (Section 21a); (iv) exchange management and control (Section 40); (v) powers to use an array of monetary policy instruments such as CRR (Section 42), various refinance facilities (Section 17), open market operations, <i>i.e.</i>, purchase and sale of government securities including repos and reverse repos (Section (17(8))), purchase and sale of foreign exchange (Section</p>

	<p>17(12)) and power of direct discount (Section 18); (vi) collecting and furnishing of credit information (Chapter III-A); (vii) regulating and supervising banks, development financial institutions (DFIs), and non-bank financial companies (NBFCs) (Chapter III-B); and (viii) to determine the policy and regulations relating to interest rates or interest rate products and regulate the agencies dealing in government securities, money market instruments, foreign exchange, derivatives, or other instruments of like nature (Chapter III- D, Section 45 (u, v & w)).</p> <p>In addition, the Banking Regulation Act, 1949 gives the Reserve Bank extensive powers for regulation and supervision of commercial and co-operative banks. The FRBM Act, 2003 precludes the Reserve Bank from participating in the primary issuance of government securities. The Foreign Exchange Management Act (FEMA), 2000 gives powers to the Reserve Bank to regulate, prohibit and restrict activities pertaining to foreign exchange transactions. The provisions of the Government Securities Act, 2006 which has come into effect from December 1, 2007 and gives the operational details on trading in government securities, is administered by the Reserve Bank.</p> <p>Section 56 of the Banking Regulation Act, 1949 as applicable to co-operative societies gives the Reserve Bank powers for the regulation of Rural Co-operative institutions (District Central Co-operative Banks, State Co-operative Banks and Regional Rural Banks) as well as Urban Co-operative Banks (UCBs). Chapter III D of the RBI Act gives the necessary legislative powers to the Reserve Bank for the regulation and supervision of non-banking financial institutions. The overall supervisory functions are overseen and directed by a separately constituted Board for Financial Supervision, within the purview of the Reserve Bank.</p> <p>A Board for Payment and Settlement Systems has been constituted in 2005. A separate Department of Payment and Settlement Systems is functional from 2005. With the notification of the Payments and Settlement Systems Act, 2007 the Reserve Bank has assumed powers for regulation and supervision over the payment and settlement systems.</p> <p>The activities undertaken by the Reserve Bank in the areas of regulation and supervision including those over the rural co-operative institutions and the urban co-operative banks are communicated to the public through its various publications, particularly, the Annual Report and the Report on Trend and Progress of Banking in India.</p>
Present Assessment	Observed
Comments	With the notification of the Payments and Settlement Systems Act, 2007 the Reserve Bank has assumed powers for regulation and supervision over the payment and settlement systems. The roles and responsibilities of the Reserve Bank as a regulator and supervisor may require clarification in the statute as they are subject to considerable overlaps

	<p>with the Government and other regulators. For example, there are overlaps between the Reserve Bank and the Registrar of Co-operative Societies in the regulation and supervision of urban co-operative banks; the regulation of Chit Funds and <i>Nidhis</i> is a shared responsibility between the Reserve Bank and the Registrar of Chits: the Reserve Bank regulates only their deposit-taking activities and interest rates on deposits, the other concerned aspects are within the regulatory purview of the Registrar of Chits of the concerned States; the Reserve Bank regulates regional rural and rural co-operative banks, but they are supervised by NABARD.</p> <p>Though the Reserve Bank has supervisory control over banks and non-banking financial institutions, it is not privy to information pertaining to mutual funds, insurance companies and broking companies. It is necessary that the Reserve Bank has unfettered access to information across the spectrum of markets and leveraged financial firms – banks and non-banks – whose activities may require potential support in times of instability.</p>
1.1.3	<i>The legislation establishing the central bank should specify that the central bank has the authority to utilise monetary policy instruments to attain the policy objective(s).</i>
Previous Assessment (FSAP - 2001)	Observed
Description	The RBI Act provides the Bank with the power to utilise the following monetary policy instruments: (i) cash reserve requirement (Section 42); (ii) the Bank discount rate (Section 49); (iii) refinance facilities (Section 17); and (iv) open market operations (Section 17(8)). Further, in order to conduct exchange rate and monetary management operations in a manner that would maintain stability in the foreign exchange market and to enable conduct of monetary policy in accordance with the stated objectives, the Reserve Bank and the Central Government have, following a Memorandum of Understanding (MoU), operationalised the Market Stabilisation Scheme (MSS) from April 2004, under which the Government issues Treasury Bills and/or dated securities, only for absorbing liquidity from the system and not as means of budget support.
Present Assessment	Observed

1.1.4	<i>Institutional responsibility for foreign exchange policy should be publicly disclosed.</i>
Previous Assessment (FSAP - 2001)	Observed
Description	The RBI Act (Section 40) empowers the Bank to conduct foreign exchange transactions with authorised persons at such rates of exchange as the Central Government may determine. The authority to determine exchange rate policy is also derived from the provisions of Section 40 of the RBI Act. The foreign exchange policy followed by the Bank is fully disclosed through the Governor's statements on monetary and credit policies, the Annual Report, press releases and speeches of the Governor, Deputy Governors and senior functionaries of the Bank. The FEMA 2000 gives the Reserve Bank powers to regulate, prohibit and restrict activities with regard to transactions like transfer of securities (either Indian or foreign) between residents/ non-residents and agencies, transfer of immovable property, etc. The Reserve Bank can also regulate, prohibit and restrict activities with respect to capital account transactions. Amendment of the RBI Act in 2006 has, <i>inter alia</i> , clarified the Reserve Bank's role in regulating and supervising foreign exchange markets and related derivatives.
Present Assessment	Observed
Comments	The exchange rate policy of the Reserve Bank in recent years has been guided by the broad principles of careful monitoring and management of exchange rates with flexibility, without a fixed target or a pre-announced target or a band, coupled with the ability to intervene, if and when necessary. The overall approach to the management of India's foreign exchange reserves takes into account the changing composition of the balance of payments and endeavours to reflect the 'liquidity risks' associated with different types of flows and other requirements. This responsibility should be made consistent with the other objectives of the Reserve Bank.
1.1.5	<i>The broad modalities of accountability for the conduct of monetary policy and for any other responsibilities assigned to the central bank should be specified in legislation.</i>
Previous Assessment (FSAP - 2001)	Observed
Description	The modalities are specified in Section 53 of the RBI Act which states that 'the Bank shall prepare and transmit to the Central Government a weekly account of the Issue Department and of the Banking Department in such form as the Central Government may by notification in the Gazette of India prescribe and within two months from the date on which annual accounts of the Bank are closed, transmit to the Central Government a copy of the annual accounts signed by the Governor,

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	<p>Deputy Governors and Chief Accounting Officer of the Bank, and certified by the auditors, together with a Report by the Central Board on the working of the Bank throughout the year.' Furthermore, the Governor, Deputy Governor and other officers of the Bank may appear, upon request, before various Parliamentary Committees and also before special committees set up by the Parliament for the purpose of explaining the Reserve Bank's position with regard to inquiries about the Bank's policies.</p> <p>The other legislations that specify the responsibilities of the Reserve Bank include the Banking Regulation Act, 1949, the Fiscal Responsibility and Budget Management (FRBM) Act, 2003 and the Foreign Exchange Management Act (FEMA), 2000. See details in 1.1.2.</p>
Present Assessment	Observed
1.1.6	<i>If, in exceptional circumstances, the government has the authority to override central bank policy decisions, the conditions under which this authority may be invoked and the manner in which it is publicly disclosed should be specified in legislation.</i>
Previous Assessment (FSAP - 2001)	Observed
Description	<p>Under Section 7 of the RBI Act, the Central Government may from time to time, give such directions to the bank as it may, after consultation with the Governor of the bank, consider necessary in the public interest. In practice, as issues are resolved through mutual consultations, where necessary, there are no such directions on record. Under Section 30 of the RBI Act, the Central Government could supersede the Reserve Bank Board if, in its opinion, the Bank fails to carry out any of the obligations imposed by or under the said Act. The Central Government may declare, by notification in the Gazette of India, the Central Board to be superseded. When such action is taken under this Section, the Central Government shall cause a full Report of the circumstances leading to such action and of the action taken to be laid before the Parliament at the earliest possible opportunity and in any case within three months from the issue of the notification superseding the Board.</p>
Present Assessment	Observed
Comments	The conditions under which this authority may be invoked and the manner of disclosure are not specified in the legislation. Since the

	<p>Reserve Bank is a public institution and serves public interest, from the perspective of central bank autonomy, the need for this provision in the Act requires a review.</p> <p>The case of Government overriding actual policy decisions would undermine the role of the central bank, and effectively take back into the Government or political arena the setting of policy itself.</p> <p>In terms of financial stability, the time that Government might seek to override would perhaps be in relation to injection of central bank money at a time of instability. Such injection might put the taxpayer at risk. Here a transparent decision-making process can best cater for the legitimate concerns of Government, even if the published results of this process in terms of injection may not be immediately transparent to avoid adverse behavior or moral hazard.</p> <p>Thus, transparency of process is the best antidote to 'unwarranted' government override. This arises both by reducing the perceived need for such override, and the fact that if Governments choose to try to override other than through proper process set up by the legislation itself, this would raise questions about their motives for so doing.</p>
1.1.7	<i>The procedures for appointment, terms of office, and any general criteria for removal of the heads and members of the governing body of the central bank should be specified in legislation.</i>
Previous Assessment (FSAP - 2001)	Partly Observed
Description	The maximum term of the office of the Governor and Deputy Governor is specified in legislation; Section 8 of the Act specifies that the Governor and Deputy Governor shall hold office for such term not exceeding five years as the Central Government may fix when appointing them. While the Government has power to remove the Governor and Deputy Governors, the grounds for removal of the Governor and Deputy Governors are not specified in the Act; Section 11 specifies that the Central Government may remove from office a Director or any member of the Local Board if he remains absent for three consecutive meeting of the Board without leave from the Central Board, is disqualified by being a salaried Government Official/Officer or employee of any bank/ director of a banking company, adjudicated an insolvent, becomes of unsound mind or lunatic.
Present Assessment	Partly Observed
Comments	<p>In the interest of central bank autonomy, the procedure for appointment and any general criteria for removal of the Governor and Deputy Governors need to be specified in legislation.</p> <p>Improvement in transparency of process of removal of the top management would in itself improve the autonomy of the central bank.</p>

1.2	<i>The institutional relationship between monetary and fiscal operations should be clearly defined.</i>
Previous Assessment (FSAP - 2001)	Observed
Description	<p>The overall institutional relationship between fiscal and monetary operations is set out in the RBI Act (Section 20 & 21). In terms of Section 20 of the RBI Act, it is obligatory for the Bank to transact government business and in terms of Section 21, the Reserve Bank has the right to transact the Central Government business in India. In terms of Section 21 A of the Act, the Reserve Bank can transact business of the State Governments by mutual agreement. The Reserve Bank is a fiscal agent, manager of public debt and banker to the Government. As the statutory banker to the Central Government, the Reserve Bank manages the financial transactions of the Government. As manager of public debt, the Reserve Bank decides the instruments of borrowing, volume and timing in consultation with the Government and co-ordinates debt management policy and operations closely with monetary management.</p> <p>In terms of FRBM Act, 2003 the Reserve Bank is precluded from participating in the primary issuance process of Central Government securities.</p> <p>The Annual Budget for the year 2007-08 proposes setting up of an autonomous Debt Management Office (DMO) to keep debt management distinct from monetary management.</p>
Present Assessment	Observed
Comments	<p>The preclusion of the Reserve Bank from participating in primary issues of government securities has provided greater maneuverability to the Reserve Bank in containing monetised deficit.</p> <p>To be functionally independent, the proposed Debt Management Office should be set up as a statute-based entity.</p> <p>However, it is necessary to underline the importance for information access to be made available from the DMO to the Reserve Bank on all matters as requested by the Reserve Bank. This aspect should be laid out in statute and implemented fully.</p>

1.2.1	<i>If credits, advances, or overdrafts to the government by the central bank are permitted, the conditions when they are permitted, and any limits thereof, should be publicly disclosed.</i>
Previous Assessment (FSAP - 2001)	Observed
Description	<p>Under Section 17(5) of the RBI Act, the Reserve Bank provides short-term finance (no longer than three months) to the Central and State Governments in order to help tide over temporary mismatches in its receipts and payments. The limits of financing are based on the agreement between the Central Government and the Reserve Bank. These limits are subject to change on the basis of exchange of letters. Since April 1, 2006, the Reserve Bank does not participate in the primary auctions of government securities and Treasury Bills.</p> <p>In case of State Governments, the limits are calculated based on a formula, taking into account the average expenditure of the State for the preceding three years.</p>
Present Assessment	Observed
Comments	A practice of automatic monetisation of cash deficits of Central Government through issuance of <i>ad hoc</i> Treasury bills was discontinued effective April 1997, replaced by Ways and Means Advances subject to annual limits. This is another significant measure providing operational autonomy to the Reserve Bank in the conduct of monetary policy.
1.2.2	<i>The amounts and terms of credits, advances, or overdrafts to the government by the central bank and those of deposits of the government with the central bank should be publicly disclosed.</i>
Previous Assessment (FSAP - 2001)	Observed
Description	Information on both these items can be obtained on a weekly basis from the statutory weekly statement of affairs/accounts published by the Reserve Bank (Section 53 of RBI Act). All these details are publicly disclosed by the Reserve Bank through press releases and other publications.
Present Assessment	Observed
1.2.3	<i>The procedures for direct central bank participation in the primary markets for government securities, where permitted, and in the secondary markets, should be publicly disclosed.</i>
Previous Assessment (FSAP - 2001)	Observed
Description	Since April 1, 2006, the Reserve Bank does not participate in the primary market. Procedures for secondary market participation are publicly disclosed through pre-specified sale/purchase list of securities in case of Treasury Bills and dated securities. The auction procedures which are

	common for primary issues are made known to the public in detail by the Reserve Bank through press releases, notifications and circulars.
Present Assessment	Observed
Comments	See 1.2.
1.2.4	<i>Central bank's involvement in the rest of the economy (e.g., through equity ownership, membership on governing boards, procurement, or provision of services for fee) should be conducted in an open and public manner on the basis of clear practices and procedures.</i>
Previous Assessment (FSAP - 2001)	Observed
Description	<p>The Reserve Bank's involvement in the rest of the economy is subject to guidelines given by the RBI Act and the Banking Regulation Act. As per the amendment to Section 9(3) (c) to the Banking Companies (Acquisition and Transfer of Undertaking) Act, 1970/1980, a director possessing necessary experience and expertise in regulation and supervision of commercial banks can be nominated by the Central Government on the recommendation of the Reserve Bank on the boards of public sector banks.</p> <p>With an amendment to the SBI Act in 2007, the entire stake of the Reserve Bank in SBI (59.73 per cent) was transferred to the Central Government. The Reserve Bank has 100 per cent ownership in its subsidiaries, viz., Deposit Insurance and Credit Guarantee Corporation (DICGC), Bharatiya Reserve Bank Note Mudran Ltd. (BRBNML) and Institute for Development and Research in Banking Technology (IDRBT). The Reserve Bank still has equity ownership in the National Housing Bank (NHB) and the National Bank for Agriculture and Rural Development (NABARD). The Reserve Bank's investment in shares of subsidiaries and associate institutions such as DICGC, NABARD, NHB and BRBNML are published in the Annual Report (Section 53 of RBI Act). Book value of shares held in these institutions is also published in the Annual Report. It does not have shareholdings in any commercial bank. The Government has plans to acquire the Reserve Bank's stake in NHB and NABARD.</p> <p>Rules regarding fee or premium charged for cheque clearing and deposit insurance are clearly laid down and are available in the public domain.</p>

	The fee paid on account of procurement of services such as auditing <i>etc.</i> , are reported in the annual expenditure account of the Bank (Section 53). Procurement of other services is based on tendering procedures as applicable to all other Government operations.
Present Assessment	Observed
1.2.5	<i>The manner in which central bank profits are allocated and how capital is maintained should be publicly disclosed.</i>
Previous Assessment (FSAP - 2001)	Observed
Description	<p>Section 47 of the RBI Act stipulates the procedures governing bank profit allocation and capital maintenance. The Reserve Bank's Annual Report publishes the audited balance sheet and profit and loss account of the Bank including an explanatory chapter on the Bank's accounts which also explains the manner in which appropriations from net disposable income are made. The chapter also has a supplement on 'Significant Accounting Policies and Notes to the Accounts'.</p> <p>The Reserve Bank also transfers Rs. 1 crore each to the following funds, <i>viz.</i>, National Industrial Credit (Long Term Operations (LTO)) Fund, National Rural Credit LTO and Stabilisation Funds and National Housing Credit (LTO) Funds. The Reserve Bank also maintains the following reserve funds: Currency and Gold Revaluation Account, Exchange Equalisation Account and Contingency Reserve and Asset Development Reserve.</p>
Present Assessment	Observed
1.3	Agency roles performed by the central bank on behalf of the government should be clearly defined.
Previous Assessment (FSAP - 2001)	Observed
Description	Agency roles performed by the Reserve Bank are specified clearly in the RBI Act and are publicly disclosed. See 1.3.1 and 1.3.2.
Present Assessment	Observed
1.3.1	<i>Responsibilities, if any, of the central bank in (i) the management of domestic and external public debt and foreign exchange reserves, (ii) as banker to the government, (iii) as fiscal agent of the government, and (iv) as advisor on economic and financial policies and in the field of international co-operation, should be publicly disclosed.</i>
Previous Assessment (FSAP - 2001)	Observed
Description	The role performed by the Reserve Bank on behalf of the Central Government is governed by the RBI Act. Under Section 20 and 21 of the Act, the Reserve Bank is statutorily the banker and fiscal agent to the

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	Central Government and, through agreements, to the State Governments. The responsibility for management of foreign exchange reserves is derived from Section 33 of the RBI Act which <i>inter alia</i> specifies the foreign and domestic assets required to be held as backing for note issue. The views of the Reserve Bank on economic and financial policies and in the field of international co-operation are publicly disclosed through published Reports such as the Annual Report, Report on Currency and Finance, Governor's statements on the monetary policy, speeches to the public at various fora and through press releases.
Present Assessment	Observed
1.3.2	<i>The allocation of responsibilities among the central bank, the ministry of finance, or a separate public agency, for the primary debt issues, secondary market arrangements, depository facilities, and clearing and settlement arrangements for trade in government securities, should be publicly disclosed.</i>
Previous Assessment (FSAP - 2001)	Observed
Description	The Reserve Bank is wholly responsible for the management of primary issues, trading, settlement and provision of depository facilities in government securities through Public Debt Office (PDO) and Negotiated Dealing System (NDS). Securities settlement system through CCIL is wholly under the jurisdiction of the Reserve Bank. SEBI is responsible for regulating the trading and settlement of government securities on stock exchanges while the management of government securities is undertaken by the Reserve Bank under the Government Securities Act, 2006. Information related to these arrangements is available on the Reserve Bank's website. See 1.1.2.
Present Assessment	Observed
II. Open Process for Formulating and Reporting Monetary Policy Decisions	
2.1	<i>The framework, instruments, and any targets that are used to pursue the objectives of monetary policy should be publicly disclosed and explained.</i>
Previous Assessment (FSAP - 2001)	Observed
Description	The framework, instruments, and targets are publicly disclosed and explained through the Governor's annual and quarterly statements on

	the monetary policy, which comprehensively discusses the changes in procedures and practices with regards to monetary policy instruments, targets and operations. The monetary policy framework is also discussed in the Monthly Bulletin, press releases and speeches to the public in various fora. These documents are all posted on the Reserve Bank's website. The officials of the Reserve Bank are also required to give statements before Parliamentary Committees.
Present Assessment	Observed
2.1.1	<i>The procedures and practices governing monetary policy instruments and operations should be publicly disclosed and explained.</i>
Previous Assessment (FSAP - 2001)	Observed
Description	The procedures and practices governing monetary policy instruments and operations including access to the discount window, requirements for eligible collateral and Liquidity Adjustment Facility are guided by the provisions of the RBI Act [Refer 1.1.3]. Changes in the use of monetary policy instruments are explained in the annual and quarterly statements on monetary policy, Annual Report, Monthly Bulletin, press releases, and notifications, all of which are posted on the Reserve Bank's website.
Present Assessment	Observed
2.1.2	<i>The rules and procedures for the central bank's relationships and transactions with counterparties in its monetary operations and in the markets where it operates should be publicly disclosed.</i>
Previous Assessment (FSAP - 2001)	Observed
Description	The rules and procedures for the Reserve Bank's transactions with counterparties are specified in the rules and regulations published by the Reserve Bank. Refer 2.1.1.
Present Assessment	Observed
2.2	<i>Where a permanent monetary policy-making body meets to assess underlying economic developments, monitor progress toward achieving its monetary policy objective(s), and formulate policy for the period ahead, information on the composition, structure, and functions of that body should be publicly disclosed.</i>
Previous Assessment (FSAP - 2001)	Not Observed
Description	No permanent monetary policy-making body like the Monetary Policy Committee has been constituted in India.
Present Assessment	Not Applicable
Comments	As a part of the recent changes in the institutional framework of monetary policy in India and with a view to strengthening the consultative process, the Reserve Bank has constituted a Technical

	<p>Advisory Committee on Monetary Policy (TACMP) with external experts in the areas of monetary economics, central banking, financial markets and public finance in July 2005. After its tenure ended in January 2007, the Reserve Bank reconstituted the TACMP with a view to obtaining continued benefit of expert opinion from the external experts with a tenure up to January 31, 2009. The reconstituted TACMP has five external members and two members of the Central Board of the Reserve Bank. The Committee is chaired by the Governor, with the Deputy Governor in charge of monetary policy as vice-chairman and other Deputy Governors as members. The Committee would meet at least once in a quarter to review macro-economic and monetary developments and advise on the stance of monetary policy. It may be noted that the TACMP is advisory and provides guidance to the policy stance from time to time to the Governor, Reserve Bank. As such, the responsibility, accountability and time paths for decision-making are not formally constrained by the meetings of the TACMP. These institutional arrangements are explained in various publications of the Reserve Bank.</p> <p>Strengthening the mandate of the TACMP beyond being purely advisory could lead to a movement towards a targeted and potentially less flexible monetary policy regime. The members of the TACMP would then need a mechanism to provide them with accountability.</p>
2.2.1	<i>If the policy-making body has regularly scheduled meetings to assess underlying economic developments, monitor progress toward achieving its monetary policy objective(s), and formulate policy for the period ahead, the advance meeting schedule should be publicly disclosed.</i>
Previous Assessment (FSAP - 2001)	Not Observed
Description	See 2.2.
Present Assessment	Not Applicable
2.3	<i>Changes in the setting of monetary policy instruments (other than fine-tuning measures) should be publicly announced and explained in a timely manner.</i>
Previous Assessment (FSAP - 2001)	Observed
Description	Changes in the setting of monetary policy instruments are publicly and immediately announced and explained through the Governor's

	statements on monetary policy or notifications to market participants and press releases and are posted on the Reserve Bank's website. These changes are also discussed and explained in the Reserve Bank publications and speeches by the Governor and the Deputy Governors.
Present Assessment	Observed
2.3.1	<i>The central bank should publicly disclose, with a pre-announced maximum delay, the main considerations underlying its monetary policy decisions.</i>
Previous Assessment (FSAP - 2001)	Observed
Description	See 2.3. The main considerations underlying changes in the stance of monetary policy and monetary policy decisions undertaken are explained at length in the Annual and quarterly statements of the Governor on monetary policy. The texts of the statements are available to the public through the press and the Reserve Bank's website. Furthermore, considerations underlying monetary policy decision are usually explained immediately after the policy changes through public statements by the Governor and the Deputy Governors, press releases and press conferences.
Present Assessment	Observed
Comments	In continuation of the several recent initiatives taken to improve financial literacy in India, the language of monetary policy statement may be simplified further for understanding of the common man.
2.4	<i>The central bank should issue periodic public statements on progress toward achieving its monetary policy objective(s) as well as prospects for achieving them. The arrangements could differ depending on the monetary policy framework, including the exchange rate regime.</i>
Previous Assessment (FSAP - 2001)	Observed
Description	The monetary policy objectives and their rationale including the chosen targets and instruments of policy are publicly disclosed in the Governor's statements on monetary policy made at the beginning of the year. The quarterly and mid-term reviews of the annual policy describes the progress achieved and institutes corrections, if any, required to achieve the projections set out at the beginning of the year. Other publications such as the Annual Report and the Report on Currency and Finance also include comprehensive assessment of evolving monetary and macroeconomic conditions and the Reserve Bank's views about their implications. The monthly bulletins containing published speeches of the Governor, Deputy Governors and senior functionaries of the Reserve Bank also reflect the thinking of the Bank on the state of the economy.
Present Assessment	Observed

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2.4.1	<i>The central bank should periodically present its monetary policy objectives to the public, specifying, inter alia, their rationale, quantitative targets and instruments where applicable, and the key underlying assumptions.</i>
Previous Assessment (FSAP - 2001)	Observed
Description	See 2.3, 2.3.1 and 2.4.
Present Assessment	Observed
2.4.2	<i>The central bank should present to the public on a specified schedule a report on the evolving macroeconomic situation, and their implications for its monetary policy objective(s).</i>
Previous Assessment (FSAP - 2001)	Observed
Description	The Governor's statements on monetary policy are presented on a specified schedule four times every year. These statements include a detailed review of macroeconomic situation and make an assessment of downside and upside risks to policy parameters such as growth, monetary indicators, inflation, business confidence, <i>etc.</i> , and evolve an appropriate policy stance besides announcing measures, if any. An analytical review of macroeconomic and monetary developments is issued a day in advance as a supplement to the Statements, providing the necessary information and technical analysis with the help of charts and tables. Other publications such as the Annual Report and the Report on Currency and Finance also include comprehensive assessment of evolving situation and the Bank's views about their implications. The monthly bulletins containing published speeches of the Governor, Deputy Governors and senior functionaries of the Reserve Bank also reflect the thinking of the Bank on the state of the economy.
Present Assessment	Observed
2.5	<i>For proposed substantive technical changes to the structure of monetary regulations, there should be a presumption in favour of public consultations, within an appropriate period.</i>
Previous Assessment (FSAP - 2001)	Observed
Description	See comments for 2.2. Further, quarterly pre-policy meetings with representatives from the banking and financial sectors, chambers of

	<p>commerce and industry are chaired by the Governor to discuss specific suggestions related to policy formulation in their respective area. The Reserve Bank has also constituted in 1999 a Technical Advisory Committee (TAC) on money, foreign exchange and government securities markets (reconstituted every two years), comprising experts from these markets and the Committee meets periodically and advises the Bank on the development of these markets. The Deputy Governor in charge of monetary policy chairs half-yearly Resource Management Discussions with the Chairman/Managing Director/Chief Executive Officers of select major commercial banks wherein views of the participating banks are obtained on the issues relating to monetary measures, interest rate, credit delivery, capital adequacy, financial markets and strategies of the banks. The feedback and suggestions received during these meetings are taken into consideration for the formulation of monetary policy.</p> <p>In general, the Reserve Bank favours a consultative approach in formulating financial policies and regulations under which the views/comments/suggestions from concerned financial entities are invited on a draft before finalising regulations or guidelines. The Bank also favours the constitution of advisory committees and groups involving concerned financial sector groups and experts for the purpose of formulating policy guidelines. Such consultations are generally confined to the regulated entities and include written submissions and consultation with relevant organisations and associations. The length of the consultation period is variable.</p>
Present Assessment	Observed
2.6	<i>The regulations on data reporting by financial institutions to the central bank for monetary policy purposes should be publicly disclosed.</i>
Previous Assessment (FSAP - 2001)	Observed
Description	<p>The RBI Act specifically requires that every scheduled bank, financial institution and non-bank financial institution shall send to the Bank a return signed by two responsible officers. The Act defines the periodicity of the Reports and the information that should be included in the returns. The Reserve Bank also collects relevant information/data through several <i>ad hoc</i> returns and IT platforms, the results of which are publicly disclosed, subject to recognition of market sensitivity. Changes to the particulars of the returns are announced in the official bulletin and also in notifications to the banks (also posted on the Reserve Bank's website).</p>
Present Assessment	Observed

III. Public Availability of Information on Monetary Policy	
3.1	<i>Presentations and releases of central bank data should meet the standards related to coverage, periodicity, timeliness of data and access by the public that are consistent with the International Monetary Fund's data dissemination standards.</i>
Previous Assessment (FSAP - 2001)	Observed
Description	The presentation and release of Reserve Bank data fully complies with the special data dissemination standards (SDDS) of the IMF. See the assessment of adherence to SDDS in India.
Present Assessment	Observed
3.2	<i>The central bank should publicly disclose its balance sheet on a pre-announced schedule and, after a predetermined interval, publicly disclose selected information on its aggregate market transactions.</i>
Previous Assessment (FSAP - 2001)	Observed
Description	See 3.2.1 – 3.2.4.
Present Assessment	Observed
3.2.1	<i>Summary central bank balance sheets should be publicly disclosed on a frequent and pre-announced schedule. Detailed central bank balance sheets prepared according to appropriate and publicly documented accounting standards should be publicly disclosed at least annually by the central bank.</i>
Previous Assessment (FSAP - 2001)	Observed
Description	As stated in Section 53, the Reserve Bank publishes a weekly summary balance sheet and an audited annual statement of accounts (balance sheet and profit and loss account) within two months of its closure of accounts. The Annual Report presenting detailed balance sheet and income-expenditure statement combines disclosure of accounting standards and practices. These are made available on the Reserve Bank's website.
Present Assessment	Observed
3.2.2	<i>Information on the central bank's monetary operations, including aggregate amounts and terms of refinance or other facilities (subject to</i>

	<i>the maintenance of commercial confidentiality) should be publicly disclosed on a pre-announced schedule.</i>
Previous Assessment (FSAP - 2001)	Observed
Description	Information on the monetary operations carried out by the Reserve Bank are available to the public at daily frequency in case of Liquidity Adjustment Facility (LAF) (repo transactions), auctions of government securities, outright OMO, and transactions in other Reserve Bank facilities, and on weekly basis in case of foreign exchange reserve accruals (published with a lag of one week). The information is also available on the Reserve Bank's website. Data published include aggregate amounts and the rates or pricing.
Present Assessment	Observed
3.2.3	<i>Consistent with confidentiality and privacy of information on individual firms, aggregate information on emergency financial support by the central bank should be publicly disclosed through an appropriate central bank statement when such disclosure will not be disruptive to financial stability.</i>
Previous Assessment (FSAP - 2001)	Practice not assessed
Description	The Reserve Bank provides emergency financial support to banks as stipulated in Section 17 of RBI Act. The Reserve Bank has, from time to time, issued policy statements with regard to provision of liquidity in exceptional and unforeseen circumstances.
Present Assessment	Partly Observed
Comments	Though temporary financial support is provided in case of emergency, there is no system of disclosing aggregate data of such assistance extended.
3.2.4	<i>Information about the country's foreign exchange reserve assets, liabilities and commitments by the monetary authorities should be publicly disclosed on a pre-announced schedule, consistent with the International Monetary Fund's Data Dissemination Standards.</i>
Previous Assessment (FSAP - 2001)	Observed
Description	Information on India's foreign exchange assets is disclosed on a weekly basis. The net forward liabilities of the Reserve Bank are publicly disclosed on a monthly basis. These disclosures are consistent with the requirements of the SDDS of the IMF.
Present Assessment	Observed
3.3	<i>The central bank should establish and maintain public information services.</i>
Previous Assessment (FSAP - 2001)	Observed

Description	The Reserve Bank has its own Department of Communications which maintains contacts with the press and other media and issues regular press releases. The website address of the Reserve Bank is www.rbi.org.in. The search engine on the site is structured by function/department, covers all the communications of the Bank on near real-time basis, and information is available in English and Hindi - the official language.
Present Assessment	Observed
3.3.1	<i>The central bank should have a publications program, including an Annual Report.</i>
Previous Assessment (FSAP - 2001)	Observed
Description	The Bank has several weekly, monthly, quarterly, and annual publications. These include a weekly statistical bulletin, a monthly bulletin, a monthly credit information review, quarterly publication on banking statistics, an Annual Report (section 53 of RBI Act, 1934), an annual Report on Currency and Finance, and an annual Report on Trend and Progress of Banking in India (Section 36 of Banking Regulation Act). The Annual Report covers the entire range of activities of the central bank during the year, apart from providing a detailed set of accounts which serves as a valuable statement of the Board of Directors. All of these publications are available on the Reserve Bank's website and also in hard copy.
Present Assessment	Observed
3.3.2	<i>Senior central bank officials should be ready to explain their institution's objective(s) and performance to the public, and have a presumption in favour of releasing the text of their statements to the public.</i>
Previous Assessment (FSAP - 2001)	Observed
Description	Governor, Deputy Governors and senior functionaries of the Reserve Bank interact regularly with the public including members of industry associations and chambers of commerce and deliver speeches at various fora. Speeches are published in the Monthly Bulletin and posted at the Reserve Bank's website.
Present Assessment	Observed

3.4	<i>Texts of regulations issued by the central bank should be readily available to the public.</i>
Previous Assessment (FSAP - 2001)	Observed
Description	All regulations made by the Reserve Bank are readily available to the public through the press releases, bulletins and through its website. The Reserve Bank has a separate Department called the Department of Communications, which interacts with the public and press. The text of regulations and generally applicable directives and guidelines are also made available to the public in published form. Regulatory notifications issued to regulated bodies are free of charges; however, hard copies of these are available to the general public at a nominal cost.
Present Assessment	Observed
IV. Accountability and Assurances of Integrity by the Central Bank	
4.1	<i>Officials of the central bank should be available to appear before a designated public authority to report on the conduct of monetary policy, explain the policy objective(s) of their institution, describe their performance in achieving their objective(s), and, as appropriate, exchange views on the state of the economy and the financial system.</i>
Previous Assessment (FSAP - 2001)	Observed
Description	The law does not provide for any periodical mandated appearance of the Reserve Bank officials before any designated public authority to report on the conduct of monetary policy. Governor's periodical statements on monetary policy serve this purpose, in practice. Senior officials of the Reserve Bank may appear (upon request) before Parliamentary/ Central Government Committees to report on the conduct of monetary policy, explain the policy objectives of the Reserve Bank, and exchange views on the state of the economy and the financial system.
Present Assessment	Observed
4.2	<i>The central bank should publicly disclose audited financial statements of its operations on a pre-announced schedule.</i>
Previous Assessment (FSAP - 2001)	Observed
Description	See 3.2.1.
Present Assessment	Observed
4.2.1	<i>The financial statements should be audited by an independent auditor. Information on accounting policies and any qualification to the statements should be an integral part of the publicly disclosed financial statements.</i>

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Previous Assessment (FSAP - 2001)	Observed
Description	The annual balance sheet and profit and loss account of the Reserve Bank is audited by external professional chartered accountants who are members of the Institute of Chartered Accountants of India and are appointed by the Central Government. Qualifications to accounts, if any, are integral part of the financial statement and are publicly disclosed.
Present Assessment	Observed
4.2.2	<i>Internal governance procedures necessary to ensure the integrity of operations, including internal audit arrangements, should be publicly disclosed.</i>
Previous Assessment (FSAP - 2001)	Observed
Description	Internal governance procedures are publicly disclosed through information provided in the Annual Report in the chapter on Organisational Matters. Internal audit arrangements, including <i>inter alia</i> management audit and system inspection and Control Self-assessment audit, are discussed in the publication Functions and Working of the Reserve Bank, which is a nominally priced public document.
Present Assessment	Observed
4.3	<i>Information on the expenses and revenues in operating the central bank should be publicly disclosed annually.</i>
Previous Assessment (FSAP - 2001)	Observed
Description	Information on expenses and revenues is reported through the audited balance sheet and profit and loss accounts published in the Annual Report of the Bank as well as the Gazette of India. A break-up of expenses and revenues is available.
Present Assessment	Observed
4.4	<i>Standards for the conduct of personal financial affairs of officials and staff of the central bank and rules to prevent exploitation of conflicts of interest, including any general fiduciary obligation, should be publicly disclosed.</i>

Previous Assessment (FSAP - 2001)	Partly Observed
Description	The conduct and discipline of the Bank's staff are governed by the Reserve Bank of India (Staff) Regulations, 1948. These regulations are published on the Reserve Bank's website.
Present Assessment	Observed
4.4.1	<i>Information about legal protection for officials and staff of the central bank in the conduct of their official duties should be publicly disclosed.</i>
Previous Assessment (FSAP - 2001)	Observed
Description	Section 58-A of the Act provides protection for officials and staff of the Reserve Bank, if action is taken in good faith.
Present Assessment	Observed

Annex II

**Transparency in Monetary Policy
A Peer Review of the Advisory Panel Assessment**

By Sir Andrew Large

The approach which I have taken is as follows. The Report comprehensively comments on all the issues raised in the IMF's Code of Good Practices on Transparency in Monetary and Financial Policies. I found it an excellent document. I found myself broadly in agreement with a large proportion of the comments made. Several of them however I found more thought provoking, and I have singled out these comments as being where I felt I could make a contribution from the point of view of peer review.

I have attempted to stick closely to the mandate as it related to transparency rather than policy as such. I hope that it will not be felt that I have strayed beyond this boundary. If I have done so it is in pursuit of the transparency agenda.

1. The existence of multiple objectives. [The Advisory Panel Report (henceforth 'the Report') reference items 1.1 and 3.1 p17].

The Report states: 'there may be merit in clarifying the importance assigned to different objectives'. It continues 'the exact mandate and objectives of monetary policy may be suitably incorporated in the RBI Act'.

Comments:

The description of the objectives refers to the RBI Act of 1934. The terminology in the Act of 'SECURING monetary stability' seems to presage the *de facto* evolution of today's major

objectives of maintaining price stability, and financial stability.

I would suggest that each of price and financial stability are important contributors, or indeed conditions precedent for achieving an overall objective of an optimal level of sustainable growth. Furthermore it is worth focussing on the fact that without financial stability the achievement of monetary stability is itself thrown into question. So in the absence of financial stability the original intention of the 1934 Act to secure monetary stability could not be achieved. The fact that the Act may be silent in relation to either the overall growth objective or the need for financial stability to be assured does not in my view weaken their importance.

This suggests to me that the 'objectives' of the RBI might usefully be described as being twofold – monetary stability and financial stability – in the interest of achieving an overall objective of an optimum level of sustainable growth.

So in commenting on the Report's statement above I have chosen to cover the two objectives of monetary and financial policy. The whole question of achieving the optimum level of sustainable growth seems to fall beyond the remit of a consideration of transparency in relation to monetary policy, given the breadth of social, political and economic issues which will ultimately determine what that optimum level should be. The following questions and

comments therefore relate to the importance of monetary policy and financial stability. Would there be merit, as suggested in the Report, in trying to clarify the importance assigned to each?

- If the term 'importance' refers to the relative importance of each, the problem is that the perception of this will alter over time, as the Report mentions. In 'normal' times where financial instability may seem quite remote, the monetary policy objective will feature prominently, or 'gain airtime'. In times of financial instability the importance of financial stability will appear paramount. The reality however is that the process of underpinning financial stability requires real emphasis even – or perhaps particularly - during 'normal' times so as to ensure the RBI is well positioned to achieve the objective of monetary stability when times get more threatening. So I would suggest not to seek to distinguish between them in terms of relative importance. Both seem to me to be equally vital to achieve optimal sustainable growth. And in particular the importance of financial stability needs to be underlined over the long periods when instability seems remote. Recent events globally have demonstrated all too clearly that financial stability is not a state of natural equilibrium: it needs constantly to be worried about.
- If however the term 'importance' refers to the fact that it would be worth clarifying in the Act that each of the two areas is indeed important, and that each should therefore be made explicit as an objective, this would to my mind be of real value. The overall approach of the FSAP process is designed to achieve transparency in monetary and financial policies. For this to be possible, and for the RBI to feel comfortable over time with the relevant responsibilities would in my view benefit

from a clear exposition of these two objectives of the RBI and the powers it has at its disposal to achieve them.

Each of financial stability and monetary stability has its own features, in terms both of necessary powers to be able to conduct them, and relationships, particularly with Government (and potentially other agencies). A thorough review of these features – many of which will have been covered in this exercise - would be of real value in terms of what might be stated and made explicit in the Act about the objectives and necessary powers themselves.

By way of background there seems to have been a tendency over time for the responsibilities and objectives of central banks to be made more explicit in relation to monetary policy than for financial stability. Reasons for this probably include:

- The fact that monetary policy has been grounded more in rigorous academic analysis whereas financial stability is less conducive to that.
- Models of the economy can be developed based on 'rational' behaviour, observable behaviours and their impacts. These enable thinking in the monetary policy area to develop as in other areas of economics where models can be of real use for guiding policy judgements.
- This is far less the case for financial stability, where, in times of instability, behaviours are often irrational, and models of transmission paths of contagion are hard to map.
- This fact perhaps compounded by the difficulty for legislators adequately to define the financial stability objective may have too often led to it being omitted in more than implicit terms.
- Finally, over the years, the whole area of financial stability has received too little public discussion or debate because of

concerns about moral hazard – or the need to avoid it. It may well be that silence enables constructive ambiguity to prevail. But in today's increasingly globalised financial world silence is increasingly counterproductive. The important thing is the need to have as much transparency of process as possible with respect to financial stability issues, even if there remains a need to retain some lack of transparency *ex ante* as regards policy decision. In other words saying *ex ante* just who is too big – or complex - to be allowed to fail may produce moral hazard. But saying what processes exist to consider financial stability issues and to enable decisions to be made and implemented does not.

Conclusion:

- I believe there would be merit in considering explicit treatment of the financial stability objective as well as that for monetary policy within the Act.
- This would both require a detailed analysis of the nature of monetary policy and financial stability activities and processes so as to accommodate appropriate treatment of both the objectives themselves, and the enabling powers to achieve them. This self assessment exercise would no doubt be of value in this respect. Several background points are worthy of comment;
- The Report suggests that the monetary policy objective should not need to define hard targets or processes. I believe that the explicit statement of monetary policy as an objective would not need to specify the existence or otherwise of hard targets.
- Whatever monetary policy regime is felt to be appropriate (see more below), the process of conducting monetary policy is one of continual review, and the possibility of regular and perhaps not infrequent alteration of policy instruments. So this feature needs to be accommodated within the framework for monetary policy that is chosen
- As for financial stability, any mention of this in the Act would need to take into account the very different nature of the financial stability process. There are three enabling features or ingredients.
- Maintenance of financial stability requires access to supervisory data, analysis of macro and micro trends, intelligence and analysis of data in relation to possible transmission path of shocks.
- Preparations for handling instability 'events' require to be put in place: both in terms of necessary legal and institutional structures and relationships and in terms of testing, planning and training.
- Handling instability events requires powers of intervention, clear lines of responsibility - both of the Central Banks but also other agencies and of course Government: and success is dependent on adequacy of preparation.

One might mention that in the case of monetary policy if you get it wrong one month or quarter you can adjust the instruments to get back on track next time. In the case of 'fat tail' infrequent instability events you may only get one shot - and will be judged accordingly. To underpin RBI's ability to be in a good position to act with success therefore, the legislation would need to recognise the three ingredients above.

Stance of the Panel: The comments of the peer reviewer have been accepted and incorporated in the Report under the head 'Multiple Objectives of Monetary Policy in India'.

2. The role of central banks. Comments are made on the role of central banks (not specifically RBI) post recent events (Report p20).

Comment:

This seems to me to be germane to the discussion of objectives mentioned above. I agree with the sentiments expressed in the Report but would take the discussion one stage further.

- To my mind the most significant issue that has emerged is that whilst in 'normal' times it might make sense on grounds of size/scope/ conflict resolution and avoiding too much power residing in the hands of the central bank for prudential supervision to be carried out by a separate agency, there is a potential cost to so doing during times of crisis.
- If you split prudential supervision away from the central bank, you do so at your peril if the central bank loses the explicit responsibility for handling liquidity and confidence-related issues at times of instability or crisis: whether these relate to individual institutions or to the market place more generally.
- Systemic issues arise when concerns develop about whether otherwise solvent

institutions can be relied on to pay commitments when due.

- The central bank, with its monopoly of the creation of risk free money, and operational mechanisms to inject it, has a key role in seeking to preserve confidence which present events have highlighted.
- No other institution is capable of carrying out the function of liquidity injection effectively. So any ambiguity as to where this operational responsibility resides can undermine confidence further at the very time it is needed. And there is no realistic way that a non-central bank supervisor – however excellent its staff - can provide this confidence when it is known that they lack the operational capability to provide necessary support. [As a further point if they were given powers to 'direct' the central bank it would seriously undermine the central bank itself.]
- The above points seem to add weight to the voices of those who prefer that prudential supervision – as is the case in India – rests with the central bank.

Conclusion:

To the extent that prudential supervision is fragmented away from the central bank, to my mind there needs to be some mechanism in place to enable the central bank to be adequately informed, and to be able to take on the necessary powers to handle liquidity-related events which appear at times of stress. Models of how best to achieve this will be high on the agendas of central banks generally at present, and rightly so. In any review of the RBI Act this reality should be borne in mind: as would the wisdom of making clear that it is the central bank that has specific operational responsibilities in this area, constrained as they need to be by:

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- the ultimate threat that liquidity injection may require to be socialised by the taxpayer [or worse, by stealth through inflation]: in turn this requires transparency of process and accountability in relation to the Government
- the necessity to minimise moral hazard: mechanisms exist which can enable some ambiguity of likely policy response *ex ante*
- For this reason when considering the mandate which is given to RBI in relation to supervision and the workings of the Financial Supervisory Board, an eye might usefully be cast on developments in prospect both in the USA and Europe (including the UK)
- In particular, the central bank has a monopoly of the creation of central bank money – the ultimate asset aspired to in times of instability. The deployment of central bank money takes on a key importance in times of instability (quite apart from its role in enforcing monetary policy objectives). It is as well to remember in any legislative amendment, that there needs to be clarity as to the responsibilities of the central bank in relation to its deployment, what authorities it has, the relationships both with the fiscal and other regulatory authorities *etc.*

Stance of the Panel: The comments of the peer reviewer have been accepted and incorporated in the Report under the head 'Multiple Responsibilities of the Reserve Bank'.

3. Increasing openness of the Indian economy.

The Report refers to 'the Indian Economy becoming increasingly open, concomitant with fuller capital account convertibility ...'. It also contains questions about the relevant responsibilities of other agencies and the possibility of overlaps/underlaps.

Comment:

To my mind the more open the economy becomes, the greater the value of transparency and clarity about these realities for the following reasons:

- One feature of the globalised financial market place to which India becomes increasingly exposed relates to new instruments and forms of financial organisations which defy historic descriptions and regulation. It becomes increasingly difficult to define what is banking, what is broking *etc.* Accordingly it becomes more difficult to judge where risk resides and the nature of the risks inherent in particular assets and liabilities.
- So [see reference in the Report 112 p26] it is critical that in supervisory terms the central bank has unfettered access to information across the spectrum of markets and leveraged financial firms - banks or non-banks - whose activities may require potential support in times of instability. . It is not quite clear to me whether this is already assured under the auspices of the Board of Financial Supervision. But this critical need may be of relevance when considering overlaps and regulatory structures. The lessons emerging both in the UK and the USA from recent events show both the negative effects that can arise where

responsibilities are not made explicit and clear, as well as pointing to the benefits if they are.

- For this reason I would expect there would be value in further discussion of the relevant roles of the RBI and institutions not mentioned in the Report such as the SEBI.

Conclusion:

There would be value in terms of transparency of ensuring due clarity of the roles not just of the RBI, but of agencies with whom the RBI interacts in the interests of a robust approach to handling financial stability issues. This takes on added significance given the increasing openness of the economy and the concomitant exposure to global trends and patterns of behaviour.

Stance of the Panel; The comments of the peer reviewer have been accepted and incorporated in the Report under the head 'Multiple Objectives of Monetary Policy in India'.

4. Monetary Policy Approach. The Report states: 'RBI does not need a simplistic and rigid approach such as inflation targeting' [3.1 p17]. It continues 'Setting precise numerical targets is fraught with loss of reputation ...'

The nature of the approach itself does not seem to be relevant for this review. Furthermore I would in practice have some sympathy with the first of the views expressed above given the status of the economy, the status of instruments available, and the complexities and size and scope of the country.

On the other hand, one feature of more rigid approaches is that in order for them to work the processes they embody have to be laid bare. For this reason there might be value in asking the question: 'what levels of transparency would we need to have and in what areas if we were to move to a more targeted approach?' There may be value in looking at such structures as a check list to see that all the features are

adequately covered, whether the intention is to go for a 'rigid' approach or indeed remaining with one that is more flexible. For example in a more rigid approach:

- The precise relative role of government and central bank have to be quite explicit. Who sets the target? What Inflation indicator(s) to use? How is this communicated? What happens if the target is not met? *etc*
- Equally the emerging shortcomings of inflation targeting regimes may contain relevant lessons. What to do about asset prices? What to do about increasing levels of leverage? These same questions are of equal relevance for financial stability: so consideration of them may inform the manner in which each of the two areas of objective referred to above is considered.

In relation to 'reputation risk' I am not convinced that this needs to be a factor, since there are powerful mitigants. The more transparent the framework for the conduct of monetary policy, the less the danger of reputation risk. Once again however the features that are needed to mitigate such reputation risks may themselves be useful as a check list to inform desirable levels of transparency even if there is no intention of moving to hard limits.

- For example if you set numerical targets you need a process to inform and explain why they may be missed. This assists transparency and understanding of important features of monetary policy without necessarily tarnishing the reputation of the central bank. There may be very good reasons [in the case of unforeseen shocks for example] whereby it is better to miss the monetary policy target in the interest of meeting other objectives: e.g. financial stability, or growth.

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- Equally there needs to be a transparent mechanism for defining the targets themselves. This will require clear thought as to who sets them, the relationship with Government *etc.*

Conclusion:

I do not dispute the sense of the points made in the Report. But it may be valuable to undertake an exercise 'as if' a hard regime were to be introduced, to see if it teases out areas where the transparency that would be needed might be of value even in terms of India's more flexible regime.

Stance of the Panel: The constraints in the implementation of inflation targeting framework have been incorporated in the Report under the head 'Multiple Objectives of Monetary Policy in India'.

5. Government override/direction. (Report item 116 p30)

It may be worth reflecting on the potential reasons for override or direction.

In terms of monetary policy this might either be in relation to the objectives, or targets or conceivably the policy decision.

In the case of the targets - if such targets were to be introduced, - there would need to be a transparent framework in which the target setting process itself would have a place. This might well include a position for the Government to set the target itself.

In the case of Government overriding actual policy decisions there are built in 'mitigants' to this danger. It would undermine the role of the central bank, and effectively take

back into the Government or political arena the setting of policy itself. This may theoretically be a danger, but to my mind would be quite unrealistic in practice.

In terms of financial stability the time that Government might seek to override would perhaps be in relation to injection of central bank money at a time of instability. Such injection might put the taxpayer at risk. Here again the legitimate concerns of the Government can best be catered for by a transparent decision-making process, even if the published results of this process in terms of injection may not be immediately transparent to avoid adverse behaviour or moral hazard.

Conclusion:

Transparency of process is to my mind the best antidote to 'unwarranted' government override. This arises both by reducing the perceived need for such override, and the fact that if governments choose to try to override other than through proper process set up by the legislation itself, this would raise questions about their motives for so doing.

Stance of the Panel: The comments of the peer reviewer have been accepted and incorporated in the Report under the head 'Clarity of Roles, Responsibilities and Objectives'.

6. Removal of Governor or Deputy Governors (Report item 117 p31).

The general capacity certainly exists in human terms for decisions properly made in the interests of meeting objectives to run counter to the predilection of political masters. Circumstances could arise where this might lead to dismissal. Clearly such a danger would be

reduced if there was a necessity as a result of legislation to give reasons for the dismissal. As such I agree it could add to the reality of autonomy. However improvements of transparency of process would themselves work in the same direction of mitigating this danger for the same reason as specified in 5. above, to my mind these would be equally powerful.

Stance of the Panel: The comments of the peer reviewer have been accepted and incorporated in the Report under the head 'Clarity of Roles, Responsibilities and Objectives'.

7. Debt Management Office. (Report item 12 p32)

I can see the wisdom of the presently intended split, as a means to reduce possible conflict between debt management and monetary management functions. It also of course reduces the strains of scope enabling the RBI to focus more directly on the objectives of monetary and financial policy. I would merely underline the importance for information to be made available to the RBI on all matters that could affect financial stability. This argues for the necessity to ensure adequate, immediate, and continuing channels of communication between any such new entity and the RBI. Increased leverage and indebtedness can lead beyond a certain point to financial instability. Central Governments can contribute to that process. So I believe this is a factor which ultimately could be germane to the financial stability climate.

I think this factor is just as important as the reason given for supporting the split in terms of enhanced autonomy in the conduct of monetary policy

Stance of the Panel: The comments of the peer reviewer have been accepted and incorporated in the Report.

8. Technical Advisory Committee. [TAC] (Report item 22 p40)

The proposal is made that there might be a 'strengthening of its (TAC) functioning'. I think care is needed here given the possibility of conflict with the Report's other recommendation that the RBI should retain a flexible and untargeted approach to monetary policy. Strengthening the TAC would presumably lead to questions of what outputs could be seen as a result of that strengthening. Might this not lead to the further suggestion of targets *etc* as a means of holding it to account for its actions?

The more the TAC has its mandate strengthened beyond being purely advisory, the more one might find necessary movement towards a targeted and potentially less flexible monetary policy regime. Equally the members of such a committee would then need a mechanism to provide them with accountability. To whom should that accountability be offered? RBI or the Government?

Such arrangements are of course common in inflation targeting regimes such as the UK, but care would have to be taken if the flexible regime were still felt to be optimal.

Stance of the Panel: The Panel feels that strengthening the TACMP will enhance the transparency of its role and responsibilities in advising the Reserve Bank on monetary policy and will also lead to greater accountability.

9. Operational Autonomy. [Report p11]

It is hard to take issue with the strong recommendation to review the RBI Act to provide greater operational autonomy.

I agree that operational autonomy is generally desirable. But I see other reasons to suggest reviewing the Act so as to clarify where responsibilities do and do not lie as a means of strengthening the regime through greater transparency generally. To my mind this is as good a way of securing operational autonomy as trying to prescribe such autonomy directly.

Stance of the Panel: The reasons to suggest reviewing the Act, apart from greater autonomy, have been recommended by the Panel.

10. Sundry observations

Exchange rate management. (Report p.22)
I have not attempted to comment on this policy instrument, which is of particular importance to monetary policy decisions. The transparency measures referred to above however would, it seems to me, be just as useful in relation to this instrument as it would be for interest rates.

Reference index for policy objectives.
Reference is made to including 'services' in some way to enhance the utility of the Wholesale Price Index as such an indicator. I would merely point to the difficulties in practice of devising price indicators for this area of the

economy however important, and hence to the necessity of moving with caution with respect to any such inclusion.

Simplified language. Central bankers are not unique in terms of devising a language which contains elements of shorthand to overcome the difficulties of precision. But I applaud the sentiment, not just to the extent it may be applicable to the Reserve Bank, but to central bankers more generally. Transparency and clarity are good bedfellows. Constructive ambiguity may of course sometimes be needed, but this should be the exception rather than the rule!

Stance of the Panel: No comments

03/05/2008

Cui Parc

Wales

Chapter III

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Chapter III

Assessment of Transparency in Financial Policies

1. Introduction

The IMF's Handbook on Financial Sector Assessment defines the concept of transparency as an environment in which the objectives of the policy, the policy's legal, institutional and economic framework, the policy decisions and their rationale, the data and information relating to the policies, and the terms of agencies' accountability are provided to the public on an understandable, accessible and timely basis. The IMF's Code of Good Practices on Transparency in Monetary and Financial Policies, adopted in 1999, identifies transparency practices for central banks in the conduct of monetary policy, and regulatory agencies in the conduct of financial policies. The adoption of good transparency practices by regulatory agencies, including central banks, in their conduct of financial policies contribute to better policy effectiveness, consistency and good governance. A central bank is considered as a financial agency if it has the responsibilities for regulation and supervision of the financial system.

The Supporting Document to the Code was approved by the IMF in July 2000 with the objective of guiding member countries to achieve the objective of transparency in monetary and financial policies. The Code focuses on better transparency practices by central banks and other regulatory/supervisory agencies. The evolving attitude towards

transparency by central banks and financial agencies reflects the globalisation and the integration of financial markets. The underlying principle is that greater transparency and public disclosure help in establishing credibility and reduce uncertainty, thereby strengthening the effectiveness of the policy. Transparency in the mandate as well as the rules and procedures help to ensure consistency at the time of resolution of conflicts between different agencies. Transparency also fosters an increased commitment of the regulated firms to regulatory compliance, prudent behavior, risk management and internal control. The Code stresses the quality, timeliness, content and forms of disclosure and also recognises the limits to transparency in different institutional and regulatory contexts and advocates safeguards to preserve market discipline and financial stability. The Code also recognises that the benefits of transparency practices have to be weighed against potential costs and, at times, it may be appropriate to limit the extent of transparency.

The Code of Good Practices on Transparency in Financial Policies comprises four broad principles:

- (i) Clarity of roles, responsibilities and objectives of financial agencies responsible for financial policies;

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- (ii) Openness of the process for formulating and reporting of policies;
- (iii) Public availability of information on policies; and
- (iv) Accountability and assurances of integrity by financial agencies.

Each of the above principles includes elements that give operational meaning to the practice, its rationale and implementation considerations in various institutional contexts. The principles relating to transparency in financial policies cover policies of institutions, agencies or government bodies responsible for regulation, supervision and oversight of financial markets and institutions. The Code encourages promoting financial stability, market efficiency and consumer protection.

2. Earlier Assessments of Transparency in Financial Policies

2.1 Financial Sector Assessment Programme – 2001

A joint IMF-World Bank team assessed India's compliance with the Code of Good Practices on Transparency in Monetary and Financial Policies as part of the Financial Sector Assessment Programme. The Report was released in May 2001. It covered the financial policy transparency practices of

- i) The Reserve Bank for banking supervision;
- ii) Securities and Exchange Board of India (SEBI) for regulation and supervision of securities markets; and
- iii) Deposit Insurance and Credit Guarantee Corporation of India (DICGC) as regards deposit insurance.

The Report observed that the disclosure practices of the Reserve Bank as regards banking supervision and SEBI for securities markets were satisfactory. However, the disclosure practices of DICGC were not considered satisfactory. It concluded that 'the multiplicity of financial sector regulators increases the importance of a clear demarcation of roles and responsibilities between the different regulatory agencies and of instituting a transparent framework for exchange of information among these agencies'.

2.2 Advisory Group on Transparency in Monetary and Financial Policies - 2000/2001

The Standing Committee on International Financial Standards and Codes set up by the Reserve Bank and Government of India in 1999 constituted an Advisory Group to study the assessment of observance of standards and codes relevant to Transparency in Monetary and Financial Policies. The Advisory Group, in its Report released in September 2000, recommended that the regulatory/supervisory authorities could introduce the practice of disclosing adverse supervisory action.

A review of the implementation of the recommendations of the Advisory Group was undertaken and published in December 2004. It noted that several initiatives had been taken by the Reserve Bank to enhance transparency in monetary and financial policies through an institutionalised consultative process like the annual resource management discussions between the top management of the Reserve Bank and select commercial banks. It also noted that while the existing monetary and financial policy formulation, procedures and practices

have, by and large, worked well for the country, further improvements in autonomy, accountability and transparency are possible, to improve the efficacy of the central bank policies.

3. Scope, Methodology and Summary of Assessments

The IMF's Code of Good Practices on Transparency in Monetary and Financial Policies is a common code that identifies desirable transparency practices for central banks. Though the broad principles of the Code are common for both, the practices are different for the assessment of monetary policy transparency and transparency in financial policies. Therefore, the Panel has made separate assessments for monetary policy and financial policies. These assessments have been made separately for the Reserve Bank, SEBI and IRDA. While a summary of assessment and practices, criterion-wise are enumerated in this section, the Panel has made some recommendations for improving transparency. These are listed in Section 4.

3.1 Assessment of Transparency in Financial Policies of Financial Agencies – Reserve Bank of India

3.1.1 Introduction

The Reserve Bank regulates and supervises the banking and non-banking sectors as well as the government securities market. The DICGC is a wholly-owned subsidiary of the Reserve Bank and governed by the DICGC Act, 1961 and is entrusted with the role of administering the deposit insurance scheme.

The Reserve Bank's adherence to the code of good practices on transparency in financial policies for banking and non-banking supervision, government securities market and the deposit insurance sector has been assessed here. The assessments as relevant to banking supervision and deposit insurance were covered under the Financial Sector Assessment Program

– 2001 of the IMF/World Bank. The assessment of transparency practices in the government securities market has been undertaken for the first time by this Panel. However, since the Reserve Bank is the sole regulator and supervisor of all three segments, a single assessment matrix has been provided.

3.1.2 Information and Methodology for the Assessment

The assessment is based on the IMF's *Code of Good Practices on Transparency in Monetary and Financial Policies* and covers the following four areas:

- Clarity of roles, responsibilities and objectives for financial policies.
- Openness of the process for formulating and reporting policy decisions.
- Public availability of information on the policy.
- Accountability and assurances of integrity of financial agencies.

A Technical Group comprising representatives from the relevant supervisory and regulatory departments within the Reserve Bank as also from the DICGC helped the Advisory Panel with the initial assessment and other supporting material.

The main sources of information for the assessment are:

- Relevant provisions of the RBI Act, 1934 and Banking Regulation Act, 1949;
- The Securities Contract Regulation Act (SCRA), 1956 and Government Securities (GS) Act, 2006;
- Governor's Annual Policy Statements and quarterly reviews thereof;
- Reports on Trend and Progress of Banking in India;
- *Reserve Bank of India – Functions and Working*;

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- Circulars issued by the Reserve Bank;
- The Reserve Bank's website and press releases; and
- The information made available online by Fixed Income Money Market and Derivatives Association (FIMMDA) at www.fimmda.org and Clearing Corporation of India Ltd. (CCIL) at www.ccilindia.com.

3.1.3 Summary of Assessment

The Reserve Bank adopts transparent practices in its supervision of the banking system, the government securities market and in its administration of the deposit insurance scheme through the DICGC. The roles, responsibilities and objectives of the Reserve Bank in the regulatory and supervisory areas are provided in various statutes mentioned above. However, the terms for removal of the Reserve Bank Governor/Deputy Governors are not specified by law. The Reserve Bank adopts a consultative approach in the formulation of its policies. Its policy objectives and major developments in the different segments of the financial system are discussed in the Governor's Annual Policy Statements, and its quarterly Reviews and periodical publications such as the Annual Report, Monthly Bulletin, Report on Trend and Progress of Banking in India and the Report on Currency and Finance. The circulars and directives issued by it are placed in the public domain. The Reserve Bank has its own Department of Communications which maintains contact with the press and other media and issues regular press releases.

The Reserve Bank is indirectly accountable to the Parliament through the

Ministry of Finance. Its accountability is also ensured through the mandatory publication of audited annual accounts within the prescribed timeframe. Practices with regard to each of the areas, as enumerated below, substantiate the comprehensiveness of transparency in financial policies of the Reserve Bank. A practice-wise discussion of the assessment of the four broad areas of financial policy transparency of the Reserve Bank is given in the paragraphs below.

3.1.4 Clarity of Roles, Responsibilities and Objectives

The responsibility and authority of the Reserve Bank to regulate and supervise banks, Development Financial Institutions (DFIs) and Non-Banking Finance Companies (NBFCs) are specified in the Banking Regulation (BR) Act. The institutional relationship between the Central Government and the Reserve Bank is also defined in the Act. The general superintendence and direction of the affairs and business is entrusted to a Central Board of Directors. Its powers and responsibilities and term of office are also specified in the Act. The Central Government can remove from office the Governor, or a Deputy Governor or any Director or any member of the Local Board; however, the grounds for removal of the Governor/Deputy Governors are not specified in the Act. This issue is relevant and critical to a central bank's autonomy. However, it involves amendment to the existing provisions of the RBI Act. Functional autonomy is achieved through a series of reforms initiated by the Government and the Reserve Bank. The Panel recommends that a clear provision be laid down specifying the criteria for the removal of the Governor or Deputy Governor of the Reserve Bank.

The roles, responsibilities and objectives of the Reserve Bank with regard to the regulation of the government securities market are clearly spelt out in various provisions of the RBI Act, the Government Securities Act, 2006 and the Securities Contract (Regulation) Act, 1956. An amendment to the RBI Act in 2006 clarified the role of the Reserve Bank in the regulation of money, government securities and foreign exchange markets, including related derivative instruments.

The DICGC is governed by the DICGC Act, 1961 and is wholly owned by the Reserve Bank (Box 1). However, where there are no specific provisions, the Board of DICGC is empowered to make regulations consistent with the DICGC Act, and with the support of the Reserve Bank.

Information sharing between the Reserve Bank and SEBI is handled by a formal standing committee. The Government, by an executive order, has set up a High Level Co-ordination Committee on Financial Markets (HLCCFM) consisting of the Governor of the Reserve Bank, Chairman of SEBI, Chairman of IRDA, Chairman of PFRDA and the finance secretary. The Committee has further constituted three technical committees under the jurisdiction of the Reserve Bank, SEBI and IRDA to report on matters which have a bearing on the financial and capital markets.

The relationship between the main regulatory bodies is not defined, but the jurisdictional issues of the regulatory bodies are often disclosed in notifications published in the official gazette. The terms of reference of the HLCCFM do not spell out whether it should function as a forum where the regulators meet on a regular basis to exchange information and play a proactive role in setting and monitoring rules that require a co-ordinated approach among regulators or whether it is left to function on a more *ad hoc* basis in times of emergency. This makes the relationship between agencies governing the basis for the exchange of

information unclear. The Panel recommends that the HLCCFM needs to be institutionalised and brought under a formal and transparent arrangement.

With the notification of Rules and Regulations pertaining to the Payment and Settlement Systems Act, 2007 the Reserve Bank has gained formal oversight authority over payments and settlement systems in the country. The Payment and Settlement Systems Act:

- a) designates the Reserve Bank as the authority to regulate payment and settlement systems;
- b) provides for the requirement of an authorisation by the Reserve Bank to operate a payment system;
- c) empowers the Reserve Bank to regulate and supervise the payment systems by determining standards, calling for information, returns, documents, *etc.*;
- d) empowers the Reserve Bank to audit and inspect by entering the premises where payment systems are being operated;
- e) empowers the Reserve Bank to issue directions; and
- f) overrides other laws and provides a legal basis for settlement finality and netting.

3.1.5 Open Process for Formulating and Reporting of Financial Policies

The regulatory framework for banking supervision is defined in the RBI Act and the Banking Regulation Act. The Reserve Bank performs the function of financial supervision under the guidance of the Board for Financial Supervision (BFS). The BFS, through the Audit Sub-Committee, also aims at upgrading the quality of the statutory audit and internal audit functions in banks and financial institutions. The Reserve Bank has also constituted a Board for Payment and Settlement Systems (BPSS) as a Committee of its Central Board.

Reporting requirements are issued through regulations which are available on the Reserve Bank's website. The Reserve Bank has been following a consultative approach in regard to major issues of policies/guidelines where the draft circulars are first posted on the website for comments of the regulated entities and public. The Reserve Bank also favours the constitution of advisory committees and groups involving concerned financial sector groups and experts. Changes in financial policies are disclosed through regulations/notifications published in the official gazette and are available on the Reserve Bank's website.

At the MICR centres operated by the Reserve Bank, Re 1.00 is collected from both the presenting and drawee banks. This information is not available in the public domain. (The Panel notes that this has since been implemented).

In respect of international agencies, a need-based information sharing mechanism is in place which can be publicly disclosed.

As regards regulation of the government securities market, regulations, operational guidelines and procedures are publicly disclosed and are made available on the Reserve Bank's website. Market participants are consulted in the process of formulating regulations and, often, public comments are invited. The policy objectives, rationale and implementation are discussed in regular publications of the Reserve Bank, *viz.*, Annual Report, Report on Trend and Progress of Banking in India and Report on Currency and Finance.

The regulatory framework for DICGC is specified in the DICGC Act, 1961 which is in

the public domain. The operations of the Corporation are discussed in the Annual Report and DICGC's instructions and guidelines to insured entities are issued in the form of circulars to insured banks and are also posted on the DICGC's website. Settlement of claims is made public as well.

3.1.6 Public Availability of Information

The major developments in the different segments of the financial system are discussed in various publications and notifications of the Reserve Bank, mentioned earlier, as well as through appearances of the Reserve Bank officials before Parliamentary Committees. The aggregate data related to all regulated entities of the Bank and detailed balance sheet of the Bank is publicly disclosed in the Reserve Bank's Annual Report, Weekly Statistical Supplement, Reserve Bank Monthly Bulletin, *etc.* All these publications are available on the Reserve Bank's website.

The Annual Report of DICGC, a statutory document relating to the financial year of DICGC (April to March) is released every year in May/June. The Report covers the developments on the working of the Corporation and the balance sheet and accounts of the Corporation. The Report is also placed on the website of the Corporation and forwarded to all insured banks.

The Reserve Bank provides emergency financial support to banks. It issues policy statements with regard to provision of liquidity in exceptional and unforeseen circumstances. Though temporary financial support is provided to banks in case of emergency, there is no system of disclosing aggregate data of such assistance

extended. The Panel feels that it would be appropriate (from the organisation's viewpoint and also from the transparency angle) if such information is placed in the public domain after a suitable period.

The Reserve Bank has its own Department of Communications which maintains contact with the media and issues regular press releases. The Reserve Bank also has its own multi-lingual website. The Bank has several bi-lingual weekly, monthly, quarterly and annual publications reflecting its principal

activities. Members of the top management interact regularly with the public including banks, other financial system entities, members of industry associations and chambers of commerce, and deliver speeches at various fora.

The Reserve Bank is addressing the issue of grievance redressal in the banks on two fronts: (i) making institutional mechanisms available in the banks to look into grievance redressal; and (ii) establishing an independent grievance redressal body in the form of Banking Ombudsman (through the Banking Ombudsman

Box 1: Deposit Insurance System in India

India is the second country to institute a Deposit Insurance Scheme way back in 1961 in the wake of failure of a few banks. The deposit insurance system is designed to provide protection to small depositors who lack adequate financial skills and do not have the wherewithal to monitor their banks. The scheme is in the nature of a pay-box system in the case of (i) liquidation and (ii) reconstruction/amalgamation of an insured bank.

The Deposit Insurance and Credit Guarantee Corporation (DICGC), operating the scheme, is governed by the DICGC Act, 1961. However, where there are no specific provisions, the DICGC Board may make regulations, consistent with the DICGC Act, with the approval of the Reserve Bank. Thus, the Reserve Bank has the powers conferred by the DICGC Act to make regulations for DICGC. The Corporation is a wholly-owned subsidiary of the Reserve Bank. The authorised capital of the Corporation is Rs.50 crore which is entirely issued and subscribed by the Reserve Bank. The management of the DICGC vests in a Board of Directors constituted as per the provisions of the DICGC Act, 1961.

In India, deposit insurance is compulsory for all banks. However, under the DICGC Act, the Corporation has the power to cancel the registration of an insured bank if it fails to pay the premium for three consecutive half-year periods. All deposits, with the exception of deposits of foreign Governments, deposits of State/Central Governments, inter-bank deposits, and deposits held abroad, are insured by the DICGC. The insurance cover is provided to deposits held in the same capacity and in the same right and presently

the limit is Rs. 1,00,000. Banks are charged premium on total assessable deposits (10 paise/Rupees One hundred of assessable deposit). With the existing limit, there is a high degree of protection available to small depositors: 94.07 per cent of total deposit accounts (up from 79 per cent in 1961) and 66.1 per cent of total assessable deposits (up from 23 per cent in 1961) are fully protected as at the end of March 2006. This is way ahead of the IMF's recommended limits of 80-90 per cent and 20 per cent, respectively. As per the international norms contained in the IMF's recommendations, deposit insurance coverage at one or two times of per capita GDP is taken as a rough rule of thumb for limiting the coverage. In India, the ratio of deposit insurance coverage is around 3.5 times of per capita GDP, as on March 31, 2006. The scope is, therefore, broad and coverage is reasonable. The Deposit Insurance Fund (DIF) is mainly built out of the premium received from the insured banks and the coupon income received from investment in the Central Government securities.

The Corporation's liability to the depositors of an insured bank arises in the event of the liquidation of that bank or its amalgamation with another bank or its reconstruction, and the claim payment needs to be made before the expiry of two months from the receipt of the claim.

With a view to educating the small depositors, DICGC has taken steps to increase public awareness of the deposit insurance scheme by sending relevant written materials to the insured banks for them to display in all branches at all places where depositor interaction is involved. DICGC has also hosted its own website (www.dicgc.org.in) for providing information to the public.

Scheme). Further, recognising an institutional gap in measuring the performance of the banks against codes and standards based on established best practices, the Reserve Bank has set up the Banking Codes and Standards Board of India. The Panel recommends that the Reserve Bank should establish a formal independent mechanism to resolve disputes arising out of government securities market transactions and investor complaints. The Reserve Bank should also disclose the mechanism for settlement of disputes.

3.1.7 Accountability and Assurances of Integrity

The Reserve Bank is accountable to the Parliament through the Ministry of Finance. Its senior officials appear before Parliamentary Committees as and when required. The accountability of the agency is also ensured through the mandatory publication of weekly statement of affairs, audited annual accounts and an Annual Report within a prescribed time frame. Internal governance procedures are publicly disclosed in the Annual Report. Internal audit arrangements are discussed in the publication *Reserve Bank of India – Functions and Working*.

The operating expenses and revenues are disclosed in the audited balance sheet and profit and loss accounts published in the Annual Report of the Bank as well as the Gazette of India. The conduct and discipline of the employees of the Bank are governed by the Reserve Bank of India (Staff) Regulations, 1948. The text of the Regulations including the vigilance/disciplinary stipulations governing the employees of the Bank has been placed on the Bank's website. The RBI Act provides protection of action taken in good faith.

Detailed assessment of transparency in financial policies pertaining to the Reserve Bank is given in **Annex I**.

3.2 Assessment of Transparency in Financial Policies of Financial Agencies – Securities and Exchange Board of India

3.2.1 Introduction

The Securities and Exchange Board of India (SEBI) was established to protect the interests of investors, to promote the development of the securities market and to regulate it. The Indian securities market is governed by four main legislations, *viz.*, the Securities and Exchange Board of India Act, 1992 (SEBI Act), the Companies Act, 1956 the Securities Contracts (Regulation) Act, 1956 (SCRA) and the Depositories Act, 1996. The SCRA provides for direct and indirect control of virtually all aspects of securities trading and the running of stock exchanges and aims to prevent undesirable transactions in securities. It gives the Government and SEBI's regulatory jurisdiction over stock exchanges through a process of recognition and continued supervision, contracts in securities and listing of securities on stock exchanges.

3.2.2 Information and Methodology used for the Assessment

The assessment of the securities market regulations is based on the following:

- Relevant provisions of the SEBI Act, SCRA, Depositories Act, 1996 and the Companies Act, 1956.
- Circulars, notices, guidelines, advices, *etc.*, issued by SEBI.
- SEBI's website and press releases.

3.2.3 Summary of Assessment

The transparency practices adopted by SEBI are compliant with all criteria prescribed by the IMF's Code of Good Practices on Transparency in Financial Policies. The roles, responsibilities and objectives of SEBI as a securities market regulator is clearly mandated in various legislations like the SEBI Act 1992, Depositories Act, *etc.* SEBI adopts an open and consultative approach in the formulation of its policies. All regulations, circulars, *etc.* are placed in the public domain and the Annual Report of SEBI gives an overview of its policies and programmes, a review of the working and operations of SEBI in the Indian securities market and the functions of SEBI under the SEBI Act. The Annual Report is submitted to the Government and placed in the Parliament. A practice-wise discussion of the assessment of the four broad areas of financial policy transparency of SEBI is given in the paragraphs below.

3.2.4 Clarity of Roles, Responsibilities and Objectives

The Constitution of India authorises the Central Government to make laws relating to the securities market. The laws so made have empowered various authorities, namely, the Ministry of Corporate Affairs (MCA), the Reserve Bank and SEBI to supervise and regulate different areas in the securities market and make sub-ordinate legislations for this purpose. The laws as well as sub-ordinate legislations and the enforcement actions of the authorities are subject to judicial scrutiny. The law confers on SEBI, exchanges and depositories adequate powers to frame rules, regulations, and bye-laws to govern their operations and regulate the conduct of their constituents.

The SEBI Act, 1992 and the Rules and Regulations made thereunder clearly define the functions and powers of SEBI, the composition of the Board of Members, the terms and conditions of service of the Members, the general criteria for their removal and the broad

mechanism to ensure accountability of SEBI. The relationship between the Government and SEBI has been clearly defined. There exists a mechanism to ensure greater co-ordination among regulatory agencies in the financial and capital markets.

According to Section 11 of the SEBI Act, 1992 it is SEBI's duty to promote and regulate self-regulatory organisations (SROs). SEBI has framed the SEBI (Self-Regulatory Organisations) Regulations, 2004 which has provisions governing membership, functions and obligations, governing norms and inspection and audit of SROs. While some trade and industry associations such as the Association of Mutual Funds of India (AMFI) perform certain SRO-like functions, SEBI is yet to recognise any organisation as an SRO.

The Depositories Act provides for the establishment of depositories in securities market with the objective of ensuring free transferability of securities with speed, accuracy and security by making securities of public limited companies freely transferable subject to certain exceptions, dematerialising the securities in the depository mode and providing for maintenance of ownership records in a book entry form. The Companies Act deals with the issue, allotment and transfer of securities and various aspects relating to company management. It prescribes the standards of disclosure in public issues of capital, particularly in the fields of company management and projects, information about other listed companies under the same management and management perception of risk factors.

3.2.5 Open Process for Formulating and Reporting of Financial Policies

The websites of SEBI and the stock exchanges/depositories provide free public access to the legal framework governing the securities market. SEBI's website provides access to all the relevant acts, regulations, rules, circulars, guidelines and general orders, as

amended up to date. The acts, rules and regulations are notified in the Official Gazette of India. All the regulatory actions and developments are communicated by means of press releases.

In order to bring transparency in the working of the Board, SEBI has decided that the agenda papers submitted to the Board on all policy issues will be made available in the public domain by putting them up on the SEBI website after the Board has taken a decision on the issue. The minutes of the meeting relating to such items will also be made available on SEBI's website after the Board has approved the minutes.

SEBI follows an elaborate process with regard to introducing a new policy/initiative or amending an existing one. The proposal is first discussed in a SEBI-constituted expert committee on the functional area (such as the Primary Market Advisory Committee, Secondary Market Advisory Committee and SEBI Committee on Disclosures and Accounting Standards). The proposal, along with the recommendations of the expert committee, is then posted on the SEBI website for public comments.

SEBI prepares and submits its Annual Report to the Government. The Report gives an overview of the policies and programmes of SEBI, a review of the working and operations of SEBI in the Indian securities market and the functions of SEBI under the SEBI Act, 1992 during the previous financial year. The Report also discusses the rationale for the adoption of a new policy/regulation. SEBI also brings out the SEBI Monthly Bulletin and Handbook of Statistics on the Indian Securities Market.

SEBI performs quasi-judicial functions in accordance with the provisions of the SEBI Act, 1992 and rules and regulations made thereunder. All such orders passed by the SEBI Board contain the relevant facts and rationale for imposing penalties. The orders, whether for imposing penalties or exonerating the entities, are put on the SEBI's website. Press notes are issued after passing orders which are also available on the SEBI's website.

In case of appeals by the entities before the Securities Appellate Tribunal (SAT), all orders of SAT are put on the SEBI's website even in those cases where the SEBI's orders have been set aside. SAT orders contain findings of SEBI, how penalties were imposed, the views of SAT and the final judgments.

3.2.6 Public Availability of Information

Section 15 of the SEBI Act, 1992 stipulates that SEBI should prepare an annual statement of accounts in the format prescribed by the Government in consultation with the Comptroller and Auditor General of India (CAG). The accounts are audited by the CAG. The accounts, as certified by the CAG, together with the audit Report thereon are forwarded annually to the Government for being laid before each House of the Parliament of India. There is also an internal audit of SEBI's accounts and other internal controls. SEBI has to furnish to the Government such returns/statements/particulars regarding any proposed or existing programme for the promotion and development of the securities market as required by the Government. SEBI has a Communication Division responsible for all external communications. All policy decisions are communicated by means of press releases. The

top management of SEBI is often called upon to explain SEBI's policies and standpoints before the various Committees of Parliament.

There exist trade/settlement guarantee funds at the level of stock exchanges and this is communicated to the public and to investors, in particular. The Office of Investor Assistance and Education (OIAE) of the SEBI handles investor complaints centrally and also acts as the focal point of SEBI's investor education efforts. SEBI maintains a dedicated website for investor grievances' redressal and education. The timeline benchmarks that SEBI has set for activities involving public interface are publicly disclosed on SEBI's website.

3.2.7 Accountability and Assurances of Integrity

The Annual Report of SEBI, which is submitted to the Government and laid before each House of the Parliament, gives a detailed account of its activities, policies and programmes during the previous financial year. SEBI also furnishes to the government returns/statements/particulars regarding any proposed or existing programme for the promotion and development of the securities market as required by the Central Government. SEBI is also called to explain its policies and standpoints before the various Committees of the Parliament of India. The Regulations framed by SEBI are laid before each House of the Parliament and are subject to any modification/annulment as agreed by both the Houses.

The timeline benchmarks that SEBI has set for activities involving public interface are placed on the website. There is also an internal audit of SEBI's accounts and internal controls by a firm of chartered accountants. Internal governance procedures are publicly disclosed through information provided in the Annual Report. The Report is placed on the website and also placed before the Parliament. Accounts of SEBI are audited by CAG.

The terms and other conditions of service of officers and employees of SEBI are governed by SEBI (Employees' Service) Regulations, 2001. The officers and employees have to maintain fidelity and secrecy in the performance of their duties. SEBI officials and staff are protected from any legal proceedings for any action taken or intended to be taken in good faith.

The detailed assessment of the transparency policies of SEBI is given in **Annex II**.

3.3 Assessment of Transparency in Financial Policies of Financial Agencies – Insurance Regulatory and Development Authority

3.3.1 Introduction

The IRDA Act, 1999 and the Insurance Act, 1938 empower the Insurance Regulatory and Development Authority (IRDA) with power to regulate insurance companies. The duties, powers and functions of IRDA are defined in Chapter IV, Section 14 of the IRDA Act, 1999. The power to regulate, monitor and supervise insurance companies is also vested with the IRDA under various provisions of the Insurance Act, 1938. The IRDA Act, 1999 and Insurance Act, 1938 also requires the publication of all IRDA regulations in the Official Gazette.

3.3.2 Information and Methodology used for the Assessment

The assessment of the Insurance Sector is based on the following :

- Relevant provisions of the Insurance Act and IRDA Act.
- Circulars, notices, guidelines, advices, *etc.*, issued by the IRDA.
- IRDA's website and press releases.

3.3.3 Summary of Assessment

The assessment of transparency practices adopted by IRDA has been attempted for the first time by this Panel. IRDA complies with all the criteria specified by the IMF's Code of Good Practices except for the fact that internal

governance and internal audit procedure are not publicly disclosed. The IRDA Act, 1999 gives a clear legal mandate to the IRDA on its roles and responsibilities as the regulator of the insurance sector. IRDA adopts a consultative and open approach in the formulation of its policies as required by the Code. The circulars, regulations and directives issued by IRDA are disseminated to the public and the market in a transparent manner. IRDA is statutorily accountable to the Government and submits an Annual Audited Financial Statement which is placed before the Parliament. A practice-wise discussion of the assessment of the four broad areas of financial policy transparency of IRDA is given in the paragraphs below.

3.3.4 Clarity of Roles, Responsibilities and Objectives

The broad objectives of IRDA are specified in the IRDA Act, 1999. The responsibility and authority of IRDA is to regulate and supervise insurance companies through the powers granted to it under the Insurance Act, 1938. They are further explained and discussed in IRDA's Annual Report and press releases (both are available on IRDA's website www.irdaindia.org).

Chapter VI, Section 20 of the IRDA Act, 1999 requires it to submit to the Government an Annual Report within nine months after the close of the financial year and also a Report giving a true and full account of its activities including the activities for promotion and development of insurance business during the previous financial year. Chapter V, Section 17 of the IRDA Act, 1999 requires it to submit to the Government an audited Report on the accounts of IRDA, together with the audit Report

annually. The Government has the same to be laid before each house of the Parliament. IRDA officials appear before the Standing Committee of Parliament on Finance upon request.

The Authority consists of the Chairman, five full-time members and four part-time members. The procedures for appointment of Chairperson and Members to the Authority are stated in the IRDA Act, 1999 (Chapter II, Section 4). The IRDA Act, 1999 (Section 5) gives the tenure of the Chairperson and other members. The IRDA Act, 1999 (Section 6) lays down the circumstances under which the Government may remove from office the Chairman and members of the Board.

The main responsibility of IRDA is to protect the interests of policyholders. This arises because of the fiduciary relationship between the insurance company and the policyholders where the insurance companies act as trustees of public money. IRDA is, therefore, entrusted with the task of regulating, promoting and ensuring the orderly growth of the insurance industry and matters connected thereto. It regulates and supervises the various players in the insurance industry to discharge its responsibilities in an effective manner.

The Insurance Act, 1938 lays down the framework for legal structure of an insurance company, the manner of registration of an insurance company and its renewal, the control over its management, appointment of whole-time/managing director, *etc.* The affairs of an insurance company have, therefore, to be conducted in accordance with the provisions of the Insurance Act, 1938.

3.3.5 Open Process for Formulating and Reporting of Financial Policies

The regulatory framework, operating procedures and regulations for monitoring and reporting are governed by the IRDA Act, 1999 and the Insurance Act, 1938. IRDA follows a consultative process of formulating and reporting financial policies. The execution of these policies is carried out through issuance of regulations. The process begins with the preparation of a draft financial policy, on an issue of importance and affecting the insurance industry. This draft policy is put up for discussion by the IRDA in public domain wherein comments are invited from the interested parties and public at large. The feedback is analysed and discussed. Suggestions and advice are also obtained from industry, experts and shareholders on particular issues. IRDA discusses the proposals formally at Board meetings and at the Insurance Advisory Committee (the Committee's suggestions are recommendatory) which consists of experts from different fields who bring to bear their knowledge and experience on the draft financial policy. After taking inputs, suggestions and advice from all sources, IRDA issues the final financial policy in the form of insurance regulations. The regulations are, thereafter, notified through Official Gazette. Clarifications on policies, where needed, are issued through notifications, circulars, guidelines and press releases.

3.3.6 Public Availability of Information

IRDA issues an Annual Report as per the Rules notified by the Government which gives the table of contents and the format in which the Report is to be prepared. It also issues a monthly journal covering topical issues facing the insurance industry. All regulations and applicable directives issued by IRDA are placed on IRDA's website for easy reference.

IRDA is addressing the issue of grievance redressal in the insurance companies by

(i) making institutional mechanisms available in the insurance companies to look into grievance redressal and (ii) establishing an independent grievance redressal body in the form of Insurance Ombudsman. Further, IRDA has the facility for online registration of a complaint on its website. The details of the number of complaints received, number disposed, number pending against each insurer and nature of complaints are tabulated and published in IRDA's Annual Report.

3.3.7 Accountability and Assurances of Integrity

IRDA submits audited financial statements annually to the Government which are placed before the Parliament. Financial statements are audited by the CAG in accordance with Section 17 of the IRDA Act. The statutory accounts are audited by a qualified chartered accountant firm. Information on accounting policies and qualifications are also disclosed as an integral part of the financial statement. Internal governance issues are addressed at the Board meetings of the IRDA, Insurance Advisory Committee and other committee meetings, details of which are furnished in the Annual Report. However, internal governance and internal audit procedures are not publicly disclosed. IRDA should consider placing this information in the public domain.

To improve the disclosure of internal audit procedures, the Authority is examining the issue for adoption of practices existing in other regulatory bodies.

IRDA's (Salary and Allowances Payable to and other terms and Conditions of Services of Chairperson and Other Members) Rules, 2000 and IRDA's (Conditions of Service of Officers and other employees) Regulations, 2000 are published in the official gazette. The IRDA Act, 1999 provides protection for officials for action taken in good faith.

The detailed assessment of the transparency policies of IRDA is given in **Annex III**.

Table 1: Summary of Assessments of Transparency in Financial Policies

No.	Area/Practices	Assessment		
		RBI	SEBI	IRDA
V.	Clarity of Roles, Responsibilities and Objectives of Financial Agencies			
5.1	Objectives and institutional framework of financial agencies to be defined in legislation	O	O	O
5.1.1	Public disclosure of broad objectives of financial agencies in legislation	O	O	O
5.1.2	Public disclosure of responsibilities of financial agencies and authority to conduct financial policies	O	O	O
5.1.3	Public disclosure of modalities of accountability for financial agencies	O	O	O
5.1.4	Public disclosure of procedures for appointment and removal of members of the governing bodies of financial agencies	PO	O	O
5.2	Public disclosure of relationship between financial agencies	PO	O	O
5.3	Public disclosure of role of payment systems	O	NA	NA
5.3.1	Public disclosure of policy principles by agencies overseeing payment systems	O	NA	NA
5.4	Public disclosure of relationship between financial agencies and SROs	O	O	O
5.5	SROs performing regulatory and supervisory functions to be guided by same good transparency policies as specified for financial agencies	O	O	NA
VI.	Open Process for Formulating and Reporting of Financial Policies			
6.1	Transparency in conduct of policies by financial agencies	O	O	O
6.1.1	Public disclosure of regulatory framework and operating procedures governing conduct of financial policies	O	O	O
6.1.2	Public disclosure of regulations for financial reporting	O	O	O

6.1.3	Public disclosure of regulation for the operation of organised financial markets	O	O	NA
6.1.4	Public disclosure of structure of fees charged by financial agencies to financial institutions	O	O	O
6.1.5	Public disclosure of procedures for information-sharing and consultation between financial agencies	PO	O	O
6.2	Public disclosure of significant changes in financial policies	O	O	O
6.3	Issue of periodic public reports on how policy objectives are pursued by financial agencies	O	O	O
6.4	Public consultations before proposed substantive technical changes to the structure of financial regulations	O	O	O
VII.	Public Availability of Information about Financial Policies			
7.1	Issue of a periodic public report on the major developments of the sectors of the financial system by financial agencies	O	O	O
7.2	Public reporting of aggregate data related to jurisdictional responsibilities on a timely and regular basis	O	O	O
7.3	Public disclosure of balance sheet on a pre-announced schedule and information on aggregate market transactions	O	O	O
7.3.1	Public disclosure of emergency financial support by financial agencies	PO	NA	NA
7.4	Financial agencies to establish and maintain public information services	O	O	O
7.4.1	Financial agencies to have a publications programme including a periodic report on their principal activities	O	O	O
7.4.2	Senior officials to disclose institution's objectives and performance to the public	O	O	O
7.5	Public availability of texts of regulations and other directives issued by financial agencies	O	O	O
7.6	Public disclosure of deposit insurance schemes and other client asset protection schemes, its procedures and performance	O	O	NA
7.7	Public disclosure of information on consumer protection arrangements	O	O	O
VIII.	Accountability and Assurances of Integrity by Financial Agencies			
8.1	Officials of financial agencies to appear before a designated public authority to report on the conduct of financial policies	O	O	O

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8.2	Public disclosures of audited financial statements on a pre-announced schedule	O	O	O
8.2.1	Public disclosure of information on accounting policies and independent audit of the financial statements	O	O	O
8.2.2	Public disclosure of internal governance and internal audit procedure	O	O	NO
8.3	Public disclosure of information on operating expenses and revenues	O	O	O
8.4	Public disclosure of standards for the conduct of the officials and staff of financial agencies	O	O	O
8.4.1	Public disclosure of information about legal protection for officials of financial agencies in the conduct of official duties	O	O	O
<i>Memo Items:</i>				
Assessment		RBI	SEBI	IRDA
O		32	33	29
BO		–	–	–
PO		4	–	–
NO		–	–	1
NA		–	3	6

O - Observed; BO - Broadly Observed; PO - Partly Observed; NA - Not Applicable;
NO - Not Observed

3.4. Assessment of Transparency in Financial Policies of Financial Agencies - Foreign Exchange Dealers' Association of India (FEDAI)

A Self-Regulatory Organisation (SRO) is a self-regulatory body constituted by the market participants which performs some of the functions delegated to it by the regulator. SROs function closer to the market and help the market players deal with implementation issues and could perform a beneficial role in development and control of the market.

The IMF's Code recognises that where self-regulatory organisations are authorised to perform part of the regulatory and supervisory process, they should be guided by the same good transparency practices specified for financial agencies.

The Foreign Exchange Dealer's Association of India (FEDAI) has been undertaking several delegated regulatory functions. The Panel, therefore, assessed the transparency practices of FEDAI as a SRO, since it is an organisation in the financial sector in

Box 2: Foreign Exchange Dealers' Association of India

FEDAI was set up in August 1958 as a regulatory body, assuming at inception, primarily, the role of Exchange Banks' Association. The FEDAI members are all Authorised Dealers (Category I) in foreign exchange (presently 89 members), who are required to be members of the FEDAI and abide by its Rules and guidelines, as per licensing norms of Reserve Bank.

In the formative years, the FEDAI's principal preoccupation was ensuring a level playing field in the foreign exchange market domain in India, by laying down transaction-based guidelines, and transaction-based tariff norms for member banks. The FEDAI's role has subsequently evolved very substantially, with a facilitatory side also emerging strongly. While, with considerable deregulation in the market, the FEDAI dissociated completely from laying down tariff norms for the members from September 1999 onwards, there was a quantum jump in its advisory and facilitatory activities.

Guidelines and rules for forex business (other than prescription of tariff norms), continue to be among the FEDAI's main activities. These include announcement of several daily, weekly, monthly

and quarterly market-related numbers, which are primarily used by member banks for revaluation of portfolio, mark-to-market exercise, quoting of rates in NRI deposits, etc., and are also available to the public at large for information. Additionally, training of bank personnel in various areas of foreign exchange business, advising/assisting members in settling issues among themselves and dealings with customers, piloting of new products/ innovations on behalf of members with regulators, representing member banks at Government/Reserve Bank/other bodies, representing members on International Chambers of Commerce (ICC)'s Commission on Banking Techniques and Practices, Paris (which *inter alia* frames rules like Uniform Customs and Practice for Documentary Credit (UCP 500 – now superseded by UCP 600), accreditation of forex brokers, laying down a Code of Conduct between member banks and brokers, and closely monitoring market conduct are some of the other areas where the Association has become very active over the years. FEDAI now plays a catalytic role for smooth functioning of the market through close co-ordination with the Reserve Bank, sister organisations like FIMMDA, Forex Association of India and others.

India with delegated regulatory functions under FERA (now FEMA), from the Reserve Bank, performing the regulatory role since 1958 (Box 2).

3.4.1 Summary of the Assessment

FEDAI is an independent decision-making body as also an industry association. FEDAI's homepage on the website states that it is a self-regulatory body. By definition, an SRO is accountable to its members, and, the FEDAI's constituency is its membership, to whom it is primarily accountable. 'Public disclosure' has to be viewed in this context. While a fair amount of information that is disseminated is available in the public domain, some of it (*e.g.*, circulars and operational guidelines) is confined to the members, for obvious reasons.

FEDAI's constitution is not defined in legislation but it is clearly defined in the Memorandum and Articles of Association which

is filed with the Registrar of Companies and is a public document. Its website provides a gist of broad objectives and structure of FEDAI and is freely accessible.

FEDAI is accountable to the member banks. The Managing Committee of FEDAI is an elected body. Election norms/terms are specified in the 'Memorandum and Articles of Association' and 'Rules & Regulations' for the Managing Committee as well as for the Chairman, Vice-Chairman and Additional Vice-Chairman of the Managing Committee.

While there is no formal relationship with the Reserve Bank, FEDAI functions under the overall guidance of the Reserve Bank policies relating to its domain. This translates into considerable engagement in a consultative and sometimes advisory role. The relationship with sister Associations like FIMMDA, likewise, is consultative in nature.

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FEDAI conducts its policies through discussion at various levels (technical Sub-committees, managing committee, *etc.*) and are transparent and compatible with confidentiality considerations, keeping in mind the interest of the customers. Implementation of the policies is ensured through a process of consultative formulation. While there is no oversight machinery *per se*, since members are part of the consultative process, implementation is assured through the members.

While the circulars issued are not in the public domain, they are forwarded to the members as also copies of minutes of Managing Committee meetings where all discussion and decisions are detailed, soon after such changes happen.

An Annual Report and Chairman's Statement, placed at the annual AGMs held in September every year, spell out major developments, and *inter alia*, depict how overall policy objectives are being pursued. FEDAI maintains a website wherein various market-related data (daily, weekly, monthly and quarterly) are announced and are accessible to public at large as well as to its members. All publications are available to the public.

Taking into account the limited scope of the applicability of the IMF's Code in the assessment of the transparency practices of FEDAI, a detailed assessment matrix has not been provided.

4. Recommendations to Improve Transparency in Financial Policies

The summary of recommendations of the Panel to improve transparency in financial policies of the various regulatory agencies is given below:

4.1 Criteria for removal of the heads and members of the governing bodies of financial agencies

The SEBI Act, 1992 and the IRDA Act, 1999 lay down the circumstances under which the Central Government can remove the Chairman and Members of their respective Boards. Section 11 of the RBI Act specifies that the Central Government may remove from office, the Governor, or a Deputy Governor or any Director or any member of the Local Board. However, the grounds for removal of the head and members of the Central Board are not specified in the Act. The issue is relevant and critical to central bank's autonomy. However, it involves amendment to the existing provisions of the RBI Act. Though functional autonomy is achieved through a series of reforms initiated by the Central Government and the Reserve Bank, a clear provision must be laid down specifying the criteria and manner for removal of the Governor and Deputy Governors of the Reserve Bank.

4.2 Relationship, information-sharing and consultation between financial agencies

The relationship between the main regulatory bodies is not defined in the statute but the jurisdictional issues of the regulatory bodies are often disclosed in notifications published in the Official Gazette. At present, co-operation and information-sharing between the Reserve Bank and other regulatory agencies is handled by a formal standing committee. The Government, by an executive order, has set-up a High Level Co-ordination Committee on Financial Markets consisting of Governor, Reserve Bank, Chairman, SEBI, Chairman, IRDA, Chairman, PFRDA and Secretary (Finance). The

Committee has further constituted three technical committees under the jurisdiction of the Reserve Bank, SEBI and IRDA to report on matters which have a bearing on the financial and capital markets. This arrangement needs to be institutionalised and brought under a formal and transparent arrangement.

SEBI has been entering into Memorandum of Understanding (MoU) for regulatory co-operation, mutual assistance and sharing of information with overseas securities markets regulatory authorities. But IRDA does not have a formal arrangement in place for information-sharing with regulatory authorities at the international level. However, information has been shared with regulators on a case-to-case basis. In respect of international agencies, a need-based information-sharing mechanism is in place in Reserve Bank, which can be publicly disclosed.

4.3 Disclosure of fees charged by financial agencies to financial institutions

The fee collected from both the presenting and drawee banks at the Magnetic Ink Character Recognition (MICR) centers operated by the Reserve Bank is not publicly disclosed. This may be placed in public domain. (The Panel notes that this has since been implemented).

4.4 Disclosure of information on emergency financial support by financial agencies

The Reserve Bank provides emergency financial support to Banks as stipulated in Section 17 of the RBI Act. The Reserve Bank has, from time to time, issued policy statements with regard to provision of liquidity in exceptional and unforeseen circumstances.

Though temporary financial support is provided to banks in case of emergency, there is no system of disclosing aggregate data of such assistance extended. The Panel feels that it would be appropriate from the organisation's view-point and also from the transparency angle

if such information is placed in the public domain after a suitable period.

4.5 Information on consumer protection arrangements (such as dispute settlement processes)

The Reserve Bank is addressing the issue of grievance redressal in the banks on two fronts: (i) Making institutional mechanisms available in the banks to look into grievance redressal and (ii) Establishing an independent grievance redressal body in the form of Banking Ombudsman (through the Banking Ombudsman Scheme).

The Reserve Bank needs to establish a formal independent mechanism to resolve disputes arising in government securities' market transactions and investor complaints. The Reserve Bank may also disclose the mechanism for settlement of disputes.

4.6 Disclosure of internal governance procedures including internal audit arrangements

Internal governance procedures and internal audit arrangements are publicly disclosed by the Reserve Bank through information provided in the Annual Report in the chapter on 'Organisational Matters' and the publication *Reserve Bank of India – Functions and Working*. Internal governance procedures are publicly disclosed by the SEBI through information provided in the Annual Report which is placed in the public domain and tabled in the Parliament. However, internal governance and internal audit procedure of the IRDA are at present, not publicly disclosed. IRDA should consider placing this information in the public domain.

4.7 Review of data/information disclosure

SEBI, the stock exchanges and other regulators should invest into technology to ensure that the information they receive from the companies, market intermediaries (such as

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brokers), mutual funds, *etc.*, and the information generated on the exchanges is disseminated instantaneously to the public at large without any privileges to any special bodies. Embargo for data releases, if any, should be for a specific time period that should

be clearly articulated by the regulators. Eventually, all relevant data should be made public. Exceptions, if any, to this stance on information dissemination should be explained on the official website of the regulator.

Annex I

Detailed Assessment of Transparency in Financial Policies of Financial Agencies – Reserve Bank of India

V. Clarity of Roles, Responsibilities and Objectives of Financial Agencies Responsible for Financial Policies	
5.1	<i>The broad objective(s) and institutional framework of financial agencies should be clearly defined, preferably in relevant legislation or regulation.</i>
Previous Assessment (FSAP - 2001)	Partly Observed
Description	<p>Banking Regulation and Supervision</p> <p>The RBI Act (Chapter III) entrusts the Reserve Bank with regulating and supervising banks, Development Financial Institutions (DFI) and NBFCs. The objectives of the Reserve Bank as regards banking regulation and supervision are explained in the Governor's Annual Monetary Policy Statement and quarterly reviews thereof, the Reserve Bank's Annual Report and the Report on Trend and Progress of Banking in India.</p> <p>The responsibility and authority of the Reserve Bank to regulate and supervise banks, DFIs and NBFCs are specified in the Act. The institutional relationship between the Central Government and the Reserve Bank is defined in the Act. The general superintendence and direction of the affairs and business of the Bank is entrusted to a Central Board of Directors which may exercise all powers and do all acts and things which may be exercised or done by the Bank (Section 7(2) of the RBI Act). The Central Board consists of a Governor and Deputy Governors to be appointed by the Central Government, and 14 Directors and one Government official to be nominated by the Central Government. The terms of office of the Governor and Deputy Governor are specified in the Act. The criteria for the maximum term of the office of the Governor and Deputy Governor are specified in legislation. Section 8 of the Act specifies that the Governor and Deputy Governor shall hold office for such term not exceeding five years as the Central Government may fix when appointing them. Section 11 of the Act specifies that the Central Government may remove from office the Governor, or a Deputy Governor or any Director or any member of the Local Board.</p> <p>Government Securities Market</p> <p>The regulation of government securities market is entrusted to the Reserve Bank. The broad objectives and institutional framework to regulate the government securities market are clearly defined in the provisions of the RBI Act, 1934, Public Debt Act, 1944, Securities Contract Regulation Act, 1956 and the Government Securities Act, 2006. The recent amendment to the RBI Act in 2006 empowers the Reserve Bank to determine policy and issue policy</p>

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	direction to entities dealing in securities, money market instruments, foreign exchange and derivatives.
Present Assessment	Observed
5.1.1	<i>The broad objective(s) of financial agencies should be publicly disclosed and explained.</i>
Previous Present (FSAP - 2001)	Observed
Description	<p>Banking Regulation and Supervision</p> <p>The RBI Act (Chapter III) entrusts the Reserve Bank with the regulation and supervision of banks, DFIs and NBFCs as also Government Securities Market. The objectives of the Reserve Bank as regards banking regulation and supervision and government securities markets are explained in the Governor's Annual Monetary Policy Statement and quarterly reviews thereof, the Reserve Bank' Annual Report and the Report on Trend and Progress of Banking in India. The Reserve Bank also discloses the same <i>via</i> press release (in the print and electronic media), Notification in the Official Gazette and Circulars which are also placed on its website, speeches of top executives and other publications.</p> <p>Deposit Insurance</p> <p>The broad objectives of DICGC are defined in its Act. These objectives are elaborated and explained in the DICGC Annual Report and DICGC's website. The Report is forwarded to the Reserve Bank, Central Government, all insured banks and international deposit insurers. The DICGC Act is in the public domain.</p>
Present Assessment	Observed
5.1.2	<i>The responsibilities of the financial agencies and the authority to conduct financial policies should be publicly disclosed.</i>
Previous Assessment (FSAP - 2001)	Partly Observed
Description	The responsibilities and the authorities of the Reserve Bank to conduct banking supervision, regulate government securities markets and operate deposit insurance are defined in various legislations (See 5.1.1). These

	<p>responsibilities are disclosed in other publications including the Annual Report, the monthly Reserve Bank Bulletin and Report on Trend and Progress of Banking in India (all of which are posted on the Reserve Bank website), in addition to public appearances by Reserve Bank officials before legislation. The RBI Act requires the publication of all important Reserve Bank regulations in the official Gazette. The circulars and publications are issued both in Hindi and English.</p> <p>Further, the Central Government may from time to time give such directions to the Bank as it may, after consultation with the Governor of the Bank, consider necessary in the public interest.</p>
Present Assessment	Observed
5.1.3	<i>Where applicable, the broad modalities of accountability for financial agencies should be publicly disclosed.</i>
Previous Assessment (FSAP - 2001)	Observed
Description	<p>Banking Supervision and Government Securities Market</p> <p>Section 58 (1 and 2) of the RBI Act requires the Reserve Bank to publish a weekly statement of affairs and an audited statement of accounts within 2 months of its closure of accounts. The Act also requires the Reserve Bank to submit an Annual Report to the Government (and hence to the Parliament). The Reserve Bank officials appear before the Parliament upon request. The Reserve Bank also reports on its activities <i>via</i> press releases (in the media and on its website) and other publications.</p> <p>Deposit Insurance</p> <p>Section 32(1) of the DICGC Act requires the Corporation to submit within three months from the date of which its accounts are balanced and closed, the balance sheet and accounts together with the auditor's Report and a Report on the working of the Corporation and copies of all these to the Reserve Bank and to the Central Government, which are laid before each House of the Parliament.</p>
Present Assessment	Observed
5.1.4	<i>Where applicable, the procedures for appointment, terms of office, and any general criteria for removal of the heads and members of the governing bodies of financial agencies should be publicly disclosed.</i>
Previous Assessment (FSAP - 2001)	Partly Observed
Description	The RBI Act, 1934 printed in English and Hindi contains the provisions relating to appointment and terms of office of the persons responsible for management of the Bank. The general superintendence and direction of the

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	<p>affairs and business of the Bank is entrusted to a Central Board of Directors which may exercise all powers and do all acts and things which may be exercised or done by the Bank (Section 7(2) of the RBI Act). The Central Board consists of a Governor and Deputy Governors to be appointed by the Central Government, and 14 Directors and one Government official to be nominated by the Central Government. The maximum term of the office of the Governor and Deputy Governor is specified in legislation. Section 8 of the Act specifies that the Governor and Deputy Governor shall hold office for such term not exceeding five years as the Central Government may fix when appointing them. Section 11 specifies that the Central Government may remove from office of the Governor, or a Deputy Governor or any Director or any member of the Local Board. However, the grounds for removal of the head and members of the Central Board are not specified in the Act.</p>
Present Assessment	Partly Observed
Comments	As the grounds for removal of the head and member of the Central Board are not specified in the Act, the criterion is treated as partly observed.
5.2	<i>The relationship between financial agencies should be publicly disclosed.</i>
Previous Assessment (FSAP - 2001)	Partly Observed
Description	<p>The relationship between the main regulatory bodies is not defined, but the jurisdictional issues of the regulatory bodies are often disclosed in notifications published in the Official Gazette. However, the relationship between agencies governing the basis for the exchange of information is not clear. For example, Section 28 of the Banking Regulation Act and Section 45 of the RBI Act can be broadly interpreted as providing the possibility of information sharing 'if in the public interest'. Currently, co-operation and information sharing between the Reserve Bank and SEBI is handled by a formal standing committee at the apex level. There are technical Committees where other regulatory agencies like SEBI, IRDA and Government are members. The details of the co-ordination between regulatory agencies are as follows:</p> <p>i) High Level Co-ordination Committee on Financial Markets (HLCCFM) is set up at the apex level for greater co-ordination in respect of policy issues pertaining to different agencies in financial and capital markets under the Chairmanship of Governor, Reserve Bank with Finance Secretary, Chairman</p>

of SEBI and IRDA as members. The HLCCFM is involved mainly in resolving policy issues that may require a co-ordinated effort by all the three regulators.

ii) Reserve Bank-SEBI Standing Technical Committee is set up under the chairmanship of the Executive Director in charge of DBOD/DBS. The Reserve Bank reviews the capital market guidelines issued by it and SEBI, particularly in relation to the flow of funds from the banking sector to the capital market. All the Executive Directors and a Division Chief from SEBI are members of the Committee.

iii) Standing Technical Advisory Committee for Financial Regulations (STACFR): The STACFR has been constituted, in consultation with banks and other market participants/regulators of financial markets, to strengthen the regulation of banks and non-bank financial entities. The Committee consists of experts from the academia, financial markets, banks, non-bank financial institutions and credit rating agencies. The Committee would examine the issues referred to it and advise the Reserve Bank on regulations on an ongoing basis covering banks and non-bank financial institutions and other market participants.

iv) Technical Committee on the Reserve Bank Regulated Entities – Three sub-Committees have been set up by the Reserve Bank, SEBI and IRDA on the recommendations of HLCCFM in order to provide an inter-agency forum to review exposure of regulated entities to the capital market with a view to identifying any unusual developments emanating from such exposures. Each of the three technical committees has cross-representations from the other regulators.

v) In case of NBFCs, the Reserve Bank conducts State Level Co-ordination Committee (SLCC) meetings every half-year at every Regional-Office of Reserve Bank which consists of members from various Government agencies (Home, Finance and Law Departments of the State), in-charge of Economic Offences Wing, Registrar of Companies, Registrar of Chits, SEBI, NHB, representative of Company Law Board, *etc.* for the purpose of taking concerted/co-ordinated action in association with other regulatory authorities/agencies against delinquent NBFCs and un-incorporated bodies as also for monitoring compliance with the orders of the Company Law Board passed against some of the NBFCs.

vi) Financial Conglomerates

The Financial Conglomerates monitoring framework is in place in India since June 2004 following the acceptance of the Report of an inter-regulatory Working Group (Convenor: Smt. Shyamala Gopinath), on monitoring of Systemically Important Financial Intermediaries (more commonly known as financial conglomerates). According to a set criteria, a Group could be designated as a Financial Conglomerate if any of the Group entities coming

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	<p>under the jurisdiction of a specified regulator (the Reserve Bank/ SEBI/ IRDA) had a significant presence in the respective financial market segment and the group had operations in at least one more financial market segment. As part of operationalisation of Financial Conglomerates monitoring mechanism, a Cell has been constituted in the Reserve Bank which co-ordinates with the other regulators (SEBI and IRDA) on matters of conglomerate supervision. The Financial Conglomerates monitoring framework, to begin with, rested on two components – (i) off-site surveillance through receipt of quarterly Financial Conglomerates returns and (ii) placing a note to the Standing Technical Committee on (a) concerns arising out of analysis of Financial Conglomerates data and (b) other significant information in the possession of the principal regulator, which might have a bearing on the Group, as a whole.</p> <p>The responsibility of collecting and collating of Financial Conglomerates data/information and forwarding the same on a quarterly basis to the principal regulator has been entrusted to the dominant/major entity in the Group (quite often the parent) which is called a 'designated entity' (DE). The focus of the Financial Conglomerates reporting format was mainly on intra-group transactions and exposures (both fund-based and non-fund based transactions) amongst the group entities and build up of large exposure of the group to outside counterparties.</p> <p>In order to further strengthen the process of conglomerate supervision in India, an initiative has been taken to hold half-yearly discussion/meeting with the Chief Executive Officer of the Financial Conglomerates in association with other principal regulators to address outstanding issues/supervisory concerns.</p> <p>Regulatory/Supervisory Co-ordination: In order to further improve the supervisory co-ordination, the regulators are working towards formalisation of the arrangement of information sharing with a MoU. The regulators have also agreed upon in principle to undertake a study of the books of accounts and other operations of major entities in an identified financial conglomerate simultaneously by their representatives. Such a joint study is expected to not only back-test the efficacy of the reporting format in capturing the meaningful intra-group transactions/exposures and other 'material' information but also enhance the regulatory understanding of the affairs of the conglomerates.</p>
Present Assessment	Partly Observed

Comments	As the relationship between the main regulatory bodies is not publicly disclosed by defining in legislation or otherwise, the standard is treated as partly observed.
5.3	<i>The role of oversight agencies with regard to payment systems should be publicly disclosed.</i>
Previous Assessment (FSAP - 2001)	Partly Observed
Description	<p>Regulation of Payment and Settlement Systems</p> <p>With the notification of Rules and Regulations pertaining to the Payment and Settlement Systems Act, 2007 the Reserve Bank has gained formal oversight authority over payment and settlement systems in the country.</p> <p>The Payment and Settlement Systems Act:</p> <ul style="list-style-type: none"> (i) designates the Reserve Bank as the authority to regulate payment and settlement systems; (ii) provides for the requirement of an authorisation by the Reserve Bank to operate a payment systems; (iii) empowers the Reserve Bank to regulate and supervise the payment systems by determining standards, calling for information, returns, documents, <i>etc.</i>; (iv) empowers the Reserve Bank to audit and inspect by entering the premises where payment systems are being operated; (v) empowers the Reserve Bank to issue directions; and (vi) overrides other laws and provides a legal basis for settlement finality and netting. <p>Under the provisions of Section 58 (2) (p) and (pp) of the RBI Act, the Bank has framed the Uniform Regulations and Rules for Bankers' Clearing House (URRBCH) which are adopted and followed for operations by all clearing houses. The Reserve Bank has also framed the EFT Regulations which are at present with the Government for approval for notification.</p> <p>The RTGS System operated by the Bank is governed by the RTGS Rules and Regulations. Similarly the systems operated by CCIL (government securities, forex, CBLO) are governed by the respective Bye-Laws. All these Rules, Regulations and Bye-Laws are in the nature of agreements between the payment system operators and participants and are contractual in nature (governed by the Indian Contracts Act).</p> <p>Government Securities Market</p> <p>All the transactions in government securities are undertaken in dematerialised form and mostly over the authorised trading platforms. The stock exchanges are under the regulatory jurisdiction of SEBI. Other trading</p>

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	platforms, viz., NDS-OM and NDS are regulated by the Reserve Bank. The trades on NDS and NDS-OM are settled in a guaranteed mode through CCIL.
Present Assessment	Observed
5.3.1	<i>The agencies overseeing the payment system should promote the timely public disclosure of general policy principles (including risk management policies) that affect the robustness of systemically important payment systems.</i>
Previous Assessment (FSAP - 2001)	Observed
Description	<p>Regulation of Payment and Settlement Systems</p> <p>All policies relating to payment and settlement systems are written down and publicly disclosed to the participants.</p> <p>Government Securities Market</p> <p>The Reserve Bank oversees the payment systems in the country. In respect of settlement of government securities, the CCIL acts as the CCP. CCIL has put in place a risk management policy and also the risk management system comprising of line of credit, margin requirement, settlement guarantee fund and default procedures. The rules and procedures governing these are communicated to all the members.</p>
Present Assessment	Observed
Comments	The rules and regulations which are to be observed by the participants are publicly disclosed. The participants are assessed to ensure that the guidelines, rules and regulations are being adhered to by the participants.
5.4	<i>Where financial agencies have oversight responsibilities for self-regulatory organisations (e.g., payment systems), the relationship between them should be publicly disclosed.</i>
Previous Assessment (FSAP - 2001)	Observed
Description	The relationship between the Reserve Bank and the clearing houses is specified under Section 58 of the RBI Act and the regulations governing the operations of the clearing houses are in the public domain.

	FEDAI is an approved body by the Reserve Bank with regulatory purview over foreign exchange dealers. Its major activities include liaison with the Reserve Bank for reforms and development of forex market.
Present Assessment	Observed
Comments	The Clearing houses are autonomous organisations, i.e., they are associations of the banks. The Uniform Regulations and Rules for Bankers' Clearing House (URRBCH) are model regulations framed under Section 58 of the RBI Act. These regulations and rules are adopted by the members of the clearing houses.
5.5	<i>Where self-regulatory organisations are authorised to perform part of the regulatory and supervisory process, they should be guided by the same good transparency policies specified for financial agencies.</i>
Previous Assessment (FSAP - 2001)	Not Applicable
Description	FEDAI's major activities include framing of rules governing the conduct of inter-bank foreign exchange business among banks <i>vis-à-vis</i> public and liaison with the Reserve Bank for reforms and development of forex market. Its website provides public updates on its detailed working. It also serves as a focal point for dissemination of information on the foreign exchange regulations to the AD personnel. In addition to this, it also provides inputs/feedback to the Reserve Bank on various regulations and procedural constraints in implementing the same.
Present Assessment	Observed
VI. Open Process for Formulating and Reporting of Financial Policies	
6.1	<i>The conduct of policies by financial agencies should be transparent, compatible with confidentiality considerations and the need to preserve the effectiveness of actions by regulatory and oversight agencies.</i>
Previous Assessment (FSAP - 2001)	Observed
Description	Discussed in subsequent five sub-paragraphs.
Present Assessment	Assessed in subsequent paragraphs.
6.1.1	<i>The regulatory framework and operating procedures governing the conduct of financial policies should be publicly disclosed and explained.</i>
Previous Assessment (FSAP - 2001)	Observed
Description	The regulatory framework for banking supervision is defined in legislation (the RBI Act and the Banking Regulation Act). The Reserve Bank performs the

	<p>function of Financial Supervision under the guidance of the Board for Financial Supervision (BFS). The Board was constituted in November 1994 as a committee of the Central Board of Directors of the Reserve Bank. The primary objective of BFS is to undertake consolidated supervision of the financial sector comprising commercial banks, financial institutions and non-banking financial companies. The Board is constituted by co-opting four Directors from the Central Board as members for a term of two years and is chaired by the Governor. The Deputy Governors of the Reserve Bank are ex-officio members. One Deputy Governor, usually, the Deputy Governor in charge of banking regulation and supervision, is nominated as the Vice-Chairman of the Board. BFS, through the Audit Sub-Committee also aims at upgrading the quality of the statutory audit and internal audit functions in banks and financial institutions. The audit sub-committee includes Deputy Governor as the chairman and two Directors of the Central Board as members.</p> <p>Some of the initiatives taken by BFS include:</p> <ol style="list-style-type: none">i. restructuring of the system of bank inspections,ii. introduction of off-site surveillance,iii. strengthening of the role of statutory auditors, andiv. strengthening of the internal defences of supervised institutions. <p>The Audit Sub-committee of the BFS has reviewed the current system of concurrent audit, norms of empanelment and appointment of statutory auditors, the quality and coverage of statutory audit reports, and the important issue of greater transparency and disclosure in the published accounts of supervised institutions.</p> <p>The Reserve Bank has taken a number of steps to strengthen the institutional framework for the payment and settlement systems, which are crucial components of the financial system. Carrying forward building of this institutional framework, the Reserve Bank on March 10, 2005 constituted a Board for Regulation and Supervision of Payment and Settlement Systems (BPSS) as a Committee of its Central Board, as per the Reserve Bank of India (Board for Regulation and Supervision of Payment and Settlement Systems) Regulations, 2005 which were notified in the Gazette of India dated February 18, 2005. The BPSS will prescribe policies relating to the regulation and supervision of all types of payment and settlement systems, set standards</p>
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	<p>for existing and future systems, authorise the payment and settlement systems, determine criteria for membership to these systems, including continuation, termination and rejection of membership.</p> <p>The National Payments Council (NPC) set up in 1999 will continue to exist as an advisory body to the BPSS. In order to assist the BPSS in performing its functions, the Reserve Bank has also constituted a new department, the Department of Payment and Settlement Systems (DPSS).</p> <p>The regulatory framework for the government securities market is defined in the SCRA, the GS Act and the RBI Act, which are public documents.</p> <p>All important regulations/notifications are publicly disclosed through publication in the Official Gazette, press releases and on the Reserve Bank's website. Changes in regulations are also discussed in the Reserve Bank's Annual Report and in the Governor's Annual Monetary Policy Statement and quarterly reviews thereof.</p>
Present Assessment	Observed
6.1.2	<i>The regulations for financial reporting by financial institutions to financial agencies should be publicly disclosed.</i>
Previous Assessment (FSAP - 2001)	Observed
Description	<p>The powers of the Reserve Bank governing banking supervision are stated in the RBI Act. Reporting requirements are issued through regulations which are available on the Reserve Bank's website. In terms of Section 42 of the RBI Act, every scheduled bank is required to maintain with the Reserve Bank, cash reserves as prescribed by the Bank from time to time and send to the Bank, a return showing details of its demand and time liabilities and the amount of its borrowings from banks in India, the total amount of legal tender notes and coins and the balances held by it in India, its investment in government securities, money at call and short notice, inland bills purchased, etc. In terms of Section 18 of the Banking Regulation Act, 1949 every banking company not being a scheduled bank has to maintain cash reserve with itself or by way of balance in current account with the Reserve Bank or by way of net balance in current accounts, a sum equivalent to at least 3 per cent of the total of its demand and time liabilities in India as on the last Friday of the second preceding fortnight and submit to the Reserve Bank before 20th of every month a return showing the amount so held with particulars of its demand and time liabilities in India. Returns are prescribed for NBFCs in terms of the powers conferred on the Bank under Section 45K of the RBI Act, 1934. Likewise R-returns are prescribed for Authorised Dealers in terms of Exchange Control Manual. Changes in regulations are discussed in the</p>

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	various Reserve Bank publications. The Reserve Bank has been following a consultative approach in regard to issue of policies/guidelines where the draft circulars are first posted on the Bank's website for comments of the regulated entities and public.
Present Assessment	Observed
6.1.3	<i>The regulations for the operation of organised financial markets (including those for issuers of traded financial instruments) should be publicly disclosed.</i>
Previous Assessment (FSAP - 2001)	Observed
Description	<p>Government Securities Market</p> <p>All regulations/notifications pertaining to the operations of the market for government securities are publicly disclosed through publication in the official Gazette, press releases, and on the Reserve Bank's website. Changes in regulations are also discussed in the Reserve Bank's Annual Report and in the Governor's Annual Policy Statement and quarterly reviews thereof. The regulatory framework related to operation of organised financial markets (including those for issuers of traded financial instruments) is defined by master circulars/press releases in print and electronic media/policy pronouncements issued by the Reserve Bank which are available in the public domain.</p>
Present Assessment	Observed
6.1.4	<i>Where financial agencies charge fees to financial institutions, the structure of such fees should be publicly disclosed.</i>
Previous Assessment (FSAP - 2001)	Observed
Description	<p>Regulation of Payment and Settlement Systems</p> <p>The payment system processing facilities provided by the Reserve Bank to other financial institutions are RTGS, NDS, NEFT, EFT, ECS and Cheque processing at four centres.</p> <p>In respect of all the electronic fund transfer systems, all service charges have been waived till March 2009.</p> <p>At the MICR centres operated by the Reserve Bank, Re 1.00 is collected from both the presenting and drawee banks. This information is not available in the public domain. (The Panel notes that this has since been made public).</p>

	<p>Deposit Insurance</p> <p>DICGC collects insurance premia from insured banks for the administration of the deposit insurance scheme. Information on the rate of insurance premium and method to compute the premia is disseminated to the insured banks through circulars, website, Annual Report, <i>etc.</i></p>
Present Assessment	Observed
6.1.5	<i>Where applicable, formal procedures for information sharing and consultation between financial agencies (including central banks), domestic and international, should be publicly disclosed.</i>
Previous Assessment (FSAP - 2001)	Observed
Description	<p>The relationship between the main regulatory bodies is not defined, but the jurisdictional issues of the regulatory bodies are often disclosed in notifications published in the official Gazette. However, the relationship between agencies governing the basis for the exchange of information is not clear. For example, Section 28 of the Banking Regulation Act and Section 45 of the RBI Act can be broadly interpreted as providing the possibility of information sharing 'if in the public interest'. Currently, co-operation and information sharing between the Reserve Bank and SEBI is handled by a formal standing committee at the apex level. There are technical Committees where other regulatory agencies like SEBI, IRDA and Government are members on such Committees. For <i>e.g.</i>, HLCCFM, STACFR, Financial Conglomerates, <i>etc.</i> In case of NBFCs, the Reserve Bank conducts State Level Co-ordination Committee (SLCC) meetings every half-year which consists of members from Home, Finance and Law Department of the State Government, SEBI, NHB, EOW, representative of Company Law Board and Registrar of Companies, <i>etc.</i></p> <p>Details of the Technical Committees are given in paragraph 5.2.</p>
Present Assessment	Partly Observed
Comments	As the relationship between the main regulatory bodies is not publicly disclosed by defining in legislation or otherwise, the criterion is treated as partly observed.
6.2	<i>Significant changes in financial policies should be publicly announced and explained in a timely manner.</i>
Previous Assessment (FSAP - 2001)	Observed
Description	Changes in the Reserve Bank's financial policies are disclosed through regulations/notifications that are published in the official gazette and are available on the Reserve Bank's website. They are also discussed in the Annual Report and Monthly Bulletin and through public appearance by the Reserve

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	Bank officials before Parliamentary committees and press releases in print and electronic media.
Present Assessment	Observed
6.3	<i>Financial agencies should issue periodic public reports on how their overall policy objectives are being pursued.</i>
Previous Assessment (FSAP - 2001)	Observed
Description	Policy objectives are discussed in the Reserve Bank's Annual Report, Monthly Bulletin, and the Report on Trend and Progress of Banking in India, the Governor's Annual Monetary Policy Statement and quarterly reviews thereof as well as through public appearances by Reserve Bank' officials before Parliamentary committees and press releases in print and electronic media.
Present Assessment	Observed
6.4	<i>For proposed substantive technical changes to the structure of financial regulations, there should be a presumption in favour of public consultations, within an appropriate period.</i>
Previous Assessment (FSAP - 2001)	Observed
Description	<p>The Reserve Bank favours a consultative approach in formulating financial regulations under which the views/comments/suggestions from all concerned are invited before finalising regulations/guidelines. The Bank also favours the constitution of advisory committees and groups involving concerned financial sector groups and experts for the purpose of formulating policy guidelines. Such consultations are generally confined to the regulated entities and include written submissions and consultation with relevant organisations and associations. Consultations are also done with organisations like Indian Banks Association (IBA), various Chambers of Commerce, FEDAI, FIEO, etc, before finalising the policy guidelines.</p> <p>The length of the consultation period is variable. Also, the Regulations Review Authority (RRA) set up by the Reserve Bank in April 1999 sought to provide an opportunity to the public at large to question and seek deletion or modification of any regulation, circular or return issued or required by the</p>

	Reserve Bank so as to achieve simplification in procedures. Apart from this, the top management also interacts/consults regularly with the members of business and financial communities for the purpose of reviewing/modifying the structure of financial regulations for simplifying procedures.
Present Assessment	Observed
VII. Public Availability of Information on Financial Policies	
7.1	<i>Financial agencies should issue a periodic public report on the major developments of the sector(s) of the financial system for which they carry designated responsibility.</i>
Previous Assessment (FSAP - 2001)	Observed
Description	<p>Banking Supervision and Regulation</p> <p>These issues are discussed in the Reserve Bank's Annual Report, Monthly Bulletin, the Report on Trend and Progress of Banking in India, the Governor's Annual Monetary Policy Statement and quarterly reviews thereof, as well as through public appearances by the Reserve Bank's officials before Parliamentary committees.</p> <p>Deposit Insurance</p> <p>The Annual Report a statutory document relating to the financial year of the DICGC (April to March) is released every year in May/June. The Report covers the developments on the working of the Corporation and on the balance sheet and accounts of the Corporation. The Report is also placed on the website of the Corporation and forwarded to all insured banks.</p>
Present Assessment	Observed
7.2	<i>Financial agencies should seek to ensure that, consistent with confidentiality requirements, there is public reporting of aggregate data related to their jurisdictional responsibilities on timely and regular basis.</i>
Previous Assessment (FSAP - 2001)	Observed
Description	Aggregate data related to all regulated entities of the Reserve Bank including data relating to Primary Dealers in government securities and use of DICGC's funds are publicly disclosed in the Weekly Statistical Supplement, Reserve Bank Monthly Bulletin, Annual Reports and Report on Trend and Progress of Banking in India. All these publications are available on the website.
Present Assessment	Observed
7.3	<i>Where applicable, financial agencies should publicly disclose their balance sheets on a preannounced schedule and, after a predetermined interval, publicly disclose information on aggregate market transactions.</i>

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Previous Assessment (FSAP - 2001)	Observed
Description	The Reserve Bank publishes a detailed balance sheet in the weekly statistical supplement (with a lag of two weeks), the Reserve Bank Monthly Bulletin and the Annual Report. All these publications are available on the Reserve Bank's website.
Present Assessment	Observed
7.3.1	<i>Consistent with confidentiality and privacy of information on individual firms, aggregate information on emergency financial support by financial agencies should be publicly disclosed through an appropriate statement when such disclosure will not be disruptive to financial stability.</i>
Previous Assessment (FSAP - 2001)	Practice not assessed
Description	<p>The Reserve Bank provides emergency financial support to banks as stipulated in Section 17 of RBI Act. The Reserve Bank has, from time to time, issued policy statements with regard to provision of liquidity in exceptional and unforeseen circumstances, as listed below:</p> <p>In the Annual Policy Statement for 2001-02, it was announced that the equity markets experienced considerable turbulence and uncertainty leading to problems in certain stock exchanges as well as liquidity/insolvency problems in some co-operative banks, which in turn affected certain commercial banks also. An important priority of the Reserve Bank during this difficult period was to try and minimise the 'contagion' spreading from equity markets to money and government securities markets or to the banking system as a whole. In order to achieve this objective, it was necessary to provide assurance of sufficient collateralised liquidity to banks, and to take early action to prevent the problem affecting particular co-operative banks in one region from spreading to other financial institutions. By and large, so far, money market as well as government securities market has continued to function normally. Further, there has been no reduction in market liquidity in spite of some cases of payment delays/defaults. There has also been no immediate adverse impact of stock market turbulence on interest rates.</p>

	<p>In the Annual Policy Statement for 2003-04, it was announced that though Liquidity Adjustment Facility (LAF) has evolved as an effective mechanism for absorbing and/or injecting liquidity on a day-to-day basis in a more flexible manner, nevertheless, in some very rare and unusual circumstances, a situation may arise when a bank faces a sudden and unforeseen liquidity problem particularly outside the normal LAF auction timings and on days on which such auctions are not held. In such exceptional and unforeseen circumstances, the Reserve Bank at its discretion may extend liquidity support to such a bank if the said bank is otherwise financially sound, and after taking into account other relevant factors. The liquidity support in such exceptional circumstances will be made available only for a minimum number of days required to overcome the unexpected liquidity pressure. As this exceptional financing has to be availed only in rare circumstances, interest rate of 4.0 percentage points above the reverse repo rate prevailing on that day (or a rate as may be decided by the Reserve Bank) will be charged. Such liquidity support will be available against eligible securities with adequate margin and other conditions as the Reserve Bank may consider appropriate.</p>
Present Assessment	Partly Observed
Comments	Though temporary financial support is provided in case of emergency, there is no system of disclosing aggregate data of such assistance extended.
7.4	<i>Financial agencies should establish and maintain public information services.</i>
Previous Assessment (FSAP - 2001)	Observed
Description	<p>The Reserve Bank has its own Department of Communications which maintains contacts with the press and other media and issues regular press releases. The Bank has also its own website, www.rbi.org.in.</p> <p>Reserve Bank Website: Gives all published information on a wide range of contents:</p> <p>(1) Quality:</p> <p>All information to be placed in the public domain is released on the website on a real time basis; high level of accuracy is also maintained.</p> <p>(2) Range of Contents:</p> <ul style="list-style-type: none"> (i) About the Reserve Bank (ii) Information given under Right to Information Act, 2005 (iii) All notifications (iv) All publications (v) Database

<p>(vi) Speeches by Deputy Governors and Governor</p> <p>(vii) Press Releases</p> <p>(viii) Forms for banks/bank customers</p> <p>(ix) FAQs</p> <p>(3) User-Friendliness:</p> <p>Links for frequently referred documents and information such as current exchange rates, reserve ratios, market trends, <i>etc.</i></p> <p>Important policy documents including monetary policy are given on the 'Home Page' itself.</p> <p>To help search the documents quickly, each section has year-wise, month-wise, subject-wise and period-wise range search. Quick links for documents exclusively meant for bankers and market participants are also on the 'Home Page'.</p> <p>Recently a separate site 'For Common Person' – a multi-lingual site has been launched in 13 languages to give him information that he can use in his own language.</p> <p>Real time information on trading in government securities and money markets.</p> <p>(4) Languages:</p> <p>The main site is in Hindi and English and the site 'For Common Person' is in 13 languages.</p> <p>Deposit Insurance</p> <p>The Corporation informs the public about the change in policy relating to settlement of claims to the public through press release, website and annual report. A complaint cell has been set up in the Corporation to receive depositors' complaints.</p> <p>Further, member banks have been forwarded a text on deposit insurance containing FAQs together with a copy of the poster to all banks to be printed according to their requirements in the language generally read and understood by their account-holders. The booklet on deposit insurance is to be made available to the depositors and the poster must invariably be displayed prominently in the premises of each and every branch. The availability of</p>
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	deposit insurance cover upto Rs.1 lakh for deposits held in the same capacity and same right must be highlighted prominently at all places wherever depositor interaction is involved such as amongst others account-opening forms, fixed deposit receipts, pay-in slips, account statements, passbooks, websites, and all types of stationery and letter-heads.
Present Assessment	Observed
7.4.1	<i>Financial agencies should have a publications programme, including a periodic public report on their principal activities, issued at least annually.</i>
Previous Assessment (FSAP - 2001)	Observed
Description	The Bank has several bi-lingual weekly, monthly, quarterly and annual publications. These include a Weekly Statistical supplement to the Reserve Bank Bulletin, a monthly Bulletin, a monthly Credit Information Review, quarterly publication on banking statistics, an Annual Report, an annual Report on Currency and Finance, and an annual Report on Trend and Progress of Banking in India. All these publications are available on the Reserve Bank's website and in hard copy.
Present Assessment	Observed
7.4.2	<i>Senior financial agency officials should be ready to explain their institution's objective(s) and performance to the public, and have a presumption in favour of releasing the text of their statements to the public.</i>
Previous Assessment (FSAP - 2001)	Observed
Description	Members of the top management of the Reserve Bank interact regularly with the public, including members of industry associations and chambers of commerce and deliver speeches at various fora; speeches are published in the Monthly Bulletin and posted at the Reserve Bank's website. Senior officials also appear before Parliamentary Committees upon request.
Present Assessment	Observed
7.5	<i>Texts of regulations and any other generally applicable directives and guidelines issued by financial agencies should be readily available to the public.</i>
Previous Assessment (FSAP - 2001)	Observed
Description	All regulations made by the Reserve Bank are readily available to the public through the press releases in print and electronic media, bulletins and through its own website. The Reserve Bank has a Department of Communications,

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	which interacts with the public and press. The text of regulations and generally applicable directives and guidelines are also made available to the public in published form.
Present Assessment	Observed
7.6	<i>Where there are deposit insurance guarantees, policy-holder guarantees, and any other client asset protection schemes, information on the nature and form of such protections, on the operating procedures, on how the guarantee is financed, and on the performance of the arrangement, should be publicly disclosed.</i>
Previous Assessment (FSAP - 2001)	Observed
Description	The annual report, a statutory document relating to the financial year of DICGC (April to March) is released every year in May/June. The Report covers the developments on the working of the Corporation and on the balance sheet and accounts of the Corporation. The Report is also placed on the website of the Corporation and forwarded to all insured banks.
Present Assessment	Observed
7.7	<i>Where financial agencies oversee consumer protection arrangements (such as dispute settlement processes), information on such arrangements should be publicly disclosed.</i>
Previous Assessment (FSAP - 2001)	Observed
Description	<p>The Reserve Bank is addressing the issue of grievance redressal in the banks on two fronts: (i) Making institutional mechanisms available in the banks to look into grievance redressal and (ii) Establishing an independent grievance redressal body in the form of Banking Ombudsman (through the Banking Ombudsman Scheme).</p> <p>(i) Institutional Arrangements in Banks</p> <p>Banks are required to have the following institutional machinery:</p> <ul style="list-style-type: none"> ● At the Board level, every bank to constitute a Customer Services Committee of the Board, including as invitees experts and representatives of customers to enable the bank to formulate policies and assess the compliance thereof internally.

- Every bank to have a Standing Committee, comprising of Executives on customer service headed by the CMD/ED, that periodically reviews the policies and procedures and working of the bank's own grievance redressal machinery.
- Each bank to have a nodal department/ official for customer service in the Head Office and each Controlling Office, whom customers with grievances can approach in the first instance and with whom the Banking Ombudsman (BO) and the Reserve Bank can liaise.
- Banks to conduct comprehensive reviews of the functioning of Customer Service Committees and Grievance Redressal Machinery so as to focus on the drawbacks in their functioning and take necessary steps to improve their working.
- The banks to provide a complaint form, along with the name of the nodal officer for complaint redressal, in the homepage itself to facilitate complaint submission by customers.
- Banks to place the detailed statement of complaints against deficiency in customer service and its analysis on the website for information of the general public at the end of each financial year.

The above requirement on the part of the banks is part of the notifications placed in public domain (Reserve Bank's website).

(ii) The Banking Ombudsman Scheme

The Reserve Bank had first introduced the Banking Ombudsman Scheme in 1995 to provide expeditious and inexpensive forum to bank customers for resolution on their complaints relating to deficiency in banking services. The Scheme has so far been revised twice and presently the Banking Ombudsman Scheme, 2006 is in force. The Scheme covers within its ambit all scheduled commercial banks, scheduled co-operative banks and RRBs. The BOs currently have their offices in 15 centres spread across the country.

The Reserve Bank's website has details of the BO Scheme, the offices of the BO, the complaint format, gist of the important decisions of the BO and FAQ on the BO Scheme. The BO Scheme's details are also part of the Annual Report of the Reserve Bank which is also in the public domain. The banks are also required to place in their Annual Report details relating to awards issued against them by the BO. The Trend and Progress of Banking in India, a Reserve Bank publication, available in the public domain, has details of complaints received against commercial banks. The Reserve Bank has undertaken various advertising/awareness campaigns (including in vernacular languages) on the availability of the Banking Ombudsman Scheme. The Banking Ombudsmen also undertake awareness campaigns in their areas of jurisdiction.

Banking Codes and Standards Board of India(BCSBI)

Recognising an institutional gap in measuring the performance of the banks against codes and standards based on established best practices,

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	<p>the Reserve Bank has taken the initiative in setting up the Banking Codes and Standards Board of India (BCSBI). It is an autonomous and independent body, adopting the stance of a SRO in the larger interest of improving the quality of customer services by the Indian banking system. Banks register themselves with the Board as its members and provide services as per the agreed standards and codes, the compliance of which is monitored and assessed by the BCSBI. The Code of Banks' Commitment to Customers has been released on July 1, 2006. The details are available at www.bcsbi.org.in. About 67 banks have so far registered themselves with the BCSBI.</p>
Present Assessment	Observed
VIII. Accountability and Assurances of Integrity by Financial Agencies	
8.1	<i>Officials of financial agencies should be available to appear before a designated public authority to report on the conduct of financial policies, explain the policy objective(s) of their institution, describe their performance in pursuing their objective(s), and, as appropriate, exchange views on the state of the financial system.</i>
Previous Assessment (FSAP - 2001)	Observed
Description	Senior officials of the Reserve Bank may appear (upon request) before Parliamentary/Central Government Committees to report on the conduct of monetary policy, explain the policy objectives of the Reserve Bank and exchange views on the state of economy and the financial system.
Present Assessment	Observed
Comments	There are no laid down policies for officials of the Reserve Bank appearing before any Committee. However, senior officials appear (upon request) before Parliamentary/Central Government Committees on issues of financial policies.
8.2	<i>Where applicable, financial agencies should publicly disclose audited financial statements of their operations on a preannounced schedule.</i>
Previous Assessment (FSAP - 2001)	Observed

Description	The Reserve Bank publishes a weekly summary balance sheet and an audited annual statement of accounts (balance sheet and profit and loss account) within two months of its closure of accounts. These are made available on the Reserve Bank's website.
Present Assessment	Observed
8.2.1	<i>Financial statements, if any, should be audited by an independent auditor. Information on accounting policies and any qualification to the statements should be an integral part of the publicly disclosed financial statements.</i>
Previous Assessment (FSAP - 2001)	Observed
Description	The annual balance sheet and profit and loss account of the Reserve Bank is audited by external professional chartered accountants who are members of the Institute of Chartered Accountants of India and are appointed by the Central Government. Qualifications to accounts, if any, are publicly disclosed.
Present Assessment	Observed
8.2.2	<i>Internal governance procedures necessary to ensure the integrity of operations, including internal audit arrangements, should be publicly disclosed.</i>
Previous Assessment (FSAP - 2001)	Observed
Description	Internal governance procedures are publicly disclosed through information provided in the Annual Report in the chapter on 'Organisational Matters'. Internal audit arrangements are discussed in the publication, 'Reserve Bank of India - Functions and Working' which is a priced public document.
Present Assessment	Observed
8.3	<i>Where applicable, information on the operating expenses and revenues of financial agencies should be publicly disclosed annually.</i>
Previous Assessment (FSAP - 2001)	Observed
Description	The information is reported through the audited balance sheet and profit and loss accounts published in the Annual Report of the Bank as well as the Gazette of India.
Present Assessment	Observed
8.4	<i>Standards for the conduct of personal financial affairs of officials and staff of financial agencies and rules to prevent exploitation of conflicts of interest, including any general fiduciary obligation, should be publicly disclosed.</i>

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Assessment of Transparency in Financial Policies

Previous Assessment (FSAP - 2001)	Partly Observed
Description	<p>The text of The Reserve Bank of India (Staff) Regulations, 1948 is now available on the Bank's website.</p> <p>Vigilance/Disciplinary Stipulations governing the employees of the Bank are:</p> <p>I. The conduct and discipline of the employees of the Bank are governed by the Reserve Bank of India (Staff) Regulations, 1948. The text of the Regulations is placed on the Bank's website http://www.rbi.org.in (under the Right to Information Act, 2005 as Appendix to Section 4(1) (b) (ii)).</p> <p>II Other vigilance/disciplinary stipulations governing the employees of the Bank are as under:</p> <p>i) All classes of employees are required to obtain prior permission from the Bank for borrowing/standing surety in respect of loans from external organisations exceeding Rs. 15 lakh. The said ceiling of Rs. 15 lakh shall be the aggregate from all external sources put together, whether by way of loan/standing surety and permission for standing surety/guarantee for borrowings for commercial purposes should be rejected straight away.</p> <p>ii) Members of Tender Committee are required to give an undertaking at an appropriate time that none of them have any personal interest in the Companies/Agencies participating in the tender process. Any member having interest in any company should refrain from participating in the Tender Committee.</p> <p>iii) Officer staff is required to obtain prior permission for acquisition/disposal of immovable properties and report the transactions in movable assets exceeding Rs.50,000/- within a week. The officer staff is also required to submit statements indicating immovable properties and shares/securities held as on 1st January every year. These are scrutinised to verify whether the declared assets are disproportionate to their known sources of income.</p> <p>Restrictions on investments as per Regulations 43 and 44 (2) of Reserve Bank (Staff) Regulations, 1948.</p> <p>Employees' quota shares/securities – Acquisition of shares/securities from the employees' quota by any employee of the Bank will be tantamount to making false representation and will be deemed as an act of misconduct under the Reserve Bank (Staff) Regulations, 1948 liable for appropriate</p>

	<p>disciplinary action. This will also apply to acquisition of shares/securities out of employees' quota in the names of family members except in cases where family members are bonafide employees of issuing company.</p> <p>Promoter's quota shares/securities – Applying for and accepting allotment of shares from promoter's quota will be construed as violation of the provisions of Regulation 44(2) of the Reserve Bank (Staff) Regulations, 1948. If an employee desires to acquire shares/securities from promoter's quota under exceptional circumstances (Chief Promoter/director of the company being his close relative), he should seek prior approval furnishing full details including source of funds. No employee is to be allowed to purchase from promoter's quota by claiming to be a friend/associate of Chief Promoter/Director.</p> <p>iv) Officers who are deputed to entities regulated by the Reserve Bank for official dealings (inspection, scrutiny, verification, etc.) are required to furnish a declaration stating that the officer does not have any family member in the employment of that organisation.</p> <p>v) Whenever any family member of officer secures employment in a bank, financial institution, assisted company/institution or with any constituent of the Bank or enters into any professional/business dealings with these entities, the details of the employment or professional/business dealings are required to be reported by the concerned officer to the Bank within a week. The objective of this reporting system is to ensure that <i>prima facie</i> the employment or professional business deal has been secured in normal course without any favouritism or influence.</p> <p>vi) Information on private visits undertaken by all categories of employees to foreign countries is collected on an annual basis and examined/scrutinised. The data is submitted to the Central Vigilance Commission.</p> <p>vii) Offices/departments are advised to ensure prompt and appropriate action on complaints against members of staff regarding defaults in repayment of loans and in case of excessive indebtedness.</p> <p>The vigilance/disciplinary stipulations governing the employees of the Bank have been placed in the Bank's website (in the RIA link).</p>
Present Assessment	Observed
8.4.1	<i>Information about legal protections for officials and staff of financial agencies in the conduct of their official duties should be publicly disclosed.</i>
Previous Assessment (FSAP - 2001)	Observed
Description	Section 58A of the RBI Act provides protection to staff for action taken in good faith.
Present Assessment	Observed

Annex II

Detailed Assessment of Transparency Practices in Securities Markets'
Regulation and Supervision – SEBI

V. Clarity of Roles, Responsibilities and Objectives of Financial Agencies Responsible for Financial Policies	
5.1	<i>The broad objective(s) and institutional framework of financial agencies should be clearly defined, preferably in relevant legislation or regulation.</i>
Previous Assessment (FSAP - 2001)	Partly Observed
Description	The SEBI Act, 1992, clearly defines the mandate of SEBI. The powers and functions of SEBI are also spelt out in the Securities Contracts (Regulation) Act, 1956, Depositories Act, 1996 and the Companies Act, 1956. A review of the policies and programmes and an account of the operations of SEBI are provided in the Annual Report of SEBI. The SEBI Act, 1992 and the Rules and Regulations made thereunder clearly define the functions and powers of SEBI, composition of the Board of Members of SEBI, the terms and conditions of service of Members of the SEBI Board and the general criteria for their removal and the broad mechanism to ensure accountability of SEBI. SEBI's Board of Members and organisational structure are disclosed in SEBI's Annual Report and website.
Present Assessment	Observed
5.1.1	<i>The broad objective(s) of financial agencies should be publicly disclosed and explained.</i>
Previous Assessment (FSAP - 2001)	Observed
Description	The preamble to the SEBI Act, 1992, has spelt out the broad objectives for which SEBI has been established. Accordingly, SEBI has the mandate to protect the interests of investors in securities, to promote the development of the securities market and to regulate the securities market. The Annual Report of SEBI, giving a true and full account of its activities, policy and programmes during the previous financial year, is laid before both Houses of the Parliament of India and put in the public domain (Both printed copies and posted at http://www.sebi.gov.in).

Present Assessment	Observed
5.1.2	<i>The responsibilities of the financial agencies and the authority to conduct financial policies should be publicly disclosed.</i>
Previous Assessment (FSAP - 2001)	Observed
Description	The functions of SEBI as well as the powers vested on SEBI are defined in Chapter IV of the SEBI Act, 1992. In addition, SEBI exercises powers under the Securities Contracts (Regulation) Act, 1956 and the Depositories Act, 1996. According to Section 55A of the Companies Act, 1956, SEBI administers the relevant provisions of the Companies Act, 1956 (Sections 55 to 58, 59 to 84, 108, 109, 110, 112, 113, 116, 117, 118, 119, 120, 121, 122, 206, 206A and 207) relating to issue and transfer of securities and non-payment of dividend in case of listed public companies and those public companies intending to get their securities listed.
Present Assessment	Observed
5.1.3	<i>Where applicable, the broad modalities of accountability for financial agencies should be publicly disclosed.</i>
Previous Assessment (FSAP - 2001)	Observed
Description	Section 15 of the SEBI Act, 1992 stipulates SEBI to prepare an annual statement of accounts in the format prescribed by the Central Government in consultation with the CAG. The accounts of SEBI are audited by the CAG. The accounts, as certified by the CAG, together with the audit Report thereon are forwarded annually to the Government for being laid before each House of the Parliament of India. According to Section 18 of the SEBI Act, 1992, SEBI has to furnish to the Central Government such returns/statements/particulars regarding any proposed or existing programme for the promotion and development of the securities market as required by the Central Government. Also, an Annual Report of SEBI, giving a true and full account of its activities, policy and programmes during the previous financial year, is submitted to the Central Government as well as laid before each House of the Parliament of India. SEBI is also called to explain its policies and standpoints before various Committees of the Parliament of India. The Regulations framed by SEBI under Section 30 of the SEBI Act, 1992 are laid before each House of the Parliament of India and are subject to any modification/annulment as agreed by the both Houses. According to Section 16 of the SEBI Act, 1992, SEBI is bound by the policy directions given in writing by the Central Government.
Present Assessment	Observed
5.1.4	<i>Where applicable, the procedures for appointment, terms of office and any general criteria for removal of the heads and members of the governing bodies of financial agencies should be publicly disclosed.</i>

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Previous Assessment (FSAP - 2001)	Partly Observed
Description	Section 4 of the SEBI Act, 1992 defines the composition of the Board of Members of SEBI. The Chairman and the other Members shall be persons of ability, integrity and standing who have shown capacity in dealing with problems relating to securities market or have special knowledge or experience of law, finance, economics, accountancy, administration or in any other discipline which shall be useful to SEBI. The Chairman, SEBI has powers of general superintendence and direction of the affairs of the Board and may exercise all powers and do all acts and things which may be exercised or done by the Board of Members. The terms of office and conditions of service of Chairman and Members of the Board have been prescribed by the Central Government in the SEBI (Terms of Office and Conditions of Service of Chairman and Members) Rules, 1992. According to Section 6 of the SEBI Act, 1992 the Central Government can remove the Chairman and Members only on grounds of adjudged insolvency, unsound mind, conviction of an offence involving moral turpitude or so abusing the position as to rendering the continuation in office detrimental to the public interest.
Present Assessment	Observed
5.2	<i>The relationship between financial agencies should be publicly disclosed.</i>
Previous Assessment (FSAP - 2001)	Partly Observed
Description	The Ministry of Finance has set up a High Level Co-ordination Committee on Financial Markets (HLCCFM) under the Chairmanship of Governor, Reserve Bank of India to ensure greater co-ordination among regulatory agencies in the financial and capital markets and meet regularly to review the position regarding financial/capital markets. SEBI is a member of the HLCCFM from its inception.
Present Assessment	Observed
5.3	<i>The role of oversight agencies with regard to payment systems should be publicly disclosed.</i>
Previous Assessment (FSAP - 2001)	Not Applicable

Present Assessment	Not Applicable
5.3.1	<i>The agencies overseeing the payment system should promote the timely public disclosure of general policy principles (including risk management policies) that affect the robustness of systemically important payment systems.</i>
Previous Assessment (FSAP - 2001)	Not Applicable
Present Assessment	Not Applicable
5.4	<i>Where financial agencies have oversight responsibilities for self-regulatory organisations (e.g., payment systems), the relationship between them should be publicly disclosed.</i>
Previous Assessment (FSAP - 2001)	Observed
Description	According to Section 11 of the SEBI Act, 1992, it is SEBI's duty to promote and regulate self-regulatory organisations (SROs). In India, stock exchanges operate as SROs, having their own rules, regulations and bye-laws which govern the conduct of the members. The stock exchanges are recognised as front-line regulators. The rules, regulations and by-laws of the stock exchanges can be publicly accessed. Similarly, the bye-laws and business rules of the depositories are also publicly accessible. The stock exchanges are granted recognition by SEBI under Section 4 of the Securities Contracts (Regulation) Act, 1956, while the depositories are registered and regulated by SEBI. SEBI's Annual Report discusses how SEBI has carried out the supervision of the stock exchanges and depositories. In order to promote the development of SROs in other segments of the market also, SEBI has made the SEBI (Self-Regulatory Organisations) Regulations, 2004.
Present Assessment	Observed
5.5	<i>Where self-regulatory organisations are authorised to perform part of the regulatory and supervisory process, they should be guided by the same good transparency practices specified for financial agencies.</i>
Previous Assessment (FSAP - 2001)	Observed
Description	The stock exchanges and the depositories have their own rules, regulations and bye-laws, which govern the conduct of the constituents. The rules and bye-laws of the stock exchanges are framed in accordance with the Model Rules and Bye-laws notified by SEBI. Similarly, the bye-laws and business rules of the depositories are also approved by SEBI. SEBI's regulations pertaining to each intermediary prescribe the Code of Conduct that the intermediary has to abide by. SEBI (Self-Regulatory Organisations) Regulations,

Assessment of Transparency in Financial Policies

	2004 also has provisions governing membership, functions and obligations, governing norms and inspection and audit of self-regulatory organisations.
Present Assessment	Observed
VI. Open Process for Formulating and Reporting of Financial Policies	
6.1	<i>The conduct of policies by financial agencies should be transparent, compatible with confidentiality considerations and the need to preserve the effectiveness of actions by regulatory and oversight agencies.</i>
Previous Assessment (FSAP - 2001)	Observed
Description	<p>The websites of SEBI and the stock exchanges/depositories provide free public access to the legal framework governing the securities market. The parent Acts as well as the subordinate legislation have provisions regarding the regulatory framework, operating procedures, reporting requirements, fee structure and procedure for information sharing and consultation and between regulatory agencies. The Annual Report discusses the rationale for the adoption of a new policy/regulation.</p> <p>In order to bring transparency in the working of the Board, SEBI has decided that the agenda papers submitted to the Board on all policy issues will be made available in the public domain by putting them up on the SEBI's website after the Board has taken a decision on the issue. The minutes of the meeting relating to such items will also be made available on the SEBI's website after the Board has approved the minutes.</p>
Present Assessment	Observed
6.1.1	<i>The regulatory framework and operating procedures governing the conduct of financial policies should be publicly disclosed and explained.</i>
Previous Assessment (FSAP - 2001)	Observed
Description	SEBI's website provides access to all the relevant Acts, Regulations, Rules, Circulars, Guidelines and General Orders, as amended up to date. The Acts, Rules and Regulations are notified in the Official Gazette of India. All the regulatory actions and developments are communicated by means of press releases. SEBI's website has a separate section on Press Releases. The Annual Report discusses the rationale for the adoption of a new policy/regulation.

	The timeline benchmarks that SEBI has set for activities involving public interface are publicly disclosed in the SEBI's website.
Present Assessment	Observed
6.1.2	<i>The regulations for financial reporting by financial institutions to financial agencies should be publicly disclosed.</i>
Previous Assessment (FSAP - 2001)	Observed
Description	The reporting requirements of the market participants/intermediaries to SEBI are prescribed in the regulations relating to that participant/intermediary.
Present Assessment	Observed
6.1.3	<i>The regulations for the operation of organised financial markets (including those for issuers of traded financial instruments) should be publicly disclosed.</i>
Previous Assessment (FSAP - 2001)	Observed
Description	The legal framework governing the securities markets, viz., the SEBI Act, 1992, the Securities Contracts (Regulation) Act, 1956, in the Depositories Act, 1996 and the Rules, Regulations, Circulars, Guidelines and General Orders made thereunder, are available on SEBI's website. The rules, regulations and by-laws of stock exchanges/depositories are publicly accessible from the websites of the respective stock exchange/depository.
Present Assessment	Observed
6.1.4	<i>Where financial agencies charge fees to financial institutions, the structure of such fees should be publicly disclosed.</i>
Previous Assessment (FSAP - 2001)	Observed
Description	Section 11 of the SEBI Act, 1992, empowers SEBI to levy fees or other charges for the purposes of protection of interests of investors in securities, promoting the development of the securities market and regulating the securities market. Section 30 empowers SEBI to make regulations providing for, among other things, the amount of fee to be paid for certification of registration. Accordingly, SEBI has specified for each market participant/intermediary eligible for grant or renewal of a certificate the amount of fees payable and the manner and time of payment. The structure of the service fees, fees for offer documents, takeover fees and other fees payable to SEBI have also been specified. SEBI's income and expenditure account and schedule attached to it contain full details of the various fees collected by SEBI. The Annual Report also gives an account of fees and other charges collected by SEBI during the previous financial year.

Chapter III

Assessment of Transparency in Financial Policies

Present Assessment	Observed
6.1.5	<i>Where applicable, formal procedures for information sharing and consultation between financial agencies (including central banks), domestic and international, should be publicly disclosed.</i>
Previous Assessment (FSAP - 2001)	Observed
Description	The Ministry of Finance, Central Government has set up HLCCFM under the Chairmanship of the Governor, Reserve Bank of India to ensure greater co-ordination among regulatory agencies in the financial and capital markets and meet regularly to review the position regarding financial/capital markets. SEBI is a member of the HLCCFM since its inception. SEBI is a member of the International Organisation of Securities Commissions. SEBI has entered into MoU for regulatory co-operation, mutual assistance and sharing of information with overseas securities markets regulatory authorities.
Present Assessment	Observed
6.2	<i>Significant changes in financial policies should be publicly announced and explained in a timely manner.</i>
Previous Assessment (FSAP - 2001)	Observed
Description	SEBI follows an elaborate process with regard to introducing a new policy/initiative or amending an existing one. The proposal is at first discussed in a SEBI-constituted expert committee on the functional area (like the Primary Market Advisory Committee, Secondary Market Advisory Committee, SEBI Committee on Disclosures and Accounting Standards). The proposal along with the recommendations of the expert committee is then hosted in the SEBI website for public comments. Wide publicity is given to the proposal being open for public comments by means of press releases and bringing up the same during the course of Chairman's/Member's Speeches and interactions with the market constituents. The public comments on the proposal are taken to the expert committee and the proposal incorporating the accepted public suggestions are taken to the Board of Members of SEBI for approval. After the approval, the new regulation or the amendment is notified in the Official Gazette of India. The same is then laid before each

	House of the Parliament of India and are subject to any modification/annulment as agreed by the both Houses.
Present Assessment	Observed
6.3	<i>Financial agencies should issue periodic public reports on how their overall policy objectives are being pursued.</i>
Previous Assessment (FSAP - 2001)	Observed
Description	According to Section 18 of the SEBI Act, 1992, SEBI has to prepare and submit to the Central Government, within 90 days after the end of each financial year, an Annual Report of SEBI, giving a true and full account of its activities, policy and programmes during the previous financial year. It gives an overview of the policies and programmes of SEBI, a review of the working and operations of SEBI in the Indian securities market and the functions of SEBI under the SEBI Act, 1992 during the previous financial year.
Present Assessment	Observed
6.4	<i>For proposed substantive technical changes to the structure of financial regulations, there should be a presumption in favour of public consultations, within an appropriate period.</i>
Previous Assessment (FSAP - 2001)	Observed
Description	See 6.2.
Present Assessment	Observed
VII. Public Availability of Information on Financial Policies	
7.1	<i>Financial agencies should issue a periodic public report on the major developments of the sector(s) of the financial system for which they carry designated responsibility.</i>
Previous Assessment (FSAP - 2001)	Observed
Description	According to Section 18 of the SEBI Act, 1992, SEBI has to prepare and submit to the Central Government, within 90 days after the end of each financial year, an Annual Report of SEBI, giving a true and full account of its activities, policy and programmes during the previous financial year. A copy of the same is laid before each House of the Parliament. Printed copies of the same are available to the public on demand and is also hosted on the website. In addition, SEBI brings out the SEBI Monthly Bulletin, covering the developments during the previous month.
Present Assessment	Observed

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7.2	<i>Financial agencies should seek to ensure that, consistent with confidentiality requirements, there is public reporting of aggregate data related to their jurisdictional responsibilities on a timely and regular basis.</i>
Previous Assessment (FSAP - 2001)	Observed
Description	The Annual Report of SEBI gives an overview of the policies and programmes of SEBI, a review of the working and operations of SEBI in the Indian securities market and the functions of SEBI under the SEBI Act, 1992 during the previous financial year. The SEBI Monthly Bulletin covers the developments during the previous month. Aggregate data relating to the market (both current and historical) are published in the Annual Report and the Monthly Bulletin. SEBI also publishes a Handbook of Statistics on the Indian Securities Market every year. The website of SEBI disseminates on an aggregate basis the daily transactions by the foreign institutional investors (cash segment and derivatives segment) and mutual funds (Cash segment) on stock exchanges and daily trades in corporate bonds. Company-wise data are also made available in the SEBI website on issues and takeovers.
Present Assessment	Observed
7.3	<i>Where applicable, financial agencies should publicly disclose their balance sheets on a pre-announced schedule and, after a pre-determined interval, publicly disclose information on aggregate market transactions.</i>
Previous Assessment (FSAP - 2001)	Observed
Description	Section 15 of the SEBI Act, 1992 stipulates SEBI to prepare an annual statement of accounts in the format prescribed by the Central Government in consultation with the CAG. The accounts of SEBI are audited by the CAG. The accounts, as certified by the CAG, together with the audit Report thereon are forwarded annually to the Government for being laid before each House of the Parliament of India. SEBI's balance sheet and schedule attached to it contain details of the investments made by SEBI (investments only in deposits and quoted PSU bonds).
Present Assessment	Observed
7.3.1	<i>Consistent with confidentiality and privacy of information on individual firms, aggregate information on emergency financial support by financial</i>

	<i>agencies should be publicly disclosed through an appropriate statement when such disclosure will not be disruptive to financial stability.</i>
Previous Assessment (FSAP - 2001)	Not Applicable
Present Assessment	Not Applicable
7.4	<i>Financial agencies should establish and maintain public information services.</i>
Previous Assessment (FSAP - 2001)	Observed
Description	SEBI has a Communication Division responsible for all its communications. All regulatory actions and developments are communicated by means of press releases. SEBI's website has a separate section on Press Releases. The clarifications on news appearing in the media are also posted SEBI's website. At times, press conferences are called and addressed by the Chairman, SEBI to inform the public of the policies and developments.
Present Assessment	Observed
7.4.1	<i>Financial agencies should have a publications program, including a periodic public report on their principal activities issued at least annually.</i>
Previous Assessment (FSAP - 2001)	Observed
Description	According to Section 18 of the SEBI Act, 1992 SEBI has to prepare and submit to the Central Government, within 90 days after the end of each financial year, an Annual Report of SEBI, giving a true and full account of its activities, policy and programmes during the previous financial year. A copy of the same is laid before each House of the Parliament. Printed copies of the same are available to the public on demand and is also hosted on the website. In addition, SEBI brings out the SEBI Monthly Bulletin, covering the developments during the previous month.
Present Assessment	Observed
7.4.2	<i>Senior financial agency officials should be ready to explain their institution's objective(s) and performance to the public, and have a presumption in favour of releasing the text of their statements to the public.</i>
Previous Assessment (FSAP - 2001)	Observed
Description	All policy decisions of the Board of Members of SEBI are communicated by means of press releases. At times, press conferences are called and addressed by the Chairman, SEBI to inform the public of the policies and developments.

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	All these are covered in the print and electronic media. Moreover, addresses by the Chairman and Members in the public fora are given wide coverage. The SEBI Monthly Bulletin often brings out the text of the speeches and interviews of the Chairman and Members. Also, the top management of SEBI is often called to explain SEBI's policies and standpoints before the various Committees of Parliament.
Present Assessment	Observed
7.5	<i>Texts of regulations and any other generally applicable directives and guidelines issued by financial agencies should be readily available to the public.</i>
Previous Assessment (FSAP - 2001)	Observed
Description	The SEBI's website provides access to all the relevant Acts, Regulations, Rules, Circulars, Guidelines and General Orders, as amended up to date. The Acts, Rules and Regulations are notified in the Official Gazette of India.
Present Assessment	Observed
7.6	<i>Where there are deposit insurance guarantees, policy-holder guarantees, and any other client asset protection schemes, information on the nature and form of such protections, on the operating procedures, on how the guarantee is financed, and on the performance of the arrangement, should be public disclosed.</i>
Previous Assessment (FSAP - 2001)	Not Applicable
Description	There exist trade/settlement guarantee funds and investor protection fund at the level of stock exchanges and the same is communicated to the public at large and to the investors, in particular. The details regarding the nature of the guarantee, how the funds are collected and when and how they are utilised are provided in the rules, regulations and bye-laws of the respective stock exchange and the clearing house/corporation.
Present Assessment	Observed
7.7	<i>Where financial agencies oversee consumer protection arrangements (such as dispute settlement processes), information on such arrangements should be publicly disclosed.</i>

Previous Assessment (FSAP - 2001)	Observed
Description	SEBI has been established with the primary mandate to protect the interests of investors in securities. The Office of Investor Assistance and Education (OIAE) of SEBI handles investor complaints centrally and also acts as the focal point of SEBI's investor education efforts. The OIAE is the single-point interface with investors, receiving complaints relating to all Departments, forwarding to the concerned Departments, following up and responding to investors. SEBI maintains a dedicated website for investor grievances redressal and education. The Annual Report of SEBI mentions the activities of SEBI in the area of investors' education and training of intermediaries. SEBI organises workshops to spread awareness among the investors. Pamphlets in English, Hindi and regional languages are brought out to enlighten the investors of the mechanisms available for redressal of their grievances. A similar message is also spread through the SEBI Monthly Bulletin as well as occasional advertisements in the print and electronic media.
Present Assessment	Observed
VIII. Accountability and Assurances of Integrity by Financial Agencies	
8.1	<i>Officials of financial agencies should be available to appear before a designated public authority to report on the conduct of financial policies, explain the policy objective(s) of their institution, describe their performance in pursuing their objective(s), and, as appropriate, exchange views on the state of the financial system.</i>
Previous Assessment (FSAP - 2001)	Observed
Description	According to Section 18 of the SEBI Act, 1992 SEBI has to furnish to the Central Government such returns/statements/particulars regarding any proposed or existing programme for the promotion and development of the securities market as required by the Central Government. Also, an Annual Report of SEBI, giving a true and full account of its activities, policy and programmes during the previous financial year, is submitted to the Central Government as well as laid before each House of the Parliament. SEBI is also called to explain its policies and standpoints before the various Committees of the Parliament. The Regulations framed by SEBI under Section 30 of the SEBI Act, 1992 are laid before each House of the Parliament and are subject to any modification/annulment as agreed by both the Houses.
Present Assessment	Observed
8.2	<i>Where applicable, financial agencies should publicly disclose audited financial statements of their operations on a preannounced schedule.</i>
Previous Assessment (FSAP - 2001)	Broadly Observed

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Description	Section 15 of the SEBI Act, 1992 stipulates SEBI to prepare an annual statement of accounts in the format prescribed by the Central Government in consultation with the CAG. The accounts of SEBI are audited by the CAG. The accounts, as certified by the CAG, together with the audit Report thereon are forwarded annually to the Government for being laid before each House of the Parliament. There is also an internal audit of SEBI's accounts and internal controls by a firm of chartered accountants, engaged by SEBI.
Present Assessment	Observed
8.2.1	<i>Financial statements, if any, should be audited by an independent auditor. Information on accounting policies and any qualification to the statements should be an integral part of the publicly-disclosed financial statements.</i>
Previous Assessment (FSAP - 2001)	Observed
Description	See 8.2.
Present Assessment	Observed
8.2.2	<i>Internal governance procedures necessary to ensure the integrity of operations, including internal audit arrangements, should be publicly disclosed.</i>
Previous Assessment (FSAP - 2001)	Not Observed
Description	The timeline benchmarks that SEBI has set for activities involving public interface are publicly disclosed in the SEBI's website. There is also an internal audit of SEBI's accounts and internal controls by a firm of chartered accountants, engaged by SEBI. Internal governance procedures are publicly disclosed through information provided in the Annual Report. The Report is placed on SEBI's website and also before the Parliament.
Present Assessment	Observed
8.3	<i>Where applicable, information on the operating expenses and revenues of financial agencies should be publicly disclosed annually.</i>
Previous Assessment (FSAP - 2001)	Observed

Description	SEBI maintains the accounts and relevant records required to prepare the annual statement of accounts (financial year basis). The accounts of SEBI are audited by the CAG. The audited accounts are forwarded annually to the Central Government and are laid before each House of Parliament. In addition, the Annual Report also gives an account of fees and other charges collected by SEBI during the previous financial year.
Present Assessment	Observed
8.4	<i>Standards for the conduct of personal financial affairs of officials and staff of financial agencies and rules to prevent exploitation of conflicts of interest, including any general fiduciary obligation, should be publicly disclosed.</i>
Previous Assessment (FSAP - 2001)	Not Observed
Description	The terms and conditions of service including personal financial affairs, rules to prevent conflict of interest and fiduciary obligations, etc. of the officers and employees of SEBI are governed by SEBI (Employees' Service) Regulations, 2001. The officers and employees have to maintain fidelity and secrecy in the performance of the duties in accordance with SEBI (Employees' Service) Regulations, 2001 which are available to public in accordance with the provisions of the Right to Information Act, 2005.
Present Assessment	Observed
8.4.1	<i>Information about legal protections for officials and staff of financial agencies in the conduct of their official duties should be publicly disclosed.</i>
Previous Assessment (FSAP - 2001)	Observed
Description	According to Section 23 of the SEBI Act, 1992 SEBI officials and staff are protected from any legal proceedings for any action taken or intended to be taken in good faith under the SEBI Act, 1992 or the Rules or Regulations made thereunder.
Present Assessment	Observed

Annex III

Detailed Assessment of Transparency Practices in Insurance
Regulation and Supervision – IRDA

V. Clarity of Roles, Responsibilities and Objectives of Financial Agencies Responsible for Financial Policies	
5.1	<i>The broad objective(s) and institutional framework of financial agencies should be clearly defined, preferably in relevant legislation or regulation.</i>
Description	The IRDA Act, 1999 provides for the establishment of the IRDA to protect the interest of the policyholders, to regulate, promote and ensure orderly growth of the insurance industry. The duties, powers and functions of the Authority are specified in the IRDA Act, 1999 (Sec.14). The composition of the Authority, the term of office of Chairperson and other members, removal from office, salary and allowances of Chairperson and members are all specified in the IRDA Act, 1999 (Sec. 4 to Sec. 8).
Present Assessment	Observed
5.1.1	<i>The broad objective(s) of financial agencies should be publicly disclosed and explained.</i>
Description	The broad objectives of IRDA are specified in the IRDA Act, 1999. The responsibility and authority of the IRDA is to regulate and supervise insurance companies through the powers granted to it under the Insurance Act, 1938. They are further explained and discussed in IRDA's Annual Report and press releases (both are available on IRDA's website).
Present Assessment	Observed
5.1.2	<i>The responsibilities of the financial agencies and the authority to conduct financial policies should be publicly disclosed.</i>
Description	The responsibilities and the authority of the IRDA to undertake supervision of insurance companies are defined in the IRDA Act, 1999 and Insurance Act, 1938. The duties, powers and functions of IRDA are defined in Chapter IV, Section 14 of the IRDA Act, 1999. The power to regulate, monitor and supervise insurance companies is also vested with the IRDA under various provisions of the Insurance Act, 1938. The IRDA Act, 1999 and Insurance Act, 1938 also requires the publication of all IRDA regulations in the Official Gazette.

Present Assessment	Observed
5.1.3	<i>Where applicable, the broad modalities of accountability for financial agencies should be publicly disclosed.</i>
Description	Chapter VI, Section 20 of the IRDA Act, 1999 requires it to submit to the Central Government, an Annual Report within nine months after the close of the financial year, giving a true and full account of its activities including the activities for promotion and development of insurance business during the previous financial year. Chapter V, Section 17 of the IRDA Act, 1999 requires it to submit to the Government an audited Report on the accounts of IRDA, together with the audit Report annually. The Government shall cause the same to be laid before each house of the Parliament. IRDA officials are available to appear before the Parliament upon request. IRDA also reports on its activities via and Annual Report, press releases (published in the media and on its website) and other publications.
Present Assessment	Observed
5.1.4	<i>Where applicable, the procedures of appointment, terms of office, and any general criteria for removal of the heads and members of the governing bodies of financial agencies should be publicly disclosed.</i>
Description	The procedures for appointment of Chairperson and Members to the Authority are stated in the IRDA Act, 1999 (Chapter II, Section 4). The IRDA Act, 1999 (Section 5) gives the tenure of the Chairpersons and other members. The term of the office for the Chairpersons is 5 years or 65 years whichever is earlier (eligible for reappointment) and for members 5 years or 62 years whichever is earlier (eligible for reappointment). The IRDA Act, 1999 (Section 6) lays down the circumstances under which the Government may remove from office the Chairman and members of the Board.
Present Assessment	Observed
5.2	<i>The relationship between financial agencies should be publicly disclosed.</i>
Description	The Government by an executive order has set-up a High Level Committee on Financial Markets (HLCCFM) consisting of Governor, Reserve Bank, Chairman, SEBI, Chairman, IRDA, Chairman, PFRDA and Secretary (Finance) to oversee the developments in the financial sector. The Committee has further constituted three technical committees under the jurisdiction of the Reserve Bank, SEBI and IRDA to report on matters which have a bearing on the financial and capital markets. In addition, the Reserve Bank, SEBI and IRDA co-ordinate amongst themselves to monitor and supervise 13 financial conglomerates which have been identified in the country. The Insurance Act, 1938 lays down the framework for legal structure of the insurance company, the manner of registration of the insurance company and its renewal, the control over its management, appointment of whole-time/managing director, etc. The affairs of an insurance company have, therefore, to be conducted in accordance with the provisions of the Insurance

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	Act, 1938. The requirements of Companies Act, 1956 to that extent become less relevant.
Present Assessment	Observed
5.3	<i>The role of oversight agencies with regard to payment systems should be publicly disclosed.</i>
Present Assessment	Not Applicable
5.3.1	<i>The agencies overseeing the payment system should promote the timely public disclosure of general policy principles (including risk management policies) that affect the robustness of systemically important payment systems.</i>
Present Assessment	Not Applicable
5.4	<i>Where financial agencies have oversight responsibilities for self-regulatory organisations (e.g. payment systems), the relationship between them should be publicly disclosed.</i>
Description	The Insurance Act, 1938 (Part IIA, Sec 64A to 64T) provides for creation of insurance councils consisting of insurance companies. The role of these councils as SROs is limited and recommendatory in nature. IRDA's oversight responsibilities over the insurance councils (self-regulatory organisations) are given in the Insurance Act, 1938. This relationship is also discussed in IRDA's Annual Report and press releases (also available on IRDA's website).
Present Assessment	Observed
5.5	<i>Where self-regulatory organisations are authorised to perform part of the regulatory and supervisory process, they should be guided by the same good transparency practices specified for financial agencies.</i>
Description	The insurance councils do not perform any regulatory or supervisory functions. Their functions are limited to aid, advise and assist the insurers and the IRDA in setting up standards of conduct and sound practices and controlling management expenses. Hence, it is not applicable.
Present Assessment	Not Applicable
VI. Open Process for Formulating and Reporting of Financial Policies	
6.1	<i>The conduct of policies by financial agencies should be transparent, compatible with confidentiality considerations and the need to preserve the effectiveness of actions by regulatory and oversight agencies.</i>

Description	The regulatory framework, operating procedures and regulations for monitoring and reporting is governed by the IRDA Act, 1999 and Insurance Act, 1938. Regulations and operating procedures are publicly disclosed on IRDA's website and changes in legislation or regulations affecting the insurance market are elaborated and explained in IRDA's Annual Report and also on the website. Clarifications of policies, when needed, are issued through notifications, circulars, guidelines and press releases which are also available on the IRDA's website.
Present Assessment	Observed
6.1.1	<i>The regulatory framework and operating procedures governing the conduct of financial policies should be publicly disclosed and explained.</i>
Description	The regulatory framework and operating procedures for the insurance companies is defined in the IRDA Act, 1999 and Insurance Act, 1938. All IRDA regulations and notifications are disclosed on its website. Changes in Regulations are discussed at a broad-based forum consisting of members of Insurance Advisory Committee and finalised. Wherever necessary, major changes in policy/operating procedures are exposed as discussion drafts to insurance companies/public before they are finalised.
Present Assessment	Observed
6.1.2	<i>The regulations for financial reporting by financial institutions to financial agencies should be publicly disclosed.</i>
Description	Reporting requirements are issued through regulations, circulars, guidelines and notifications which are available on the IRDA website. Changes in regulations are discussed in the IRDA's Annual Report and are available on IRDA's website.
Present Assessment	Observed
6.1.3	<i>The regulations for the operation of organised financial markets (including those for issuers of traded financial instruments) should be publicly disclosed.</i>
Present Assessment	Not Applicable
6.1.4	<i>Where financial agencies charge fees to financial institutions, the structure of such fees should be publicly disclosed.</i>
Description	Fees charged by IRDA from insurance companies are given in the Insurance Act, 1938 and in IRDA's (Registration of Indian Insurance Companies) Regulations, 2000 which are available on the website.
Present Assessment	Observed
6.1.5	<i>Where applicable, formal procedure for information sharing and consultation between financial agencies (including central banks), domestic and international, should be publicly disclosed.</i>
Description	See 5.2.
Present Assessment	Observed

Assessment of Transparency in Financial Policies

6.2	<i>Significant changes in financial policies should be publicly announced and explained in a timely manner.</i>
Description	Changes in policies are issued through regulations/ notifications that are published in the official gazette and are available on the IRDA's website. They are also discussed in the Annual Report.
Present Assessment	Observed
6.3	<i>Financial agencies should issue periodic public reports on how their overall policy objectives are being pursued.</i>
Description	Policy objectives are discussed in the IRDA's Annual Report, as well as through public appearances by IRDA officials before the legislature.
Present Assessment	Observed
6.4	<i>For proposed substantive technical changes to the structure of financial regulations, there should be a presumption in favor of public consultations, within an appropriate period.</i>
Description	IRDA favours a consultative approach in formulating financial regulations. Changes in regulation are usually studied by committees which include concerned players. Such committees have wide representations from all the concerned market players such as insurance companies, intermediaries, policyholder representatives, etc. The reports of the committee are also open to public debate for further ensuring transparency in decision making.
Present Assessment	Observed
VII. Public Availability of Information on Financial Policies	
7.1	<i>Financial agencies should issue a periodic public report on the major developments of the sector(s) of the financial system for which they carry designated responsibility.</i>
Description	IRDA issues an Annual Report and a monthly journal which are also available on its website.
Present Assessment	Observed
7.2	<i>Financial agencies should seek to ensure that, consistent with confidentiality requirements, there is public reporting of aggregate data related to their jurisdictional responsibilities on a timely and regular basis.</i>
Description	IRDA publishes data on the gross written premium by insurance companies on its website, its monthly journal and its Annual Report.
Present Assessment	Observed

7.3	<i>Where applicable, financial agencies should publicly disclose their balance sheets on a pre-announced schedule and after a predetermined interval, publicly disclose information on aggregate market transactions.</i>
Description	IRDA's financial statements are published on an annual basis in its Annual Report which is available on IRDA's website.
Present Assessment	Observed
7.3.1	<i>Consistent with confidentiality and privacy of information on individual firms, aggregate information on emergency financial support by financial agencies should be publicly disclosed through an appropriate statement when such disclosure will not be disruptive to financial stability.</i>
Present Assessment	Not Applicable
7.4	<i>Financial agencies should establish and maintain public information services.</i>
Description	IRDA disseminates information on relevant legislation, policy decisions and announcements, Annual Report, monthly journal, data and other actions on its website. The website also provides the organisational structure of IRDA and the relevant e-mail addresses for inquiries and lodging of complaints.
Present Assessment	Observed
7.4.1	<i>Financial agencies should have a publications programme including a periodic public report on their principal activities, issued at least annually.</i>
Description	IRDA issues a monthly journal and an Annual Report. The Annual Report outlines the policies & programmes of IRDA covering general economic environment, appraisal of the insurance market, and research & development activities. The Annual Report reviews the working and operations of insurance, reinsurance, intermediaries, etc. The statutory functions of IRDA and organisational matters are also covered in detail in the Annual Report. The IRDA also places draft regulations/consultative papers for discussions and feedback from interested parties and general public at large on its website.
Present Assessment	Observed
7.4.2	<i>Senior financial agency officials should be ready to explain their institution's objective(s) and performance to the public and have a presumption in favour of releasing the text of their statements to the public.</i>
Description	Senior officials appear before the Parliamentary Committees when requested. They also explain IRDA's policies and objectives through public speeches, seminars, conferences and interviews.
Present Assessment	Observed

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7.5	<i>Texts of regulations and any other generally applicable directives and guidelines issued by financial agencies should be readily available to the public.</i>
Description	All regulations and applicable directives issued by IRDA are available on IRDA's website. Issuance of new regulations and changes in existing regulations are exposed for discussions on the website and the final versions published in its monthly journal and in the Annual Report.
Present Assessment	Observed
7.6	<i>Where there are deposit insurance guarantees, policy-holder guarantees, and any other client asset protection schemes, information on the nature and form of such protections, on the operating procedure, on how the guarantee is financed, and on the performance of the arrangement, should be publicly disclosed.</i>
Description	IRDA does not have a policyholder protection fund.
Present Assessment	Not Applicable
7.7	<i>Where financial agencies oversee consumer protection arrangements (such as dispute settlement processes), information on such arrangements should be publicly disclosed.</i>
Description	IRDA has the facility for online registration of a complaint/grievance with the Authority on its website. The arrangement is for facilitation of grievance redressal of policyholders. IRDA does not adjudicate on disputes arising out of insurance contracts which are essentially bilateral. The details of the number of complaints received, number disposed, number pending against each insurer and nature of complaints are tabulated and published in IRDA's Annual Report which is also available on the website.
Present Assessment	Observed
VIII. Accountability and Assurances of Integrity by Financial Agencies	
8.1	<i>Officials of financial agencies should be available to appear before a designated public authority to report on the conduct of financial policies, explain the policy objective(s) of their institution, describe their performance in pursuing their objective(s), and, as appropriate, exchange views on the state of the financial system.</i>
Description	Sec 7.4.2.
Present Assessment	Observed

8.2	<i>Where applicable, financial agencies should publicly disclose audited financial statements of their operations on a pre-announced schedule.</i>
Description	IRDA submits audited financial statements annually to the Government as part of its Annual Report which is placed before the Parliament.
Present Assessment	Observed
8.2.1	<i>Financial statements, if any, should be audited by an independent auditor. Information on accounting policies and any qualification to the statements should be an integral part of the publicly disclosed financial statements.</i>
Description	Financial statements are audited by the CAG in accordance with Section 17 of the IRDA Act. The statutory accounts are audited by a qualified chartered accountant firm. Information on accounting policies and qualifications are also disclosed as an integral part of the financial statement.
Present Assessment	Observed
8.2.2	<i>Internal governance procedures necessary to ensure the integrity of operations, including internal audit arrangements, should be publicly disclosed.</i>
Description	Internal governance issues are addressed by the Authority by way of number of meetings of the Authority, Insurance Advisory Committee and other committee meetings, etc., details of which are furnished in the Annual Report. However, internal governance and internal audit procedure are not publicly disclosed.
Present Assessment	Not Observed
Comment	IRDA is examining the issue of adoption of practices existing in other regulatory bodies for disclosure of internal governance and internal audit procedures.
8.3	<i>Where applicable, information on the operating expenses and revenues of financial agencies should be publicly disclosed annually.</i>
Description	This information is disclosed in the annual statement of accounts which forms part of the IRDA's Annual Report and are forwarded to the Government which places it before the Parliament.
Present Assessment	Observed
8.4	<i>Standards for the conduct of personal financial affairs of officials and staff of financial agencies and rules to prevent exploitation of conflicts of interest, including any general judiciary obligations, should be publicly disclosed.</i>
Description	The IRDA's (Salary and Allowances Payable to and other terms and Conditions of Services of Chairperson and Other members) Rules, 2000 and IRDA's (Conditions of Service of Officers and other employees) Regulations, 2000 are published in the official gazette and are available on IRDA's website.

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	Chapter VII – Conduct, Discipline and Appeals of the IRDA's (Conditions of Service) Regulations, 2007 specifically deals with the conduct and obligation of officers and other employees, restriction on employment in certain cases, canvassing of non-official or outside influence, prohibition of private trade or employment in certain cases, acceptance of gift, private trading, speculation in stocks, shares, investments, lending or borrowing, <i>etc.</i> and explicitly lays down standards for the conduct of personal financial affairs of officers and employees of IRDA.
Present Assessment	Observed
8.4.1	<i>Information about legal protections for officials and staff of financial agencies in the conduct of their official duties should be publicly disclosed.</i>
Description	Section 22 of the IRDA Act, 1999 provides protection for officials for action taken in good faith.
Present Assessment	Observed

Chapter IV

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Chapter IV

Assessment of Fiscal Transparency

1. Introduction

India has a federal set-up with the Central Government at the first tier and the 28 State Governments at the second tier. The seventh schedule of Article 246 of the Constitution lists the respective functions and financial resources of both tiers as follows: the Union List (97 items), the State List (66 items) and the Concurrent List (47 items). Further, following the 73rd and 74th Amendments to the Constitution, local bodies – municipalities and *panchayats*, respectively, in urban and rural areas – form the third level of the federal structure. In this Report, the definitional boundaries of Government are so drawn as to include Government at all layers and fiscal transactions pertaining to Governments so defined, resulting either in explicit liability, or contingent liability because of guarantees extended to borrowings by publicly-owned entities outside these boundaries.

It may be recalled that the earlier assessments for India on fiscal transparency in 1999 and 2001 were confined to the Union Government (Centre). This Report carries that forward by expanding the assessment to State Governments. However, the State Governments are assessed in the aggregate, and not individually. The third tier, *i.e.*, local bodies, has not been assessed as the information set needed is not available. But

some issues relating to the flow of funds from the States to the local bodies are addressed in the assessment of States. The next assessment should further extend to local Governments, if the necessary database is ready and available by then.

This Report follows broadly the *Code of Good Practices on Fiscal Transparency* that was brought out by the International Monetary Fund (IMF) in 1998. The Code was updated in 2001, and further revised in 2007, to reflect the recent global financial developments. The IMF has also brought out a detailed Manual on Fiscal Transparency (2007). The IMF's Code emphasises transparency in the structure and functions of Governments at different levels, fiscal policy formulation, implementation and monitoring, public sector accounts and audit, fiscal projections and assessment of fiscal risks.

The Code comprises the following four pillars:

- (i) **Clarity of Roles and Responsibilities** comprises two core practices on clear distinction between Government and commercial activities and a clear legal framework governing fiscal administration.
- (ii) **Open Budgeting Process** covers core practices on transparency of budget preparation, execution and monitoring.

The new elements in the revised code include requirement of adequate time for legislative consultation, increased emphasis on quality of assumptions and realism of budget forecasts and presentation of audited accounts.

(iii) Public Availability of Information emphasises the importance of publishing comprehensive fiscal information.

(iv) Assurances of Integrity deals with the quality of fiscal data and the need for independent scrutiny of fiscal information.

This Report presents the results of the Panel's assessment based on the Code, as updated in 2007, and builds upon the earlier self-assessment done under the aegis of the Standing Committee on International Financial Standards and Codes (2001) and a Report on the Observance of Standards and Codes (ROSC) undertaken by the IMF (2001). It takes into account the recent institutional developments in India on fiscal policy transparency, particularly after the enactment at the Centre of the Fiscal Responsibility and Budget Management (FRBM) Act, 2003 and the framework set out under FRBM Rules, 2004, and fiscal responsibility legislation by 26 States (Table 1). All State Governments barring Sikkim and West Bengal have enacted fiscal responsibility legislations so far.

The State Governments have adopted a rule-based framework for fiscal correction and consolidation by enacting fiscal responsibility legislations. Karnataka was the first to enact one in September 2002 followed by Kerala and Tamil Nadu in 2003, and Punjab in 2004.

Table 1: Enactment of Fiscal Responsibility Legislation by the States

No.	State	Month/Year of enactment
1	2	3
1.	Karnataka	September 2002 (came into force in April 2003)
2.	Kerala	August 2003
3.	Tamil Nadu	May 2003 (amended in 2005)
4.	Punjab	May 2003
5.	Uttar Pradesh	February 2004
6.	Gujarat	March 2005
7.	Himachal Pradesh	April 2005
8.	Maharashtra	April 2005
9.	Orissa	June 2005
10.	Rajasthan	May 2005
11.	Assam	May 2005
12.	Tripura	June 2005
13.	Haryana	July 2005
14.	Manipur	August 2005
15.	Nagaland	August 2005
16.	Madhya Pradesh	August 2005
17.	Chattisgarh	September 2005
18.	Andhra Pradesh	October 2005
19.	Uttarakhand	October 2005
20.	Arunachal Pradesh	March 2006
21.	Meghalaya	March 2006
22.	Bihar	April 2006
23.	Goa	May 2006
24.	Jammu & Kashmir	August 2006
25.	Mizoram	October 2006
26.	Jharkhand	May 2007

Source: RBI.

Subsequently, 22 more States have enacted such legislations.

The Twelfth Finance Commission (TFC) recommended that each State should enact

fiscal responsibility legislation as a precondition for debt relief on loans owed to the Centre. Although there are variations across States in the choice of target and the time-frame for achieving the target, most have stipulated an elimination of the current deficit (revenue deficit) by March 31, 2009 and reduction in the gross fiscal deficit as a per cent of gross State domestic product (GSDP) to 3 per cent by March 31, 2010 in line with the targets prescribed by the TFC. In addition, several States have imposed limits on guarantees and targeted a reduction in their total explicit liabilities.

The remainder of the Report is structured as follows. Section 2 reviews the assessments made by earlier groups on fiscal transparency in India. A summary of the present assessment for both levels of Government and a comparison of the two is set out in Section 3. Few fiscal transparency issues specific to India are discussed in Section 4. Section 5 summarises the recommendations following from the assessment exercise.

2. Review of Earlier Assessments

2.1 IMF Report on the Observance of Standards and Codes (ROSC)

The IMF's Report on fiscal transparency in India, completed in early 2001, found a reasonable level of fiscal transparency, especially in regard to the amount of fiscal information available to the public. The Report highlighted the progress made in disseminating fiscal information and noted that a large amount of fiscal information is available, including in Reports by government ministries, the Reserve Bank, and the Reports of the Comptroller and Auditor General of India (CAG). Significant progress has been made in conjunction with the liberalisation process which has fostered a clearer demarcation between the Government and the private sector and with tax reform, that has produced simpler taxes which are more easily understood and applied more even-handedly.

The Report, however, noted that there is room for further progress in these areas.

The Report mentioned that enacting the FRBM Bill would be a major step forward, given the emphasis it places on achieving a high standard of fiscal transparency. It highlighted the complex inter-governmental fiscal relationships and mentioned that there is considerable room for simplification and clarification in the area of inter-governmental fiscal relations. The non-availability of background information and analysis in connection with the Central Government budget would be met with the passage of fiscal policy legislation. The role of the Central Government in enforcing fiscal discipline on the States should be more clearly established. Reporting on general government finances, providing information on contingent liabilities and quasi-fiscal activities is also important for analysing fiscal risks. The sharing of tax powers between Central and State Governments is also a source of complexity, and the expenditure framework needs to be strengthened by clearly distinguishing between current and capital spending and by placing more emphasis on performance audit. For economic analysis, a breakdown of expenditure by economic category is most useful, and especially a clear distinction between current and capital spending. Performance audits should be an essential part of internal audit. The Report highlighted the fact that the Reserve Bank is not formally independent of the Government because debt management is not separated from monetary management.

2.2 Advisory Group Report on Fiscal Transparency

The Standing Committee on International Financial Standards and Codes set up by the Reserve Bank in 1999 constituted an Advisory Group to assess the observance of standards and codes relevant to fiscal transparency. The Advisory Group's Report was

released in July 2001. The overall assessment of the Advisory Group was that the Central Government satisfies the minimum requirement of the Code of Good Practices on Fiscal Transparency. The Group noted that enactment of the FRBM Act will provide more background information and analysis of the Central Government's budget. The Report recommended strengthening of the expenditure framework and more information dissemination on contingent liabilities and quasi-fiscal activities of the Government. The other major recommendations of the Group were the early implementation of the FRBM rules and an amplification of the scope of the FRBM rules to include essential elements of a budget law⁵.

A review of the implementation of the recommendations of the Advisory Group was undertaken by the Reserve Bank and the review was published in the Reserve Bank Bulletin of December 2004. It noted that, with the enactment of the FRBM Act in August 2003, the concerns expressed in the IMF's assessment and by the Advisory Group had been substantially addressed. The documents required to be laid before the Parliament under the FRBM Act: the Macroeconomic Framework Statement, the Medium-term Fiscal Policy Statement, and the Fiscal Policy Strategy Statement were laid down for the first time in the Union Budget for 2004-05. These documents contain rolling targets for prescribed fiscal indicators, details about various policies in respect of taxation, expenditure, market borrowings and other

liabilities, and assessment of the growth prospects of the economy. They are available in the public domain. The FRBM Act requires that the Government shall take appropriate measures to reduce the gross fiscal deficit and eliminate the revenue deficit within a specified time frame. It also prescribes annual targets for assuming contingent liabilities and prohibits borrowing from the Reserve Bank from April 2006-07, except under exceptional circumstances.

As regards quantification of quasi-fiscal activities (QFA), the review observed that some progress has been made on this issue. The review mentioned that QFAs arising out of the sale of petroleum products at below the market prices were earlier not included in the budget documents on account of cross-subsidisation of petroleum products through an off-budget Oil Co-ordination Committee (OCC) Pool Account mechanism, a practice that has now been terminated.

The issues relating to fiscal transparency from the assessment of 2001 and the Review of 2004 are set out below:

- Reporting on general government finances and information on contingent liabilities.
- Quantification of QFAs, particularly, interest subsidies.
- Simplification of inter-governmental fiscal relations.
- Strengthening of expenditure framework by clearly distinguishing between current and capital spending.

⁵ The IMF's Code of Good Practices on Fiscal Transparency states that the basic principles of budget management should be embodied in a general budget system law which should have constitutional or near-constitutional status.

- Inclusion of performance audits as an essential part of internal audit.
- Adoption of uniform budgetary practices at the State level.
- Reporting of information about government equity in public enterprises and outstanding loans to these enterprises.
- Reporting of methods used for revenue forecasting.

2.3 Present Status of Issues Highlighted by Earlier Assessments

The FRBM Act was enacted at the Centre in 2003. It took into consideration several of the issues mentioned in the earlier Reports (including information on guarantees in a separate Statement under Rule 6 of the FRBM Rules, 2004). Information on outstanding government guarantees of both Centre and States is now published in the Reserve Bank's Annual Report. Following the flexibility introduced in the pricing, subsidies on Public Distribution System (PDS) kerosene and domestic liquefied petroleum gas (LPG) are on a specified flat-rate basis from April 1, 2002.

On inter-governmental fiscal relations, following the recommendations of the TFC, the Central Government starting from 2005-06 no longer acts as an intermediary lender to the State Governments. However, if some fiscally weak States are unable to raise funds from the market, the Centre retains the option of borrowing for the purpose of on-lending to such States. But the interest rates would remain aligned to the marginal cost of borrowing for the Centre.

The recommendation of the TFC of a pass-through of externally-aided projects to the States without routing it through the Consolidated Fund of India was, however, reconsidered. Keeping in view the statutory provisions and the administrative arrangements, the Centre decided to continue

with the arrangement of routing these loans to the State Governments through the Budget, *albeit* on a back-to-back basis for all fresh loans. Furthermore, a system of incentive-linked debt restructuring for State Governments that have enacted fiscal responsibility legislations has also been put in place. It is expected that the new system would enable better fiscal discipline among the States. On the complexity of sharing of taxes between the Centre and the States, the Centre has taken the initiative to phase out the Central Sales Tax (CST) completely by April 1, 2010. This will address one aspect of the issue. The commencement of the Goods and Services (GST) from April 1, 2010 will further rationalise the tax system.

The Economic and Functional Classification of the Budget provides the relevant components of current and capital expenditures. On performance audit, the Central Government introduced an outcome budget in August 2005, providing a framework for monitorable performance indicators for the Plan programmes. This should facilitate the active involvement of civil society in the development process.

Information on government equity investments and loans and advances to companies is provided in the Statement on the Asset Register published in the Union Budget under Rule 6 of the FRBM Rules, 2004.

Regarding methods used for revenue forecasting, the Medium-term Fiscal Policy Statement of the Budget sets out the assumptions underlying the budget estimates on the fiscal indicators and the GDP growth. It also releases rolling targets on the revenue deficit, gross fiscal deficit, gross tax revenue, and total outstanding liabilities, all as percentages of GDP, for a horizon of two years following the year of the Budget estimates. The issue of quantification of fiscal costs of tax expenditure, raised in earlier assessments, is now being addressed at the level of the Central Government.

3. Summary of Assessment

3.1 Central Government

The Central Government has achieved a reasonable level of fiscal transparency, particularly as regards the amount of fiscal information that is made available to the public. The Central Government is assessed as having met almost all the codes under Pillar I (Clarity of Roles and Responsibilities), Pillar II (Open Budgeting Process), Pillar III (Public Availability of Information) and Pillar IV (Assurances of Integrity) (summarised in Table 2 with details in Annex I).⁶

3.1.1 Clarity of Roles and Responsibilities

The structure of Government in India at the three levels, Centre, States and local, their responsibilities and relationships with the rest of the economy are clearly defined under the Indian Constitution and are publicly disclosed. The roles of the executive, legislative and judicial branches are clearly defined. Finance Commissions set up every five years under Constitutional provisions have, through their recommendations, given a definitive structure to fiscal federalism in India which has facilitated the transfer and devolution of resources from the Centre to the States. The wide range of terms of reference for Finance Commissions, set out in the context of changing economic dynamics and emerging realities, make the working of Indian fiscal federalism flexibly responsive to changing

needs of horizontal, vertical and inter-generational equity. The devolution of responsibilities and resources to the local Governments is left to the legislative domain of the States. The relationships between Government and public corporations are based on clear arrangements as set out in Memoranda of Understanding (MoU). The budgetary process has a legal basis and follows the regulatory and administrative framework set down for fiscal management. Governments' asset and liability management have an explicit legal basis.

While the Constitution clearly demarcates functions between the Centre and the States and areas where they hold concurrent responsibility, in practice, functional overlaps by the Central Government on the functional domain of States in some important spheres like health and agriculture have led to deterioration in the quality of governance, hampering timely responses to external shocks, thereby negating the purpose of defining separate spheres of responsibility. Such functional overlaps need to be minimised or properly institutionalised so that the roles of the Central and State Governments are clearly defined in practice and accountability is appropriately established.

Although Finance Commissions appointed by the Central Government ensure an effective mechanism for devolution and transfer of resources from the Centre to the

⁶ It is important to emphasise here that when States are assessed as having observed at less than the full extent any of the constituent items under the four pillars, it should not be inferred that all States are delinquent in that particular respect. Clearly, the nature of the assessment at the two levels differs in its implications, following from the fact that at the Centre, it is a single government entity that is being assessed, in contrast to States where the assessment is an aggregate assessment of 28 independent government entities.

Table 2: Summary of Assessments – Fiscal Transparency

No.	Area/Practices	Assessment	
		Centre	States
I	Clarity of Roles and Responsibilities		
1.1	Distinguishing the government sector from the rest of the public sector and rest of the economy		
1.1.1	Clarity in structure and functions of government	O	O
1.1.2	Fiscal powers of executive, legislative and judiciary to be well-defined	O	O
1.1.3	Relationship and responsibilities of different levels of government to be clearly specified	PO	PO
1.1.4	Clarity in relationships between the government and public corporations	O	PO
1.1.5	Clarity in government's relationships with the private sector	O	PO
1.2	Clear and open legal, regulatory, and administrative framework		
1.2.1	Comprehensive budget, tax, and other public finance laws for collection and use of public funds	O	O
1.2.2	Clarity of laws and regulations related to the collection of revenues	O	BO
1.2.3	Time for consultation about proposed laws and regulatory changes	O	O
1.2.4	Clarity in contractual arrangements between the government and public or private entities	O	O
1.2.5	Legal basis for government's liability and asset management	O	O
II	Open Budget Processes		
2.1	Timetable for budget preparation		
2.1.1	Budget calendar should be specified and adhered to	O	O
2.1.2	The annual budget should be realistic, and prepared and presented within a comprehensive medium-term macroeconomic and fiscal policy framework.	O	BO
2.1.3	Description of major expenditure and revenue measures	O	BO
2.1.4	Assessment of fiscal sustainability and clarity on assumptions about economic developments and policies	BO	BO
2.1.5	Clear mechanisms for the co-ordination and management of budgetary and extra-budgetary activities within the overall fiscal policy framework	O	O
2.2	Clear procedures for budget execution, monitoring, and reporting		
2.2.1	The accounting system should provide a reliable basis for tracking revenues, commitments, payments, arrears, liabilities, and assets	PO	PO
2.2.2	Presentation of timely midyear report on budget developments to the Legislature	O	BO
2.2.3	Presentation of supplementary revenue and expenditure proposals during the fiscal year to the legislature	O	O
2.2.4	Presentation of audited final accounts and audit reports to the legislature	O	O
III	Public Availability of Information		
3.1	Public disclosure of information on past, current, and projected fiscal activity and major fiscal risks		
3.1.1	Budget documentation to cover all budgetary and extra-budgetary activities of the Central Government	O	O
3.1.2	Disclosure of forecasts and sensitivity analysis for the main budget aggregates for at least two years following the Budget	PO	PO
3.1.3	Nature and fiscal significance of Central Government tax expenditures, contingent liabilities, and quasi-fiscal activities to be part of the budget documentation	PO	PO

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Assessment of Fiscal Transparency

3.1.4	Receipts from all major revenue sources, including resource-related activities and foreign assistance, should be separately identified	O	O
3.1.5	Publish information on the level and composition of debt and financial assets, significant non-debt liabilities, and natural resource assets	O	PO
3.1.6	The budget documentation should report the fiscal position of sub-national governments and the finances of public corporations	BO	NO
3.1.7	The government should publish a periodic report on long-term public finances	O	PO
3.2	Fiscal information should be presented in a way that facilitates policy analysis and promotes accountability		
3.2.1	A clear and simple summary guide to the budget should be widely distributed at the time of the annual budget	O	O
3.2.2	Fiscal data should be reported on a gross basis, distinguishing revenue, expenditure, and financing, with proper expenditure classification	O	PO
3.2.3	The overall balance and gross debt of the general government, or their accrual equivalents, should be standard summary indicators of the government's fiscal position	O	NO
3.2.4	Results achieved relative to the objectives of major budget programs should be presented to the legislature annually	O	PO
3.3	Timely publication of fiscal information		
3.3.1	The timely publication of fiscal information should be a legal obligation of government	O	O
3.3.2	Advance release calendars for fiscal information should be announced and adhered to	O	PO
IV.	Assurances of Integrity		
4.1	Fiscal data should meet accepted data quality standards		
4.1.1	Budget forecasts and updates should reflect recent revenue and expenditure trends, underlying macroeconomic developments, and well-defined policy commitments	O	BO
4.1.2	The annual budget and final accounts should indicate the accounting basis used in the compilation and presentation of data	BO	PO
4.1.3	Data should be internally consistent and reconciled with relevant data from other sources. Major revisions to be explained	BO	PO
4.2	Fiscal activities should be subject to effective internal oversight and safeguards		
4.2.1	Ethical standards of behavior for public servants should be clear and well-publicised	O	O
4.2.2	Public sector employment procedures and conditions should be documented and accessible to interested parties	O	O
4.2.3	Procurement regulations, meeting international standards, should be accessible and observed in practice	O	PO

4.2.4	Purchases and sales of public assets should be undertaken in an open manner, and major transactions should be separately identified	O	O					
4.2.5	Government activities and finances should be internally audited, and audit procedures should be open to review	O	O					
4.2.6	The national revenue administration should be legally protected from political direction, and report regularly to the public on its activities	O	O					
4.3	Fiscal information should be externally scrutinised							
4.3.1	Public finances and policies should be subject to scrutiny by a national audit body	O	O					
4.3.2	The national audit body to submit all reports, including its annual report, to the legislature and publish them	O	O					
4.3.3	Independent experts to assess fiscal forecasts, the macroeconomic forecasts on which they are based, and their underlying assumptions	PO	PO					
4.3.4	A national statistical body should be provided with the institutional independence to verify the quality of fiscal data	O	O					
<i>Memo Items:</i>								
Assessment	Centre				States			
	I	II	III	IV	I	II	III	IV
O	9	7	10	10	6	4	4	8
BO	–	1	1	2	1	4	–	1
PO	1	1	2	1	3	1	7	4
NO	–	–	–	–	–	–	2	–
O – Observed; BO – Broadly Observed; PO – Partly Observed; NO – Not Observed.								

States, the States do not have any transparent conflict resolution mechanism with clear channels of recourse in regard to disputes on the implementation of Finance Commissions' recommendations as the Finance Commissions are wound up after the acceptance of their recommendations. For enhancing the transparency of Finance Commission awards, revenue-sharing calculations must be placed on the website and a transparent mechanism should be put in place for implementation of the Commission's recommendations.

3.1.2 Open Budget Processes

The enhancement in transparency at the Centre following enactment of the FRBM Act, 2003 and the rules framed under the Act has already been alluded to in section 2.3. On contractual arrangements, there are sometimes long delays in honouring payments to various

entities (including State Governments) and individuals. Time-limits for payments should be honoured and there is a need for formally including such provisions as part of legal contracts along with suitable recourse mechanisms. There should be a tracking of payments down the line on an IT platform.

3.1.3 Public Availability of Information

The pre-Budget Economic Survey and budget documents provide past, current and projected information on fiscal indicators. Under the FRBM Act, the Central Government sets forth a three-year rolling target for prescribed fiscal indicators with broad specification of underlying assumptions. These are set out in the Medium-term Fiscal Policy Statement laid down with the Union Budget. These could be further enhanced by providing sensitivity analysis for fiscal projections, with respect to the underlying parameters assumed.

The budget documents do not cover the actual audited Expenditure Statement of the Government. The audited accounts of expenditure are provided in the Finance Accounts which come out with a lag of about six to nine months. Further, under the present system, detailed scheme-wise information on government-funded schemes is available only for the current year. Comparable time-series information is not made available for the preceding years, rendering monitoring of yearly actual expenditure on these schemes difficult.

The mode of calculation of the fiscal deficit fails to capture the impact of off-budget items or provide such figures separately. The budgetary fiscal deficit needs to be accompanied by an augmented fiscal deficit to capture off-budget items, such as oil bonds.

The combined fiscal position of the Centre and State Governments as compiled by the Reserve Bank is published in the Reserve Bank's Bulletin, as also the Economic Survey and Public Finance Statistics issued by the Central Government. However, the overall public sector borrowing requirement (PSBR) is not reported in aggregate quantified form in the public domain.

3.1.4 Assurances of Integrity

There is a standard coding procedure for classifying all budgetary transactions under budgetary heads. Cash-based accounting⁷ is the

system being followed, with a time-bound programme for migration towards accrual accounting⁸ at all levels of Government under examination by the Government Accounting Standards Advisory Board (GASAB).

The Reserve Bank has been publishing data on the combined government finances of the Centre and the State Governments as per the IMF's Special Data Dissemination Standards (SDDS). While the Central Government reports its finances for the IMF publication, Government Financial Statistics (GFS), there is no reporting of State Government or combined government finances in the GFS. Progress in this regard should be made along with the introduction of accrual budgeting as well as accrual accounting at all levels.

3.2 State Governments

The State Governments have a relatively lower level of fiscal transparency compared to the Central Government, with a significant number of the practices under the four pillars being only partly observed. Pillar III on 'Public Availability of Information' is the least observed (Table 2 and Annex II). Though significant progress has been made by several States in enhancing fiscal transparency, the progress has not been universal. It should be kept in mind, as mentioned earlier, that since this is an assessment in aggregate, a practice would be assessed as less than fully observed if there are just a few defaulting States.

⁷ In a system of cash accounting, transactions are recognised only when the cash payments or receipts are actually made.

⁸ In accrual accounting, transactions/events that result in creation, transformation, exchange, transfer, or extinguishment of economic value are recorded irrespective of whether cash payments or receipts have been made on the corresponding transactions.

3.2.1 Clarity of Roles and Responsibilities

The functions of the State Governments are delineated in List II of the seventh schedule of Article 246 of the Constitution. The roles of the executive, legislative and judicial branches are clearly defined.

While the 73rd and 74th amendments to the Constitution have provided for setting up of State Finance Commissions (SFCs) every five years, implementation of SFC's recommendations is usually partial, with no underlying rationale provided for acceptance and rejection. The accounting system does not enable a transparent separation of urban from rural in the funds flow to local bodies (see section 4.3.5).

State Governments have laws and regulations for tax and non-tax revenues. The introduction of value added tax (VAT) has been especially useful in this regard. Information to tax assesses on completion of assessments is lacking and payment of refunds due can, in some States, be considerably delayed. All tax assesseees must be informed of the initial assessments accompanied by refunds/additional tax demand as the case may be, within a period of, say, six months. Timely settlement of appeals from tax-payers needs to be improved.

The State Governments' relationship with publicly-owned corporations is not always governed by MoUs. Many a time, cover for losses of State PSUs is extended through equity contributions from the capital account, instead of subsidies through the revenue account. Such non-transparent transactions need to be curbed.

State Government regulations and control mechanisms with respect to the private sector, in an assortment of spheres relating to land, labour and utilities like power and transport, are fraught with ambiguities and procedural complications. State Governments should move to a fairly stable and transparent

government regulation, maintaining at the same time, their role as guardians of the public interest.

3.2.2 Open Budget Processes

Fiscal Responsibility Legislation (FRL) has been enacted by all State Governments barring two, starting from 2002. Two States (West Bengal and Sikkim) are yet to enact the FRL. These enactments have brought about a major change in regard to clarity, transparency, accountability and the public availability of information. The FRL also envisages disclosure of significant changes in the accounting policies and practices. Despite state-wise variations in fixing the fiscal targets and time-frames for achieving their fiscal targets, the FRLs of the State Governments have a common thread of achieving revenue balance and a GFD-GSDP ratio of 3 per cent.

A common feature of the budget estimates for Revenue Deficit (RD) and Fiscal Deficit (FD) of the State Governments is that they can be seriously out of line with the reduction implicit in their respective Acts. Large disparities between budget estimates and actuals reduce the value of the annual budget as an accurate predictor of revenue and expenditure for the forthcoming year. Poor fiscal marksmanship is an outcome of the unwillingness of Governments to subordinate expenditure to fiscal constraints. The achievement of fiscal correction targets is, therefore, usually the result of reduction in expenditure relative to budget estimates, rather than of the higher-than-budgeted revenue. Fiscal marksmanship at State level needs strengthening, so that the budget expenditure estimates do not exceed the known feasible limits.

3.2.3 Public Availability of Information

According to the FRLs, the State Governments have to bring out the following statements:

- (1) Macroeconomic Framework Statement (MFS),
- (2) Medium-term Fiscal Policy Statement (MTFP) and
- (3) Fiscal Policy Strategy Statement (FPSS).

The first contains an overview of the economy, an analysis of growth and sectoral composition of Gross State Domestic Product (GSDP), an assessment related to state government finances and future prospects. The second projects the fiscal indicators over the medium-term and the third contains fiscal policies of the Government for the ensuing year, strategic priorities of the State Government for the coming year, the key fiscal measures and the rationale for major deviations along with an evaluation of current policies with respect to fiscal management principles. However, these Statements are published with a lag which reduces their utility from the transparency point of view.

Apart from the targets set for RD and the GFD-GSDP ratio, most State Governments have fixed targets for guarantees and outstanding liabilities. FRLs, in general, make State Governments more accountable and transparent, with provisions for quarterly/half yearly fiscal reviews and setting up of an independent agency to review the compliance provisions of the Act. However, there is need for sensitivity analysis of fiscal forecasts and quantification of fiscal risks.

State Governments, as a general rule, do not provide economic and functional classifications of expenditures in a systematic yearly manner. This needs to be done within about six months after the budget is presented.

State Governments do not provide information on outstanding liabilities, let alone contingent liabilities as a part of budget documents, thereby hampering assessment of fiscal risks. Budgetary estimates would benefit from better quantification of future risks and from subjecting fiscal forecasts to sensitivity analysis with respect to possible future developments.

A comparison of the Centre's and the States' observance of fiscal transparency standards is presented in Table 2. A significant number of the practices which are fully observed at the Centre need to be similarly fully observed at the State level.

4. Special Issues Relating To Fiscal Transparency In India

4.1. Off-Budget/Extra-Budgetary Items

The off-budget borrowing of the Centre is composed largely of securities issued to the Food Corporation of India or to the public sector oil and fertiliser companies in lieu of a subsidy or other dues (Box 1). At the level of the States, such avenues of borrowing are not open. However, State Governments can borrow off-budget by deferring payments on goods and services received. Unpaid bills to contractors from the Public Works, Engineering and Irrigation Departments, land acquisition charges in respect of various projects and schemes, and other committed but unpaid items of expenditure, are typically not reported anywhere in the budget documents, although they would appear routinely in an accrual accounting system. Within the present system of cash accounting, the difference between the opening and closing stocks of

unpaid dues can be added on to obtain a truer picture of the change in liabilities of the Government in the course of the fiscal year.

Borrowing by public sector undertakings (PSUs) is not reportable as part of the budgetary accounts of the core Government, but there is an intricate web of domino defaults by PSUs, corrective actions for which can appear in formal budgets episodically. For example, dues on account of defaults by State Electricity Boards to the National Thermal Power Corporation (NTPC) were settled in many States through budgetary purchase by the State Governments of power bonds issued by NTPC. State Electricity Boards, in turn, have dues owed to them by defaulting State or local water authorities, and water authorities can, in turn, have dues owed to them by defaulting rural or urban local bodies. A beginning can be made towards sorting this out if the outstanding stock of dues is reported transparently for each of the wholly-owned PSUs of the reporting Government in question in an appendix to budget documents. Such a reporting requirement will also correct the enormous delays in auditing of PSU accounts.

4.2 Expenditure Classification and Configuration of Fiscal Targets

FRBM Acts in India typically configure fiscal targets in two distinct categories. The RD measures the excess of current expenditure over current revenue, and the GFD measures the excess of total expenditure over non-debt receipts (equal to current revenue in the absence of privatisation receipts).

The distinction between the two is of macroeconomic significance in a developing country, but can get corrupted if there are expenditures which bundle together the two types of expenditure and get assigned uniquely to one or the other category. If all expenditures were bundled in this fashion, and were assigned to current expenditure, the RD would be identical to the FD (in the absence of

privatisation receipts). Therefore, some re-classification of bundled expenditure appears essential for maintaining the usefulness of the RD as a targetable indicator, independent of the FD. It should be noted that expenditure reallocations of this kind will have no impact on the FD, which is an overall measure containing the RD and extending beyond it to include non-current expenditure. A re-classification of expenditure between the two categories will not affect this overall measure.

Three categories of bundled expenditure are candidates for fractional assignment between the current and capital expenditure categories:

- (i) It is estimated that, in general, around 50 per cent of the Public Works Departments' (PWD) expenditures on the revenue account should really be characterised as capital expenditure, since about half of expenditure of maintenance of roads, for example, is indistinguishable from expenditure on laying a new road. State-level PWDs are charged with the maintenance of national highways, state highways, major district roads and some urban roads, all of which are recorded as revenue expenditure.
- (ii) The annual devolution from States to local bodies is recorded entirely as current expenditure in some States, because of the ruling by the CAG that a grant cannot be recorded on the capital account, but a sizeable fraction of this, which will vary across States, goes towards capital outlays. By the recommendation of the third State Finance Commission of Kerala, for example, the entire devolution to local bodies goes as a non-plan grant, from which local bodies are expected to fund Plan expenditures. With this, the capital

Box 1: Treatment of Bonds Issued to Oil Marketing Companies, Food Corporation of India and against Fertiliser Subsidy in the Union Budget

The *Economic Outlook for 2007-08* released by the Economic Advisory Council to the Prime Minister in July 2007 makes the following observations on oil bonds and FCI bonds – ‘there are substantial off-budget liabilities which need to be taken account of. The important liabilities include oil bonds issued to oil companies to compensate them for the losses arising from increase in the international price of oil and inability of the Government to increase the domestic price of oil commensurately. Thus, during 2006-07 oil bonds issued amounted to Rs.19,150 crore. In addition, securities issued to Food Corporation of India amounted to Rs.16,200 crore.’

The factual position regarding oil bonds and FCI bonds as given in the Union Budget is as follows:

- As per Annexure - 2 of the Expenditure Budget Vol.I, 2007-08, bonds issued to the oil companies amounted to Rs.17,263 crore and Rs.19,150 crore during 2005-06 (Actuals) and 2006-07 (Revised), respectively. In the Annual Financial Statement (AFS), the respective amounts are treated as revenue disbursements under economic services, under the sub-head ‘petroleum’. These expenditures are, however, not part of the revenue expenditure of the Government reported in Annexure - 1 of the Expenditure Budget Vol.I, which is considered for obtaining deficit measures of the Government. Annexure - 2 of the Expenditure Budget Vol.I provides the reconciliation between expenditure shown in demands for grants, the AFS and Annexure-1 of the Expenditure Budget Vol.I, by recording the bonds issued to oil companies as negative entries (*i.e.*, revenue expenditure under petroleum in Annexure-1 is equal to revenue expenditure under petroleum in the AFS less oil bond issued to oil companies). This reconciled expenditure as shown in Annexure-1 of the Expenditure Budget Vol.I, (and as reported in ‘Budget at a Glance’) is the expenditure from which GFD and RD are derived. However, the interest outgo on account of the bonds issued to oil companies is provided in the budget forming part of revenue expenditure of the Government, thereby affecting the GFD to that extent.
- The bonds issued to FCI at Rs.16,200 crore during 2006-07 (Revised) are presented and treated in the same manner. In the AFS, this item is included under the item ‘rural employment’ in the category of economic services. The same procedure of adjustment and reporting, as in the case of oil bonds, is followed for bonds issued to FCI.
- The current estimates indicate that the total fertiliser subsidy is likely to be more than Rs.95,000 crore at the prevailing cost of producing fertilisers. Of this, only Rs.30,985 is budgeted, which implies that underestimation on this account alone is 1.2 per cent of GDP.
- It may be noted that as the issuance of oil bonds and FCI bonds does not involve a cash flow, these transactions are not treated as part of budgetary expenditure/receipts, and consequently, are treated as deficit-neutral. However, the interest outgo which arises from these bonds is part of revenue expenditure, and recorded explicitly, and hence, affects the RD and GFD.
- Although the budget documents do provide information on off-budget borrowing in the manner described, there is need for a consolidated Statement on the aggregate stock outstanding of such bonds, the repayment schedule, and the interest liability falling due in each fiscal year to maturity. Many of these off-budget borrowings are bullet bonds, falling due in a bunched manner at the time of maturity. These repayment liabilities and the timing of their occurrence, should be transparently recorded at the time of issue.

outlay has been structurally included in the revenue account grants going towards local bodies, laying, therefore, the grounds for a wholly-justified revision of reported revenue and fiscal deficits. The same problem arises also at the Central level, with grant-funded capital expenditure schemes, like the National Rural Employment Guarantee Scheme (NREGS), Bharat Nirman, and the Jawaharlal Nehru National Urban Renewal Mission (JNNURM).

- (iii) Assistance for externally-aided projects can sometimes get entirely recorded on the revenue account. Sometimes, the recording of these can vary from year to year even, with a State getting logged entirely on the revenue account in one year, and split into capital and revenue the very next year. Unless these practices are standardised, comparability of fiscal indicators over time gets severely compromised.

An exercise conducted for one State yielded⁹ an adjusted RD lower than the reported figure by approximately 1.2 percentage points of GSDP. By the same token, the capital outlay goes up by the same estimated 1.2 per cent of GSDP. This yields an adjusted budgetary capital outlay in the neighbourhood of 2 per cent of GSDP, as against the reported budgetary outlay of 0.7 per cent of GSDP.

4.3 Budget Heads

The purpose of budgetary heads and sub-heads is to categorise public expenditure in a way that the composition of public expenditure becomes clear. The budgetary structure in India has evolved by accretion over time, and does not adequately convey the functional content of each budget head category. There are nine types of problems:

4.3.1 Duplication: At the basic four-digit level, there is duplication between categories 2501 (special programs for rural development) and 2515 (other rural development programs), both of which cover rural development programmes. There is also duplication between 2211 (family welfare), 2235 (social security and welfare) and 2225 (welfare of Scheduled Castes (SC), Scheduled Tribes (ST) and Other Backward Classes (OBC)). These lead to confusion in expenditure classification and assignment.

4.3.2 Differentiation by Type of Flow: Formulaic State Plan assistance, subordinated to the Gadgil formula starting 1969-70, was termed as the 'Normal Central Assistance' (NCA). There is also non-formulaic assistance to State plans, but this is assigned the same account head and so cannot be separately identified from formulaic assistance. There is an enormous distinction between the two in terms of predictability and the implications thereof, and they have separate ministerial points of origin; NCA goes from the Ministry of Finance, non-formulaic scheme assistance goes from other Ministries. The budgetary classification needs to acknowledge the necessity to separate formulaic from non-formulaic flows to State plans.

4.3.3 Basis of Categorisation: Within four-digit heads, such as crop husbandry (2401), for example, there are some input-based categories (like 103 for seeds or 105 for manure and fertilisers), and some output-based categories (like 102 for foodgrain crops, and 108 for commercial crops). The assignment of expenditure in such a system would necessarily be *ad hoc*.

4.3.4 Budget Heads and Functions: The catch-all component 001 for direction and administration found under many four-digit

⁹ Government of Kerala (2006): *First Report of the Kerala Public Expenditure Review Committee*, Table 3.1, May.

budget heads needs to be sub-divided and grouped with other non-salary expenditures for the performance of a particular function so as to enable a more functional understanding. Within 2401, for example, sub-head 109 for extension and training does not include salaries for extension staff, which are grouped with other salaries under 001. These boundaries do not enable an understanding of the different sub-functions within an overall head.

4.3.5 Rural/Urban Differentiation: The budgetary structure used at State level does not, in all States, provide for distinctions between funds flowing to rural local bodies, and funds flowing to urban local bodies. Some States have separate demand heads for rural and urban local bodies and some do not. Even where there is such a distinction, the demand structure is unwieldy and does not enable a summary identification of total funds flow separately for rural and urban local bodies. A summary of this kind, in a common format across States, should be a necessary feature of all State-level budget documentation.

4.3.6 State-Local Basic Grants: Basic revenue transfers from States to local bodies, under the mandate of SFCs, along with establishment and salary grants, should be recorded entirely under the head 3604 specified for this purpose (compensation to local bodies). Some States record these transfers entirely, or largely, under the head 2515 (other rural development programmes), with line entries specifying that

these are SFC-mandated flows.¹⁰ Others record them largely under 3604, but also have some entries under the head 2515.¹¹

4.3.7 Centrally-funded Schemes: Centrally-sponsored schemes need to be recorded everywhere under uniform (revenue) budget heads. This is not being done at present. Rural employment schemes should be recorded under budget head 2505 (rural employment), but go into 4515 (capital expenditure on other rural development programmes) in some States. A grant to local bodies recorded in the capital account is, in any case, technically wrong in an accounting sense. The *Rashtriya Sam Vikas Yojana* for backward districts, which is entirely routed through State exchequers, can be variously found under 2501, or 2515, or even under 3451 (Secretariat Economic Services). The *Swarnajayanti Gram Swarozgar Yojana* for rural self-employment can be found in 2501 or in 2225.

4.3.8 The Demand Structure: The budgets of both Central and State Governments can be thought of as a notional matrix array, with numbered demands for grants (the form in which budgets are presented for Parliamentary or legislative approval) constituting the columns of the matrix, and budgetary heads and sub-heads constituting the rows. The structure of demands for grants is not required to be nationally uniform in terms of either numbering or purpose. Even while retaining this freedom in respect of structuring demands, the process of decentralisation of governance

¹⁰ Examples are Rajasthan and Chhattisgarh.

¹¹ Examples are Madhya Pradesh and Orissa.

in India would have been rendered transparent if flows from States to local bodies had been required to be recorded in every State under a dedicated (single) demand head. A separate demand for Panchayati Raj Institutions (PRIs) carries the more important advantage that functional decentralisation becomes monitorable as the migration over time of budgetary provisions (in each row of the matrix) from the parent demands (columns) to the demand (column) for PRIs. Unfortunately, this is not practiced by all the States. Some States record functional flows to local bodies within the parent functional demands under three-digit budget subheads, specifying the tier receiving the fund (196, 197 and 198 for Zilla, Block and Gram Panchayats, respectively). The Centre has adopted this practice, where it is entirely appropriate, as there is no functional decentralisation of governance from Centre to local bodies. But it is not suitable at the State level, where a functional transfer can be tracked only through the associated pattern of the fund transfer. Audited finance accounts also group transfers to local bodies under these three subheads, and so lose the information potentially available from a well-structured grant format.¹² Finally, State provisions under the NREGS, which is a demand-driven programme for all rural households that self-select into it, are carved into demand heads for targeted groups like SCs/STs. This makes it difficult to obtain a summary picture of the total fund flow budgeted by States even under a single programme head such as this.

4.3.9 Gross and Net Capital Flows: Where there are inter-governmental capital flows, distinguished by type (*i.e.*, Plan/non-Plan), figures for the gross flow must be

supplemented by figures of repayment of each type of loan, so that the corresponding net capital flow is obtainable by type. At present, this is not possible even from the Central Finance Accounts, because loan repayments by States to the Centre do not distinguish between plan and other loans.

4.4 Data

4.4.1 Defining public investment at the State level: The public capital outlay in any State is an aggregate of State Government-funded outlays, and outlays funded directly by the Central Government which are not all routed through the State exchequer, and can either be spent directly by line outposts of the Centre, or through sub-State level agencies, or through local Governments. There is no ready source of data on this aggregate, which makes the public capital outlay in a State impossible to quantify. Capital expenditure funded under the Member of Parliament Local Area Development Scheme (MPLADS) and the equivalent scheme for Members of the Legislature (SDFMLA) add a further element of public funding of capital outlay within each State.

4.4.2 Disinvestment Receipts: Disinvestment receipts are officially provided only at the Central level. No source records disinvestment receipts in aggregate across States.

4.4.3 Discrepancies between Various Official Sources: The sources for fiscal data are:

- Finance Accounts of the Centre (CFA) and States (SFA).
- Public Finance Statistics (PFS); a processed source based on CFA and SFAs.

¹² Details on the grant structure in respect of State-local transfers may be found in Rajaraman, Indira and Darshy Sinha (2007): 'Functional Devolution to Rural Local Bodies in Four States', *Economic and Political Weekly XLII: 24* (16 June), 2275-2283. A more detailed version: 'Tracking Functional Devolution by States to Panchayats' (2007) (*National Institute of Public Finance and Policy Working Paper 48*, New Delhi, May).

- State Finances: A Study of Budgets: a processed source from the Reserve Bank based on State budget documents.

The discrepancies between these vary by type of fiscal flow. It is essential to have some convergence between them, although some discrepancies might remain at the margin between processed sources based on budget documents, and those based on finance accounts.¹³ The finance accounts of the Centre (CFA), as the basic audited source, should, in principle, be the one to which the others are benchmarked. However, when Finance Commission (FC) provisions, which are mandated for each individual year of their award horizons, are compared to CFA figures of outflows on statutory non-plan grants to States, the CFA figures was found to exceed the FC provisions including conditional grants for some years. Such discrepancies should be footnoted and explained in the CFA.

4.4.4 Local Finances: Local own revenues and expenditures are becoming important for there to be a systematic provision for collection of data about them. The only sources so far have been the Reports of the National Finance Commissions, starting with the Eleventh Commission. But from the evidence of sample survey-based studies, the revenue data reported there seem to be inflated.¹⁴

4.4.5 Debt Statistics: Liabilities of the Central Government and Combined Liabilities of the Central and State Governments

4.4.5 (a) *Central Government:* The outstanding liabilities of the Centre are reported in the 'Statement of Liabilities of the Central Government', in the Receipts Budget of the Union Budget. The outstanding liabilities of the Centre are equal to sum of internal debt, external debt and other liabilities. Internal debt consists of (i) items under market stabilisation scheme such as (a) dated securities, (b) 91-day Treasury bills, (c) 182-day Treasury bills, (d) 364-day Treasury bills, (ii) market loans, (iii) 91-day Treasury bills, (iv) 91-day Treasury bills funded into special securities, (v) special securities converted into marketable securities, (vi) special securities (to banks) converted into marketable securities, (vii) other special securities issued to the Reserve Bank, (viii) 14-day Treasury bills, (ix) 182-day Treasury bills, (x) 364-day Treasury bills, (xi) compensation and other bonds, (xii) securities issued to international financial institutions and (xiii) securities against small savings. Other liabilities consist of (1) National Small Savings Fund (NSSF), (2) State Provident Fund, (3) 'other accounts' consisting of (a) special deposits of non-Government Provident Funds, etc., and (b) 'other items' and (4) Reserve funds and deposits consisting of

¹³ A detailed examination of figures for all categories of Centre-State fiscal flows from the sources for each category may be found in Appendix I and II of Rajaraman, Indira (2004): 'Fiscal Restructuring in the Context of Trade Reform' in G.C.Srivastava, ed. *The Dynamics of Fiscal Federalism: Challenges before the Twelfth Finance Commission* (Taxmann); 201-230.

¹⁴ Rajaraman, Indira (2007): 'Participatory Planning for Poverty Reduction: Overview of Four States', National Institute of Public Finance and Policy, mimeo.

Box 2: Government Finance Statistics and International Practices on Local Government Finances

The taxes assigned to local bodies and the efficiency of local bodies in levying and collecting these taxes varies across countries. The property tax is the dominant local tax in Australia, Canada, Ireland, New Zealand, the UK and the US. The income tax is more important in Austria, Belgium, Luxembourg, Switzerland, Norway, Sweden, Denmark Finland and Japan.

There is a visible trend in the OECD countries towards more effective utilisation of user charges and benefit taxes by Local Governments. In contrast, user charges in India remain a grossly under-exploited source.

In the US, local bodies are relatively far more self-dependent. Local Governments may seek voter referenda on fiscal decisions such as tax rates, new borrowings, user charges and so on. Local Governments are able to finance about 40 to 70 per cent of their expenditure through their own revenue. Property tax amounts to 70-75 per cent of local tax revenue. Other important revenue sources include the local option income tax, impact tax, excise, user charges and fees. Besides, local bodies resort to issue of bonds for financing expenditure.

In Canada, local improvement taxes are largely linked to benefits accruing to specific local areas due to provision of infrastructure.

In Brazil, consumption and production taxes are assigned to all three levels of Government. Local Governments are assigned a tax on selected services. Urban property is taxed by municipal bodies, while that on rural property is a Central tax. However, Brazilian experience shows that Local Governments are quite inefficient in tax collection. Despite assignment, only a few big cities levy the property tax.

Some countries, including those in Latin America provide data on local Government finances in the IMF publication 'Government Finance Statistics (GFS)'. The countries which provide data on Local Government finances include Australia, Canada, Chile, Peru and Argentina, though not Brazil. The information covered for Local Government finances is the same as that covered for both national and sub-national Governments.

The information covered in the GFS for Local Government finances includes the following:

- (i) Statement of Government operations – revenue, expense, gross operating balance, net operating balance, net lending.
- (ii) Statement of sources and uses of cash – cash receipts from operating activities, cash payments for operating activities, net cash inflow from operating activities, cash surplus/deficit, net change in the stock of cash.
- (iii) Detailed Statement of revenue – taxes, social contributions, grants, other revenue.
- (iv) Detailed Statement of expense by economic type – compensation of employees, use of goods and services, consumption of fixed capital, interest, subsidies, grants, social benefits, other expenses.
- (v) Transactions in assets and liabilities – net acquisition of non-financial assets, net acquisition of financial assets, net incurrence of liabilities.
- (vi) Holding gains in assets and liabilities.
- (vii) Other changes in the volume of assets and liabilities.
- (viii) Balance sheet – non-financial assets, financial assets, liabilities.
- (ix) Outlays by functions of Government – general public services, defense, public order and safety, economic affairs, environmental protection, housing and community amenities, health, recreation, culture and religion, education, social protection.
- (x) Transactions in financial assets and liabilities by sector.
- (xi) Total other economic flows.

It may be noted that coverage of the variables mentioned above varies widely across even among those countries which do provide some information on local finances.

Reference:

Mathur, Om Prakash and Sandeep Thakur (2004): 'India's Municipal Sector: A Study for the Twelfth Finance Commission', National Institute of Public Finance and Policy, New Delhi.

Mohanty, P.K, *et al*(2007) : 'Municipal Finances in India – An Assessment', *Development Research Group Study No: 26*, Reserve Bank of India.

(a) bearing interest (b) not bearing interest. External debt balances are recorded and reported according to book value, and not converted at the prevailing market exchange rate, as prescribed in the Government Financial Statistics Manual (GFSM) 2001 of the IMF.

As prescribed in the GFSM 2001, contingent liabilities are not treated as financial liabilities, and therefore, not included in the 'Statement of liabilities of the Central Government' in the Receipts Budget of the Union Budget. However, as required by the Rule 6 of the FRBM Rules, 2004 a separate Statement on 'Guarantees Given by the Government' is reported in the same Receipts Budget.

In addition, the Annual Report of the Reserve Bank publishes the average interest rates on outstanding liabilities of the Central Government, separately for market loans, small savings/NSSF, State provident funds and special deposits. The interest rate for these components is calculated by dividing the interest payments in a year by the outstanding liabilities at the end of the preceding year. The data on interest payments are taken from Expenditure Budget, Volume 2 of the Union Budget Document (Ministry of Finance). For previous years, it is taken from the 'Finance Accounts' and the data on the principal are taken from the Receipts Budget.

The Reserve Bank's Annual Report also provides information on the debt service burden of the Central Government – Net market borrowing is equal to market loan (receipts minus disbursements) plus 364-day Treasury bills (receipts minus disbursements), which is obtained from the Annual Financial

Statement of the Union Budget. Repayment is equal to disbursement on account of internal debt of the Central Government and 364-day Treasury bills plus interest payment.

4.4.5 (b) *State Governments*: The liabilities of State Governments reported in their respective budgets are at variance with the data reported in the Union Budget. The data on securities issued to NSSF in the State budgets do not match the data in the Union Budget. Market borrowings reported in the State budgets also do not match the Reserve Bank's record. Further, data on outstanding loan from Centre to the State Governments as per the Union Finance Accounts, Report of the CAG on Combined Finance and Revenue Accounts of the Union and State Governments in India and the Union Budget differ.

4.4.5 (c) *Combined Liabilities of the Central and State Governments*: The combined liabilities of the Central and State Governments are compiled based on data from the aggregated figure of liabilities for the Central Government as given in the budget documents and for the State Governments based on the consolidated data compiled by the Reserve Bank. The combined liabilities are equal to outstanding liabilities of the Centre plus outstanding liabilities of the States minus loans and advances from Centre to States and the NSSF. The loans and advances from Centre to States, which is derived as loans and advances by the Central Government (net of loan recovery) to State Governments and the NSSF are obtained from the Statement of Assets in the Receipts Budget of the Union Budget.

4.4.5 (d) *Contingent Liabilities*: The Central Government provides the information on contingent liabilities in a Statement under the Receipts Budget. The guarantees given by the State Governments in respect of loans raised by the statutory corporations and boards, Government companies, Municipal Corporations and other local bodies, other joint stock companies, co-operative banks and societies, universities and other institutions are given in Statement 6 of the Finance Accounts of State Governments prepared by CAG. Many of the State Governments are disclosing the information on guarantees in their budget documents. In the budgets for 2007-08, sixteen State Governments have given information on guarantees given by them to the different State-level institutions. However, the formats in which the State Governments disclose information on guarantees are not uniform. Some State Governments, such as, West Bengal, Orissa and Madhya Pradesh provide department-wise details on guarantees extended by them. Some other States, such as, Karnataka, Tamil Nadu and Himachal Pradesh provide institution-wise details on guarantees extended. A few State Governments, such as Goa, give total outstanding guarantees without any break-up.

Most State Governments have fixed a ceiling on guarantees in their respective FRLs. Some of the State Governments such as Tamil Nadu, Punjab, Himachal Pradesh, Madhya Pradesh and Andhra Pradesh have fixed the ceiling on guarantees in proportion to the revenue receipts. Some other States such as Tripura and Nagaland have fixed the ceiling with respect to GSDP. In some States such as Kerala, the ceiling is prescribed in absolute terms. Some other States such as Karnataka, Manipur, Gujarat and Goa have specified limits under the respective State Guarantee Acts.

4.5 Accrual Accounting

In India, for historical reasons and considerations of budgetary control and the

perceived simplicity and certainty of a cash-based system, Governments use the cash-based system of accounting and financial reporting. However, there has been increasing realisation of the shortcomings of a cash-based system of accounting. A study commissioned by the CAG emphasised the lack of transparency and user-friendliness of the cash-based system, and suggested the need to migrate to accrual accounting. The TFC had recommended introduction of accrual accounting which the Union Government and a majority of States have accepted in-principle. Accordingly, the GASAB in the office of CAG were entrusted the task which suggested a road-map for transition to accrual accounting, spelling out the constituent activities and tasks that have to be completed during the transition. The Board is also finalising its Report on an Operational Framework for providing a broad design of accrual accounting and to be a reference point to ensure uniformity and comparability in financial reporting across Ministries, and the Union and the State Governments. There is a need to move towards accrual-based budgeting as well at all levels of Government. Box 3 sets out the international experience with regard to accrual accounting system.

5. Summary of Recommendations

The recommendations made by the Panel are summarised below. Recommendations common to both the Centre and the States are listed after recommendations specific to the Centre and the States.

5.1 Centre

- Functional encroachments by the Central Government on subjects exclusively assigned to States (List II) need to be minimised or properly institutionalised so that the roles of the Central and State Governments are clearly defined in practice and accountability established.

- For enhancing the transparency of Finance Commission awards, revenue sharing calculations must clearly be placed on the website and a transparent mechanism should be put in place for implementation of the Commission's recommendations.
 - Although the detailed Annual Financial Statement in the budget documents does record off-budget borrowings, there is a need for a consolidated statement on the aggregate stock outstanding of such bonds, the repayment schedule, and the interest liability falling due in each fiscal year to maturity. Many of these off-budget borrowings are bullet bonds, falling due in a bunched manner at the time of maturity. These repayment liabilities and the timing of their occurrence should be transparently recorded at the time of issue.
 - An augmented measure of the gross fiscal deficit (GFD) capturing the impact of off-budget items such as oil bonds should be reported along with the budgetary GFD, and sensitivity analysis for fiscal projections with respect to key fiscal parameters should be carried out.
 - Resource flows in the capital account from the Centre to the States are distinguished by type (i.e., Plan/non-Plan), but figures for the gross flow need to be supplemented by figures of repayment of each type of loan, so that the corresponding net resource flows in the capital account are obtainable by type. At present, this is not possible even from the Central Finance Accounts, because loan repayments by the States to the Centre do not distinguish between Plan and other loans.
- #### 5.2 States
- All States should set up State Finance Commissions, ensure submission of Reports within the stipulated time and explain the rationale underlying rejection, if any, of their recommendations.
 - All State Governments need to consider entering into Memoranda of Understanding (MoU) with State public sector units (PSUs) in all cases.
 - State Governments need to move towards a facilitative conception of Government regulation, while at the same time retaining their role as guardians of the public interest.
 - An augmented measure of GFD capturing the impact of deferred expenditure and arrears items should be reported along with the budgetary GFD and sensitivity analysis with respect to key fiscal parameters should be carried out.
 - Disinvestment receipts are officially provided only at the Central level. No source records disinvestment receipts in aggregate across the States. The disinvestment figures from asset sales of the previous years should also be disseminated by the Government. The mode of financing the fiscal deficit and the detailed break-up of interest payments should also be reported.

Box 3: Accrual Accounting System – International Experience

In a system of cash accounting, transactions are recognised only when the cash payments or receipts are actually made. While the system of cash accounting is simple, easy to understand, and easy to audit and control, it also has many disadvantages. The accounting system carries scope for manipulation of cash flows, ignores assets and liabilities, and does not reflect the full financial position of the Government. For instance, it cannot capture government liabilities like payables and provisions and pension liabilities which have significant impact on the finances of the Government, even if no cash transaction has taken place. The cash accounting system in general does not record non-monetary flows as the emphasis is on cash management rather than resource flows.

In contrast, in accrual accounting, transactions/events that result in creation, transformation, exchange, transfer, or extinguishment of economic value are recorded irrespective of whether cash payments or receipts have been made on the corresponding transactions. Revenues reflect the amounts of receipts due, but may not have been collected fully, during the fiscal year, while expenditure refers to the value of goods and services consumed during the year irrespective of whether they were paid for or not. In addition, accrual accounting entails recording of non-cash transactions, which have monetary value and therefore contribute to the financial position of the Government such as depreciation provisions and bad debts. Unlike in cash accounting, payment arrears, which are crucial to assessing the solvency of Government finances, are captured in accrual accounting. Thus, it is more complete, removes the scope for cash manipulation, facilitates quality management, necessitates full records of assets and liabilities and their use and provides a better assessment of financial health.

Further, accrual accounting synchronises the recording of events with the timing of actual resource flows, and also with other macroeconomic systems such as national accounts, balance of payments, and monetary and financial statistics. Consequently, accrual accounting provides the best estimates for macroeconomic analysis of fiscal policy.

For the accrual accounting system to be effective, the skills of accountants, the quality of audit and reporting processes and the capacity of stakeholders and users of fiscal information, all need to be enhanced, as the system is more complex and require more estimates than other systems. Accrual accounting also needs to be accompanied by accrual budgeting.

The SDDS of the IMF requires countries to spell out the nature of accounting convention/system followed in computing various data sets including the fiscal sector. The IMF recommends use of accrual basis of

accounting system, although international experience so far is that very few countries fully comply with the requirements of accrual-based accounting. At present there are 64 countries which are covered by SDDS. Among these, information regarding the accounting system is available on 58 countries. These countries, on the basis of accounting convention, could be classified into three categories: i) those which fully follow the accrual-based accounting system, ii) those which follow cash-based accounting system and iii) those which follow a mixed system – both accrual and cash-based system of accounting. In the latter case, accrual or cash-based systems are followed for different items.

Out of 58 SDDS countries that were surveyed, only seven countries fall in the first category that has fully adopted accrual-based system of accounting. Among these, four are developed economies, viz., Austria, Belgium, Denmark and Iceland and three are emerging economies, viz., Argentina, Greece and Poland. The second category of cash-based system includes more than 50 per cent of the total number of economies surveyed. All the 32 countries in this category belong to developing world barring two cases, viz., Canada and Germany.

There are nearly 19 countries, constituting about one-third of total number of countries surveyed, that follow a mixed accounting system. This category includes most of the developed economies apart from a few emerging economies. Emerging economies which fall in this category are Brazil, Egypt, Ecuador, Israel, Lithuania, Malaysia, Mexico, Peru and Singapore.

The nature of the mixed accounting system varies across countries depending on the items that are covered under accrual or cash-based system. For instance, in the case of Brazil, data on Central Government, revenue of State and Local Governments are accounted on cash basis whereas spending by State and Municipal Governments are recorded on accrual basis.

In Egypt, investment expenditure is calculated on accrual basis whereas for all other items cash-based accounting is followed.

In Italy, revenue and expenditure are on accrual basis whereas financing data are on a cash basis.

In Mexico, the deficit/surplus, revenue, financing, total expenditure are all shown on cash basis, but the composition of expenditure is recorded on accrued terms.

Reference:

IMF: Dissemination Standards Bulletin Board.

IFAC (2004): *Handbook of International Public Sector Accounting Pronouncements*.

- State Governments should provide an economic and functional classification of expenditure after a stipulated interval of time such as six months after presentation of the budget. Also, State Governments should publish annual figures of staff employed by them along with the budget documents.
- Expenditure information on all government-funded schemes and what they propose to achieve should be made available, not just in the year of its introduction, for better monitoring of yearly actual expenditure on each scheme.
- States should curb the practice of covering losses of State-level PSUs through equity contributions from the capital account.
- The functioning of VAT needs to be tightened and timely settlement of refunds due and tax-payer appeals needs to be enforced. Also, rationalisation of other State-level levies like stamp duty on transfer of property and financial transactions, State excise on liquor, motor vehicle taxation, is incomplete in many States. Tax appeals through legal or quasi-legal channels are not always settled within a defined time-limit. Timely settlement of appeals from tax-payers needs to be enforced.
- All States should provide sensitivity analysis of projections in their budget documents and make financial provisions for contributions to the consolidated sinking fund and the guarantee redemption fund.
- The States should furnish a Statement of their assets and liabilities in their Budgets and also make actuarial estimates of pension liabilities. Data relating to debt should provide a breakdown, with details of interest rates at which loans are raised, nature of the instrument (interest-bearing or zero-coupon, bullet or amortised repayment), maturity pattern and yearly repayments falling due, as all of these have implications for future budget deficits.
- State Governments provide information on contingent liabilities as a part of their Finance Accounts, and in many cases as a part of their budget documents as well. However, the formats in which the State Governments disclose information on guarantees, and the break-ups provided, are not uniform. State Governments should provide these details in a uniform format.
- A common reporting framework for compensation and assignments to local bodies applicable to all States needs to be developed. Transfers of funds for the performance of functions devolved to local level should be reported in a transparent manner that is commonly adopted across all States, separately for rural and urban local bodies.
- There should be a single data dissemination point for State-wise fiscal data based on audited finance accounts, and, in future, for local Governments.

5.3 Centre and States

- FRBM Acts in India typically configure fiscal targets in two distinct categories,

the RD and GFD. The distinction between the two carries macroeconomic significance in a developing country context, but can get corrupted if there are expenditures which bundle together the two types of expenditure and get assigned uniquely to one or the other category. Three categories of bundled expenditure are candidates for fractional assignment between the current and capital expenditure categories:

- (i) Public Works Departments' (PWD) current expenditure on maintenance of roads, which is indistinguishable from expenditure on laying a new road.
 - (ii) Annual grants from States to local bodies, and grant-funded capital expenditure schemes, like the NREGS, Bharat Nirman, and the JNNURM, have a significant capital expenditure component at the recipient end, which needs to be taken cognisance of at the grantor end, since FRBM targets are applicable individually at each level of Government, and not just in aggregate across all levels of Government.
 - (iii) Assistance for externally-aided projects can sometimes get entirely recorded on the revenue account. Sometimes, the recording of these can vary from year to year, with a State getting logged entirely on the revenue account in one year, and split into capital and revenue the very next year. Unless these practices are standardised, comparability of fiscal indicators over time gets severely compromised. The budget documents of the Governments should transparently indicate the revenue and capital components of these categories of expenditure.
- For better monitoring of the yearly progression of actual expenditure on each scheme, expenditure on all government-funded schemes and descriptive information on what they propose to achieve should be made available, not just in the year of introduction,
 - Data relating to debt at the levels of both the Centre and the States should provide a breakdown by nature of the instrument- (interest-bearing or zero-coupon, bullet or amortised repayment), maturity pattern and yearly repayments falling due, as all of these have implications for future budget deficits.
 - All tax assesses must be informed of the completion of scrutiny/assessment within a period of six months, accompanied by payment on refund of levy on additional tax as the case may be. Tax appeals through legal or quasi-legal channels are not always settled within defined time-limits. Timely settlement of appeals from tax-payers needs to be enforced.
 - Time-limits, within which payments should be honoured, have to be formally included in PPP document along with a recourse mechanism. Future payments required under existing contracts should be included in the medium-term plan.
 - There should be a system for tracking departmental payments down the line on an IT platform and time-limits for honouring dues to the State and local Governments.
 - Budgetary projections in the future should be accompanied by sensitivity analysis with respect to key parameters.
 - Expenditure pressures on publicly-owned corporations from the Government for provision of staff and other facilities, in an effort to export expenditure burdens out of the budget, should be made explicit.

- A Working Group needs to be set up to sort out discrepancies in fiscal data as reported by State budgets, the Central budget, records of the Reserve Bank and the CAG Reports.
- Another Working Group needs to restructure and rationalise the budget head structure for reporting of expenditures. The revised budget head structure will then be nationally binding on all Governments at any level in the country, as is the present structure.
- The public capital outlay in any State is an aggregate of State Government-funded outlays, and outlays funded directly by the Central Government which are not all routed through the State exchequer, and can either be spent directly by line outposts of the Centre, or through sub-State level agencies, or through local Governments. There is no ready source of data on this aggregate, which makes the public capital outlay in a State impossible to quantify. Capital expenditure funded under the Member of Parliament Local Area Development Scheme (MPLADS) and the equivalent scheme for Members of the Legislature (SDFMLA) add a further element of public funding of capital outlay within each State. The Working Group on Budget Heads should address this issue specifically.
- A move to accrual accounting and accrual budgeting has to be phased in such a manner that there is no confusion and disruption of time-series on important fiscal indicators. There has to be a well-planned process of transition, with officials at the Central and the State-level well-trained in the new accounting system, before it is actually introduced.
- Borrowing by public sector undertakings (PSUs) is not reportable as part of the budgetary accounts of core government, but there is an intricate web of domino defaults by PSUs, corrective actions for which can appear in formal budgets episodically. For example, dues on account of defaults by State Electricity Boards to the NTPC were settled in many States through budgetary purchase by State Governments of Power Bonds issued by NTPC. State Electricity Boards, in turn, have dues owed to them by defaulting State or local water authorities, and water authorities can, in turn, have dues owed to them by defaulting rural or urban local bodies. A beginning can be made towards sorting this out if the outstanding stock of dues is reported transparently for each of the wholly-owned PSUs of the reporting Government in question in an appendix to budget documents. Such a reporting requirement will also correct the enormous delays in auditing of PSU accounts, especially at the State level.
- Procedures for employment of consultants, work contracts, purchase of goods, *etc.* need to be continuously monitored so as to introduce preventive clauses for avoidance and evasion loopholes, as and when they are identified.

Annex I

Assessment of Fiscal Transparency – Central Government

I. Clarity of Roles and Responsibilities	
1.1	<i>The Government sector should be distinguished from the rest of the public sector and from the rest of the economy, and policy and management roles within the public sector should be clear and publicly disclosed.</i>
Description	The structure of Government in India at the various levels, viz., Centre, States and local authorities, their responsibilities and relationship between Government and rest of the economy are clearly defined under the Indian Constitution and are publicly disclosed. The overall assessment in this regard is that the current practice is broadly compliant.
1.1.1	<i>The structure and functions of Government should be clear.</i>
Previous Assessment (Advisory Group - 2001)	Observed
Description	The functions of the Central Government in the Indian federal structure are clearly delineated in List I of the 7 th schedule of the Article 246 of the Constitution as distinct from List II, which is assigned exclusively to the States. List III is concurrently assigned to both Centre and States but in the event of conflict Central legislation prevails. Following the 73 rd and 74 th Amendments to the Constitution, a third layer was added on Local Governments (municipalities and <i>panchayats</i> in urban and rural areas, respectively). Legislative power over local bodies is the exclusive preserve of the State Governments.
Present Assessment	Observed
1.1.2	<i>The fiscal powers of the executive, legislative, and judicial branches of the Government should be well defined.</i>
Previous Assessment (Advisory Group - 2001)	Observed
Description	See 1.1.1. The roles of the executive, legislative and judicial branches are clearly defined. The executive branch is responsible for preparing the budget consisting of expenditure proposals and taxation proposals and presenting it to the legislature for approval. The executive is also responsible for implementing the budget once approved. The role of the judiciary is also well-defined.
Present Assessment	Observed
1.1.3	<i>The responsibilities of different levels of Government, and the relationships between them should be clearly specified.</i>
Previous Assessment (Advisory Group - 2001)	Observed

Description	See 1.1.1. Finance Commissions are constitutionally mandated every five years to examine the devolution of resources from Centre to States. The responsibilities and resources to the local level are left to the legislative domain of the States.
Present Assessment	Partly Observed
Comments	Functional encroachments by the Central Government on subjects exclusively assigned to States (List II) should be minimised or properly institutionalised so that the roles of the Central and State Governments are clearly defined in practice and accountability established. All calculations, based on which the Finance Commission's recommendations on sharing of revenue between the Centre and the States are made, must be placed on the website, since the States do not seem to have an opportunity to raise questions related to such calculations once the Finance Commission is wound up. A transparent conflict resolution mechanism must be put in place that provides an opportunity for the States to take recourse in regard to any disputes on the implementation of Finance Commission's recommendations, once approved by the Parliament.
1.1.4	<i>Relationships between the government and public corporations should be based on clear arrangements.</i>
Previous Assessment (Advisory Group - 2001)	Observed
Description	The public corporations are set up under different Acts. The relationships between Government and public corporations are based on clear arrangements set out in the Memoranda of Understanding (MoUs).
Present Assessment	Observed
1.1.5	<i>Government relationships with the private sector should be conducted in an open manner, following clear rules and procedures.</i>
Previous Assessment (Advisory Group - 2001)	Observed
Description	During the pre-reform period the government control and involvement in the private sector was extensive, which has been substantially reduced as part of the reform process through delicensing and liberalisation. The Government has put in place public-private partnership (PPP) model in recent years enabling greater

	private sector participation in creation and maintenance of infrastructure.
Present Assessment	Observed
1.2	<i>There should be a clear and open legal, regulatory and administrative framework for fiscal management.</i>
Description	The budgetary process has a legal basis and follows the regulatory and administrative framework for fiscal management. Expenditure of public funds is possible only by a process laid down in the Constitution and within the limits authorised by the legislature.
1.2.1	<i>The collection, commitment, and use of public funds should be governed by comprehensive budget, tax, and other public finance laws, regulations, and administrative procedures.</i>
Previous Assessment (Advisory Group - 2001)	Observed
Description	See 1.2.
Present Assessment	Observed
1.2.2	<i>Laws and regulations related to the collection of tax and non-tax revenues, and the criteria guiding administrative discretion in their application, should be accessible, clear, and understandable. Appeals of tax or non-tax obligations should be considered in a timely manner.</i>
Previous Assessment (Advisory Group - 2001)	Partly Observed
Description	Taxation is possible only under the authority of the law. The application of tax law is also subject to procedural and legal safeguards. Tax-payers can contest tax liability through a well-defined structure involving quasi-legal tribunals and ultimately the courts. Tax reforms and modernisation of tax administration is an on-going process which has steadily been gaining momentum year after year. With effect from June 1, 2003 it has been made mandatory for all corporate entities to file their TDS returns in electronic form (e-TDS returns). E-filing of service tax returns is being extended to all taxable services. E-filing of excise returns has also been introduced since June 30, 2004. The Income Tax Department has also introduced Electronic Clearing Services (ECS) for refunds up to Rs. 25,000/- in cases of salaried taxpayers filing returns in Form 2E (Naya Saral).
Present Assessment	Observed
Comments	All tax assessees, including income tax assesses must be informed of the completion of initial assessment of the tax returns submitted by them within a period of six months, accompanied by payment on refund of levy of additional tax as the case may be. Tax appeals through legal or quasi-legal channels are not always settled within defined time-limits. Timely settlement of appeals from tax-payers needs to be enforced.

Chapter IV

Assessment of Fiscal Transparency

1.2.3	<i>There should be sufficient time for consultation about proposed laws and regulatory changes and, where feasible, broader policy changes.</i>
Previous Assessment (Advisory Group - 2001)	Observed
Description	The Government consults different stakeholders before making regulatory changes. The proposals of the Government for levy of new taxes, modification of the existing tax structure or continuance of the existing tax structure beyond the period approved by Parliament are submitted to Parliament through Finance Bill. The Budget documents presented in terms of the Constitution have to fulfill certain legal and procedural requirements. Once the Finance Bill is passed by the Parliament with amendments, if any, it becomes an Act, and becomes constitutionally binding.
Present Assessment	Observed
1.2.4	<i>Contractual arrangements between the Government and public or private entities, including resource companies and operators of government concessions, should be clear and publicly accessible.</i>
Description	The Government has put in place the PPP model in the recent years enabling greater private sector participation in creation and maintenance of infrastructure.
Present Assessment	Observed
Comments	Time-limits within which payments should be honoured has to be formally included in the PPP document. Future payments required under existing contracts should be included in the medium-term plan.
1.2.5	<i>Government liability and asset management, including the granting of rights to use or exploit public assets, should have an explicit legal basis.</i>
Description	All revenues received by the Government, loans raised by it, and also its receipts from recoveries of loans granted by it, form the Consolidated Fund. Under Article 114(3) of the Constitution, no amount can be withdrawn from the Consolidated Fund without the enactment of such a law by Parliament. All expenditures of the Government is incurred from the Consolidated Fund and no amount can be withdrawn from the Fund without authorisation from the Parliament. Occasions may arise when the Government may have to meet urgent unforeseen expenditure pending authorisation from

	Parliament. The Contingency Fund is an imprest placed at the disposal of the President to incur such expenditure. Besides the normal receipts and expenditure of Government which relate to the Consolidated Fund, certain other transactions enter Government accounts, in respect of which Government acts more as a banker, for example, transactions relating to provident funds, small savings collections, other deposits, <i>etc.</i> The money thus received is kept in the Public Account and the connected disbursements are also made therefrom.
Present Assessment	Observed
II. Open Budget Processes	
2.1	<i>Budget preparation should follow an established timetable and be guided by well-defined macroeconomic and fiscal policy objectives.</i>
Description	The Fiscal Responsibility and Budget Management Act, 2003 (FRBM Act) received the assent of the President of India on August 26, 2003. The Government has also notified the Act and specified the Rules under it with effect from July 5, 2004. The Act and the Rules contain important provisions to improve fiscal transparency. As per the provisions of the Act, the Government shall lay before both houses of Parliament, the following documents along with the Annual Financial Statement: (1) Medium-term Fiscal Policy Statement; (2) Fiscal Policy Strategy Statement; and (3) Macro-economic Framework Statement.
2.1.1	<i>A budget calendar should be specified and adhered to. Adequate time should be allowed for the draft budget to be considered by the legislature.</i>
Previous Assessment (Advisory Group - 2001)	Observed
Description	The Central Government follows a calendar and presents the Union Budget as a Bill on a pre-announced day in the Parliament, which with amendments, if any, is passed as an Act after due discussion in the Parliament.
Present Assessment	Observed
2.1.2	<i>The annual budget should be realistic, and should be prepared and presented within a comprehensive medium-term macroeconomic and fiscal policy framework. Fiscal targets and any fiscal rules should be clearly stated and explained.</i>
Description	See 2.1.
Present Assessment	Observed
Comments	FRBM Acts in India typically configure fiscal targets in two distinct categories, the revenue deficit (RD) and the fiscal deficit (FD). The distinction between the two carries macroeconomic significance in

	<p>a developing country context, but can get corrupted if there are expenditures which bundle together the two types of expenditure and get assigned uniquely to one or the other category. Bundled expenditure of this kind can be fractionally assigned between the current and capital expenditure categories.</p> <p>The budget documents of the Governments should transparently indicate the revenue and capital component of these categories of expenditure.</p>
2.1.3	<i>A description of major expenditure and revenue measures, and their contribution to policy objectives, should be provided. Estimates should also be provided of their current and future budgetary impact and their broader economic implications.</i>
Description	See 2.1.
Present Assessment	Observed
Comments	<p>Resource transfers in the capital account from Centre to States are distinguished by type (<i>i.e.</i>, Plan/non-Plan), but figures for the gross transfer need to be supplemented by figures of repayment of each type of loan, so that the corresponding net transfer in capital account is obtainable by type. At present, this is not possible even from the Central Finance Accounts, because loan repayments by the States to the Centre do not distinguish between Plan and other loans.</p> <p>The budget documents do not cover the actual audited expenditure Statement of the Government. The audited accounts of expenditure are provided in the Finance Accounts which come out with a lag of six to nine months. Further, under the present system, detailed scheme-wise expenditure on government-funded schemes is available only for the current year. Comparable time-series information is not made available for the preceding years, rendering monitoring of yearly actual expenditure on these schemes difficult.</p>
2.1.4	<i>The budget documentation should include an assessment of fiscal sustainability. The main assumptions about economic developments and policies should be realistic and clearly specified, and sensitivity analysis should be presented.</i>
Description	See 2.1. Under FRBM Rules, 2004 underlying budget estimates states the various assumptions behind its estimates.
Present Assessment	Broadly Observed

Comments	Sensitivity analysis should be a routine feature in fiscal documents.
2.1.5	<i>There should be clear mechanisms for the co-ordination and management of budgetary and extra-budgetary activities within the overall fiscal policy framework.</i>
Previous Assessment (Advisory Group - 2001)	Observed
Description	There are very few extra-budgetary funds in India. Revenue inflows into these funds do not enter the Consolidated Fund but are held separately in the Public Account as deposits. The transactions in these funds are fully accounted for in the budget.
Present Assessment	Observed
2.2	<i>There should be clear procedures for budget execution, monitoring and reporting.</i>
Description	There is a well-established internal audit system in all Central Government departments. The system works with Internal Audit Cells under the guidance of Controller of Accounts and Financial Advisers of the ministries and departments. The effectiveness of the internal audit system is examined and commented upon by the audit conducted by the CAG, an independent Constitutional authority. The Fiscal Policy Strategy Statement placed under the FRBM Act contains, <i>inter alia</i> , the fiscal policy for the ensuing year and the rationale for policy changes. Under FRBM Rules, 2004 the Government undertakes quarterly assessment of the progress in implementing the Union Budget in its Statement on Quarterly Review of the Trends in Receipts and Expenditure in relation to the Budget. Starting with 2004-05, an outcome budget is issued annually by the Central Government.
2.2.1	<i>The accounting system should provide a reliable basis for tracking revenues, commitments, payments, arrears, liabilities and assets.</i>
Description	In order to bring about greater transparency in respect of tax arrears, as envisaged by FRBM Rules, 2004 and recommendations of the Standing Committee on Finance (29th Report), Receipts Budget from 2006-07 contains separate data indicating the following (i) Statement regarding tax demands raised but not realised, and (ii) arrears collection targets for the respective years. See also 3.1.5.
Present Assessment	Partly Observed
Comments	The Government should set up a system for tracking departments' payments down the line on an IT platform and time-limits for honouring dues to State Governments. See 1.2.4.
2.2.2	<i>A timely mid-year report on budget developments should be presented to the Legislature. More frequent updates, which should be at least quarterly, should be published.</i>

Description	This is observed under FRBM Rules, 2004.
Present Assessment	Observed
2.2.3	<i>Supplementary revenue and expenditure proposals during the fiscal year should be presented to the legislature in a manner consistent with the original budget presentation.</i>
Description	Supplementary demands for grants are placed before the Parliament and goes through the Finance Bill.
Present Assessment	Observed
2.2.4	<i>Audited final accounts and audit reports, including reconciliation with the approved budget, should be presented to the legislature and published within a year.</i>
Description	Controller General of Accounts (CGA) releases provisional accounts within two months after the completion of fiscal year, <i>i.e.</i> , year ended data for March is released in end-May, while Finance Accounts releases the audited data with a lag of six to nine months.
Present Assessment	Observed
III. Public Availability of Information	
3.1	<i>The public should be provided with comprehensive information on past, current, and projected fiscal activity and on major fiscal risks.</i>
Description	The pre-Budget Economic Survey and Budget documents provide past, current and projected information on fiscal indicators. Under the FRBM Act, the Central Government is setting forth a three-year rolling target for prescribed fiscal indicators with specification of underlying assumptions. Major fiscal risks are not put in the public domain.
3.1.1	<i>The budget documentation, including the final accounts, and other published fiscal reports should cover all budgetary and extra-budgetary activities of the Central Government.</i>
Description	See 3.1 and 2.1.5.
Present Assessment	Observed
Comments	Although the detailed Annual Financial Statement in the budget documents does record off-budget borrowings, there is need for a consolidated Statement on the aggregate stock outstanding of such bonds, the repayment schedule, and the interest liability falling due in each fiscal year to maturity. Many of these off-budget borrowings

	<p>are bullet bonds, falling due in a bunched manner at the time of maturity. These repayment liabilities and the timing of their occurrence should be transparently recorded at the time of issue.</p> <p>The budgetary fiscal deficit should be accompanied by an augmented GFD to capture off-budget borrowings.</p> <p>The disinvestment figures from asset sales of all years should also be disseminated by the Government.</p>
3.1.2	<i>Information comparable to that in the annual budget should be provided for the outturns of at least the two preceding fiscal years, together with forecasts and sensitivity analysis for the main budget aggregates for at least two years following the Budget.</i>
Description	See 3.1.
Present Assessment	Partly Observed
Comments	Budgetary projections in the future should be accompanied by sensitivity analysis with respect to key parameters.
3.1.3	<i>Statements describing the nature and fiscal significance of Central Government tax expenditures, contingent liabilities, and quasi-fiscal activities should be part of the budget documentation, together with an assessment of all other major fiscal risks.</i>
Previous Assessment (Advisory Group - 2001)	Broadly Observed
Description	Some progress has been made on this issue. The Receipts document of the Union Budget provides information on Central Government tax expenditures under revenue foregone for two fiscal years and the data on guarantees given by the Government. QFAs arising out of the sale of petroleum products at below the market prices were earlier not included in the budget documents on account of cross subsidisation of petroleum products through an off-budget Oil Co-ordination Committee (OCC) Pool Account mechanism. Following the dismantling of the administered price mechanism, subsidies on PDS kerosene and domestic LPG are on specified flat rate basis from April 1, 2002 and are borne by the Consolidated Fund of India. Starting with 2004-05, cash subsidy for petroleum is quantified and reflected in the budget and oil bonds, though quantified, are not reflected in the budget. QFAs in respect of other items including interest subsidies are not provided.
Present Assessment	Partly Observed
Comments	Expenditure pressure on the PSUs by the Government for provision of staff and various other facilities should be made explicit. Fiscal risks need to be quantified.
3.1.4	<i>Receipts from all major revenue sources, including resource-related activities and foreign assistance, should be separately identified in the annual budget presentation.</i>

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Description	All relevant details are provided in the Budget documents.
Present Assessment	Observed
3.1.5	<i>The Central Government should publish information on the level and composition of its debt and financial assets, significant non-debt liabilities (including pension rights, guarantee exposure, and other contractual obligations), and natural resource assets.</i>
Description	The Statement on assets and liabilities included in the Receipts Budget document gives the book value of assets in terms of cumulative capital outlay and outstanding amount of loans given by the Government. In compliance under Rule 6 of the FRBM Rules, 2004 the Receipts Budget from the Union Budget 2006-07 onwards has started publishing new Statements, viz., (i) Guarantees given by the Government and (ii) Asset Register.
Present Assessment	Observed
Comments	Data relating to debt should provide a breakdown by nature of the instrument (interest-bearing or zero-coupon, bullet or amortised repayment), maturity pattern and yearly repayments falling due, as all of these have implications for future budget deficits.
3.1.6	<i>The budget documentation should report the fiscal position of sub-national governments and the finances of public corporations.</i>
Previous Assessment (Advisory Group - 2001)	Observed
Description	The combined fiscal position of the Centre and State Governments as compiled by Reserve Bank is being published in the Reserve Bank's Annual Report in August and Reserve Bank Bulletin by December under the Special Data Dissemination Standard (SDDS) arrangement of the IMF. GoI's Economic Survey also provides such data in February. The Economic Survey also provides data on budgetary transactions of the Central and State Governments and Union Territories (including internal and extra-budgetary resources of public sector undertakings for their plans). Public Finance Statistics published in June, although the most lagged, provide the final audited figures.
Present Assessment	Broadly Observed
Comments	The budget documents do not provide overall public sector borrowing requirements.

	Borrowing by public sector undertakings (PSUs) is not, in a narrow sense, reportable as part of the budgetary accounts of core government, but there is an intricate web of domino defaults by PSUs, corrective actions for which can appear in formal budgets episodically. For example, dues on account of defaults by State Electricity Boards to the National Thermal Power Corporation (NTPC) were settled in many States through budgetary purchase by State Governments of Power Bonds issued by NTPC. State Electricity Boards, in turn, have dues owed to them by defaulting State or local water authorities, and water authorities can, in turn, have dues owed to them by defaulting rural or urban local bodies. A beginning can be made towards sorting out this maze if the outstanding stock of dues is reported transparently for each of the wholly-owned PSUs of the reporting Government in question, in an appendix to budget documents. Such a reporting requirement will also correct the enormous delays in auditing of PSU Accounts, especially at the State level.
3.1.7	<i>The Government should publish a periodic report on long-term public finances.</i>
Description	The Government undertakes this in its Statements laid out under FRBM Rules, 2004.
Present Assessment	Observed
3.2	<i>Fiscal information should be presented in a way that facilitates policy analysis and promotes accountability.</i>
Description	See 3.1. Observed under FRBM Rules, 2004.
Present Assessment	Observed
3.2.1	<i>A clear and simple summary guide to the budget should be widely distributed at the time of the annual budget.</i>
Description	Budget at a Glance and Key to Budget Documents capture the summary information.
Present Assessment	Observed
3.2.2	<i>Fiscal data should be reported on a gross basis, distinguishing revenue, expenditure, and financing, with expenditure classified by economic, functional, and administrative category.</i>
Description	The Annual Financial Statement of the Union Budget captures information of receipts and expenditures on a gross basis.
Present Assessment	Observed
3.2.3	<i>The overall balance and gross debt of the general government, or their accrual equivalents, should be standard summary indicators of the government fiscal position. They should be supplemented, where appropriate, by other fiscal indicators, such as the primary balance, the public sector balance and net debt.</i>

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Description	See 3.1.6. The fiscal indicators for the combined finances of the Centre and the State Governments are published. The public sector balance, however, is not released by the Government.
Present Assessment	Observed
3.2.4	<i>Results achieved relative to the objectives of major budget programs should be presented to the legislature annually.</i>
Description	See 3.1. Observed under FRBM Rules, 2004. Outcome Budgets are also released by the various ministries. The fiscal information is published in a timely fashion. See 2.1.1.
Present Assessment	Observed
3.3	<i>A commitment should be made to the timely publication of fiscal information.</i>
Description	See 3.2.4.
3.3.1	<i>The timely publication of fiscal information should be a legal obligation of government</i>
Description	Observed under FRBM Rules, 2004. The rules prescribe the formats on fiscal information, which are required to be presented to the Parliament.
Present Assessment	Observed
3.3.2	<i>Advance release calendars for fiscal information should be announced and adhered to.</i>
Previous Assessment (Advisory Group - 2001)	Observed
Description	See 2.1.1. There is a consistent time schedule for reporting fiscal information under FRBM Rules, 2004.
Present Assessment	Observed
IV. Assurances of Integrity	
4.1	<i>Fiscal data should meet accepted data quality standards.</i>
Description	See 2.2.4. The Centre has fully complied with the SDDS standard in respect of fiscal data.
4.1.1	<i>Budget forecasts and updates should reflect recent revenue and expenditure trends, underlying macroeconomic developments, and well-defined policy commitments.</i>

Description	See 3.1. Observed under FRBM Rules, 2004. FRBM provides impetus to the process of more realistic budgeting. The Medium-Term Fiscal Policy Statement of the Union Budget sets out the assumptions underlying the budget estimates on the fiscal indicators and the GDP growth. It also releases the rolling targets on revenue deficit, fiscal deficit, gross tax revenue, total outstanding liabilities, as a percentage of GDP set for a horizon of two years following the year of the budget estimates.
Present Assessment	Observed
4.1.2	<i>The annual budget and final accounts should indicate the accounting basis used in the compilation and presentation of fiscal data. Generally accepted accounting standards should be followed.</i>
Previous Assessment (Advisory Group - 2001)	Observed
Description	Government follows standard coding procedure of classifying all budgetary transactions in terms of budgetary heads. Accrual accounting principles are not followed. As it follows cash-based system of accounting, initiatives for migration towards accrual accounting are being taken. The CAG's commissioned study (July 2004) suggested this migration. The Government has accepted the recommendation of the TFC and has asked the GASAB to draw a roadmap for transition from cash to accrual accounting system and an operational framework for its implementation. The GASAB has already suggested a roadmap spelling out the constituent activities and tasks that have to be completed for making this transition. It is now finalising its Report on operational framework, which would provide a broad design of accrual accounting system and serve as reference point for financial reporting by Governments at both Centre and State levels as well as Ministries therein to ensure uniformity and comparability.
Present Assessment	Broadly Observed
Comments	A move to accrual accounting has to be phased in such that there is no confusion and disruption of time-series on important fiscal indicators. There has to be a well-planned process of transition, with officials at Central and State level well-trained in the new accounting system before it is actually introduced.
4.1.3	<i>Data in fiscal reports should be internally consistent and reconciled with relevant data from other sources. Major revisions to historical fiscal data and any changes to data classification should be explained.</i>
Description	The Government and Reserve Bank publications provide suitable notes explaining changes in the historical data.
Present Assessment	Broadly Observed
Comments	There is the need for a Working Group to sort out discrepancies in

	<p>the fiscal data as reported in the publication of Government at the Centre and the Reserve Bank.</p> <p>Another Working Group needs to restructure and rationalise the budget head structure for reporting of expenditures. The revised budget head structure will then be nationally binding on all Governments at any level in the country, as is the present structure.</p>
4.2	<i>Fiscal activities should be subject to effective internal oversight and safeguards.</i>
Description	See 2.2.
4.2.1	<i>Ethical standards of behaviour for public servants should be clear and well-publicised.</i>
Previous Assessment (Advisory Group - 2001)	Observed
Description	There are statutory laws relating to the behaviour of civil servants, and prescribed penalties for misconduct.
Present Assessment	Observed
4.2.2	<i>Public sector employment procedures and conditions should be documented and accessible to interested parties.</i>
Description	Union Public Service Commission, Staff Selection Commission and other recruitment agencies follow laid-down procedures for public sector employment.
Present Assessment	Observed
4.2.3	<i>Procurement regulations, meeting international standards, should be accessible and observed in practice.</i>
Description	<p>The Department of Expenditure, Ministry of Finance has issued three manuals that flow from the General Financial Rules, 2005. These are: Manual of Policies and Procedures of Employment of Consultants; Manual of Policies and Procedures for Works Contracts; and Manual of Policies and Procedures for Purchase of Goods.</p> <p>These procedures are to be followed by all Government Departments in their commercial contracts with commercial agencies including those in the private sector.</p> <p>Apart from the above, the National E-Governance Plan (NeGP) has been launched for Implementing e-Procurement in Ministries/ Departments.</p>

Present Assessment	Observed
Comments	Procedures need to be continuously monitored so as to introduce preventive clause for avoidance and evasion loopholes as and when they are identified.
4.2.4	<i>Purchases and sales of public assets should be undertaken in an open manner, and major transactions should be separately identified.</i>
Description	Generally an open tender system is followed in purchases by the Government. That apart, a broad procedure has been codified in the form of Manuals referred to under item 4.2.3.
Present Assessment	Observed
4.2.5	<i>Government activities and finances should be internally audited, and audit procedures should be open to review.</i>
Description	See 2.2.
Present Assessment	Observed
4.2.6	<i>The national revenue administration should be legally protected from political direction, ensure taxpayers' rights, and report regularly to the public on its activities.</i>
Description	<p>The Revenue function is performed by a quasi-judicial authority, which exercises its powers under specific statutes (Indian Customs Act and the Income Tax Act).</p> <p>These statutes (among others) are detailed and duly empower the functionaries to exercise the powers under law and provide them the legal protection.</p> <p>The revenue functionaries are also civil servants and are thus entitled to the protection as available under the law.</p> <p>The Revenue Boards, namely, the Central Board of Direct Taxes and the Central Board of Excise and Customs serve as a buffer between the Ministries of the Government and the line functionaries performing revenue functions.</p> <p>As far as the tax-payers are concerned the following institutions are in place to ensure protection of their legitimate interests/rights.</p> <ol style="list-style-type: none"> 1) An Ombudsman has been instituted. 2) A citizens' charter has been laid out. 3) Law provides for appeal against decisions taken by revenue authorities. 4) To help tax-payers (specified categories only) to plan their income-tax affairs well in advance and to avoid litigation, a scheme of Advance Rulings has been introduced under the Income-tax Act. <p>The revenue authorities are also subject to the Right to Information Act, 2005.</p>
Present Assessment	Observed
Comments	A continuous process of rationalising various taxes is underway.

4.3	<i>Fiscal information should be externally scrutinised.</i>
Description	Under Article 148 of the Indian Constitution, the CAG, an independent Constitutional authority, scrutinises public finances and policies.
4.3.1	<i>Public finances and policies should be subject to scrutiny by a national audit body or an equivalent organisation that is independent of the executive.</i>
Previous Assessment (Advisory Group - 2001)	Observed
Description	See. 4.3.
Present Assessment	Observed
4.3.2	<i>The national audit body or equivalent organisation should submit all reports, including its annual report, to the legislature and publish them. Mechanisms should be in place to monitor follow-up actions.</i>
Previous Assessment (Advisory Group - 2001)	Observed
Description	The public finances and policies, scrutinised by the CAG, are placed in the Parliament.
Present Assessment	Observed
4.3.3	<i>Independent experts should be invited to assess fiscal forecasts, the macroeconomic forecasts on which they are based, and their underlying assumptions.</i>
Description	Post-facto, it is done either under FRBM mandate, or independently as a part of the parliamentary procedure. But there is no systematic analysis of budget estimates and the underlying assumptions.
Present Assessment	Partly Observed
4.3.4	<i>A national statistical body should be provided with the institutional independence to verify the quality of fiscal data.</i>
Description	The National Statistical Commission, a statutory body, has <i>inter alia</i> the mandate to evolve strategies for the collection, tabulation and dissemination of core statistics, including the release of calendar for various data sets, and to monitor and review the functioning of the statistical system in the light of the laid down policies, standards and methodologies and recommend measures for enhanced performance.
Present Assessment	Observed

Annex II

Assessment of Fiscal Transparency – State Governments

I. Clarity of Roles and Responsibilities	
1.1	<i>The Government sector should be distinguished from the rest of the public sector and from the rest of the economy, and policy and management roles within the public sector should be clear and publicly disclosed.</i>
Description	The Government sector is distinguished from the rest of the public sector and rest of the economy. Public sector has separate accounting. The State Governments are disclosing their policies through their budgets.
1.1.1	<i>The structure and functions of government should be clear.</i>
Description	See 1.1.1 for Central Government. In case of local Government, list of functions devolvable to local Government is provided in the Eleventh and Twelfth Schedules and added on by 73 rd and 74 th amendments. This is a suggestive list to be devolved over time at a pace chosen by the State Government in question.
Present Assessment	Observed
1.1.2	<i>The fiscal powers of the executive, legislative, and judicial branches of the Government should be well defined.</i>
Description	See 1.1.2 for Central Government.
Present Assessment	Observed
1.1.3	<i>The responsibilities of different levels of government, and the relationships between them should be clearly specified.</i>
Description	See 1.1.3 for Central Government. Under the 73 rd and 74 th amendments of the Constitution, States are required to establish State Finance Commissions (SFCs) every five years to examine the transfer and devolution of resources from the States to local bodies.
Present Assessment	Partly Observed
Comments	The SFCs are not regularly appointed in all States; they do not always submit their Reports by stipulated deadlines; and State Legislatures do not make clear the basis for acceptance or rejection of their proposals. Finally, the accepted recommendations are not necessarily implemented in their totality in all cases.
1.1.4	<i>Relationships between the Government and public corporations should be based on clear arrangements.</i>
Description	See 1.1.4 for Central Government.
Present Assessment	Partly Observed
Comments	At State level, there may not be Memoranda of Understanding (MoU) between the State Government and public sector units (PSUs) in all cases.

1.1.5	<i>Government relationships with the private sector should be conducted in an open manner, following clear rules and procedures.</i>
Description	Regulation and control mechanisms in an assortment of spheres relating to factor markets in land and labour, utilities like power and water connections and transport, are fraught with ambiguities and procedural complications at State level.
Present Assessment	Partly Observed
Comments	State Governments need to move to a facilitative conception of Government regulation while at the same time retaining their role as guardian of public interest.
1.2	<i>There should be a clear and open legal, regulatory and administrative framework for fiscal management.</i>
1.2.1	<i>The collection, commitment and use of public funds should be governed by comprehensive budget, tax, and other public finance laws, regulations, and administrative procedures.</i>
Description	As per article 266 of the Constitution, all revenues received by the Government of a State, all loans raised by that Government by the issue of treasury bills, loans or ways and means advances and all moneys received by that Government in repayment of loans shall form one consolidated fund to be entitled 'the Consolidated Fund of the State'. All other public moneys received by or on behalf of the Government shall be credited to the 'Public Account' of the State. Expenditure of public funds follows the process laid down in the Constitution and within the limits authorised by the legislature. Further, the expenditures of the State Governments are allocated and administered by the designated departments.
Present Assessment	Observed
Comments	In practice, cover for losses of State PSUs is extended through equity contributions from the capital account of the State Government budget. Such non-transparent fiscal practices need to be curbed.
1.2.2	<i>Laws and regulations related to the collection of tax and non-tax revenues, and the criteria guiding administrative discretion in their application, should be accessible, clear, and understandable. Appeals of tax or non-tax obligations should be considered in a timely manner.</i>
Description	The State Governments have laws and regulations relating to collection of tax and non-tax revenues. With the introduction of

	value added tax (VAT) starting April 1, 2005 the transparency of State-level taxation has improved considerably.
Present Assessment	Broadly Observed
Comments	The functioning of VAT needs to be tightened considerably, especially in the interest of timely payment of refunds. Also, rationalisation of other State-level levies like stamp duty on transfer of property and financial transactions, State excise on liquor, motor vehicle taxation, is incomplete in many States. Tax appeals though legal or quasi-legal channels are not always settled within a defined time-limit. Timely settlement of appeals from tax-payers needs to be enforced.
1.2.3	<i>There should be sufficient time for consultation about proposed laws and regulatory changes and, where feasible, broader policy changes.</i>
Description	The budget proposals need to be discussed and approved in the legislative assembly of the State Governments. The stake-holders are consulted by the State Governments before broader policy changes are made.
Present Assessment	Observed
1.2.4	<i>Contractual arrangements between the government and public or private entities, including resource companies and operators of government concessions, should be clear and publicly accessible.</i>
Description	See 1.2.4 of the Central Government.
Present Assessment	Observed
Comments	Future payments required under existing contracts should be reported and included in medium-term planning. Time-limits within which payments should be honoured have to be formally included in PPP documents along with recourse mechanisms.
1.2.5	<i>Government liability and asset management, including the granting of rights to use or exploit public assets, should have an explicit legal basis.</i>
Description	All revenues received by the Government, loans raised by it, and also its receipts from recoveries of loans granted by it, are from the Consolidated Fund. All expenditure of Government is incurred from the Consolidated Fund of the State. Unforeseen expenditures, pending authorisation, are met from the Contingency Fund. Besides the normal receipts and expenditure of Government which relate to the Consolidated Fund, certain other transactions enter Government accounts, in respect of which the Government acts more as a banker; for example, transactions relating to provident funds, small savings collections, other deposits, etc., The moneys thus received are kept in the Public Account and the connected disbursements are also made therefrom. A few State Governments publish information on the level and composition of their outstanding debt in their budget documents.

	All State Governments, barring two, have enacted FRL which requires them to provide the details regarding pension obligations, guarantee exposure and other contractual obligations.
Present Assessment	Observed
II. Open Budget Processes	
2.1	<i>Budget preparation should follow an established timetable and be guided by well-defined macroeconomic and fiscal policy objectives.</i>
Description	A time-table for the budget is already in place. As per the FRLs of the State Governments, barring two, some of the State Governments are publishing a document containing the fiscal policy objectives along with the budget documents. Medium-term fiscal projections are also given in the Medium-term Fiscal Policy (MTFP) Statement placed along with the budget documents.
2.1.1	<i>A budget calendar should be specified and adhered to. Adequate time should be allowed for the draft budget to be considered by the legislature.</i>
Description	The budget calendar is already in place. The legislative assembly discusses the budget in detail before passing it as an Act.
Present Assessment	Observed
2.1.2	<i>The annual budget should be realistic, and should be prepared and presented within a comprehensive medium-term macroeconomic and fiscal policy framework. Fiscal targets and any fiscal rules should be clearly Stated and explained.</i>
Description	See 2.1.
Present Assessment	Broadly Observed
Comments	Fiscal marksmanship is not, in general, very good at the State level. Budgeted expenditures often far exceed known feasible limits. Fiscal Responsibility and Budget Management (FRBM) Acts in India typically configure fiscal targets in two distinct categories, the RD and the FD. The distinction between the two carries macroeconomic significance in a developing country context, but can get corrupted if there are expenditures which bundle together the two types of expenditure and get assigned uniquely to one or the other category. One example of bundled expenditure at State level is given below:

	<p>Assistance from externally-aided projects can sometimes get entirely recorded on the revenue account. Sometimes, the recording of these can vary from year to year even with a State, getting logged entirely on the revenue account in one year, and split into capital and revenue the very next year. Unless these practices are standardised, comparability of fiscal indicators over time gets severely compromised. The budget documents of the Governments should transparently indicate the revenue and capital component of such categories of expenditure.</p>
2.1.3	<p><i>A description of major expenditure and revenue measures, and their contribution to policy objectives, should be provided. Estimates should also be provided of their current and future budgetary impact and their broader economic implications.</i></p>
Description	<p>The details of expenditure and tax proposals are given in the budget documents of the State Governments.</p>
Present Assessment	<p>Broadly Observed</p>
Comments	<p>State Governments do not, as a general rule, provide an economic and functional classification of expenditure, although after an interval of time, such as six months after presentation of budget, this may be permissible. Also, State Governments are presently required to publish annual figures along with budget documents of staff employed, but they do not comply with this requirement. The financing of fiscal deficit, which is the imbalance between total expenditure and total revenue, has to be separately shown in the summary budget document.</p> <p>The budget documents do not cover the actual audited expenditure statement of the government. The audited accounts of expenditure are provided in the Finance Accounts which comes out with a lag of more than a year. Further, under the present system, detailed scheme-wise information on government-funded schemes is available only for the current year. Comparable time-series information is not made available for the preceding years rendering monitoring of yearly actual expenditure on these schemes difficult.</p>
2.1.4	<p><i>The budget documentation should include an assessment of fiscal sustainability. The main assumptions about economic developments and policies should be realistic and clearly specified, and sensitivity analysis should be presented.</i></p>
Description	<p>Under the FRLs, the State Governments shall take appropriate measures to eliminate RD and contain GFD at sustainable levels and build up adequate revenue surplus.</p>
Present Assessment	<p>Broadly Observed</p>
Comments	<p>All States should provide sensitivity analysis for projections in their medium-term fiscal documents. Some States have a Consolidated</p>

	Sinking Fund (CSF) as a guarantee against default and a Guarantee Redemption Fund (GRF) as a fall-back for the State Government in its role as guarantor of parastatal debt. All States should set up CSF and GRF.
2.1.5	<i>There should be clear mechanisms for the co-ordination and management of budgetary and extra-budgetary activities within the overall fiscal policy framework.</i>
Description	Revenue inflows into extra-budgetary funds do not enter the Consolidated Fund but are held separately in the Public Account as deposits. The transactions in these funds are fully accounted for in the budget.
Present Assessment	Observed
2.2	<i>There should be clear procedures for budget execution, monitoring, and reporting.</i>
Description	The FRLs of the State Governments contains, <i>inter alia</i> , the fiscal policy for the ensuing year and the rationale for policy changes. Under FRLs, the State Governments undertake quarterly/half yearly assessment of the progress in implementing the Budget along with the reasons for deviation, if any, and the respective remedial measures. Following the Central Government, many State Governments propose to introduce outcome budgets.
2.2.1	<i>The accounting system should provide a reliable basis for tracking revenues, commitments, payments, arrears, liabilities, and assets.</i>
Description	The existing framework provides for periodical manual reporting of expenditures and revenues, not amounting to a real-time tracking system.
Present Assessment	Partly Observed
Comments	The Government should set up a system for tracking departmental payments down the line on an IT platform, and time-limits for honouring dues to local Governments.
2.2.2	<i>A timely mid-year report on budget developments should be presented to the Legislature. More frequent updates, which should be at least quarterly, should be published.</i>
Description	As per the FRLs of the State Governments, while a few States would provide quarterly updates, the rest have proposed to make half yearly updates.

Present Assessment	Broadly Observed
2.2.3	<i>Supplementary revenue and expenditure proposals during the fiscal year should be presented to the legislature in a manner consistent with the original budget presentation.</i>
Description	States present supplementary demand for grants in the legislative assembly.
Present Assessment	Observed
2.2.4	<i>Audited final accounts and audit reports, including reconciliation with the approved budget, should be presented to the legislature and published within a year.</i>
Description	CAG audits the State Government accounts and, generally, the Report is published within a year.
Present Assessment	Observed
III. Public Availability of Information	
3.1	<i>The public should be provided with comprehensive information on past, current, and projected fiscal activity and on major fiscal risks.</i>
Description	The Economic Survey of the States and Budget documents provide past and current information on fiscal activities. Several State Governments also bring out Medium-term Fiscal Policy Statements projecting fiscal activity over the medium-term. Information on fiscal risks, however, is not provided.
Comments	State Governments do not all report fiscal information in a uniform manner.
3.1.1	<i>The budget documentation, including the final accounts, and other published fiscal reports should cover all budgetary and extra-budgetary activities of the Central Government.</i>
Description	See 3.1 and 2.1.5.
Present Assessment	Observed
Comments	The budgetary fiscal deficit should be accompanied by an augmented fiscal deficit to capture off-budget items. The disinvestment figures from asset sales of the previous years should also be disseminated by the Government. How the fiscal deficit is financed and the detailed break-up of interest payments should also be reported. Disinvestment receipts are officially provided only at the Central level. No source records disinvestment receipts in aggregate across States.
3.1.2	<i>Information comparable to that in the annual budget should be provided for the outturns of at least the two preceding fiscal years, together with forecasts and sensitivity analysis for the main budget aggregates for at least two years following the Budget.</i>

Description	See 3.1. The State Budgets provide comparable information in the annual budgets for the two preceding fiscal years. Two State Governments, however, provide fiscal information for only one preceding fiscal year apart from the budget year.
Present Assessment	Partly Observed
Comments	See 2.1.2. Budget projections into the future should be accompanied by sensitivity analysis with respect to key parameters.
3.1.3	<i>Statements describing the nature and fiscal significance of Central Government tax expenditures, contingent liabilities, and quasi-fiscal activities should be part of the budget documentation, together with an assessment of all other major fiscal risks.</i>
Description	As per the FRLs of the State Governments, the State Governments have to disclose the extent of contingent liabilities.
Present Assessment	Partly Observed
Comments	Expenditure pressure on the PSUs by Government for provision of staff and various facilities should be made explicit. State Governments do not consistently comply with the requirement to provide information even on outstanding liabilities, let alone contingent liabilities as part of the budget documents, thereby hampering a complete assessment of fiscal risks. All State Governments do not provide information on contingent liabilities as a part of their Finance Accounts, and their budget documents uniformly. There should be uniformity in the information disclosed on guarantees, and the break-ups provided.
3.1.4	<i>Receipts from all major revenue sources, including resource-related activities and foreign assistance, should be separately identified in the annual budget presentation.</i>
Description	Budget documents of the State Governments provide the details of all major revenue sources.
Present Assessment	Observed
3.1.5	<i>The Central Government should publish information on the level and composition of its debt and financial assets, significant non-debt liabilities (including pension rights, guarantee exposure, and other contractual obligations), and natural resource assets.</i>

Description	See 1.2.5.
Present Assessment	Partly Observed
Comments	<p>See 3.1.3.</p> <p>The States are not giving a Statement on their assets and liabilities in their Budgets. The States are not making actuarial estimates of pension liabilities.</p> <p>Data relating to debt should provide a breakdown by the details of interest rates at which loans are raised, nature of the instrument (interest-bearing or zero-coupon, bullet or amortised repayment), maturity pattern and yearly repayments falling due, as all of these have implications for future budget deficits.</p>
3.1.6	<i>The budget documentation should report the fiscal position of sub-national governments and the finances of public corporations.</i>
Description	State Government budgets do not provide details about the fiscal position of local bodies and public corporations. However, compensation and assignments given to the local bodies are provided in the State budgets, although not in a uniform formal manner.
Present Assessment	Not Observed
Comments	<p>Compensation and assignments to local bodies are not uniquely reported under the budget head 3604 designated for this purpose. They are clubbed with rural development expenditure, budget head 2515 for example. Further, budgetary transfers accompanying transfers of functions from the State to Local Governments, as part of decentralised mechanism under 73rd and 74th amendments are reported under a medley of systems, varying widely across States. The budgetary structure used at State level does not, in all States, provide for distinctions between funds transferred to rural local bodies and funds transferred to urban local bodies. Transfer of funds for the performance of functions devolved to local level should be reported in a transparent manner that is commonly adopted across all States, separately for rural and urban local bodies.</p> <p>Borrowing by PSUs is not in a narrow sense reportable as part of the budgetary accounts of core Government, but there is an intricate web of domino defaults by PSUs, corrective actions for which can appear in formal budgets episodically. For example, dues on account of defaults by State Electricity Boards to the National Thermal Power Corporation (NTPC) were settled in many States through budgetary purchase by State Governments of Power Bonds issued by NTPC. State Electricity Boards in turn have dues owed to them by defaulting State or local water authorities, and water authorities can in turn have dues owed to them by defaulting rural or urban local bodies. A beginning can be made towards sorting out this maze if the outstanding stock of dues is reported transparently for each of the</p>

	wholly-owned PSUs of the reporting Government in question, in an appendix to budget documents. Such a reporting requirement will also correct the enormous delays in auditing of PSU Accounts, especially at the State level.
3.1.7	<i>The government should publish a periodic report on long-term public finances.</i>
Description	See 3.2. Several State Governments have brought out a medium-term fiscal plan. However, there is no system of publishing periodic reports on long-term public finances by the State Governments.
Present Assessment	Partly Observed
3.2	<i>Fiscal information should be presented in a way that facilitates policy analysis and promotes accountability.</i>
Description	See 3.1. As per the FRLs, the State Governments are required to lay before the house of legislature in each financial year the following statements of fiscal policy along with the budget: (a) Macroeconomic Framework Statement, (b) Medium-term Fiscal Policy Statement, and (c) The Fiscal Policy Strategy Statement.
3.2.1	<i>A clear and simple summary guide to the budget should be widely distributed at the time of the annual budget.</i>
Description	Budget at a Glance and Key to Budget Documents capture the summary information.
Present Assessment	Observed
3.2.2	<i>Fiscal data should be reported on a gross basis, distinguishing revenue, expenditure and financing, with expenditure classified by economic, functional, and administrative category.</i>
Description	The Annual Financial Statement of the State Government Budgets captures information of receipts and expenditures on a gross basis classified by administrative category.
Present Assessment	Partly Observed
Comments	See 2.1.3.
3.2.3	<i>The overall balance and gross debt of the general government, or their accrual equivalents, should be standard summary indicators of the government fiscal position. They should be supplemented, where</i>

	<i>appropriate, by other fiscal indicators, such as the primary balance, the public sector balance and net debt.</i>
Description	For the fiscal indicators covering flows from State to Local Governments, see 3.1.6.
Present Assessment	Not Observed
Comments	See 3.1.6.
3.2.4	<i>Results achieved relative to the objectives of major budget programs should be presented to the legislature annually.</i>
Description	See 3.1. Following the Central Government, many State Governments propose to introduce outcome budgets/performance budgets. Many of the State Governments have also come out with performance budgets.
Present Assessment	Partly Observed
3.3	A commitment should be made to the timely publication of fiscal information.
Description	The fiscal information is published in a timely fashion. See 2.1.1.
3.3.1	<i>The timely publication of fiscal information should be a legal obligation of government.</i>
Description	The rules framed under FRLs prescribe the various parameters of fiscal information, which are required to be presented to the Legislative Assembly.
Present Assessment	Observed
Comments	Yes, it is legally prescribed, but not fully complied.
3.3.2	<i>Advance release calendars for fiscal information should be announced and adhered to.</i>
Description	See 2.1.1. Depending on the convenience, State Governments announce the date of budget presentation.
Present Assessment	Partly Observed
Comments	There is an advance schedule for release of fiscal information, but it is not strictly adhered to by all State Governments.
IV. Assurances of Integrity	
4.1	<i>Fiscal data should meet accepted data quality standards.</i>
Description	See 2.2.4. States' fiscal data are not supplied under SDDS.
4.1.1	<i>Budget forecasts and updates should reflect recent revenue and expenditure trends, underlying macroeconomic developments, and well-defined policy commitments.</i>
Description	See 3.1 and 2.1.2. Observed under the FRLs of the States.

Present Assessment	Broadly Observed
4.1.2	<i>The annual budget and final accounts should indicate the accounting basis used in the compilation and presentation of fiscal data. Generally accepted accounting standards should be followed.</i>
Description	<p>State Governments follow standard coding procedure of classifying all budgetary transactions in terms of budgetary heads as prescribed by the CGA. Accrual accounting principles are not followed.</p> <p>The Government has accepted the recommendations of the Twelfth Finance Commission (TFC) and has asked the Government Accounting Standards Advisory Board (GASAB) to draw a roadmap for transition from cash to accrual accounting system and an operational framework for its implementation. The GASAB has already suggested a roadmap spelling out the constituent activities and tasks that have to be completed for making this transition. It is now finalising its Report on operational framework, which would provide a broad design of accrual accounting system and serve as reference point for financial reporting by Governments at both Centre and State levels as well as Ministries therein to ensure uniformity and comparability.</p>
Present Assessment	Partly Observed
Comments	See 3.1.6. A move to accrual accounting has to be phased in such that there is no confusion and disruption of time-series on important fiscal indicators. There has to be a well-planned process of transition, with officials at Central and State level well-trained in the new accounting system before it is actually introduced.
4.1.3	<i>Data in fiscal reports should be internally consistent and reconciled with relevant data from other sources. Major revisions to historical fiscal data and any changes to data classification should be explained.</i>
Description	The Government's and the Reserve Bank's publications provide suitable notes explaining changes in the historical data.
Present Assessment	Partly Observed
Comments	Data reported in the State Budgets are at variance with the data reported in the Union Budget in respect of the Central tax share and grants-in-aid going to States. Further, the data on securities issued to National Small Savings Fund (NSSF) budgeted in the State budgets are at variance from the figures available in the Union Budget. As

	<p>regards the market borrowing of the State Governments, the figure budgeted in the State Budgets and the figures as per the Reserve Bank's record do not match.</p> <p>Data on outstanding loans from Centre to the State Governments as per the Union Finance Accounts, CAG Report on Combined Finance and Revenue Accounts of Union and State Governments in India and the Union Budget differ.</p> <p>These matters should also be addressed by the Working Group recommended under 4.1.3 for the Centre.</p> <p>Another Working Group needs to restructure and rationalise the budget head structure for reporting of expenditures. The revised budget head structure will then be nationally binding on all Governments at any level in the country, as is the present structure.</p>
4.2	<i>Fiscal activities should be subject to effective internal oversight and safeguards.</i>
Description	See 2.2.
4.2.1	<i>Ethical standards of behaviour for public servants should be clear and well-publicised.</i>
Description	There are statutory laws relating to the behaviour of civil servants, and prescribed penalties for misconduct.
Present Assessment	Observed
4.2.2	<i>Public sector employment procedures and conditions should be documented and accessible to interested parties.</i>
Description	There are laid-down procedures and public sector recruitment agencies for public sector employment.
Present Assessment	Observed
4.2.3	<i>Procurement regulations, meeting international standards, should be accessible and observed in practice.</i>
Description	States have their own manuals, policies and procedures for procurement.
Present Assessment	Partly Observed
Comments	<p>In the case of some States, these manuals may be urgently in need of inspection and revision.</p> <p>Procedures need to be continually monitored so as to introduce preventive clause for avoidance and evasion loopholes, as and when they are identified.</p>
4.2.4	<i>Purchases and sales of public assets should be undertaken in an open manner, and major transactions should be separately identified.</i>
Description	Generally, an open tender system is followed in purchases by the State Governments.

Present Assessment	Observed
4.2.5	<i>Government activities and finances should be internally audited, and audit procedures should be open to review.</i>
Description	The State Governments have laid down systems and procedures for internal inspection and audit.
Present Assessment	Observed
4.2.6	<i>The national revenue administration should be legally protected from political direction, ensure taxpayers' rights, and report regularly to the public on its activities.</i>
Description	<p>The revenue function is performed by a quasi-judicial authority, which exercises its powers under specific statutes.</p> <p>These statutes (among others) are detailed and duly empower the functionaries to exercise the powers under law and provide them the legal protection.</p> <p>The revenue functionaries are also civil servants and are, thus, entitled to the protection as available under the law.</p> <p>To ensure protection of legitimate interests/rights of the tax-payers, law provides for appeal against decisions taken by revenue authorities. The revenue authorities are also subject to the Right to Information Act, 2005.</p>
Present Assessment	Observed
4.3	<i>Fiscal information should be externally scrutinised.</i>
Description	CAG set up under Article 148 of the Indian Constitution scrutinises fiscal data.
4.3.1	<i>Public finances and policies should be subject to scrutiny by a national audit body or an equivalent organisation that is independent of the executive.</i>
Description	See 4.3.
Present Assessment	Observed
4.3.2	<i>The national audit body or equivalent organisation should submit all reports, including its annual report, to the legislature and publish them. Mechanisms should be in place to monitor follow-up actions.</i>
Description	The reports of the CAG are placed in State legislatures and are published.
Present Assessment	Observed

4.3.3	<i>Independent experts should be invited to assess fiscal forecasts, the macroeconomic forecasts on which they are based, and their underlying assumptions.</i>
Description	Post-facto, it is done either under FRBM mandate, or independently as a part of the parliamentary procedure. But there is no systematic analysis of budget estimates and the underlying assumptions.
Present Assessment	Partly Observed
4.3.4	<i>A national statistical body should be provided with the institutional independence to verify the quality of fiscal data.</i>
Description	The National Statistical Commission, a statutory body, has <i>inter alia</i> the mandate to evolve strategies for the collection, tabulation and dissemination of core statistics, including the release of calendar for various data-sets, and to monitor and review the functioning of the statistical system in the light of the laid down policies, standards and methodologies and recommend measures for enhanced performance.
Present Assessment	Observed

Annex III

**Fiscal Transparency
A Peer Review of the Advisory Panel Assessment**

By Vito Tanzi

The draft assessment of the IMF's Code of Good Practices on Fiscal Transparency, prepared by the Advisory Panel on Transparency Standards, is a highly competent and honest document that describes clearly the progress made in recent years in India in promoting fiscal transparency and outlines the remaining shortcomings and reforms needed to achieve a fully satisfactory good practice on fiscal transparency.

With a Central Government, with 28 State Governments, and with many Municipalities and *Panchayats*, the public sector of India is inevitably complex. Achieving full fiscal transparency, at all levels of government, is likely to be an unrealistic goal. However, this does not mean that India should not strive to move toward greater fiscal transparency than it now has so that its pursuit of good fiscal policy would be facilitated. The Report outlines the considerable progress made in recent years by the Union Government and by most of the State governments. As the Report recognises, that progress was not universal at the State level but it was important in the aggregate. Hopefully, future years will see further progress toward greater fiscal transparency at all levels. The Report points to various areas where progress is deemed necessary. I felt that the listing of areas where improvement is needed was fairly comprehensive.

Not having first hand, detailed knowledge of India's institutional setup and of the working of the public sector at all levels, I can only base my comments on the information contained in the Report assuming that it is the correct information. I will try to relate my comments, whenever possible, to the four pillars of the IMF Code, namely, a) Clarity of Role and Responsibilities, b) Open Budgeting Process, c) Public Availability of Information, and d) Assurances of Integrity.

On Clarity of Role and Responsibilities, I believe that as long as the Constitution recognises a 'concurrent list' of 47 items, between the Union and the States, it will be difficult to achieve in practice complete clarity of Role and Responsibilities. The Report shows awareness of this problem where it states that 'overlaps...in...health and agriculture have led to deterioration in the quality of governance'. Unfortunately, this being a Constitutional issue, it is difficult to deal with it outside of a Constitutional reform that is always a difficult enterprise.

There must also be issues, not covered by the Report, related to the responsibilities of the States versus those of Municipalities and *Panchayats*. These issues are likely to be aggravated by the existence of Contingent Liabilities that can be explicit but also implicit. The explicit ones can be identified and reported in footnotes or addenda to the budget document as suggested in the Report. The implicit ones generally do not appear anywhere but they can create major

problems when particular circumstances arise (such as bank failures, natural catastrophes, *etc.*) and the government is pushed politically to intervene. In any case, the attention given to contingent liabilities and quasi-fiscal activities in the Report is well-justified.

Various problems are recognised in the Report with respect to the budgetary process. Some of these are: a) 'long delays in honouring payments'; b) lack of 'sensitivity analysis' for fiscal projections; c) lag in audited accounts; d) difficulty in monitoring actual expenditure for government-funded schemes; e) failure of the fiscal deficit measures to capture the impact of off-budget items such as oil bonds; f) and failure to report the overall public sector borrowing requirement (PSBR). Off-budget items are always highly damaging to fiscal transparency and to the pursuit of good fiscal policy so that the incorporation of these items in the budget would be a desirable step in the right direction.

The Report concludes that State Governments do less well than the Central Government on fiscal transparency. This, of course, is not a problem limited to India. Information on State Governments tends to be less comprehensive than that on national governments. State Governments (or at least some of them) are also reported to do less well in providing information to the public. They also tend to experience large disparities between budget estimates and actual results for the budget years, thus reducing the value of the budget as a policy tool and as a 'predictor' of actual revenue and expenditures of the budget year. This implies that budget constraints play less of a role in determining fiscal policy than they should. This is clearly an important area that needs further strengthening. Budgetary estimates would benefit from better quantification of future risks and from subjecting fiscal forecasts to sensitivity analysis with respect to possible future developments. State Government's regulations and control mechanisms with respect to the private sector should have more clarity. When regulations are opaque, they tend to create governance problems. States are reported to delay considerably the payment of refunds, thus distorting the fiscal statistics and creating difficulties for the creditors. The States do not provide annual economic and functional classifications of expenditures in a systematic manner so as to make it difficult for those interested to understand the changes in budget allocations that are taking place over time. Finally, the States do not provide information on outstanding liabilities.

All these are shortcomings of some importance that could be corrected. They, thus, indicate that there is still ample scope for progress towards more fiscal transparency.

The Report addresses an issue of great importance in many countries: the existence of off-budget/extra-budgetary items. The possibility of borrowing off-budget exists legally only at the central level but, *de facto*, the use of the cash budget in accounting allows State Governments to borrow from the private sector, or often from State enterprises simply by delaying payments for the goods and services received. These unpaid bills (this implicit borrowing) are not reported anywhere. Therefore, they distort the picture of the real fiscal situation provided by the quantified estimates of fiscal outcomes. The use of a well-working, accrual accounting system would eliminate this problem. As a consequence, the Report recommends that a gradual shift toward accrual accounting be considered. This is in line with current thinking on the question on the part of many sources including the IMF and the OECD.

Unfortunately, accrual accounting is not easy and faces other kinds of problems. It requires skills not easily available and information not easily obtainable. This is the reason why, as the

Report acknowledges, relatively few countries have made a full conversion toward accrual accounting. Those that have done so, have done it only partially. Thus, this is a desirable course of action but one to be followed with particular care and only after adequate preparation. If it were an easy change, more countries would have moved in that direction.

A problem connected with delays in the payments of bills when they come due is that, as happened in other countries in the past (Argentina, Russia, *etc.*), the deferred payments tend to create problems for the creditors and a network of unsettled debts ('a maze of outstanding stock of dues' in the Report's words) that can distort the whole accounting system, thus sharply reducing its transparency and creating various other problems. When delays become systematic, creditors begin to raise the prices at which they provide their supplies.

The Report discusses the two categories of fiscal targets used in India, the revenue deficit (RD) and the gross fiscal deficit (GFD). The first excludes capital expenditures. Partly for the reason stated in the Report (that the distinction between the two can be, and the experience of many countries indicates that it is, often corrupted), but also for other economic reasons (current expenditure can be highly productive in some cases) I feel that the relevant fiscal target should be the GFD so that the RD should be de-emphasised. There may still be a need or an interest to measure capital spending, in order to distinguish it from current spending, and to determine how much a country is investing publicly. However, this is different from the question of the measurement of the fiscal deficit to determine fiscal policy for macroeconomic purposes. For this the GFD is clearly the preferred measure.

I fully endorse the views in the Report on the need to develop better classifications of expenditures (and also of revenue). This is an important issue and one that is central to fiscal policy. Without good classification of expenditure categories it is difficult to make good budgetary decisions or even to satisfy basic accountability criteria.

To conclude, I reiterate that this is a very good Report. I have no difficulties in endorsing its recommendations.

Stance of the Panel: The peer reviewer has endorsed the observations and recommendations of the Panel and as such the Report did not warrant any change. The views of the peer reviewer were noted by the Panel.

Chapter V

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Chapter V

Assessment of Data Dissemination Standards

1. Introduction

The Special Data Dissemination Standard (SDDS) was established by the International Monetary Fund (IMF) in 1996 to guide members who have access to the international financial markets in the dissemination of economic and financial data to the public. Unlike other international financial standards, where compliance by member countries is voluntary, in the case of SDDS, while subscription to the standards is voluntary, observance of the standards is mandatory for the subscribing members. A subscriber country has to submit information about its data and dissemination practices to the IMF for presentation on the Dissemination Standards Bulletin Board (DSBB) maintained by it. At present, 64 member countries participate in the SDDS. India is one of the initial subscriber members of the SDDS of the IMF. India subscribed to the SDDS, on December 27, 1996 and started posting its metadata on the DSBB on October 30, 1997. It met the SDDS specifications on 14 December 2001. India disseminates data on various macro parameters on the National Summary Data Page (NSDP) in order to meet the SDDS requirement. The IMF has also prescribed a Data Quality Assessment Framework (DQAF) in 2003, that is used for comprehensive assessment of countries' data quality.

1.1 Scope of Special Data Dissemination Standard and Data Quality Assessment Framework

There are four dimensions of data dissemination under the SDDS:

1.1.1 Data

Subscribing nations must disseminate the prescribed categories of data with the specified coverage, periodicity and timeliness. Some categories of data are marked for dissemination on an 'as relevant basis', to permit country-level variation in the data depending upon the country structure. Some categories of data are marked as 'encouraged' as against the core of the categories of data that are marked as 'prescribed'. Prescribed data are deemed to be the minimum requirement for the SDDS. The SDDS also provides some flexibility on periodicity and timeliness.

1.1.2 Access by Public

A subscribing nation must disseminate an Advance Release Calendar (ARC) for the data and it must release the data to all interested parties simultaneously. A subscribing nation has also to provide a readily accessible webpage on the NSDP, on which it disseminates the data prescribed by the SDDS.

1.1.3 Integrity of the Disseminated Data

The SDDS integrity dimension contains four prescribed practices. A subscribing nation must disseminate the terms and conditions

under which the official statistics are produced (the terms and conditions under which statistical agencies operate, including statistical laws, charters and code of conduct). It must also provide advance information about revision and advance notice of major changes in methodology. Third, it must provide identification of internal government access to data prior to release. Fourth, it must provide the identification of ministerial commentary on the occasion of statistical releases.

1.1.4 Quality of the Disseminated Data

A subscriber is required to disseminate the methodology and sources in the preparation of statistics, component details and reconciliations with related data. For each of these dimensions, several monitorable good practices are prescribed that can be observed or monitored by the user of statistics. The SDDS covers the four sectors of the economy, *viz.*, the real sector, the fiscal sector, the financial sector and the external sector. Subject to frequency, timeliness and flexibility available in data dissemination, the monitorable elements of SDDS for access, integrity and quality emphasise transparency in the compilation and dissemination of statistics.

In subscribing to the SDDS, countries undertake measures to document their data dissemination practices to the public with respect to the four metadata dimensions (Data, Access by the public, Integrity and Quality and Methodology) and to the DSBB. India, being a subscriber to SDDS, is committed to provide

an NSDP, to provide and certify metadata and to provide an ARC.

The IMF posts information about the availability of the prescribed data and the related compilations and dissemination practices (the IMF calls the latter as metadata) of a SDDS subscribing nation. (<http://dsbb.imf.org/>) on the DSBB. The DSBB provides a page for each subscribing country that provides the metadata and hyperlinks to the country's NSDP. IMF staff review subscribers' metadata for comprehensiveness and international comparability. The IMF also posts on the DSBB, an annual assessment Report on each of the subscribing countries' observance of the SDDS¹⁵.

The DQAF prescribed by the IMF covers institutional environment, statistical processes, and characteristics of the statistical products. The DQAF comprises a generic framework and a set of dataset-specific framework. The DQAF has a cascading classification structure. The top level comprises six dimensions: pre-requisites of quality, assurances of integrity, methodological soundness, accuracy and reliability, serviceability and accessibility.

2. Earlier Assessments of Data Dissemination Standards

2.1 Advisory Group Report on SDDS – May 2001

In order to monitor developments in global standards and codes and to consider their applicability to the Indian financial

¹⁵ For India's 2006 Annual Observance Report see http://dsbb.imf.org/vgn/images/AnnualReports/2006/IND_SDDS_AR2006.PDF. For India's metadata see <http://dsbb.imf.org/Applications/web/sddscountrycategorylist/?strcode=IND> and India's NSDP is at http://www.finmin.nic.in/stats_data/nsdp_sdds/index.html.

system, a Standing Committee on International Financial Standards and Codes was set up by the Reserve Bank jointly with the Government of India in December 1999. The Committee, in turn, constituted ten advisory groups to assist it in accomplishing the tasks in varied subject areas including an Advisory Group on Special Data Dissemination Standards that released its Report in May 2001. The Advisory Group observed India's record of SDDS compliance based on original specifications for the coverage, periodicity and timeliness of data as also for the ARC. The Group identified four grey areas in India's compliance to SDDS:

- i) Labour Market Data on employment/unemployment and wages.
- ii) General Government or public sector operations.
- iii) International Investment position (IIP).
- iv) Data templates on international reserves and foreign currency liquidity.

The Group noted that India has chosen the flexibility option available under SDDS for item numbers (i) and (ii). Recognising the complex structural features of the Indian economy, large agricultural sector and sizeable unorganised employment in the non-farm sector, it concurred with the flexibility option availed for labour market data. It also recommended that the Central Statistical Organisation (CSO)/ Government of India/ State Governments and the Reserve Bank should co-ordinate data gathering/compiling activities and dissemination of data pertaining to general Government (public sector) operations. It further recommended that India may take a view on the dissemination of information on the composition of foreign exchange and maturity break-up of forward liabilities without compromising on the stability of the domestic currency's exchange rate. Finally, it suggested the dissemination of forward looking indicators in certain sectors,

viz., surveys of business expectations and summary methodologies for all data categories under SDDS.

2.2 Report on the Observance of Standards and Codes – April 2004

An assessment of six macroeconomic datasets under the DQAF was conducted by the IMF Team for the Report on Observance of Standards and Codes (ROSC) for the following sectors:

- National Accounts Statistics
- Consumer Price Index
- Wholesale Price Index
- Government Finance Statistics
- Monetary Statistics
- Balance of Payments Statistics

The Report, released in April 2004, concluded that India is in observance of the SDDS. It meets the specifications for coverage, periodicity and timeliness in all data categories except for (i) the timeliness of data of general government operations, for which it takes the flexibility option to which it is entitled; and (ii) the periodicity and timeliness for labour market data, for which it takes 'as relevant' flexibility options. The Report also assessed data quality issues.

The main observations of the Report are set out below:

Pre-requisites of Quality: India's statistical agencies demonstrate full awareness of quality as the cornerstone of any statistical work. However, no single government unit has the authority and responsibility to compile and disseminate, nationally and internationally, an integrated and comprehensive statement of government finance statistics, thereby complementing existing accounting and specialised Reports. Also, the Report has observed that India's ongoing liberalisation will require substantial modernisation of the statistical system, and a strengthening of the legal foundations of data collection.

Integrity: India's macroeconomic statisticians display a high degree of integrity.

Methodological Soundness: India's macroeconomic statistics broadly follow the international statistical recommendations, but there are minor deviations. The Report highlights that nationally-developed concepts for government finance statistics are only partially related to the IMF's *Manual on Government Finance Statistics 1986 (GFSM 1986)*, and many linkages are not transparent.

Accuracy and Reliability: India's macroeconomic statistics are reliable.

Serviceability: The Report has observed that India's macroeconomic statistics are frequent, timely and relevant, but there is scope to improve the timeliness of data on general government operations. The Report emphasised the need for more information on the emerging services sector. It has also suggested that several agencies could usefully conduct, on a regular and comprehensive basis, user surveys.

Accessibility: The Report observed that most macroeconomic statistics and related metadata are widely available in various forms.

2.3 Present Status of Issues Highlighted by Earlier Assessments

India has implemented most of the recommendations of the Advisory Group pertaining to the Reserve Bank on Data Dissemination Standards. The summary methodology for financial and external sectors is now provided in the DSBB. Annual data on

India's international investment position are being disseminated since September 2002.

On monetary statistics, a comprehensive user survey is conducted through the Reserve Bank Bulletin to receive a feedback from the user community. On the observation that banks add accrued interest to their credit and deposit positions on a quarterly rather than continuous basis, the banks now add accrued interest on a fortnightly basis for working out the CRR requirement.

On Balance of Payments (BoP) statistics, a comprehensive user survey is conducted through the Reserve Bank Bulletin of which BoP Statistics forms a part. The short-term credit data (inclusive of suppliers' credit up to 180 days) has been disseminated with effect from December 31, 2007. A formal Revisions Policy for Balance of Payments Statistics has been put in place since September 2004. The IMF NSDP also carries the metadata as well as summary methodology.

3. Scope and Methodology of Assessment

The Advisory Panel has assessed India's adherence to the prescribed disclosure requirements under the SDDS and builds on the earlier assessments (Advisory Group Report – 2001 and ROSC – 2004). The Panel has used two IMF documents as the framework for the assessment. The first is the Special Data Dissemination Standard, Guide for Subscribers and Users, IMF, 2007¹⁶ and the second is the Data Quality Assessment Framework, Generic

¹⁶ <http://www.imf.org/external/pubs/ft/sdds/guide/2007/eng/sddsguide.pdf>.

Framework¹⁷, July 2003, In the rest of this document, the former is referred as the Guide and the latter as the Framework. However, the assessment is not limited or bound by the prescriptions of these two documents alone. The assessment is based on information available with the Reserve Bank and in several published works.

The assessment has covered the four sectors of the economy, *viz.*, the real sector covering national accounts, production indices, forward-looking indicators, labour markets and price indices; the fiscal sector covering the government finance statistics; the financial sector covering the monetary statistics; and the external sector covering the balance of payments.

The most important summary observation of the Panel is that, by and large, India meets the requirements of the SDDS. Indeed, in several cases, India's disclosure standards are better than those proposed in the SDDS. The ROSC Report of the IMF on SDDS is in two parts. The first part provides a summary of a country's dissemination practices relative to the SDDS. This is complemented by a detailed assessment, using the DQAF, of the quality of countries' macroeconomic data. As India is largely compliant with the requirements of SDDS and exceeds the disclosure requirements in several areas, the present assessment essentially articulates areas where India can deliver a performance that is better than expectations and relies mainly on the DQAF. The focus is on improving the generation of economic and financial data and on increasing transparency and credibility. This Report, therefore, does not consciously cover in detail the requirements of the SDDS in terms of the access, integrity and quality dimensions or whether India fulfills its responsibilities as an SDDS subscriber with

regard to the NSDP, ARC and metadata. Even in the DQAF, the emphasis has been on those issues which are more relevant in the Indian context.

India's Summary of Observance table on SDDS coverage, periodicity and timeliness is given in Annex I. India's status against ARC is given in Annex II and India's timeliness against SDDS Requirements is given in Annex III. The summary of the assessments is given in the following sub-sections and the DQAF for the areas covered is separately provided in Annex IV and the summary of results is given in Annex V. A summary of recommendations of the Panel is given in Section 5.

4. Summary of Assessment

4.1 Real Sector

The real sector covers national accounts, production indices, forward-looking indicators, labour markets and price indices.

4.1.1 National Accounts

4.1.1(a) Coverage, Periodicity & Timeliness

The SDDS Guide prescribes that data on national accounts are to be disseminated on a quarterly basis with a lag of not more than one quarter. It requires that Gross Domestic Product (GDP), either by major expenditure category or by major production category be disseminated. It also encourages that both be disseminated. The conformity of data classification to the System of National Accounts 1993 (SNA) is strongly encouraged.

The SDDS prescribes the dissemination of at least two of the following indicators - national accounts data in current prices, in volume terms, and the implicit price deflators/ price indices. Dissemination of data on savings and gross national income is encouraged.

India conforms to the above requirements. It provides more information

¹⁷ http://dsbb.imf.org/vgn/images/pdfs/dqrs_Genframework.pdf

than the minimum prescribed requirements. A recent improvement in India's disclosures was in May 2007, when the CSO released for the first time, quarterly estimates of expenditure components of the GDP in current and constant (1999-00) prices. Thus, quarterly estimates of private final consumption expenditure, Government final consumption expenditure, gross fixed capital formation, change in stocks and net exports are now available along with the major production categories on a quarterly basis. However, India does not provide quarterly estimates of savings and gross national income. These are available only on an annual basis.

4.1.1(b) Pre-requisites of Quality

Legal and Institutional Environment: The CSO is the nodal agency for the compilation of national accounts statistics. A large number of independent ministries, departments and local agencies provide the CSO with the information for the compilation of the national accounts statistics. The responsibilities for data collection, processing and dissemination are, thus, reasonably clearly defined. Technically, all the four indicators prescribed by the DQAF are satisfied.

With liberalisation and reforms, however, several of the traditional links that compiled and provided statistics to the CSO have deteriorated. With liberalisation (deregulation, in particular) and the consequent fall in the role of the public sector, the institutional data collection machinery has suffered. Thus, while there is a working system in place, there is a need to strengthen the system substantially. In 2001, the Report of The

National Statistical Commission identified several areas of improvement. We quote sections from para 13.2.3 of the Commission's Report:

'In the federal political framework, the Indian Statistical System is decentralised in character so that NAS necessarily have to depend on a large number of autonomous source agencies. NAS often finds itself unable to make source agencies appreciate the requirements of National Accounts for timely reporting as well as for additional data or wider coverage. Over the years, the involvement of State statistical bureaus in conducting surveys and type studies for evolving norms for National income estimation has also been on the decline'.

The above paragraph explains the weakness in the legal and institutional environment of the national accounts statistics. These arrangements continue to remain weak. It is, therefore, recommended that the CSO be strengthened by a formal statistical law to ensure that the generation of the national accounts system is well-supported by the legal and institutional environment it merits.

Resources: Various resources are in place at CSO to ensure efficient use of resources. The overall financial resources provided to CSO are adequate. The CSO's staff, facilities and finances are commensurate with its programs. However, the data-source agencies are many and diverse. The resource availability at these agencies could be insufficient. There is no formal effort to ensure the efficiency of the use of resources at any level.

Relevance: NAS are relevant to a large cross-section of users. However, the CSO does not have any formal process to monitor the practical utility to users of its statistics. It is recommended that the CSO conducts a survey of users of national accounts statistics at least once in three years.

Other Quality Management: The CSO is guided by the Advisory Committee on National Accounts. However, there is no formal process for a regular quality check or a periodic assessment of the quality of data produced.

4.1.1(c) Assurances of Integrity

Professionalism: The CSO has professional independence. It engages professionals through competitive evaluation. Statistics are produced on an impartial basis. Choices of sources and statistical techniques are taken largely on statistical consideration.

Transparency: The NAS are produced under a fairly transparent system. The CSO's sources and methods are documented and made available in the public domain. CSO officers provide clarifications and are encouraged to speak at seminars and express their views through publications. Traditional institutional users of CSO are often intimated of changes in methodology. However, such information is not easily available in the public domain. It would be useful if the CSO made all materials pertaining to changes in methodology automatically available on its website.

The National Statistical Commission has been very transparent about the limitations and problems in generating the national accounts statistics including the limitations of many of the source agencies. Several other publications authored by the CSO officials provide valuable insights into the workings of the national accounts system. It would be useful if such articles are systematically available on the organisation's official website.

The NAS are not available to the Government internally before they are released to the public. Sources and products of statistical agencies are clearly identified in the Sources and Methods publication.

Major changes in methodology for compilation of NAS are, however, not made available in advance of the general dissemination of statistics. It is recommended that the CSO presents a discussion paper on the changes in methodology before its final implementation.

Ethical Standards: CSO staff is bound to act in accordance with the Civil Services Conduct Rules. Other guidelines for staff behaviour are found in the Official Secrets Act, 1932 and Prevention of Corruption Act, 1998.

4.1.1(d) Methodological Soundness

By and large, the generation of NAS in India is based on sound methodological practices. These are also largely in conformity with accepted international practices. In the following paragraphs, we highlight some of the limitations of the current system. It is recommended that these limitations are addressed in a reasonable time-frame and till such time their current status explained appropriately.

Concepts & Definitions: The SDDS suggests conformity to the 1993 System of National Accounts. India follows this system largely. Some concepts and definitions of 1968 SNA, however, are still in use. CSO is working towards further incorporation of 1993 SNA recommendations.

Scope: The scope of the data is broadly in line with the internationally-accepted norm. One limitation in the scope of the national accounts data till recently was the absence of data on imports and exports of goods and services at constant prices. The Directorate-General of Commercial Intelligence & Statistics (DGCI&S)

has started releasing this information since October 2007.

Classification/Sectorisation: The classification system followed is largely in line with the internationally-accepted practices. However, the range of institutional accounts is incomplete. The public sector is taken as a major grouping of institutional units and the general government is not identified as an institutional group.

Basis for Recording: Flows and stocks are largely valued according to internationally-accepted standards. Most transactions are recorded on an accrual basis in accordance with 1993 SNA recommendations. However, Government and most external transactions are recorded on a cash basis.

4.1.1(e) Accuracy & Reliability

Source Data: The CSO's sources of data are very large and naturally, the adequacy would vary from source to source. It is not possible to make a comprehensive assessment of the accuracy of the various sources of data here. We only highlight some of the known shortcomings of the system.

One problem that affects a large part of the data sources is that they collect data as a part of the administrative machinery. This makes the data collection system at several sources vulnerable to the reforms process that often aims at reducing the role of the administration. Further, in the past, the administrative system could provide greater amounts of reliable information because of the greater role of the public sector enterprises that reported to ministries. With privatisation and

the consequent fall in the role of the public sector, the administrative system is ill-equipped to provide comprehensive or reliable data.

A second problem is that the sources of data for private sector's activities are grossly insufficient. This is particularly true of the services sector. The lack of availability of a reliable register of business units makes the task of generating reliable estimates particularly difficult.

Third, the accuracy and reliability of the expenditure side of the GDP is much lower than of the production side. Private final consumption expenditure is derived and not estimated. There is a need to substantially improve the accuracy of the expenditure side statistics of the national accounts.

Assessment of Source Data: Most of the data are sourced from the administrative system. The CSO does not formally assess the coverage, sample error, non-sampling errors, *etc.*, of the sources of data.

Statistical Techniques: There are several gaps in the statistical techniques used by the CSO. We provide three examples. First, except for agriculture and mining, single deflation methods are used to estimate value addition at constant prices while SNA 1993 recommends the double deflation method. Second, taxes are deflated using consumer or wholesale price indices. This is not an accepted good practice. Third, there is considerable reliance on fixed ratios in cases where the commodity flow method is applied. In general, the CSO's statistical techniques need greater independent review so that the CSO could make appropriate changes in its techniques.

Assessment and Validation of Intermediate Data and Statistical Output: The expectation here is that the intermediate data generated using the source data are validated against alternate information, and that statistical discrepancies are assessed and investigated. The CSO does assess and validate the intermediate data on an ongoing basis.

Revision Studies: The CSO carries out study revisions in the estimates made by it and it does trace these to the source data. However, such analysis may not feed into its statistical processes because the CSO does not unilaterally adjust the data provided by the source. It seeks to influence the data provider to make adjustments in its data rather than make the adjustments itself. As transparency in the source data has improved over time, users often have access to the source data. It

is not possible to ascertain whether the CSO has incorporated the available source data in the last revision or, whether the new data from the sources would have its impact only in the next revision. It would be thus be useful for the CSO to make available, reasonably comprehensively, the source data used in the computations.

4.1.1(f) Serviceability

Periodicity & Timeliness: Both periodicity and timeliness meet the SDDS requirements. Periodicity is quarterly and timeliness has improved to a lag of two months compared to the prescribed three months.

Consistency: The NAS are internally consistent by definition. But in practice, such consistency is achieved mostly by the balancing entry – 'errors and omissions'. In this context, it may

Box 1: New Series of National Accounts (Base:1999-2000)

The CSO revised the 1993-94 series of national account aggregates with 1999-2000 as base year (hereafter referred to as new series) in February, 2006. The three major components influencing the present revision exercise include (i) revision of base year to a more recent year (for meaningful analysis of the structural changes in the economy); (ii) complete review of the existing data base and methodology employed in the estimation of various macro-economic aggregates including choice of the alternative databases on individual subjects; and (iii) to the extent feasible, implementing the recommendations of 1993 SNA.

Improvements in the procedures of compilation

The choice of the latest base year 1999-2000 coincides with the year of the 55th round of the quinquennial survey on employment and unemployment by the National Sample Survey Organisation (NSSO). Besides using the 56th, 57th and 58th rounds of NSSO surveys on Unorganised Manufacturing, Services Sectors and Housing Conditions, respectively, the new 1999-2000 series also uses All-India Livestock Census, 2003, Population Census, 2001, and All-India Census of Small-Scale Industries, 2001-02.

The important procedural changes made in the new series are (i) use of the production data provided by

the National Horticulture Board (NHB) for all horticultural crops (with the exception of those covered under principal crops) and the price data provided by the State Directorates of Economics and Statistics (State DESs) for all crops; (ii) introduction of a new basic material, 'fixtures and fittings' in the construction sector in addition to the existing four basic materials for estimating the value of output of construction sector; (iii) netting the retained reserves and dividends paid from the property income of mutual funds for the purpose of estimating the output of banking sector; (iv) aligning the estimates of capital formation by industry of use with those of assets/institutions; (v) adjusting for reinvested earnings in India of foreign companies in the estimates of saving of private corporate sector and the consequential changes in the external transactions account; (vi) including in the private corporate sector's GFCF, the domestic consumption of software (net of public sector purchases) and the expenditures incurred on construction of assets by the newly set up companies before they commence production; and (vii) treating the operating losses of departmental commercial undertakings as imputed subsidies.

be noted that the errors and omissions are quite large and are left unexplained.

Revision Policy & Practice: The CSO follows a well-set system of providing provisional and revised data estimates. Provisional and revised data are clearly identified. However, the CSO may study and analyse its revisions and make such studies public to help the users to understand the revisions better. The revisions are likely to be largely because of changes in the source data. If the source data are also made available then, users would be able to appreciate CSO's limitations and would be able to focus their attention on the sources of the revisions.

4.1.1(g) Accessibility

Data Accessibility: The data are presented in a clear and user-friendly manner. They are made available through the website simultaneously to all users. Statistics are made available according to a pre-announced schedule.

The CSO does provide, upon request from institutional/Government users, statistics that it does not routinely provide through its regular dissemination. It also provides such information for academic purposes. However, its policy for dissemination to the public is not clear and often discretionary.

Metadata Accessibility: Notes on concepts and methodologies are made available through the official website.

Assistance to Users: The CSO does provide reasonable assistance to users.

4.1.2 Production Index

4.1.2(a) Coverage, Periodicity & Timeliness

The SDDS *Guide* prescribes a production index to track GDP on a timely basis. The expected periodicity is monthly and the timeliness is 'within six weeks' while a timeliness of 'within one month' is encouraged. For a country with a large industrial base, this would imply the use of the IIP.

India conforms to the requirements of coverage, periodicity and timeliness in the SDDS in providing the monthly IIP with the expected periodicity and timeliness. However, it excludes construction, gas and water supply which are usually included as per the recommendations of the United Nations Statistical Office. Given the growing importance of construction, it would be useful to extend the scope of the IIP to include the construction sector as well as water and gas supplies.

4.1.2(b) Pre-requisites of Quality

Legal & Institutional Environment: The CSO is the nodal agency for the compilation of the IIP. It compiles the IIP from the data supplied to it by fifteen sources. The largest source of data is the Department of Industrial Policy and Promotion (DIPP), which accounts for over half the items included in the index and more than half of the weight. Mining data are provided by the Bureau of Mines, Nagpur and data on the electricity sector is provided by the Central Electricity Authority. The Textile Commissioner provides data on textiles.

The DIPP sources the data directly from the production units or indirectly, from industry associations. The Factories Act provides the Department with the legal authority to demand production statistics. Thus, the legal environment is quite robust. Since the removal of the industrial licensing regime in the early 1990s, compulsion does not exist for firms to submit comprehensive data on a range of indicators essential to industrial statistics, which they were required to do earlier. The data submission is largely voluntary and in the process has weakened considerably. It is recommended that the existing arrangements be strengthened and a consolidation of the source agencies that provide the source data be implemented. Further, in the process of consolidation of the source agencies, the CSO should reduce its reliance on the administrative machinery and industry associations and strengthen its own direct capabilities.

Resources: Resources available to the CSO to compile the IIP from the available source data are considered to be adequate. The CSO's staff, facilities and finances are commensurate with its programs. However, since the data-source agencies are many and diverse, the resource availability at these is not ascertained. There is no formal effort to ensure the efficiency of the use of resources at any level.

Relevance: The IIP is relevant to a large cross-section of users. However, the CSO does not have any formal process to monitor the practical application of its statistics. It is recommended that CSO conducts a survey of users of IIP at least once in three years.

Other Quality Management: There is no formal process for a regular quality check or a periodic quantification of the quality of the data used in the generation of the IIP.

4.1.2(c) Assurances of Integrity

Professionalism: The CSO has professional independence. It engages professionals through competitive evaluation. The IIP is

produced on an objective basis. Choices of sources and statistical techniques are taken largely on statistical consideration. However, the source agencies are selected largely on the basis of administrative convenience.

Transparency: The CSO's statistical policies and practices in respect of the generation of the IIP are transparent. However, the CSO can improve the transparency of the IIP if it also reveals the size (number) of units in the frame, the sample size and the monthly response rate for each item of the IIP. The CSO does not give any advance notice of major changes in methodology or source data.

Ethical Standards: Same as in NAS.

4.1.2 (d) Methodological Soundness

Concepts & Definitions: The generation of the IIP is based on accepted norms of concepts and definitions.

Scope: The scope of the IIP is broadly in line with international practices and it does conform to the prescriptions of the SDDS. However, it would be useful if the scope of the IIP was expanded to include the construction and water and gas sectors. This is recommended by the United Nations Statistical Office and is the practice in a number of developed economies.

Classification/Sectorisation: The classification system is largely in line with the internationally-accepted practices.

Basis for Recording: Save a few exceptions, data are recorded in volume terms as is the internationally-accepted practice.

4.1.2(e) Accuracy & Reliability

Source Data: The IIP is based on data obtained from fifteen different source agencies. The ability of some of these sources to collect comprehensive data deteriorated somewhat since the onset of reforms. Responses are known to have deteriorated both in terms of units responding and in terms of timeliness of the response. In recent times, efforts have been made to improve the response rate and

the timeliness in some cases. The published IIP data, however, continue to exhibit a lack of adequacy of the responses. It is unlikely that this inadequate response rate would significantly affect the reliability of the growth rates reflected by the IIP. Nevertheless, it is recommended that in the interest of better practices, the data collection machinery be improved substantially. It is important that the CSO be less handicapped than it seems today with respect to the availability of data and the quality of the data available to it. It is recommended that the CSO should make the frame, select the sample and collect the data directly from the sample units, for which it will require additional resources.

The source data and therefore, the IIP, however, have been slow in reflecting the changing face of India's industrial sector. The IIP needs to adjust its basket of commodities and the weights assigned to these quicker than it does currently. To improve the methodology in compilation of IIP data, a move towards a chain-linked index instead of a base-linked index is recommended.

Assessment of Source Data: The CSO does not assess the source data.

Statistical Techniques: The statistical techniques deployed by the CSO are adequate and they conform to internationally-accepted practices.

Assessment and Validation of Intermediate Data and Statistical Output: The expectation here is that the intermediate data generated using the source data are validated against alternate information and statistical discrepancies are assessed and investigated.

The CSO does assess and validate the intermediate data on an on-going basis.

Revision Studies: The CSO studies revisions in the estimates made by it and it does trace these to the source data. However, such analysis may not feed into its statistical processes because the CSO does not unilaterally adjust the data provided by the source. It seeks to influence the data provider to make adjustments in its data rather than make the adjustments itself.

4.1.2(f) Serviceability

Periodicity & Timeliness: Both periodicity and timeliness meet the SDDS requirements. As prescribed, the IIP is released with a periodicity that is monthly and timeliness is 'within six weeks'.

Consistency: Statistics are consistent with the data-sets and over time.

Revision Policy & Practice: The CSO follows a well-defined system of providing provisional and revised estimates. These are clearly identified. However, often the revisions are so large as to warrant an explanation of the causes of these revisions. These revisions are almost entirely because of the improved response rates obtained by the source agencies that provide the underlying data. The publication of the response rate with each release would enable the users to anticipate changes in the estimates and appreciate the revisions when they occur.

4.1.2(g) Accessibility

Data Accessibility: The data are presented in a clear and user-friendly manner. It is made available through the website simultaneously

to all users. Statistics are made available according to a pre-announced schedule.

Metadata Accessibility: Notes on concepts and methodologies are made available through the official website.

Assistance to Users: The CSO provides reasonable assistance to users.

4.1.3 Forward-looking Indicators

The SDDS encourages but does not prescribe the dissemination of one or more forward-looking indicators. These include surveys of expectations, such as qualitative surveys of business managers' or consumers' expectations, or order book positions. It also includes combination indices like 'leading indicators' or business cycle indices. India does not provide any forward-looking indicators.

The Reserve Bank conducts quarterly surveys on capacity utilisation and order-book positions. This could possibly be used to develop a full set of forward-looking indicators and disseminated.

4.1.4 Labour Market

4.1.4(a) Coverage, Periodicity & Timeliness

The SDDS prescribes employment, unemployment, and wages/earnings on an 'as relevant' basis. These are to be disseminated on a quarterly basis and with a lag of no more than one quarter after the end of the reference quarter.

In spite of a multiplicity of agencies, India does not provide a single comprehensive and reliable estimate of any of the three basic measures of labour markets — employment, unemployment and wages — on a regular basis with an acceptable periodicity or

timeliness. India has opted for the flexibility option for periodicity and timeliness for all the three indicators of the labour markets. While the SDDS prescribes quarterly periodicity, India provides the data with yearly frequency and, in terms of wages/earnings, India's periodicity is five-yearly. Compared to the prescribed timeliness of 'no more than one quarter after the end of the reference quarter', India provides the information with a two-year lag.

Technically, India conforms to the requirements of the SDDS. However, India's labour market databases are inadequate, and they fail to provide reliable information. Efforts made in the past have not been able to address adequately the complexities in the Indian labour markets.

There are multiple agencies involved in the measurement of employment, unemployment and wages in India.

- The National Sample Survey Organisation (NSSO) is a permanent survey organisation that conducts household surveys on employment and unemployment along with other surveys. It conducts annual surveys to estimate key parameters of employment and unemployment. It also conducts a comprehensive survey based on a larger sample once every five years for the same purpose. Broadly, the definitions used by the NSSO are comparable to international practices.
- The Labour Ministry with its affiliates — the Labour Bureau¹⁸ and the Directorate-General of Employment and Training — is a major producer of labour¹⁹ and employment statistics.

¹⁸ The Labour Bureau collects statistics through statutory and voluntary returns under various Labour Acts. The compilation is done by the State Governments and the Bureau consolidates these. It also conducts various surveys and collects information on labour from other agencies.

¹⁹ The Directorate-General of Employment and Training collects statistics on employment as a part of its administration of various provisions of the Employment Exchanges Act. However, its coverage is limited as it does not include self-employment or part-time employment. It excludes household establishments employing less than ten workers and small establishments employing 10 to 24 persons in the private sector.

- The Annual Survey of Industries also publishes employment statistics relating to the organised manufacturing sector.
- The Economic Census and the Population Census also provide estimates of employment.

The NSSO's effort is the most comprehensive. It is based on a field survey

of about 120,000 households every five years and a smaller sample of 40,000 in the in-between years. However, the Report tends to be dated and mired in complexities regarding the definition of employment. It would be useful to leverage this capability aggressively to generate monthly estimates of employment, unemployment and wages.

Box 2: Sources of Employment Statistics

The National Sample Survey Organisation (NSSO) is a permanent survey organisation which conducts household surveys on Employment and Unemployment along with several other surveys of national importance. It has a permanent set-up for collection and processing of data and publication of the survey results currently in the form of reports as well as dissemination of unit level data.

NSSO classifies population into different activity categories on the basis of activities pursued by the household members during specified reference periods adopting two different approaches, *viz.*, (i) *usual status* approach with a reference period of 365 days preceding the date of the interview and (ii) *current weekly status* approach with a reference period of 7 days preceding the date of the interview. In addition, the current daily activity status for a person is determined on the basis of his/her activity status on each day of the reference week using a priority-cum-major time criterion.

The data are obtained through sample surveys conducted by the NSSO, generally every fifth year. The sample size is of the order of about 1,20,000 households. In intervening years, the sample size is of the order of 40,000 households. The survey covers the whole of rural and urban areas of India, except for a few inaccessible and difficult pockets.

Directorate-General of Employment and Training disseminates Monthly Highlights of Employment and Unemployment, Quick Estimates of Employment,

Quarterly Employment Review, Annual Employment Review and Census of Central Government Employees. The Employment Market Information Programme of the Directorate-General of Employment and Training does not cover self-employed, part-time employees, household establishments employing less than ten workers in the private sector and small establishments employing 10 to 24 persons in private sector in the metropolitan areas. The coverage of employment in call centres, particularly household segments, is inadequate and the frame of establishments is also not comprehensive.

Ever since its inception in 1946, **Labour Bureau** has been engaged in collection, compilation, analysis and dissemination of labour statistics at all-India level on different facets of labour, such as employment, wages and earnings, absenteeism, labour turnover, social security, welfare amenities, industrial relations, *etc.* on the basis of statutory and voluntary returns under different Labour Acts and surveys conducted.

In addition, **Annual Survey of Industries** collects, compiles and disseminates employment statistics in the organised manufacturing sector. The ASI refers to the factories defined in accordance with the Factories Act 1948, and thus has a wider coverage. Based on the NSS rounds, Economic Survey also disseminates secondary data on employment and unemployment situation in India.

Given that there are multiple agencies generating a host of estimates, none of which meets the requirements adequately, we do not dwell further on an assessment of each of these on the lines of the SDDS and the DQAF as has been done in other cases.

It is recommended that the fragmented efforts in compilation of statistics relating to the labour markets be consolidated under one institution that is adequately empowered to undertake this task comprehensively and effectively. The CSO, as the premier statistical agency of the country, is the most appropriate agency to undertake this responsibility with the help of the NSSO's machinery. It would be ideal if such new efforts were made in a manner such that it also conforms to the standards laid in the DQAF.

It is important that India generates a reasonably reliable estimate of employment/unemployment that can be used as a leading indicator in any analysis of the economy. Given that there are multiple agencies collecting similar data, it is apparent that there is no real resource constraint but there is a case for consolidation of the efforts.

It is recommended that statistics be compiled by professional statistical agencies that deploy appropriate statistical methodologies rather than by the administrative arm of the Government through voluntary or statutory compliance of Acts.

4.1.5 Prices

4.1.5(a) Coverage, Periodicity & Timeliness

The SDDS prescribes consumer price indices (CPIs) or any of producer price indices (PPIs) or wholesale price indices (WPIs) to be disseminated with a monthly periodicity and a timeliness of not later than one month. If there is more than one index in any of the two types mentioned above, then the index to be tracked, says the SDDS, should be the

one most widely used in the country. The SDDS does not prescribe the dissemination of any set of components for the CPI or PPI/WPI; dissemination of a single index meets the Standard.

India disseminates the consumer price index for Industrial Workers (CPI-IW) and the WPI. India meets the requirements in terms of coverage, periodicity and timeliness for the price indicators for SDDS, comprehensively. It disseminates more detailed price change indices than required under the SDDS.

4.1.5(b) Pre-requisites of Quality

Legal & Institutional Environment: The responsibility of compiling the CPI-IW lies with the Ministry of Labour and the responsibility of compiling the WPI lies with the Office of the Economic Adviser in the Ministry of Commerce and Industry.

Retail prices used in the compilation of the CPI-IW are collected by the Labour Bureau through part-time price collectors employed by the State Directorates of Economics and Statistics or State Labour Commissioner's offices. The data are collected from selected markets and shops. This multi-agency system of price collection, at times, causes delays.

The Office of the Economic Advisor, Ministry of Commerce and Industry collects data for wholesale prices. It receives responses to its requests for information essentially on a voluntary basis. It has an online facility for respondents to provide information. However, there is no law that mandates price data collection.

Resources: The Report of the National Statistical Commission, 2001 had recommended that resources be provided for the modernisation of the data collection machinery that collects prices for the wholesale price index. The need for modernisation has become more urgent since the Commission's Report because

nothing has changed in the operations of price data collection since then.

Relevance: Price indices are relevant and are used widely in Government and in business. The CPI-IW is used to pay dearness allowance to Government employees. The Labour Bureau does conduct consultative meetings with the major users of the CPI-IW before the release of the new base of the index. These include employers, trade unions and the Government.

The Office of the Economic Adviser in the Ministry of Commerce and Industry has invited suggestions/comments from industry/trade associations, price statisticians, experts and index users for improvements in the new series of WPI.

Other Quality Management: The implementation agencies of both the CPI and the WPI, are sensitive to quality issues to the extent of designing robust indices. However, quality does deteriorate because of difficulties arising out of the legal and institutional limitations. The response rates are often low and it is beyond the administrative capability of the compiling agencies to improve this significantly. Thus, both organisations lack the ability to focus on quality sufficiently.

4.1.5(c) Assurances of Integrity

Professionalism: The price indices are produced on an objective basis. Statistical techniques and decisions regarding dissemination are based on statistical and professional considerations. However, the choice of sources is based largely on the operative convenience arising from using the administrative machinery. There is scope to

improve upon this selection as, in several markets, sophisticated systems have been established to collect reliable price estimates of commodities. This is particularly true in the light of the establishment of several futures commodity exchanges. We recommend that the efforts of the agencies in collecting prices to measure inflation also exploit these new sources.

Transparency: The Labour Bureau's policies with respect to the generation of the CPI-IW is transparent. This is also the case with the Office of the Economic Advisor, Ministry of Commerce and Industry in the generation of the WPI. However, both the agencies need to substantially improve on this count by revealing the number of respondents in the frame, the monthly response rates, the revision in the responses and the policies they follow with respect to revisions.

The WPI is a lot more transparent than the CPI-IW because it provides index numbers for individual items in the overall index. The CPI-IW does not provide such transparency. However, the WPI provides only the index and not the price. This limits the utility of the WPI. In the interest of increasing the transparency and application of the WPI it is recommended that the WPI also reveal the prices underlying the creation of the indices.

Ethical Standards: The concerned persons are guided by ethical standards expected of civil servants.

4.1.5(d) Methodological Soundness

Concepts & Definitions: The concepts and definitions used in the construction of the CPI-

Box 3: Revision in the Base Year for WPI

The website of the Office of the Economic Adviser (<http://eaindustry.nic.in>) displays a letter from the Additional Economic Adviser dated March 21, 2006 requesting companies and other source agencies to provide information on prices for the new series WPI that would have its base year in 2000-01.

Respondents have been asked to provide information for each product for each week since 2000. They have been asked to be very specific regarding the price

they supply: 'The price data quoted should be the actual transaction price effective Friday of every week.' It is highly unlikely that companies would maintain weekly records of prices at which transactions were executed since 2000.

Chances are high that such an impractical request would lead to a poor response and this would delay the release of the new series and/or reduce its reliability substantially.

IW and the WPI are in conformity with internationally-accepted practices.

Scope: The scope of the CPI-IW is limited to only industrial workers. India does not have a single measure of consumer prices for all sections of the population to be used as a measure of inflation for policy purposes.

Classification /Sectorisation: The classification and sectorisation is largely in terms of accepted international practices with some domestic adaptations.

Basis for Recording: The basis for recordings is according to internationally-accepted standards or accepted practices.

4.1.5(e) Accuracy & Reliability

Source data: The method of selecting the centres, the items for which retail prices have to be collected and the weights assigned to each is based on sound statistical methods and is implemented scientifically. One limitation has been in terms of the base year; however, this issue was resolved recently when the CPI-IW base year was shifted to 2001. But, the actual price data collection suffers from a weak institutional framework. Doubts, if any, regarding the quality of the underlying data can be verified only if the implementing agency, (in this case the Labour Bureau), reveals the sample size, response rate and the actual prices used to derive the CPI-IW.

The same principles apply to the WPI. It is recommended that in the case of the CPI

and the WPI, the sample size, response rate and the underlying price used in the computation of the various indices be made public for a fair assessment of the credibility of the price indices.

The WPI suffers seriously from outdated weights. Its base year is as of 1993-94, *i.e.*, the weights reflect the situation nearly 15 years ago. The economy has undergone tremendous changes since then and the dated weights do a great disservice to the users of the index. Efforts to produce a new index series with a base in 2000-01 have been seriously delayed (**Box 3**).

Assessment of Source Data: It is not apparent that a formal assessment of the underlying data is done at the Labour Bureau or at the Office of the Economic Advisor in the Ministry of Commerce and Industry.

Statistical Techniques: Techniques used to assign weights and combining these with prices conform to sound statistical processes and international practices. However, infrequent updating of weights leads to the use of outdated weights in the indices. It also often excludes new products such as computers and mobile phones for the same reason.

Assessment and Validation of Intermediate Data and Statistical Output: Intermediate data and the various revisions are analysed. Discrepancies, if any are noticed, are also investigated.

Revision Studies: Revisions are studied in a routine manner.

4.1.5(f) Serviceability

Periodicity & Timeliness: The periodicity and timeliness in respect of both CPI-IW and WPI conform to the SDDS prescriptions.

Consistency: The WPI is internally consistent as the component indices are coherent with the overall series and the short-term period indices are consistent with the long-term series. The same applies to the CPI-IW also. However, the two series are often not consistent between themselves. The CPI-IW and the WPI show divergent trends. This is mostly explained by the different underlying components and the different weights in the two indices.

Revision Policy & Practice: Revisions are regular and their schedule is also transparent. Preliminary data are clearly identified at the level of the overall index. However, often the revisions are substantive enough to warrant an explanation of the causes of these revisions. These revisions are almost entirely because of the improved response rates obtained by the source agencies that provide the underlying data. The publication of the response rate with each release would enable the users to anticipate changes in the estimates and appreciate the revisions when they occur.

4.1.5(g) Accessibility

Data Accessibility: The data is presented in a clear and user-friendly manner. Statistics are made available according to a pre-announced schedule. And, these are made available to all users simultaneously.

Metadata Accessibility: Notes on concepts and methodologies are made available through the official website.

Assistance to Users: The Labour Bureau and the Office of the Economic Advisor provide reasonable assistance to users.

4.2 Fiscal Sector

4.2.1(a) Coverage, Periodicity & Timeliness

The SDDS prescribes the dissemination of three kinds of information related to the fiscal sector. These are:

1. General Government operations (GGO): This is the most comprehensive statistical framework for the fiscal sector. It covers all Government units including social security systems whether operating at the Central, State, regional or local level. In countries where the public sector is the focus of analysis and policy (i.e., where public sector borrowing is an important policy variable), the appropriate comprehensive statistical framework for the fiscal sector is the Public Sector Operations (PSO). The PSO includes operations of the general Government, non-financial public corporations and financial public institutions.

The GGO has to be disseminated with an annual periodicity and within two quarters after the end of the reference period.

2. Central Government operations (CGO): This covers all budgetary accounts of the Central Government, social security and extra-budgetary units and accounts.

The SDDS prescribes the dissemination of monthly data on CGO within one month

after the end of the reference month. However, instead of the discrete monthly data required by SDDS, the data on CGO are disseminated on a cumulative year-to date basis. The Panel recommends dissemination of discrete monthly data on CGO.

3. Central Government debt (CGD): This reflects the comprehensive debt liabilities of the Central Government. It includes liabilities comprising securities, loans and deposits. Broad institutional coverage is encouraged, including obligations incurred by the Central Government where it ultimately bears the risks of operations of public-private partnerships. Non-Central Government debt that is guaranteed by the Central Government is to be separately disseminated. The CGD should be classified as short- or long-term by remaining maturity. However, if data by remaining maturity is not available then original maturity may be used.

The SDDS prescribes the dissemination of quarterly data on CGD within one quarter after the end of the reference quarter.

India meets the SDDS requirements in terms of coverage on all three counts – general government operations, Central Government operations and Central Government debt.

The IMF's *Government Finance Statistics Manual (GFSM 2001)* provides the internationally-accepted guidelines for compiling data on the fiscal sector. The SDDS encourages the classification of fiscal data in the GFSM 2001 framework. India follows the methodology of the 1986 *Manual of Government Finance Statistics*. While this is also compliant with the SDDS, it is recommended that Indian Government finance statistics get aligned with GFSM 2001.

The data disseminated for the fiscal sector should be actual data or preliminary actual data. Data based on projections, such

as budget estimates for the upcoming fiscal year do not conform to the SDDS. Data presented by India are compliant with this requirement. The GFSM 2001 promotes the compilation of statistics on Government operations on an accrual basis, accompanied by a cash flow statement and a balance sheet.

The SDDS encourages subscribers to provide interest payments as a separate item of expense for the GGO and CGO. Although this is not a requirement and only an encouragement, India discloses interest payments.

The SDDS allows subscribers to take the flexibility option for periodicity and/or timeliness for GGO, CGO and CGD. India has used the flexibility option for timeliness of the GGO data. Indian GGO data are released nine months after the end of the reference period as against the requirement of six months on account of the disparity in time for announcement of the Union Budget and the 28 State budgets which are compiled together to arrive at the GGO data.

4.2.1(b) Pre-requisites of Quality

Legal & Institutional Environment: The Ministry of Finance has assumed the responsibility for compiling and disseminating fiscal data. The Department of Economic Affairs (DEA) of the Ministry compiles general government data. It publishes this in its publication *Indian Public Finance Statistics*. This includes Central and State Government budgetary information. However, it does not include information on local Governments. It is published within three months of the end of the reference year but final data stop at two years prior to the reference year. Data for the last two years are budget and not final estimates.

The Reserve Bank compiles and publishes, within six months of the end of the reference year, summary aggregates of general

Government operations. It includes the Central Government and State Government operations but excludes local Governments. The Reserve Bank's compilations are based on provisional annual data from the two levels of Government. The Controller General of Accounts (CGA) publishes the *Union Government Finance Accounts and the Union Government Appropriation Accounts* about ten months after the end of the fiscal year. 'Statement of Liabilities of the Central Government' in the Union Budget includes the total domestic and external debt of Central Government.

While both the Ministry of Finance and the Reserve Bank compile statistics relating to the fiscal operations in India, there are some overlaps and some gaps. We recommend a consolidation of the efforts.

It is recommended that the Ministry of Finance continue to produce detailed data on the Central Government and meet the requirements of the CGO and the CGD.

According to the present SDDS requirement, the Reserve Bank compiles and publishes the General Government public finance statistics (Central Government and State Governments) within six months of the end of the reference year. The sources used are budget documents of the Government of India and all State Governments. Local Governments are, however, not yet included. The Panel also noted that recently, under the Development Research Group (Study No: 26)²⁰,

the Reserve Bank has published the study 'Municipal Finances in India - An Assessment' using data from 35 Metropolitan Municipal Corporations. It would, therefore, be appropriate if the Reserve Bank compiles and disseminates comprehensive data on General Government operations including Local Governments, sourced from the budget documents of the three levels of Government. This will require additional resources.

Consolidation of the currently fragmented efforts and the assigning of a clear responsibility for the compilation of these statistics would also ease the migration from the current system to a system that is GFSM 2001 compatible.

Such a consolidation across all levels of government is obviously a herculean task. But, it is a task that needs to be taken up. We, therefore, recommend that this task be assigned clearly to one agency that has the capability to undertake this task. It is further recommended that this task by a single agency be aided by representations and co-operation by major data-providers and data-users.

Resources: Current resources are inadequate to undertake the proposed task of a comprehensive and integrated database on general government operations including all levels of Government, social security systems and extra-budgetary items. We recommend that resources be provided for the same.

Relevance: Fiscal data are relevant. However, the practical utility of the presentation of large

²⁰ P.K.Mohanty, B.M.Misra, Rajan Goyal and P.D.Jeromi (2007): 'Municipal Finance in India – An Assessment', *Development Research Group Study No: 26*, May.

volumes of fiscal data is neither sought nor monitored.

Other Quality Management: Quality awareness is reflected in the independent auditing mandate of the Comptroller and Auditor-General of India.

4.2.1(c) Assurances of Integrity

Professionalism: The Ministry of Finance and the Reserve Bank provide objective data. Decisions regarding choice of sources and techniques are made based on professional considerations.

Transparency: By and large, the dissemination of fiscal data meets the transparency requirements as prescribed by the DQAF of the SDDS. The terms and conditions under which statistics are collected, processed and disseminated are available to the public. However, the limitations on public access are not identified.

Ethical Standards: The concerned persons are guided by ethical standards expected of civil servants.

4.2.1(d) Methodological Soundness

Concepts & Definitions: The Indian fiscal data conform largely (though not entirely) to IMF's 'A Manual on Government Finance Statistics, 1986'. The SDDS recommends the use of GFSM, 2001. However, no migration path has been considered to report the fiscal data according to GFSM, 2001. Besides, the IMF's India Report on the Observance of Standards and Codes, March 2004 mentions a few areas of lack of transparency of the available data with GFSM, 1986.

Apart from the migration to GFSM, 2001, there are at least two major issues that need attention to improve the methodological soundness of the fiscal data. First, the treatment and disclosures regarding off-budget items such as oil-bonds need to be transparent.

Secondly, accrual accounting may be introduced at the earliest.

Scope: The scope of fiscal data needs to be extended to local Governments including municipalities and *panchayati raj* institutions.

Classification/Sectorisation: These are in accord with internationally-accepted standards.

Basis for recording: Transactions are recorded on a cash basis and not on accrual basis.

4.2.1(e) Accuracy & Reliability

Data for the Central and State Governments are available from the administrative system. Data on local Governments are not available. But this is also a problem of the scope of the compilations. Timeliness of availability of actual data is poor. It is difficult for the Panel to assess the fiscal data on the issue of accuracy and reliability. However, the available information indicates that India largely observes the requirements stipulated under the DQAF.

4.2.1(f) Serviceability

Periodicity & Timeliness: Timeliness of fiscal data does not conform to the SDDS requirements. Details of revenue data of the Central Government fall short of needs. The dissemination of annual operations data of general Government takes place after three quarters against the stipulation of two quarters.

Consistency: Fiscal data appear to be largely consistent over time and within the dataset.

Revision Policy & Practice: Provisional and final data are clearly identified.

4.2.1(g) Accessibility

Data Accessibility: The data, when presented, is in a clear and user-friendly manner. Statistics are made available according to a pre-announced schedule. These are made available to all users simultaneously. However, the

policy for making available detailed data is not clear.

Metadata Accessibility: Notes on concepts and methodologies are inadequate.

Assistance to Users: Contact persons are identified on the official websites.

4.3. Financial Sector

4.3.1(a) Coverage, Periodicity & Timeliness

The SDDS prescribes that the following components related to the banking sector should be disseminated with a periodicity of one month and a timeliness of not more than one month from the end of the reference date.

1. Broad monetary aggregate such as M_3 . Narrower monetary aggregates such as M_2 or M_1 , if relevant, are encouraged.

2. Domestic claims (credit) disaggregated into net claims on the general Government and claims on other resident sectors.

3. Foreign assets and foreign liabilities of the depository corporations.

The SDDS prescribes the dissemination of monthly data for the central bank within two weeks after the end of the reference month. It encourages dissemination of weekly data with a lag of one week. The components to be disseminated include data on monetary base, domestic credit (disaggregated into credit to general government and credit to others) and foreign assets and foreign liabilities of the central bank.

The SDDS also prescribes the dissemination of interest rates and share price indices. However, it does not prescribe

timeliness for these as it states that these are also available from private sources. On interest rates, it prescribes the dissemination of rates on short- and long-term government securities: a three- or six-month Treasury bill rate, a ten-year government bond yield and a policy-oriented interest rate.

India meets the SDDS requirements in terms of coverage, periodicity and timeliness. It exceeds the requirements in terms of periodicity and timeliness.

4.3.1(b) Pre-requisites of Quality

Legal & Institutional Environment: The responsibility for compiling and disseminating the data is unambiguous and it rests exclusively with the Reserve Bank. The RBI Act and the Banking Regulation Act provide the legal authority and responsibility.

Resources & Relevance: Adequate resources are available and the data produced are relevant. The Reserve Bank engages with users of the data in the Government. It also conducts user surveys through its Bulletin.

Other Quality Management: The Reserve Bank recognises that its statistics must have the confidence of all users and it exercises quality control at every stage of data production and dissemination.

4.3.1(c) Assurances of Integrity

Professionalism: Statistics are compiled on an objective basis. Decisions regarding techniques and sources are based on statistical considerations.

Transparency: The Central Board of the Reserve Bank is provided access to the

monetary data two days prior to its release to the public. The fact that such internal access to monetary statistics prior to its release is available is not mentioned on the IMF's DSBB. In the SDDS metadata element under 'Prior Access' category - Internal governmental access to statistics prior to release- it is mentioned that '*No commentary is attached to the release of the data*'.

Ethical Standard: The general staff conditions of employment in the Reserve Bank are set out by it in the Reserve Bank Staff Regulations which delineate a code of conduct and provide comprehensive ethical guidelines for employees.

4.3.1(d) Methodological Soundness

Concepts & Definitions: Monetary statistics are compiled in broad conformity with guidelines outlined in IMF's Monetary and Financial Statistics Manual (MFSM). However, the migration to the MFSM is not complete.

Scope: Monetary statistics cover the Reserve Bank, scheduled banks and co-operative banks. However, by definition, it does not include deposit-taking non-bank financial institutions.

Classification/Sectorisation: One limitation of the classification of monetary statistics was that while it distinguished between resident and non-resident sectors, the sub-division of the resident sector data does not provide sufficient breakdown. The resident sector is classified into Central Government, State Government and commercial sectors. Commercial sector comprises public and private enterprises, households and non-profit organisations as well as non-bank financial institutions. The breakdown of the commercial sector was not available. The reviews of monetary and macro-economic developments have started providing the sectoral distribution of domestic credit on a quarterly basis.

Basis for recording: Market prices are used to value flows and stocks. Financial transactions

are recorded on an accrual basis in the Reserve Bank's monetary statistics.

4.3.1(e) Accuracy & Reliability

Source data: The source data are derived from the Reserve Bank's accounting records and those from scheduled commercial banks and co-operative banks. Data used by the Reserve Bank for compiling monetary statistics are complete and timely.

Assessment of Source Data: Data used by the Reserve Bank are cross-checked against data available through other submissions of the banks to the Reserve Bank.

Statistical Techniques: Data compilation procedure minimises processing errors. No adjustments and transformations are required.

Assessment and Validation of Intermediate Data and Statistical Output: The Reserve Bank verifies that data reporting practices followed by the banks are consistent with regulations. Procedures have been established within the Reserve Bank to resolve large or unexplained variations in the data aggregates.

Revision Studies: The extent of revisions is usually limited. The Reserve Bank's staff prepares studies on revisions and these are occasionally published in internal or external publications.

4.3.1(f) Serviceability

Periodicity & Timeliness: The periodicity and timeliness of data on monetary statistics exceed the SDDS requirements.

Consistency: Monetary statistics are internally consistent and are consistent over time. Consistency checks with the Government records and with balance of payments statistics are carried out.

Revision Policy & Practice: Revisions follow a predictable schedule and this is available publicly through the Reserve Bank's publications.

4.3.1(g) Accessibility

Data Accessibility: The data is presented in a clear and user-friendly manner. Statistics are made available according to a pre-announced schedule. And, these are made available to all users simultaneously.

Metadata Accessibility: Notes on concepts and methodologies are available.

Assistance to Users: A contact person is identified on the official websites.

4.4 External Sector

4.4.1(a) Coverage, Periodicity & Timeliness

The External Sector covers the balance of payments (BoP), international reserves, data template on international reserves and foreign currency liquidity, merchandise trade, international investments, external debt and exchange rates.

For the BoP, the SDDS prescribes the dissemination of quarterly data within one quarter after the reference quarter. International reserves are required to be disseminated on a monthly basis within one week after the end of the reference month.

There are four sections of the data template: (a) official reserves assets and other foreign currency assets; (b) pre-determined short-term net drains on foreign currency assets; (c) contingent short-term net drains on foreign currency assets; and (d) memorandum items. The template is to be disseminated on a monthly basis with a lag of not more than a month.

Merchandise trade (import and export) data are required to be disseminated on a monthly basis within eight weeks of the end of the reference month. Disaggregated components of import and export by major categories are encouraged.

The international investments data are to be disseminated quarterly within three quarters of the end of the reference quarter. These include direct investment, portfolio investments disaggregated into equity and debt, other investments and reserves.

The external debt data are required to be disseminated on a quarterly basis with a lag of no more than one quarter. The data should cover general Government, monetary authority, banks, and all other sectors with data for each sector disaggregated by maturity (short and long-term). If possible, other sectors should be further disaggregated into non-bank financial corporations, non-financial corporations and households. Dissemination of future debt-service payments is encouraged.

The SDDS requires the dissemination of the spot market exchange rate for major currencies and three- and six-month forward rates on an 'as relevant' basis.

India meets the SDDS requirements in terms of coverage, periodicity and timeliness on all the subsections of the External Sector.

India does not disseminate all the prescribed components for the external debt on the NSDP or in its national website. On June 2, 2006 India initiated the reporting of

external debt data to the World Bank's Quarterly External Debt Statistics (QEDS) database according to the prescribed SDDS data breakdown (institutional sector further broken down by maturity and by instrument). Work is under way to resolve this issue.

4.4.1(b) Pre-requisites of Quality

Legal and Institutional Environment: There is no formal law or arrangement assigning responsibility for the collection, processing and dissemination of data relating to BoP. In practice, the Reserve Bank holds this responsibility. Most of the information obtained is a by-product of the reporting of foreign exchange transactions. Thus, data collection is a function of the regulations in force. This is vulnerable to possible reforms in the future. Data collection may suffer as it did in the case of the IIP and the WPI. It is, therefore, recommended that arrangements are made such that the data is collected through a more professional and sustainable system.

Where the BoP data do not involve foreign exchange transactions (such as in re-invested earnings), the same are sought through a survey based on voluntary responses. The response rate to these voluntary collections has been low.

Resources: These are adequate.

Relevance: The data are relevant. The Reserve Bank does conduct a users' survey for its Reserve Bank Bulletin publication that contains the BoP data. In response to the users' needs, the Reserve Bank has been improving presentation structure by providing more disaggregated components of BoP, *e.g.*, break-up of miscellaneous services as software services, business services, financial services and communication services.

Other Quality Management: In general, there is quality consciousness in the operations, revisions and usefulness of the data produced.

4.4.1(c) Assurances of Integrity

Professionalism: The spirit of statistical independence is respected. Data are compiled on an objective basis. Choice of sources and technologies are made on statistical considerations.

Transparency: The Reserve Bank meets the standards of transparency required as per the guidelines of the DQAF. The terms and conditions under which statistics are collected, processed and disseminated are known. There is no internal Government access to the balance of payments statistics prior to its public release.

Ethical Standards: The Reserve Bank's personnel are guided by ethical standards laid down in the Reserve Bank Staff Regulations.

4.4.1(d) Methodological Soundness

Concepts & Definitions: BoP statistics are compiled broadly in conformity with the concepts and definitions of the fifth edition of the Balance of Payments Manual (BPM5). However, the presentation structure does not follow the BPM5.

Scope: The scope is broadly in line with BPM5.

Classification/Sectorisation: While the classification is broadly in line with BPM5, information on sectors is less than the norm. A recent improvement in this regard has been the inclusion of debt transactions in direct investments. ROSC 2004 had observed the earlier exclusion to be a limitation.

Basis for Recording: With the exception of re-invested earnings, transactions are recorded at market prices. Transactions are largely recorded on a cash basis (or settlement basis), rather than on accrual basis.

4.4.1(e) Accuracy & Reliability

Source Data: Authorised dealers (ADs) reports on the foreign exchange transactions are the main source of information. A survey of direct investors is also undertaken. The data sources

Box 4: Divergence in the Merchandise Trade Data

The issue of divergence in the merchandise trade data compiled by the two agencies, namely, the Reserve Bank and the Directorate General of Commercial Intelligence and Statistics (DGCI&S), Kolkata, Ministry of Commerce and Industry, was examined by the High Level Committee on Balance of Payments (Chairman: Dr. C. Rangarajan, April 1993) and the Technical Group on Reconciling Balance of Payments and DGCI&S data on merchandise trade (Chairman: Shri O.P. Sodhani, September 1995). While the two agencies are recording the same transactions, the scope, time period, definition, method and coverage of items of trade differ considerably. While the Reserve Bank

relies on foreign exchange release/receipt returns, which are based on actual cash outgo and cover all flows, DGCI&S relies on customs data, which, in turn, are based on bills of entries (import document filed with the Customs), which might remain somewhat incomplete for a number of reasons in the short-run. The main reason for the difference in the Reserve Bank and the DGCI&S data were due to coverage of data relating to defence, aircrafts, ships, petroleum and valuation and timings. As the coverage of a number of items has been expanded in the customs data, the difference between the two sets of data are narrowing down.

are adequate to compile the BoP statistics. Data on re-invested earnings are considered weak as these are based on surveys that yield poor returns. One shortcoming of the data for BoP has been the absence of information on trade credit extended for less than 180 days. A decision has been taken by the Reserve Bank to publish such information since December 2007.

Assessment of Source Data: The Reserve Bank audits the ADs on a regular basis. This ensures that the transactions in foreign exchange are classified correctly.

Statistical Techniques: Statistical techniques are sound in general. One limitation is that imports are recorded in cost, insurance, freight (cif) basis and not free-on-board (fob) basis that is considered more appropriate.

Assessment and Validation of Intermediate Data and Statistical Output: The Reserve Bank does conduct checks to identify and verify, if necessary, unusual movements in the data.

Cross-checks are done with other sources of information.

Revision Studies: There have not been any analysis and studies of revisions though explanations of large revisions are provided at the time of their dissemination.

4.4.1(f) Serviceability

Periodicity & Timeliness: The statistics meet the requirements of the SDDS.

Consistency: The data is consistent across time and cross-sections.

Revision Policy & Practice: Revisions are clearly identified. A formal Revisions Policy for Balance of Payments Statistics has been put in place since September 2004.

4.4.1(g) Accessibility

Statistics are presented in a clear and user-friendly manner. Metadata is accessible by the public and the Reserve Bank does provide assistance to the public.

Box 5: Special Data Dissemination Standard – Cross-Country Practices

Employment and Unemployment

Out of 64 countries, all countries meet the coverage criteria of SDDS requirement, except Belarus, for which the data coverage information is not available. All countries also meet the periodicity requirement of 'Quarterly' except El Salvador, Costa Rica, India, Indonesia and Tunisia who are recording data on annual basis. Further, it is also observed that most of the countries are providing data on 'Monthly' frequency and even exceeding the SDDS requirement of timeliness (*i.e.*, 1Q and many countries are providing data at 1M lag and even less, *e.g.* Canada is maintaining the timeliness of 10 working days). However, India was providing employment data with a lag of 24M and now providing with a lag of 1Q.

A similar type of observation was found in the case of unemployment category also.

Wages and Earnings

All countries meet the coverage criteria of SDDS requirement, except Uruguay, which is not providing any information on coverage. Most of the countries meet the criteria of periodicity and timeliness although many have taken the flexibility option. Egypt and Peru are using Periodicity Flexibility (PF) and Timeliness Flexibility (TF). Whereas Indonesia has opted for TF, El Salvador, Costa Rica and

Switzerland have gone for PF. India is providing data in every 5Y with a lag of 24M, Philippines in every 2A with a lag of 12M, and Peru is recording data with Semi-Annual frequency and posting with a lag of 8M.

Savings

Norway is providing data on gross savings.

Forward-looking Indicators

Out of 64 countries, only 19 countries are providing information on forward-looking indicators for which coverage is very poor. Only Hong Kong, Lithuania, Norway, Portugal, Slovenia and South Africa meet the coverage criteria of SDDS requirement. The countries which are reporting the data on forward looking indicators, are using all the PF and TF, and they are mostly providing data with a monthly frequency. While Hong Kong is reporting data on business expectations for one quarter ahead, Norway is reporting data on 'The industrial confidence indicator' with business tendency survey on a quarterly basis.

India can provide the data on employment on a quarterly basis which are available in 'Quarterly Employment Review', Directorate General of Employment & Training, Ministry of Labour with a lag of 2 years. For example, data for January-March 2005 have been available since January 2007.

5. Summary of Recommendations

A summary of recommendations for the Panel is given below:

5.1 Real Sector

5.1.1 National Accounts Statistics

- The CSO is the nodal agency that compiles the NAS. The requisite information for the compilation of the NAS is provided by a large number of independent ministries, departments and local agencies. As a large part of the data used by the CSO is collected as part of the administrative machinery, it makes the data collection system vulnerable to reforms processes. With privatisation and reforms and the

reduction in the role of the public sector, the administration is ill-equipped to provide comprehensive or reliable data. Hence, the quality of statistics provided to the CSO has deteriorated, as the data submission by source agencies is mainly on a voluntary basis. The CSO needs to be strengthened to ensure that the generation of the national accounts system is well-supported by the legal and institutional environment it merits.

- The sources and methods in compiling the NAS are documented and available in the public domain. However, changes in methodology are communicated only to the traditional institutional users of CSO data and are not available in the

- public domain. CSO should place in the public domain all materials pertaining to changes in methodology in the compilation of NAS. Advance notice should also be given for major changes in methodology, source data and statistical techniques.
- Several publications authored by the CSO officials provide valuable insights into the working of the national accounts system. However, these are also not available in the public domain. It would be useful if such articles are systematically available on the organisation's official website.
 - The accuracy and reliability of the expenditure side of the GDP is much lower than that of the production side. Private final consumption expenditure is derived and not estimated. There is a need to substantially improve the accuracy of the expenditure side statistics of the national accounts.
 - The CSO's statistical techniques need greater independent review so that the CSO could make appropriate changes in its techniques.
 - It is not possible to ascertain whether the CSO has incorporated the available source data in the last revision or whether the new data from the sources would have its impact only in the next revision. It would be useful for the CSO to make available, reasonably comprehensively, the source data used in the computations.
 - The CSO does not have any formal process to monitor the practical utility to users of its statistics. It is recommended that the CSO conducts a survey of users of national accounts statistics at least once in three years.
 - Major changes in methodology for compilation of NAS are not made available in advance of the general dissemination of statistics. It is recommended that the CSO presents a discussion paper on the changes in methodology before its final implementation.

5.1.2 Production Index

- With liberalisation, the institutional data collection machinery has suffered. Implementation of the existing arrangements for compilation of the IIP should be strengthened and the agencies that provide the source data should be consolidated. The CSO should assume a direct responsibility in the generation of the IIP. It should create the frame, select the sample and collect the data directly from the units, for which it will require additional resources. Its reliance on the administrative machinery and on industry associations should be reduced.
- The CSO's statistical policies and practices in respect of the generation of the IIP are transparent. However, the CSO can improve the transparency of the IIP if it also reveals the size (number) of units in the frame, the sample size and

the monthly response rate for each item of the IIP.

- The IIP excludes construction, gas and water supply. Their inclusion in the IIP is recommended by the United Nations Statistical Office. It would be useful if the scope of the IIP was expanded to include the construction, water supply and gas sectors.
- The IIP is based on data obtained from fifteen different source agencies. The ability of some of these sources to collect comprehensive data has deteriorated since the onset of reforms. In the interest of better practices, the data collection machinery needs to be improved substantially, particularly since the availability and quality of data has improved substantially.
- The source data does not fully capture the changes in India's industrial sector. The IIP needs to adjust its basket of commodities and the weights assigned to these quicker than it does currently.
- The revisions in IIP data are substantive enough to warrant an explanation of the causes of these revisions. These revisions are almost entirely because of the improved response rates obtained by the source agencies that provide the underlying data. The publication of the response rate with each release would enable the users to anticipate changes in the estimates and appreciate the revisions when they occur.
- The CSO does not have any formal process to monitor the practical application of its statistics. It is recommended that the CSO conducts a survey of users of the IIP at least once in three years.

- To improve the methodology in compilation of IIP data, a move towards a chain-linked index instead of a base-linked index is recommended.

5.1.3 Forward-looking Indicators

- The Reserve Bank conducts quarterly surveys on capacity utilisation and order-book positions. Such quarterly surveys could be used to develop a full set of forward-looking indicators and disseminated.

5.1.4 Labour

- There are multiple agencies like the National Sample Survey Organisation (NSSO), the labour ministry, *etc.*, involved in the measurement of labour data. The fragmented efforts in compilation of statistics relating to the labour markets needs to be consolidated under one institution that is adequately empowered to undertake this task comprehensively and effectively. The CSO, as the premier statistical agency of the country, is the most appropriate agency to undertake this responsibility with the help of the NSSO's machinery. It would be ideal if such new efforts were made in a manner as conforms to the standards laid in the DQAF.
- Statistics on labour may be compiled by professional statistical agencies that deploy appropriate statistical methodologies rather than by the administrative arm of the Government through voluntary or statutory compliance of Acts.

5.1.5 Prices

- There is a need for modernisation of the administrative machinery in the Ministry of Labour (for the compilation of CPI-IW) and the Office of the

Economic Advisor in the Ministry of Commerce and Industry (for the compilation of WPI), as recommended by the National Statistical Commission – 2001.

- There is scope to improve upon the selection of sources of prices data as in several markets, sophisticated systems have been established to collect reliable price estimates of commodities. This is particularly true in the light of the establishment of several commodity futures exchanges. The efforts of the agencies in collecting prices to measure inflation may also exploit these new sources.
- The Labour Bureau and the Office of the Economic Advisor, Ministry of Commerce and Industry need to improve on the transparency by releasing data regarding the number of respondents, the monthly response rates, the revision in the responses and the policies followed with respect to the revisions. In the case of the CPI and the WPI, the underlying price used in the computation of the various indices may be made public for a fair assessment of the credibility of the price indices. To improve the methodology in compilation of prices data, a move towards a chain-linked index instead of a base-linked index is recommended.
- Prior to the release to the public, the WPI press release is given to the MoF and

the Reserve Bank under embargo. However, this is not publicly identified and not described in the IMF's DSBB. Though there is no privileged access to the WPI data, the fact that such internal Government access is available could be mentioned in the DSBB to make it compliant with the SDDS.

5.2 Fiscal Sector

- The Reserve Bank may continue to compile and publish, as per the present SDDS requirements, the General Government public finance statistics (Government of India and State Governments) within six months of the end of the reference year. The Panel noted that a Municipal Finance study has already been published by the Reserve Bank. Considering these, to begin with, it would be appropriate to entrust the Reserve Bank with the task of compiling and publishing data on General Government operations at regular intervals including Local Governments, sourced from the budget documents of the respective Governments. This will require additional resources. A beginning could be made by initially covering metropolitan municipal corporations and extended in stages to other Local Bodies.
- Consolidation of the currently fragmented efforts and the assigning of a clear responsibility for the compilation of the general Government statistics

would ease the migration from the current system to a system that is GFSM 2001 compatible. Current resources are inadequate to undertake the proposed task of a comprehensive and integrated database on general Government operations including all levels of Government, social security systems and extra-budgetary items. Adequate resources should be provided for the same.

- The treatment and disclosures regarding off-budget items such as oil bonds need to be transparent and accrual accounting may be introduced in general Government transactions.
- Instead of the discrete monthly data required by SDDS, the data on CGO are disseminated on a cumulative year-to-date basis. The Panel recommends

dissemination of discrete monthly data on CGO.

5.3 External Sector

- There is no formal law or arrangement assigning responsibility for the collection, processing and dissemination of data relating to balance of payments with the Reserve Bank. Most of the information obtained is a by-product of reporting of foreign exchange transactions by Authorised Dealers. Thus, data collection is a function of the regulations in force and is vulnerable to possible reforms in the future. Data collection may suffer as it did in the case of the IIP and the WPI. It is, therefore, recommended that arrangements are made such that the data is collected through a more professional and sustainable system.

Annex I

Summary of SDDS Observance (Coverage, Periodicity and Timeliness)

SDDS Data Category	Coverage (meets SDDS)	Periodicity		Timeliness		Comments
		SDDS	IND	SDDS	IND	
National Accounts	Yes	Q	Q	1Q	NLT 1Q	<p>Periodicity Notes: India is availing itself of a flexibility option on the periodicity of the Labour market: Employment data.</p> <p>Timeliness Notes: India is availing itself of a flexibility option on the timeliness of the Labour market: Employment data.</p>
Production Index	Yes	M	M	6W (1M encouraged)	6W	
Labour Market: Employment	Yes	Q	A	1Q	24M	
Labour Market: Unemployment	Yes	Q	A	1Q	NLT 24M	

Labour Market; Wages/earnings	Yes	Q	5Y	1Q	NLT 24M	<p>Periodicity Notes: India will use the 'as relevant' flexibility of the SDDS for the labour market data category.</p> <p>Timeliness Notes: India will use the 'as relevant' flexibility of the SDDS for the labour market data category.</p>
Price Index: Consumer prices	Yes	M	M	1M	4W CPI (UNME) 1M CPI (IW) and CPI (RL)	
Price Index: Producer prices	Yes	M	W	1M	2W	
General Government or public sector operations	Yes	A	A	2Q	9M	<p>Timeliness Notes: India is availing itself of a flexibility option on the timeliness of the general government or public sector operations data.</p>
Central Government operations	Yes	M	M	1M	1M	
Central Government debt	Yes	Q	Q	1Q	NLT 1Q	
Analytical accounts of the banking sector	Yes	M	2W	1M	15D	
Analytical accounts of the central bank	Yes	M(W recom- mended)	W	2W (1W encour- aged)	1W	
Interest rates	Yes	D	D (govern- ment securities trading in the secondary markets)	*	D (same day for Treasury Bill rates, Govern- ment securities auction rates and bank rates) 3W (prime lending rates)	

Chapter V

Assessment of Data Dissemination Standards

Stock market: Share price index	Yes	D	D	*	D
Balance of payments	Yes	Q	Q	1Q	3M
Official reserve assets	Yes	M(W recom- mended)	W	1W	1W
Reserves template	Yes	M	M	1M (1W encour- aged)	1M
Merchandise trade	Yes	M	M	8W (4-6W encour- aged)	NLT 5W
International investment position	Yes	A(Q recom- mended)	A	3Q (1Q encour- aged)	NLT 6M
External debt	Yes	Q	Q	1Q	3 M
Exchange rates	Yes	D	D	*	2W
Population	Yes	A	A	...	12-18M

Periodicity and timeliness: (D) daily; (W) weekly or with a lag of ## week(s) from the reference date; (WD) working days, or business days; (M) monthly or with a lag of ## month(s); (NLT) not later than; (Q) quarterly or with a lag of ## quarter(s); (A) annually; (SA) semiannual; and (...) not applicable.

* Given that the data are broadly disseminated by private sources, the dissemination of data by official sources is not time-critical.

Source: DSBB

Annex II

India's Status against Advance Release Calendar

Category	National Periodicity	Prescribed Release Lag	Reference period																
			2007	Jan	Feb	Mar	Q1	Apr	May	Jun	Q2	Jul	Aug	Sep	Q3	Oct	Nov	Dec	Q4
Real Sector																			
National account	Q,A	1Q		✓				✓											
Production Index	M	6W		✓				✓										✓	
Labour market: Employment	A-PF-TF	1Q																	
Labour market: Unemployment	A-PF-TF	1Q																	
Labour market: Wages/Earnings	SA-PF-TF	1Q		✓				✓											
Price index: Consumer prices	M	1M		✓				✓										✓	
Price index: Producer prices	W*	1M		✓				✓										✓	
Fiscal Sector																			
General Government or public sector operations	A	2Q	✓																
Central Government operations #	M	1M																	
Central Government debt	Q	1Q					-61	✓						✓					✓
Financial Sector																			
Depository corporations survey	F*	1M		✓				✓						✓				✓	
Central bank survey	W	2W		✓				✓						✓				✓	
Interest rates	D	W																	
Stock market: Share price index	D	1D																	
External Sector																			
Balance of payments	Q,A	1Q																	
Official reserve assets	W*	1W																	
Reserves template!	M	1M																	
Merchandise trade	M	8W																	
International investment position	Q,A	3Q																	
External debt	Q	1Q																	
Exchange rates	D	1D																	
Socio-demographic Data																			
Population	A	...																	

* Exceeds SDDS requirement; PF - Periodicity flexibility option taken; TF - Timeliness flexibility option taken; D - day; W - week; F - fortnight; M - month; Q - quarter; SA - semi-annual; A - annual; ! - Data Template on International Reserves and Foreign Currency Liquidity.

Every month, the data is disseminated on the last date of the month following the reference month except in the case of March. As the financial year ends on 31st March, additional time is required for making the necessary year-end adjustments in the accounts. Hence, there is a lag of 61 days in release of data for March.

Annex III

India's Timeliness against SDDS Requirements

Category	National Periodicity	Prescribed Release Lag	Reference period																
			2007	Jan	Feb	Mar	Q1	Apr	May	Jun	Q2	Jul	Aug	Sep	Q3	Oct	Nov	Dec	Q4
Real Sector																			
National account	Q, A	1Q																	
Production Index	M	6W																	
Labour market: Employment	A, PF-TF	1Q																	
Labour market: Unemployment	A, PF-TF	1Q																	
Labour market: Wages/Earnings	SA, PF-TF	1Q																	
Price index: Consumer prices	M	1M																	
Price index: Producer prices	W*	1M																	
Fiscal Sector																			
General Government or public sector operations	A	2Q																	
Central Government operations #	M	1M																	
Central Government debt	Q	1Q																	
Financial Sector																			
Depository corporations survey	F*	1M																	
Central bank survey	W	2W																	
Interest rates	D	W																	
Stock market: Share price index	D	1D																	
External Sector																			
Balance of payments	Q, A	1Q																	
Official reserve assets	W*	1W																	
Reserves template ¹	M	1M																	
Merchandise trade	M	8W																	
International investment position	Q, A	3Q																	
External debt	Q	1Q																	
Exchange rates	D	1D																	
Socio-demographic Data																			
Population	A	...																	

* Exceeds SDDS requirement; PF - Periodicity flexibility option taken; TF - Timeliness flexibility option taken; D - day; W - week; F - fortnight; M - month; Q - quarter; SA - semi-annual; A - annual; I - Data Template on International Reserves and Foreign Currency Liquidity.

Every month, the data is disseminated on the last date of the month following the reference month except in the case of March. As the financial year ends on 31st March, additional time is required for making the necessary year-end adjustments in the accounts. Hence, there is a lag of 61 days in release of data for March.

Annex IV

Data Quality Assessment Framework: National Accounts Statistics Compiling Agency: Central Statistical Organisation

0. Pre-requisites of Quality	
0.1	Legal & Institutional Environment - The environment is supportive of statistics.
Earlier Assessment (ROSC - 2004)	Largely Observed
Description	The Central Statistical Organisation (CSO) is the nodal agency to compile the NAS. A large number of independent ministries, departments and local agencies provide the CSO with the requisite information for the compilation of the NAS. In such a system, the responsibilities for data collection, processing and dissemination are reasonably well-defined.
Present Assessment	Largely Observed
Comments	CSO needs to be strengthened to ensure that the generation of the national accounts statistics is well-supported by the legal and institutional environment.
0.2	Resources - Resources are commensurate with needs of statistical programmes.
Earlier Assessment (ROSC - 2004)	Observed
Description	Resources available to the CSO are adequate. The CSO's staff, facilities and finances are commensurate with its programmes. However, the data-source agencies are many and diverse. The resource availability at these agencies could be insufficient. There is no formal effort to ensure the efficiency of the use of resources at any level.
Present Assessment	Largely Observed
Comments	The CSO has many data-source agencies and the resource availability of these source agencies could be insufficient. There is no formal effort to ensure the efficiency of the use of resources at any level.
0.3	Relevance - Statistics cover relevant information on the subject field.
Earlier Assessment (ROSC - 2004)	Observed
Description	The NAS are relevant and cover a large cross-section of users.
Present Assessment	Largely Observed
Comments	The CSO does not have any formal process to monitor the practical utility to users of its statistics.

Chapter V

Assessment of Data Dissemination Standards

0.4	Other Quality Management - Quality is a cornerstone of statistical work.
Earlier Assessment (ROSC - 2004)	Observed
Description	The CSO is guided by the Advisory Committee on National Accounts. However, there is no formal process for a regular quality check or a periodic assessment of the quality of data produced.
Present Assessment	Observed
1. Assurances of Integrity	
1.1	Professionalism - Statistical policies and practices are guided by professional principles.
Earlier Assessment (ROSC - 2004)	Observed
Description	CSO has professional independence in preparing the macro-aggregates and engages professionals through competitive evaluation. Statistics are produced on an impartial basis. Choice of sources and statistical techniques are taken largely on statistical consideration.
Present Assessment	Observed
1.2	Transparency - Statistical policies and practices are transparent.
Earlier Assessment (ROSC - 2004)	Observed
Description	<p>CSO's sources and methods are documented and made available in the public domain. CSO officers do provide clarifications and are encouraged to speak at seminars and express views through publications. Traditional institutional users of CSO are often intimated of changes in methodology. However, such information is not easily available in the public domain.</p> <p>The National Statistical Commission has been very transparent about the limitations and problems in generating the national accounts statistics including the limitations of many of the source agencies.</p> <p>Although the CSO is allowed to comment on erroneous interpretation of its data, it rarely comments or requests rectification. The terms and conditions under which CSO statistics are compiled are available to the public. In practice, statistics for which the CSO is responsible are clearly identified, even though it does not request attribution. Major</p>

	changes in methodology for compilation of NAS are, however, not made available in advance of the general dissemination of statistics. It is recommended that the CSO presents a discussion paper on the changes in methodology before its final implementation.
Present Assessment	Observed
1.3	Ethical Standards - Policies and practices are guided by ethical standards.
Earlier Assessment (ROSC - 2004)	Observed
Description	CSO's staff is bound to act in accordance with the Central Civil Services (Conduct) Rules and other provisions that define the ethical standards expected of civil servants.
Present Assessment	Observed
2. Methodological Soundness	
2.1	Concepts and Definitions - Concepts and definitions used are in accordance with internationally-accepted statistical frameworks.
Earlier Assessment (ROSC - 2004)	Largely Observed
Description	There is increasing alignment to United Nations System of National Accounts (UNSNA 1993) with the release of the new series of macro-aggregates (base: 1999-2000). One such example is the inclusion of 'valuables' as a component of the capital formation estimates. The national accounts largely follow the <i>1993 SNA</i> as a general framework, but several concepts and definitions of the <i>1968 SNA</i> are still used.
Present Assessment	Largely Observed
Comments	Several concepts and definitions of the <i>1968 SNA</i> are still used but the CSO is working towards further incorporation of 1993 SNA recommendations.
2.2	Scope - The scope is in accord with internationally-accepted standards, guidelines or good practices.
Earlier Assessment (ROSC - 2004)	Largely Not Observed
Description	It is a constant endeavour of the Ministry of Statistics and Programme Implementation, charged as it is with the responsibility for setting standards for collection, compilation and dissemination of statistical data in India, to establish classification systems as well as updating existing ones so as to keep pace with the changes in the organisation, structure of industries and accounting for emerging economic activities.

	The scope of the data is broadly in line with the internationally-accepted norm. The DGCI&S has started releasing data on imports and exports of goods and services at constant prices since October 2007.
Present Assessment	Largely Observed
2.3	Classification/Sectorisation - Classification and sectorisation systems are in accord with internationally-accepted standards, guidelines or good practices.
Earlier Assessment (ROSC - 2004)	Largely Observed
Description	The National Industrial Classification 1987, which is broadly based on the <i>International Standard Classification of All Economic Activities (ISIC)</i> is used to classify economic activity. The classification system followed is largely in line with the internationally-accepted practices. However, the range of institutional accounts is incomplete. The public sector is taken as a major grouping of institutional units. As a result, the general government is not identified as an institution grouping.
Present Assessment	Largely Observed
2.4	Basis for Recording - Flows and stocks are valued according to internationally-accepted standards, guidelines or good practices.
Earlier Assessment (ROSC - 2004)	Largely Observed
Description	Flows and stocks are largely valued according to internationally-accepted standards. Most transactions are recorded on an accrual basis in accordance with 1993 SNA recommendations. However, Government and most external transactions are recorded on a cash basis.
Present Assessment	Largely Observed
3. Accuracy & Reliability	
3.1	Source Data - Source data available provide an adequate basis to compile statistics.
Earlier Assessment (ROSC - 2004)	Largely Not Observed

Description	<p>Along with the Revised Estimates of Annual National Income, 2006-07 released on May 31, 2007, CSO has also released for the first time the corresponding annual and quarterly estimates of Expenditure components of the GDP in current and constant (1999-2000) prices, namely, the private final consumption expenditure, government final consumption expenditure, gross fixed capital formation, change in stocks, valuables and net exports.</p> <p>The sources for the national accounts include a large number of data collected through the administrative system and from CSO or NSSO sample surveys. The collection of statistics from producer units by way of sampling is handicapped by the unavailability of a single, reliable and broad-based business register of the larger producing units. Both the annual accounts and the quarterly national accounts suffer from a lack of sources on the activities of the private services producing units.</p>
Present Assessment	Largely Not Observed
Comments	The major problem with a large part of the data sources is that they collect data as a part of the administrative machinery. The sources of data for private sector's activities are grossly insufficient. The accuracy and reliability of the expenditure side of the GDP is much lower than of the production side. Private final consumption expenditure is derived and not estimated.
3.2	Assessment of Source Data - Source data are regularly assessed.
Earlier Assessment (ROSC - 2004)	Observed
Description	Most of the data are sourced from the administrative system. CSO does not formally assess the coverage, sample error, non-sampling errors, <i>etc.</i> of the sources of data.
Present Assessment	Largely Not Observed
Comments	CSO does not formally assess the coverage, sample error, non-sampling errors, <i>etc.</i> of the sources of data.
3.3	Statistical Techniques - Statistical techniques employed conform to sound statistical procedures.
Earlier Assessment (ROSC - 2004)	Largely Not Observed
Description	<p>In the new series (base: 1999-2000) effort has been made by the CSO for updating the rates and ratios in compilation of national accounts.</p> <p>Except for agriculture and mining, single indicator methods are used to estimate value-added data at constant prices.</p>

	The <i>1993 SNA</i> recommends double deflation. The way taxes are deflated (by the consumer or wholesale price indexes) is not according to accepted good practice. For lack of current basic data, there is a considerable reliance on fixed ratios in cases where the commodity flow method is applied. The allocation of harvests in time is inaccurate.
Present Assessment	Largely Not Observed
Comments	The CSO's statistical techniques need greater independent review so that the CSO could make appropriate changes in its techniques.
3.4	Assessment and Validation of Intermediate Data and Statistical Outputs - Intermediate results and statistical outputs are regularly assessed.
Earlier Assessment (ROSC - 2004)	Observed
Description	In addition to what has been stated in item 3.2, the CSO regularly assesses its own estimates and source data as also revises the base year at periodic interval to factor in structural changes in the economy. Henceforth, base revision will be once every five years, the latest base revision being base: 1999-2000. The CSO satisfactorily assesses and validates the sources and its own estimates.
Present Assessment	Observed
3.5	Revision Studies - Revisions, as a gauge of reliability, are tracked and mined for the information they may provide.
Earlier Assessment (ROSC - 2004)	Largely Observed
Description	The CSO tracks the revision in different estimates, like Advance Estimates of GDP is followed by Revised Estimates and Quick Estimates. In its yearly publication 'National Accounts Statistics', CSO provides the reasons in revision undertaken by the CSO between the estimates of GDP growth in years when such revision took place. It also investigates the direction and magnitude of revisions between preliminary and final data. However, it does not unilaterally adjust the results of a major source statistic if the investigation suggests a bias; instead, agreement for the adjustment is sought from the data provider.

Present Assessment	Largely Observed
Comments	Analysis of revisions is only partially used to inform the statistical process.
4. Serviceability	
4.1	Timeliness & Periodicity - Timeliness and periodicity follow internationally-accepted dissemination standards.
Earlier Assessment (ROSC - 2004)	Observed
Description	The CSO releases the advanced calendar of release date of various estimates and strictly adheres to the schedule. Both the timeliness and the periodicity of the national accounts are in accordance with SDDS requirements. Periodicity is quarterly and timeliness has improved to a lag of two months compared to the prescribed three months.
Present Assessment	Observed
4.2	Consistency - Statistics are consistent within the dataset, over time and with major datasets.
Earlier Assessment (ROSC - 2004)	Observed
Description	NAS are internally consistent by definition. But, in practice, such consistency is achieved mostly by the balancing entry — 'errors and omissions'. In this context it may be noted that the 'errors and omissions' are quite large and are left unexplained.
Present Assessment	Largely Observed
4.3	Revision Policy and Practice - Data revisions follow a regular and publicised procedure.
Earlier assessment (ROSC - 2004)	Largely Observed
Description	Data revisions by the CSO follow a regular and publicised procedure. The procedure is as per 'Sources and Methods, 2007' and the time-schedule of the release is as per the advanced release calendar. The CSO revises the data and its own estimates regularly. The Advance Estimates of GDP is followed by Revised Estimates and Quick Estimates. However, the latest major revision slightly exceeded the normal 10-year schedule. The identification of preliminary estimates could be improved. The CSO consults commentators about their concerns on the national accounts through many channels, including the annual conference of the Indian Association for Research in National Income and Wealth and the Advisory Committee on National Accounts Statistics.

Present Assessment	Largely Observed
Comments	Last major revision did not follow the preset schedule. Preliminary data are not always identified as such.
5. Accessibility	
5.1	Data Accessibility - Statistics are presented in a clear and understandable manner, forms of dissemination are adequate and statistics are made available on an impartial basis.
Earlier Assessment (ROSC - 2004)	Largely Observed
Description	The data is presented in clear and understandable as well as user-friendly manner. The data is placed in the website immediately simultaneously with the official release of data. National accounts data are published in a clear manner and they are consistently accompanied by an analysis of the most recent developments. They are simultaneously released to the press and on the internet according to a preannounced schedule.
Present Assessment	Largely Observed
Comments	Press releases of quarterly accounts do not show all data that have been revised. The availability of unpublished detail is not widely publicised. CSO's policy for dissemination to the public is not clear and often discretionary.
5.2	Metadata Accessibility - Up-to-date and pertinent metadata are made available.
Earlier Assessment (ROSC - 2004)	Largely Observed
Description	It has been the endeavour of the CSO to make available pertinent metadata. Such information including documentation on concepts and methods as well as back series data are available on the CSO's website as also in published form. Extensive documentation on concepts and methods is published on occasion of base year changes. It may be mentioned that now, the CSO has agreed to change the base year of national accounts every five years.

	<p>The press releases of quarterly accounts do not necessarily show all data that have been revised. However, the full series are posted on the internet. The availability of additional information, such as long time series on diskette or unpublished detail, is not widely publicised. Extensive documentation on concepts and methods is published on occasion of base year changes, but these publications may be difficult to find after a number of years. Apart from what is available on the DSBB, there are no short metadata descriptions focusing on the need of the general public. Catalogues of publications including price information can be found in the <i>Monthly Abstract of Statistics</i> and on the internet.</p>
Present Assessment	Largely Observed
5.3	Assistance to Users - Prompt and knowledgeable support service is available.
Earlier Assessment (ROSC - 2004)	Largely Observed
Description	<p>Information on how to obtain assistance for users is available on CSO website by way of contact numbers and e-mail id of concerned officers of the CSO.</p> <p>User assistance could be improved by the identification of contact persons for each domain and by indicating telephone numbers, as well as postal or internet addresses.</p>
Present Assessment	Largely Observed

Data Quality Assessment Framework: Wholesale Price Index
Compiling Agency: Office of the Economic Adviser, Ministry of
Commerce and Industry

0. Pre-requisites of Quality	
0.1	Legal & Institutional Environment - The environment is supportive of statistics.
Earlier Assessment (ROSC - 2004)	Largely Observed
Description	The Allocation of Business Rules assigns the responsibility of compilation of the wholesale price index (WPI) to the Ministry of Commerce and Industry. The Ministry's Office of the Economic Adviser is solely responsible for the collection and compilation of the data. However, it does not have the legal authority to mandate price collection. It receives responses to its requests for information essentially on a voluntary basis.
Present Assessment	Largely Observed
Comments	There is no legal authority to mandate price collection.
0.2	Resources - Resources are commensurate with needs of statistical programmes.
Earlier Assessment (ROSC - 2004)	Observed
Description	<i>The Report of the National Statistical Commission</i> , an in-depth evaluation of the Indian Statistical System published in August 2001, notes that in certain areas the system has almost collapsed. The staff in the office of the Economic Adviser in the Ministry of Commerce and Industry is adequate for the compilation of WPI. Sufficient computing resources are allocated for compiling and disseminating the WPI. Processes and procedures are in place in the Ministry to ensure that resources are used efficiently.
Present Assessment	Observed
0.3	Relevance - Statistics cover relevant information on the subject field.
Earlier Assessment (ROSC - 2004)	Observed
Description	The price indices are relevant and widely used in Government and in business.
Present Assessment	Observed

0.4	Other Quality Management - Quality is a cornerstone of statistical work.
Earlier Assessment (ROSC - 2004)	Observed
Description	Managers and staff in the Office of the Economic Adviser, Ministry of Commerce and Industry are aware of the dimensions of data quality. Measures are in place to monitor the quality in the stages of collecting, processing and disseminating data.
Present Assessment	Observed
1. Assurances of Integrity	
1.1	Professionalism - Statistical policies and practices are guided by professional principles.
Earlier Assessment (ROSC - 2004)	Observed
Description	The professional independence and integrity of the Office of the Economic Adviser in the compilation of the WPI is ensured by the Ministry of Commerce and Industry under the Allocation of Business Rules. There is no interference from elsewhere in the Ministry or any other Government organisation and the compilation of WPI is done on an impartial basis and in a professional manner. The Office makes use of its right to comment on misinterpretations of the index series. The terms and conditions under which the index is compiled are available to the public.
Present Assessment	Observed
Comments	There is scope to improve on the choice of sources as this is largely based on operative convenience arising from using the administrative machinery.
1.2	Transparency - Statistical policies and practices are transparent.
Earlier Assessment (ROSC - 2004)	Largely Observed
Description	Prior to the release to the public, the WPI press release is given to the MoF and the Reserve Bank under embargo; however, this is not publicly identified and not described in the IMF's DSBB. All releases of the Office are clearly identified as such. The WPI provides only the index and not the price which limits the utility of the WPI. Advance notice of major changes in methodology, data sources or statistical techniques is given in the Office's press release; main users are also informed through various bodies.
Present Assessment	Largely Observed

Comments	There is a need to improve the transparency on the compilation of WPI data on the number of respondents, the monthly response rates and revisions. Though there is no privileged access to the WPI data, the fact that such internal Government access is available could be mentioned in the DSBB.
1.3	Ethical Standards - Policies and practices are guided by ethical standards.
Earlier Assessment (ROSC - 2004)	Observed
Description	There is no interference from elsewhere in the Ministry or any other Government organisation and the compilation of WPI is done on an impartial basis and in a professional manner. The Office makes use of its right to comment on misinterpretations of the index series.
Present Assessment	Observed
2. Methodological Soundness	
2.1	Concepts and Definitions - Concepts and definitions used are in accordance with internationally-accepted statistical frameworks.
Earlier Assessment (ROSC - 2004)	Largely Observed
Description	The concepts and definitions used in the construction of WPI are in conformity with internationally-accepted practices. The scope of CPI-IW is limited to only industrial workers.
Present Assessment	Largely Observed
Comments	The concepts and definitions for both weights and prices are not consistent with those for a producer price index, which in general internationally is regarded as analytically more meaningful than a WPI. India does not have a single measure of consumer prices for all sections of the population to be used as a measure of inflation.
2.2	Scope - The scope is in accord with internationally-accepted standards, guidelines or good practices.
Earlier Assessment (ROSC - 2004)	Observed
Description	The scope of the WPI is in accordance with international good practice, although adapted to Indian conditions.

Present Assessment	Observed
2.3	Classification/Sectorisation - Classification and sectorisation systems are in accord with internationally-accepted standards, guidelines or good practices.
Earlier Assessment (ROSC - 2004)	Observed
Description	The classification under which total production is categorised by groups, subgroups and detailed commodity groups follows the National Industry Classification of 1987.
Present Assessment	Observed
2.4	Basis for Recording - Flows and stocks are valued according to internationally-accepted standards, guidelines or good practices.
Earlier Assessment (ROSC - 2004)	Observed
Description	The basis of recording is according to internationally-accepted standards.
Present Assessment	Observed
3. Accuracy & Reliability	
3.1	Source Data - Source data available provide an adequate basis to compile statistics.
Earlier Assessment (ROSC - 2004)	Largely Observed
Description	The weights of the WPI are derived from the national accounts, the Annual Survey of Industries and agricultural statistics. The sample size, response rate and actual prices used in the computation of the index are not made public. The actual price collection suffers from weak institutional framework. The WPI suffers from outdated weights as its base year is 1993-94 and the economy has undergone tremendous changes since then.
Present Assessment	Largely Observed
Comments	Inadequate weighting data, too small a sample of respondents and products, non-uniform price data and outdated weights.
3.2	Assessment of Source Data - Source data are regularly assessed.
Earlier Assessment (ROSC - 2004)	Largely Not Observed
Description	In the absence of an up-to-date business register, the weights may be subject to considerable statistical uncertainty. In addition, less than 2000 prices are collected, which raises questions about the representativeness of the index. Most prices for primary products are

	recorded from wholesale markets while prices for manufactured products are obtained ex-factory or ex-warehouse or from other secondary markets or even retail markets. Thus, the WPI does not reflect consistently developments in either producer prices or wholesale market prices.
Present Assessment	Largely Not Observed
Comments	Office of the Economic Adviser has already initiated the work relating to updating the base year from 1993-94 to 2000-01.
3.3	Statistical Techniques - Statistical techniques employed conform to sound statistical procedures.
Earlier Assessment (ROSC - 2004)	Observed
Description	While, in the main, internationally-accepted statistical techniques are used to combine the weights and prices to compile the index, the accuracy of the index is likely to be adversely affected by the exclusion of newly-emerging products from the index until the next weight update and by not including replacements for products that become permanently unavailable.
Present Assessment	Observed
Comments	Inappropriate treatment of new and disappearing products.
3.4	Assessment and Validation of Intermediate Data and Statistical Outputs - Intermediate results and statistical outputs are regularly assessed.
Earlier Assessment (ROSC - 2004)	Observed
Description	Differences between preliminary and final data are investigated and the impact of weight revisions is analysed.
Present Assessment	Observed
3.5	Revision Studies - Revisions, as a gauge of reliability, are tracked and mined for the information they may provide.
Earlier Assessment (ROSC - 2004)	Observed
Description	Revisions are studied in a routine manner.
Present Assessment	Observed

4. Serviceability	
4.1	Timeliness & periodicity - Timeliness and periodicity follow internationally-accepted dissemination standards.
Earlier Assessment (ROSC - 2004)	Observed
Description	The periodicity and timeliness exceeds the SDDS requirements.
Present Assessment	Observed
4.2	Consistency - Statistics are consistent within the dataset, over time and with major datasets.
Earlier Assessment (ROSC - 2004)	Observed
Description	The WPI is internally consistent in that component series are coherent with higher-level series and short-period data are coherent with long-period data.
Present Assessment	Observed
4.3	Revision Policy and Practice - Data revisions follow a regular and publicised procedure.
Earlier Assessment (ROSC - 2004)	Observed
Description	Revisions of weights have normally been undertaken every ten years. Preliminary indexes are clearly identified and are further adjusted according to a regular, transparent and well-known schedule. An established process of consultation monitors whether the WPI continues to meet requirements of the main users.
Present Assessment	Observed
Comments	Office of the Economic Adviser has already initiated the work relating to updating the base year from 1993-94 to 2000-01.
5. Accessibility	
5.1	Data Accessibility - Statistics are presented in a clear and understandable manner, forms of dissemination are adequate and statistics are made available on an impartial basis.
Earlier Assessment (ROSC - 2004)	Observed
Description	The WPI is presented in a clear manner and on a pre-announced schedule. A press release contains the latest provisional and final figures for the overall WPI and major sub-indexes. Current period developments are commented upon and revisions are indicated and explained. Detailed indexes back to 1994 are also available on the

	homepage of the Office of the Economic Adviser. The weekly WPI is released to the press each Thursday under strict embargo until the following Sunday when it is released to the general public; these procedures are announced on the DSBB.
Present Assessment	Observed
5.2	Metadata Accessibility - Up-to-date and pertinent metadata are made available.
Earlier Assessment (ROSC - 2004)	Largely Observed
Description	Non-published and non-confidential data are made available to users on request. Broad information on scope, definitions and concepts are provided in <i>the Revision of Index Numbers of Wholesale Prices In India</i> , but this information is not sufficient for users who require technical information, such as on the concept and sources of the weighting base, the treatment of missing prices, or deviations from international standards. A short summary methodology is provided on the DSBB.
Present Assessment	Largely Observed
5.3	Assistance to Users - Prompt and knowledgeable support service is available.
Earlier Assessment (ROSC - 2004)	Largely Observed
Description	The Office of the Economic Advisor provides reasonable assistance to users. The weekly press release does not publicise a contact for user assistance.
Present Assessment	Largely Observed

**Data Quality Assessment Framework: Consumer Price
Index for Industrial Workers
Compiling Agency: Ministry of Labour**

0. Pre-requisites of Quality	
0.1	Legal & Institutional Environment - The environment is supportive of statistics.
Earlier Assessment (ROSC - 2004)	Observed
Description	The Allocation of Business Rules assigns the responsibility of compilation of the CPI-IW to the Ministry of Labour. The Labour Bureau of this Ministry is solely responsible for collecting and compiling the data. Respondents' data are kept confidential and used for statistical purposes only.
Present Assessment	Observed
0.2	Resources - Resources are commensurate with needs of statistical programmes.
Earlier Assessment (ROSC - 2004)	Observed
Description	Adequate resources are allocated to the CPI-IW program. New staff undertakes comprehensive training and officers regularly attend seminars and workshops; however, participation in international meetings is rare.
Present Assessment	Observed
0.3	Relevance - Statistics cover relevant information on the subject field.
Earlier Assessment (ROSC - 2004)	Observed
Description	The price indices are relevant and widely used in Government and in business. The Labour Bureau conducts consultative meetings with the major users of CPI-IW before release of the new base of the index. CPI-IW is used to pay dearness allowance to government workers.
Present Assessment	Observed
0.4	Other Quality Management - Quality is a cornerstone of statistical work.
Earlier Assessment (ROSC - 2004)	Observed
Description	Staff are sensitive to data quality and measures are in place to monitor quality in all stages of CPI-IW compilation. The CSO and the Technical Advisory Committee on Cost of Living Index Numbers (TAC) provide guidance on the quality of the statistical series.
Present Assessment	Observed

1. Assurances of Integrity	
1.1	Professionalism - Statistical policies and practices are guided by professional principles.
Earlier Assessment (ROSC - 2004)	Observed
Description	The Labour Bureau derives its professional independence in the compilation of the CPI-IW from the Allocation of Business Rules and the Minimum Wage Act, 1948. The terms and conditions under which the index is compiled are laid down in the Allocation of Business Rules. There is no internal government access to the CPI-IW prior to release. The general public may only become aware of such changes at the time when they take effect.
Present Assessment	Observed
1.2	Transparency - Statistical policies and practices are transparent.
Earlier Assessment (ROSC - 2004)	Observed
Description	All releases of the Labour Bureau are clearly identified as such. Major changes in methodology, sources, and statistical techniques are introduced after extensive discussion in technical commissions in which the main users are represented. The CPI-IW does not provide index numbers for individual items in the overall index.
Present Assessment	Observed
1.3	Ethical Standards - Policies and practices are guided by ethical standards.
Earlier Assessment (ROSC - 2004)	Observed
Description	The Bureau has a long-standing tradition of impartiality and only statistical considerations enter the choice of statistical techniques. The Bureau makes use of its right to comment publicly on misinterpretations of the statistical series.
Present Assessment	Observed
2. Methodological Soundness	
2.1	Concepts and definitions - Concepts and definitions used are in accordance with internationally-accepted statistical frameworks.
Earlier Assessment (ROSC - 2004)	Observed

Description	Apart from the major disadvantage of limited coverage, the overall conceptual and definitional structure of the CPI-IW is in accordance with internationally-accepted standards. In accordance with international guidelines, the prices collected are those actually paid by households (purchasers' prices).
Present Assessment	Observed
2.2	Scope - The scope is in accord with internationally-accepted standards, guidelines or good practices.
Earlier Assessment (ROSC - 2004)	Largely Not Observed
Description	The reference populations of the CPI-IW and all other official CPIs compiled in India are only specific segments of the total population; however, work has been initiated on a broad-based all-India CPI. None of the existing indexes, therefore, represents a broad measure of general consumer price inflation.
Present Assessment	Largely Not Observed
Comments	Index covers limited section of the population.
2.3	Classification/Sectorisation - Classification and sectorisation systems are in accordance with internationally-accepted standards, guidelines or good practices.
Earlier Assessment (ROSC - 2004)	Observed
Description	The classification and sectorisation is largely in accordance with the accepted international practices. Expenditure on goods and services is broken down by type according to a national rather than an international classification.
Present Assessment	Observed
2.4	Basis for Recording - Flows and stocks are valued according to internationally-accepted standards, guidelines or good practices.
Earlier Assessment (ROSC - 2004)	Observed
Description	The basis of recording for weighting data for the CPI-IW is in accordance with the internationally-accepted standards.
Present Assessment	Observed
3. Accuracy & Reliability	
3.1	Source Data - Source data available provide an adequate basis to compile statistics.
Earlier Assessment (ROSC - 2004)	Observed

Description	The source for the CPI-IW weights is a special survey carried out by the NSSO in 1981–82. Even though the weights were determined using sound techniques, they are too old to be representative of current consumption expenditure. The coverage of the prices collected and the price collection techniques, on the other hand, are adequate. The sample size, response rate and actual prices used in the computation of the index are not made public.
Present Assessment	Largely Observed
Comments	New series of CPI-IW with base 2001 = 100 has been released beginning January 2006.
3.2	Assessment of Source Data - Source data are regularly assessed.
Earlier Assessment (ROSC - 2004)	Observed
Description	Even though the weights were determined using sound techniques, they are too old to be representative of current consumption expenditure.
Present Assessment	Observed
3.3	Statistical Techniques - Statistical techniques employed conform to sound statistical procedures.
Earlier Assessment (ROSC - 2004)	Observed
Description	In the main, internationally-accepted statistical techniques are used to combine the prices and weights to compile the CPI-IW; however, newly-emerging products are not included in the index until the weights are updated and products that become permanently unavailable are not always replaced by new products. The problem posed by seasonal products has been solved by applying variable weights to the months.
Present Assessment	Largely Observed
Comments	Inappropriate treatment of old and new products.
3.4	Assessment and Validation of Intermediate Data and Statistical Outputs - Intermediate results and statistical outputs are regularly assessed.
Earlier Assessment (ROSC - 2004)	Observed

Description	The price information is available in time to allow proper validation and compilation. Price data are routinely assessed for errors and intermediate data are periodically compared with other price indexes.
Present Assessment	Observed
3.5	Revision Studies - Revisions, as a gauge of reliability, are tracked and mined for the information they may provide.
Earlier Assessment (ROSC - 2004)	Observed
Description	The CPI-IW is final when first published and not subject to revision. Revisions of weights are thoroughly examined by the Labour Bureau; the results of these analyses are communicated to oversight bodies.
Present Assessment	Observed
4. Serviceability	
4.1	Timeliness & Periodicity - Timeliness and periodicity follow internationally-accepted dissemination standards.
Earlier Assessment (ROSC - 2004)	Observed
Description	The index meets both the timeliness and the periodicity requirements of the SDDS. An established process of consultation monitors whether the CPI-IW continues to meet the requirements of main users in India, including Governments as well as employers' and wage earners' organisations.
Present Assessment	Observed
4.2	Consistency - Statistics are consistent within the dataset, over time and with major datasets.
Earlier Assessment (ROSC - 2004)	Observed
Description	The CPI-IW series are internally consistent. Time series from 1966 onwards are available.
Present Assessment	Observed
4.3	Revision Policy and Practice - Data revisions follow a regular and publicised procedure.
Earlier Assessment (ROSC - 2004)	Observed
Description	Revisions are regular and their schedule is transparent. The revisions are due to improved response rates obtained by source agencies that provide the underlying data.
Present Assessment	Largely Observed

Comments	The publication of the response rate with each release would enable users to anticipate changes in the estimates.
5. Accessibility	
5.1	Data Accessibility - Statistics are presented in a clear and understandable manner, forms of dissemination are adequate and statistics are made available on an impartial basis.
Earlier Assessment (ROSC - 2004)	Observed
Description	The CPI-IW is presented in a clear manner in publications and on the Labour Bureau's home page. The monthly CPI-IW is released according to a pre-announced schedule and simultaneously made available to all users.
Present Assessment	Observed
5.2	Metadata Accessibility - Up-to-date and pertinent metadata are made available.
Earlier Assessment (ROSC - 2004)	Observed
Description	Metadata on concepts, definitions, and methodology are available in publications. The monthly press release identifies contact information and prompt, easily accessible, and knowledgeable support is available to users of the CPI-IW.
Present Assessment	Observed
5.3	Assistance to Users - Prompt and knowledgeable support service is available.
Earlier Assessment (ROSC - 2004)	Observed
Description	Unpublished but non-confidential data, such as specialised tabulations or detailed item-level indices, are provided to users on request. Catalogues of publications are widely available.
Present Assessment	Observed

Data Quality Assessment Framework: Government Finance Statistics
Compiling Agency: Government and the Reserve Bank of India

0. Pre-requisites of Quality	
0.1	Legal & Institutional Environment - The environment is supportive of statistics.
Earlier Assessment (ROSC - 2004)	Largely Not Observed
Description	Significant authority for compiling and disseminating data on accounting records of Central and State Governments exists. No single government unit exists, however, with the authority and responsibility to compile, and disseminate nationally and internationally, an integrated, comprehensive statement based on international government finance statistics guidelines. The MoF/Controller General of Accounts (CGA) compiles accounting data on operations and debt of Central Government budgetary units, and the MoF's Department of Economic Affairs (DEA) and the Reserve Bank compile annual fiscal data on State Government operations and combined operations of Central and State Governments.
Present Assessment	Largely Not Observed
Comments	There is no single unit with the authority and responsibility to compile, and disseminate nationally and internationally, an integrated, comprehensive GFS Statement based on international statistical guidelines.
0.2	Resources - Resources are commensurate with needs of statistical programmes.
Earlier Assessment (ROSC - 2004)	Largely Observed
Description	Current resources are inadequate to undertake the proposed task of a comprehensive and integrated database on general government operations including all levels of Government, social security systems and extra-budgetary items.
Present Assessment	Largely Observed
0.3	Relevance - Statistics cover relevant information on the subject field.
Earlier Assessment (ROSC - 2004)	Largely Observed
Description	Fiscal data on operations and debt of budgetary units are presented in forms that usually facilitate interpretation. Nonetheless, the advance schedules for the release of data are not always current. Practical utility of the presentation of large volumes of fiscal data is neither sought nor monitored.
Present Assessment	Largely Observed
Comments	No feed-back from users is routinely sought.

0.4	Other Quality Management - Quality is a cornerstone of statistical work.
Earlier Assessment (ROSC - 2004)	Observed
Description	While there are no international statistical or accounting standards used to monitor quality, quality awareness is reflected in the independent mandate of the CAG.
Present Assessment	Observed
1. Assurances of Integrity	
1.1	Professionalism - Statistical policies and practices are guided by professional principles.
Earlier Assessment (ROSC - 2004)	Observed
Description	Statistical policies and practices regarding government finance statistics are guided by professional principles, and fiscal data are compiled on an impartial basis. Provisional Central Government data are based on provisional CGA accounting records. Final data on these operations of budgetary units are based on accounting records audited by the independent Comptroller and Auditor General of India (CAG) as well as the CGA. Decisions regarding choice of sources and techniques are made based on professional considerations.
Present Assessment	Observed
1.2	Transparency - Statistical policies and practices are transparent.
Earlier Assessment (ROSC - 2004)	Observed
Description	The terms and conditions of the reporting of government accounting data are available to the public. While MoF and the Reserve Bank releases are clearly identified as such, MoF Reports do not generally identify other statistical reports or products as the source of fiscal data.
Present Assessment	Largely Observed
Comments	MoF Reports do not generally identify other statistical reports as data sources and limitations on public accessibility are not identified.
1.3	Ethical Standards - Policies and practices are guided by ethical standards.
Earlier Assessment (ROSC - 2004)	Observed

Description	While there is no code of conduct specific to statistical compilation, the staff is guided by ethical standards expected of civil servants.
Present Assessment	Observed
2. Methodological Soundness	
2.1	Concepts and Definitions - Concepts and definitions used are in accordance with internationally-accepted statistical frameworks.
Earlier Assessment (ROSC - 2004)	Largely Not Observed
Description	Regarding government finance statistics (GFS), nationally developed concepts are partly related to the <i>GFSM 1986</i> , although linkages to this international standard are not typically transparent. Specifically, reported aggregates, while useful for budget purposes, are often not the same as those in the <i>GFSM 1986</i> methodology. No bridge table for linking nationally reported aggregates and those in the <i>GFSM 1986</i> exists. Also, no migration path has been considered for implementing, in nationally appropriate stages, the compilation of fiscal statistics according to the <i>GFSM 2001</i> methodology, which calls for comprehensive and integrated data on government balances and flows, although existing data on all government financial holdings and contingent liabilities represent implicitly steps taken for such a migration path.
Present Assessment	Largely Not Observed
Comments	Nationally developed concepts for fiscal data are partly related to the GFSM 1986, although linkages to this international guideline are not typically transparent or straightforward. No migration path has been considered for implementing, in nationally appropriate stages, for the compilation of fiscal statistics according to the 2001 GFS methodology.
2.2	Scope - The scope is in accord with internationally-accepted standards, guidelines or good practices.
Earlier Assessment (ROSC - 2004)	Largely Observed
Description	Regarding coverage of general government, fiscal statistics are not available on local Governments and extra budgetary funds.
Present Assessment	Largely Observed
Comments	Fiscal statistics on local Governments and extra-budgetary funds are not available.
2.3	Classification/Sectorisation - Classification and sectorisation systems are in accordance with internationally-accepted standards, guidelines or good practices.
Earlier Assessment (ROSC - 2004)	Observed

Description	The sectorisation and classification systems for data on budgetary units permit the compilation of GFS for transactions and debt.
Present Assessment	Observed
2.4	Basis for Recording - Flows and stocks are valued according to internationally-accepted standards, guidelines or good practices.
Earlier Assessment (ROSC - 2004)	Observed
Description	The basis of recording is appropriate at this stage; market prices are used to value transactions and, consistent with the <i>GFSM 1986</i> methodology, transactions are recorded on a cash basis.
Present Assessment	Observed
3. Accuracy & Reliability	
3.1	Source data - Source data available provide an adequate basis to compile statistics.
Earlier Assessment (ROSC - 2004)	Observed
Description	Concerning government finance statistics, annual provisional aggregates of State Government finances have been made available within three quarters, and annual and quarterly source data are available after one quarter. Audited comprehensive annual data on the Central Government accounts are available after six to nine months and provisional monthly data are usually available after one month.
Present Assessment	Observed
3.2	Assessment of Source Data - Source data are regularly assessed.
Earlier Assessment (ROSC - 2004)	Observed
Description	Source data, including final audited data on budgetary units, are periodically assessed.
Present Assessment	Observed
3.3	Statistical Techniques - Statistical techniques employed conform to sound statistical procedures.
Earlier Assessment (ROSC - 2004)	Observed

Description	Statistical techniques generally conform to sound statistical procedures.
Present Assessment	Observed
3.4	Assessment and Validation of Intermediate Data and Statistical Outputs - Intermediate results and statistical outputs are regularly assessed.
Earlier Assessment (ROSC - 2004)	Observed
Description	Charts of accounts for budgetary units align adequately with GFS categories. Provisional accounts for budgetary units are reconciled monthly with the Reserve Bank's information.
Present Assessment	Observed
3.5	Revision Studies - Revisions, as a gauge of reliability, are tracked and mined for the information they may provide.
Earlier Assessment (ROSC - 2004)	Largely Observed
Description	There are no documented studies or analysis of revisions that could be used to inform the compilers of provisional data, although experience indicates that revisions are not significant.
Present Assessment	Largely Observed
Comments	No documented studies of revisions exist on major elements of budgetary data on Central and State Governments.
4. Serviceability	
4.1	Timeliness & Periodicity - Timeliness and periodicity follow internationally-accepted dissemination standards.
Earlier Assessment (ROSC - 2004)	Largely Observed
Description	Timeliness of fiscal data does not fully conform to SDDS requirements. Details of revenue data of the Central Government fall short of analytical needs. The dissemination of annual operations data of General Government (encompassing Central and State Government budgetary units and, thus, not including the relatively small local government units) occurs within three quarters (rather than the standard two quarters). Instead of the discrete monthly data required by SDDS, the data on CGO are disseminated on a cumulative year-to-date basis.
Present Assessment	Largely Observed
4.2	Consistency - Statistics are consistent within the dataset, over time and with major datasets.

Earlier Assessment (ROSC - 2004)	Observed
Description	Fiscal data appear to be consistent within the dataset and, over time, are harmonised with other major datasets.
Present Assessment	Observed
4.3	Revision Policy and Practice- Data revisions follow a regular and publicised procedure.
Earlier Assessment (ROSC - 2004)	Largely Observed
Description	Revisions follow a fairly regular procedure, and provisional and final data are clearly identified.
Present Assessment	Largely Observed
Comments	No documents of studies or analyses of revisions for possible bias, <i>etc.</i> , are available.
5. Accessibility	
5.1	Data Accessibility - Statistics are presented in a clear and understandable manner, forms of dissemination are adequate and statistics are made available on an impartial basis.
Earlier Assessment (ROSC - 2004)	Largely Observed
Description	Fiscal data on operations and debt of budgetary units are presented in forms that usually facilitate interpretation. Statistics are made available according to a pre-announced schedule and these are made available to all users simultaneously. The availability of more detailed data that are not published is not publicised.
Present Assessment	Largely Observed
Comments	The availability of unpublished detail is not publicised.
5.2	Metadata Accessibility - Up-to-date and pertinent metadata are made available.
Earlier Assessment (ROSC - 2004)	Largely Not Observed

Description	Nationally published data on fiscal records do not provide sufficient metadata for the various levels of users of government finance statistics although available information such as that in the Deapartment of Economic Affairs' <i>Key to the Budget Documents</i> is helpful.
Present Assessment	Largely Not Observed
Comments	Additional information in disseminated reports is necessary for general users of statistics to understand the data. National reports do not identify differences from international standards. Bridge tables linking source data and GFS are not documented or made available.
5.3	Assistance to Users - Prompt and knowledgeable support service is available.
Earlier Assessment (ROSC - 2004)	Largely Observed
Description	No catalogues of MoF publications, or complete listing elsewhere, regarding fiscal data, are provided. Contact persons are identified in official websites.
Present Assessment	Largely Observed
Comments	No catalogue of MoF publications, or complete listing elsewhere is provided.

Data Quality Assessment Framework: Monetary Statistics
Compiling Agency: Reserve Bank of India

0. Pre-requisites of Quality	
0.1	Legal & Institutional Environment - The environment is supportive of statistics.
Earlier Assessment (ROSC - 2004)	Observed
Description	Monetary statistics are compiled by the Division of Money and Banking of the Reserve Bank's Department of Economic Analysis and Policy. The monetary statistics are a bye-product of the information collected for monitoring banks' cash reserve ratios. The scheduled banks have a legal obligation to report data to the Reserve Bank. Co-ordination among data producing agencies is adequate. Respondents' data are kept confidential and used for statistical purposes only.
Present Assessment	Observed
0.2	Resources - Resources are commensurate with needs of statistical programmes.
Earlier Assessment (ROSC - 2004)	Observed
Description	Staff is well qualified and trained. Staff levels are adequate in both areas of statistics. Turnover is sufficient to ensure a balance between developing human capital at the Reserve Bank and maintaining core staff for the statistical activities. Computing equipment is adequate.
Present Assessment	Observed
0.3	Relevance - Statistics cover relevant information on the subject field.
Earlier Assessment (ROSC - 2004)	Largely Observed
Description	To ensure that monetary statistics address issues of concern to users, the Reserve Bank undertakes regular consultations between data compiling and policymaking departments and has established working groups to ascertain users' needs. A comprehensive user survey as part of the Reserve Bank Bulletin is conducted to receive feedback from the user community.
Present Assessment	Observed

0.4	Other Quality Management - Quality is a cornerstone of statistical work.
Earlier Assessment (ROSC - 2004)	Observed
Description	Managers and staff are sensitive to data quality, as evidenced by the importance that is attached to preparing staff contributions to the Reserve Bank's professional journal. The Reserve Bank recognises that its statistics must have the confidence of all users and it exercises quality control at every stage of data production and dissemination.
Present Assessment	Observed
1. Assurances of Integrity	
1.1	Professionalism - Statistical policies and practices are guided by professional principles.
Earlier Assessment (ROSC - 2004)	Observed
Description	Monetary statistics are compiled on an impartial basis. The reports of technical groups, foreshadowing changes to methodology, source data and definitions, are posted to the Reserve Bank's website and are also mentioned in the Reserve Bank Bulletin. The choice of sources and statistical techniques are informed solely by statistical considerations.
Present Assessment	Observed
1.2	Transparency - Statistical policies and practices are transparent.
Earlier Assessment (ROSC - 2004)	Observed
Description	The monetary statistics are clearly identified as Reserve Bank's products. The terms and conditions, under which the statistics are collected, processed and disseminated, are available to the public. Central Board of the Reserve Bank is provided access to the monetary statistics two days prior to its release to the public, which is not publicly identified. In the SDDS metadata element under 'Prior Access' category - Internal governmental access to statistics prior to release - it is mentioned that ' <i>No commentary is attached to the release of the data</i> '. The Reserve Bank is entitled to comment on misinterpretations of monetary statistics.
Present Assessment	Observed
1.3	Ethical Standards - Policies and practices are guided by ethical standards.
Earlier Assessment (ROSC - 2004)	Observed
Description	The general staff conditions of employment in the Reserve Bank are set out in the Reserve Bank Staff Regulations which provide the ethical guidelines for employees.
Present Assessment	Observed

2. Methodological Soundness	
2.1	Concepts and Definitions - Concepts and definitions used are in accordance with internationally-accepted statistical frameworks.
Earlier Assessment (ROSC - 2004)	Observed
Description	Monetary statistics are compiled in broad conformity with guidelines outlined in the IMF's Monetary and Financial Statistics Manual.
Present Assessment	Observed
2.2	Scope - The scope is in accord with internationally-accepted standards, guidelines or good practices.
Earlier Assessment (ROSC - 2004)	Observed
Description	The framework used for monetary statistics is characterised by a residency-based sectorisation of account holders, the MFSM classification of financial instruments, and a market-based valuation of gold, securities and foreign currency positions. The migration to the MFSM guidelines, however, has yet to be completed.
Present Assessment	Observed
2.3	Classification/Sectorisation - Classification and sectorisation systems are in accordance with internationally-accepted standards, guidelines or good practices.
Earlier Assessment (ROSC - 2004)	Observed
Description	Break-up on sectoral distribution of domestic credit is published as part of the quarterly review of monetary and macro-economic developments.
Present Assessment	Observed
2.4	Basis for Recording - Flows and stocks are valued according to internationally-accepted standards, guidelines or good practices.
Earlier Assessment (ROSC - 2004)	Largely Observed

Description	Market prices are used to value flows and stocks. Financial transactions are recorded on an accrual basis in the Reserve Bank's monetary statistics. Banks add accrued interest on fortnightly basis for working out the CRR requirement.
Present Assessment	Observed
3. Accuracy & Reliability	
3.1	Source data - Source data available provide an adequate basis to compile statistics.
Earlier Assessment (ROSC - 2004)	Observed
Description	Source data for monetary statistics are derived from the Reserve Bank's accounting records and scheduled commercial banks' and co-operative banks' reported data.
Present Assessment	Observed
3.2	Assessment of Source Data - Source data are regularly assessed.
Earlier Assessment (ROSC - 2004)	Observed
Description	The source data capture the full range of financial instruments and economic sectors. The data collection system allows timely compilation of monetary statistics. Arrangements are in place within the Reserve Bank to ensure the smooth flow of information between the various departments involved: the department which prepares the central bank accounts; the departments which collect returns from scheduled banks and from co-operative banks, the department that tabulates final returns from banks and the department that compiles and disseminates monetary statistics.
Present Assessment	Observed
3.3	Statistical Techniques - Statistical techniques employed conform to sound statistical procedures.
Earlier Assessment (ROSC - 2004)	Observed
Description	The quality of the collection and processing is monitored through cross-checks.
Present Assessment	Observed
3.4	Assessment and Validation of Intermediate Data and Statistical Outputs - Intermediate results and statistical outputs are regularly assessed.
Earlier Assessment (ROSC - 2004)	Observed

Description	The Reserve Bank verifies that data reporting practices followed by the banks are consistent with the regulations and that procedures are in place to ensure quality.
Present Assessment	Observed
3.5	Revision Studies - Revisions, as a gauge of reliability, are tracked and mined for the information they may provide.
Earlier Assessment (ROSC - 2004)	Observed
Description	Although the provisional monetary data are subsequently revised, the extent of revision is usually limited. The Reserve Bank's staff prepare studies on revisions, and the studies are occasionally published in internal or external publications.
Present Assessment	Observed
4. Serviceability	
4.1	Timeliness & Periodicity - Timeliness and periodicity follow internationally-accepted dissemination standards.
Description	The periodicity and degrees of timeliness of data on central bank accounts and other depository corporations exceed the SDDS requirements. Main breaks and discontinuities in the time-series are explained in detail in attached notes/footnotes.
Present Assessment	Observed
4.2	Consistency - Statistics are consistent within the dataset, over time and with major datasets.
Earlier Assessment (ROSC - 2004)	Observed
Description	The Reserve Bank's monetary statistics are internally consistent. Consistent time-series data are evaluated and detailed methodological notes explains the breaks in time series, its causes and adjustments made to maintain consistency. The Reserve Bank's monetary statistics are consistent with other statistical systems such as BoP statistics, internal investment position and government finance statistics.
Present Assessment	Observed
4.3	Revision Policy and Practice - Data revisions follow a regular and publicised procedure.

Earlier Assessment (ROSC - 2004)	Observed
Description	<p>Consistency checks with government records and with balance of payments statistics are carried out, with the result that intersectoral consistency has been broadly achieved.</p> <p>Weekly data on the central bank are final, whereas banks' two-week data are finalised and published on a quarterly basis. Revisions follow a predictable pattern about which statistics users are informed through various Reserve Bank publications.</p>
Present Assessment	Observed
5. Accessibility	
5.1	Data Accessibility - Statistics are presented in a clear and understandable manner, forms of dissemination are adequate and statistics are made available on an impartial basis.
Earlier Assessment (ROSC - 2004)	Observed
Description	<p>Monetary statistics are disseminated through the Reserve Bank's Weekly Statistical Supplement, as well as through other publications, all of which are placed on the Reserve Bank's website. Long-term monetary data series are disseminated through the Handbook of Statistics, which is available in hardcopy and electronic format. Data are accompanied by text and charts in various Reserve Bank publications such as the Reserve Bank Bulletin, Report on Currency and Finance, and the Annual Report. An Advance Release Calendar is disseminated on the Reserve Bank's website under the heading 'Statistics' and a regular notice to this effect is published in the monthly Reserve Bank Bulletin. The data are released simultaneously to all users on the Reserve Bank's website. A list of Reserve Bank publications, together with their prices, is published through the monthly Reserve Bank Bulletin. Unpublished sub-aggregates are not made available to the outsiders, although requests are rarely made because the data are published in considerable detail.</p>
Present Assessment	Observed
5.2	Metadata Accessibility - Up-to-date and pertinent metadata are made available.
Earlier Assessment (ROSC - 2004)	Observed
Description	Metadata on monetary statistics are disseminated on the Reserve Bank's website.
Present Assessment	Observed

Chapter V

Assessment of Data Dissemination Standards

5.3	Assistance to Users - Prompt and knowledgeable support service is available.
Earlier Assessment (ROSC - 2004)	Observed
Description	The Reserve Bank's website indicates a contact person, but not by subject area. The Reserve Bank Bulletin provides a catalogue of documents published by the Reserve Bank.
Present Assessment	Observed

Data Quality Assessment Framework: Balance of Payments
Compiling Agency: Reserve Bank of India

0. Pre-requisites of quality	
0.1	Legal & Institutional Environment - The environment is supportive of statistics.
Earlier Assessment (ROSC - 2004)	Largely Observed
Description	There is no formal law assigning responsibility for the collection, processing and dissemination of data relating to BoP. Whereas the scheduled banks have a legal obligation to report data to the Reserve Bank, BoP transactions that do not involve banks or foreign exchange are provided on a voluntary basis. The absence of such legal authority has led to poor response rates in enterprise surveys. Co-ordination among data producing agencies is adequate. Respondents' data are kept confidential and used for statistical purposes only.
Present Assessment	Largely Observed
Comments	Absence of legal authority makes it difficult to collect data on transactions with non-residents that are not conducted through authorised dealers.
0.2	Resources - Resources are commensurate with needs of statistical programmes.
Earlier Assessment (ROSC - 2004)	Observed
Description	Staff are well-qualified and trained. Staff levels are adequate in both areas of statistics. Turnover is sufficient to ensure a balance between developing human capital at the Reserve Bank and maintaining core staff for statistical activities. Computing equipment is adequate.
Present Assessment	Observed
0.3	Relevance - Statistics cover relevant information on the subject field.
Earlier Assessment (ROSC - 2004)	Observed
Description	A comprehensive user survey is conducted for the Monthly Reserve Bank Bulletin of which BoP Statistics form a part. In response to the users' needs, the Reserve Bank has been improving presentation structure by providing more disaggregated components of BoP, <i>e.g.</i> , break-up of Miscellaneous services as Software services, Business services, Financial services and Communication services.
Present Assessment	Observed

0.4	Other Quality Management - Quality is a cornerstone of statistical work.
Earlier Assessment (ROSC - 2004)	Observed
Description	Managers and staff are sensitive to data quality, as evidenced by the importance that is attached to preparing staff contributions to the Reserve Bank's professional journal. In general, there is a quality consciousness in the operations, revisions and usefulness of the data produced.
Present Assessment	Observed
1. Assurances of Integrity	
1.1	Professionalism - Statistical policies and practices are guided by professional principles.
Earlier Assessment (ROSC - 2004)	Observed
Description	BoP statistics are compiled on an impartial basis based on professional principles. Choice of sources and technologies are made on statistical considerations.
Present Assessment	Observed
1.2	Transparency - Statistical policies and practices are transparent.
Earlier Assessment (ROSC - 2004)	Observed
Description	The Reports of technical groups, foreshadowing changes to methodology, source data and definitions, are posted on the Reserve Bank's website and are also mentioned in the Reserve Bank Bulletin. The choice of sources and statistical techniques are informed solely by statistical considerations. The monetary and BoP statistics are clearly identified as Reserve Bank's products. The terms and conditions, under which the statistics are collected, processed and disseminated are available to the public. The release of BoP statistics is the sole responsibility of the Reserve Bank. There is no internal government access to BoP statistics prior to its release. The Reserve Bank is entitled to comment on misinterpretations of BoP statistics.
Present Assessment	Observed

1.3	Ethical Standards - Policies and practices are guided by ethical standards.
Earlier Assessment (ROSC - 2004)	Observed
Description	The general staff conditions of employment in the Reserve Bank are set out in the Reserve Bank Staff Regulations, and provide ethical guidelines for employees.
Present Assessment	Observed
2. Methodological Soundness	
2.1	Concepts and Definitions - Concepts and definitions used are in accordance with internationally-accepted statistical frameworks.
Earlier Assessment (ROSC - 2004)	Largely Observed
Description	India's BoP Statistics are compiled in conformity with BPM5. However, the presentation structure does not follow the BPM5.
Present Assessment	Largely Observed
2.2	Scope - The scope is in accord with Internationally-accepted standards, guidelines or good practices.
Earlier Assessment (ROSC - 2004)	Observed
Description	The scope of the Indian BoP is in line with BPM5.
Present Assessment	Observed
2.3	Classification/Sectorisation - Classification and sectorisation systems are in accord with Internationally-accepted standards, guidelines or good practices.
Earlier Assessment (ROSC - 2004)	Largely Observed
Description	While the classification is broadly in line with BPM5, information on sectors is less than the norm. A recent improvement in this regard has been the inclusion of debt transactions in direct investments. ROSC 2004 had observed the earlier exclusion to be a limitation.
Present Assessment	Observed
2.4	Basis for Recording - Flows and stocks are valued according to Internationally-accepted standards, guidelines or good practices.
Earlier Assessment (ROSC - 2004)	Observed
Description	With the exception of re-invested earnings, transactions are recorded at market prices. Transactions are largely recorded on a cash (or

	settlements) basis, rather than on an accrual basis. As is appropriate, transactions in the current account are largely recorded on a gross basis, while those in the financial account are recorded on a net basis, with transactions in assets recorded separately from transactions in liabilities. Data are prepared in both rupees and U.S. dollars and the period average rupee-U.S. dollar exchange rate for the month is used, as is appropriate.
Present Assessment	Observed
3. Accuracy & Reliability	
3.1	Source Data - Source data available provide an adequate basis to compile statistics.
Earlier Assessment (ROSC - 2004)	Largely Observed
Description	ADs reports on foreign exchange transactions are the main source of information. A survey of direct investors is also undertaken. The data sources are adequate to compile the balance of payments statistics. Data on re-invested earnings are considered weak as these are based on surveys that yield poor returns.
Present Assessment	Observed
Comments	The short-term credit data (inclusive of suppliers' credit up to 180 days) is being disseminated with effect from December 31, 2007.
3.2	Assessment of Source Data - Source data are regularly assessed.
Earlier Assessment (ROSC - 2004)	Observed
Description	The Reserve Bank audits the ADs on a regular basis to ensure that the transactions in foreign exchange are classified correctly.
Present Assessment	Observed
3.3	Statistical Techniques - Statistical techniques employed conform to sound statistical procedures.
Earlier Assessment (ROSC - 2004)	Observed
Description	Statistical techniques are generally sound, but imports are recorded on a cif basis and are not adjusted to the, more appropriate, fob basis.

Present Assessment	Observed
3.4	Assessment and Validation of Intermediate Data and Statistical Outputs - Intermediate results and statistical outputs are regularly assessed.
Earlier Assessment (ROSC - 2004)	Observed
Description	The Reserve Bank does conduct checks to identify and verify, if necessary, unusual movements in the data. Cross-checks are done with other sources of information. Data on merchandise exports and imports from customs sources are substantially different from those from the ADs, and studies have been undertaken to explain the differences. The main reason for the difference was due to the coverage of data relating to defence, aircraft, ships, petroleum and valuation and timing in the Reserve Bank data and not in the DGCI&S data. As the number of items in the customs data has expanded, the difference in the two sets has declined.
Present Assessment	Observed
3.5	Revision Studies - Revisions, as a gauge of reliability, are tracked and mined for the information they may provide.
Earlier Assessment (ROSC - 2004)	Observed
Description	There have not been any analysis and studies of revisions though explanations of large revisions are provided at the time of their dissemination.
Present Assessment	Largely Observed
4. Serviceability	
4.1	Timeliness & Periodicity - Timeliness and periodicity follow Internationally-accepted dissemination standards.
Description	The statistics meet SDDS timeliness and periodicity requirements.
Present Assessment	Observed
4.2	Consistency - Statistics are consistent within the dataset, over time and with major datasets.
Earlier Assessment (ROSC - 2004)	Observed
Description	The sum of the quarterly data equals the annual data; the data are consistent for a reasonably long time series (about ten years).
Present Assessment	Observed
4.3	Revision Policy and Practice - Data revisions follow a regular and publicised procedure.

Earlier Assessment (ROSC - 2004)	Observed
Description	Revisions follow a well-established and transparent schedule, and revisions to data are indicated. A formal Revisions Policy for BoP Statistics has been put in place since September 2004.
Present Assessment	Observed
5. Accessibility	
5.1	Data Sccessibility - Statistics are presented in a clear and understandable manner, forms of dissemination are adequate and statistics are made available on an impartial basis.
Earlier Assessment (ROSC - 2004)	Observed
Description	The Press Release on BoP carries a text and accompanying charts.
Present Assessment	Observed
5.2	Metadata Sccessibility - Up-to-date and pertinent metadata are made available.
Earlier Assessment (ROSC - 2004)	Largely Observed
Description	The metadata as well as summary methodology is available to the general reader. The 'Notes on Tables' section in the Bi-Monthly Bulletin gives an analysis of sources and uses. In addition, the IMF's NSDP also carries the metadata as well as summary methodology.
Present Assessment	Observed
5.3	Assistance to Users - Prompt and knowledgeable support service is available.
Earlier Assessment (ROSC - 2004)	Observed
Description	Assistance to the users is available.
Present Assessment	Observed

Annex V

Data Quality Assessment Framework – Summary of Results

Element	National Accounts	WPI	CPI-IW	Government Finance Statistics	Monetary Statistics	Balance of Payments
0. Pre-requisites of quality						
0.1 Legal & institutional environment	LO	LO	O	LNO	O	LO
0.2 Resources	LO	O	O	LO	O	O
0.3 Relevance	LO	O	O	LO	O	O
0.4 Other quality management	O	O	O	O	O	O
1. Integrity						
1.1 Professionalism	O	O	O	O	O	O
1.2 Transparency	O	LO	O	LO	O	O
1.3 Ethical standards	O	O	O	O	O	O
2. Methodological Soundness						
2.1 Concepts & definitions	LO	LO	O	LNO	O	LO
2.2 Scope	LO	O	LNO	LO	O	O
2.3 Classification/ Sectorisation	LO	O	O	O	O	O
2.4 Basis for recording	LO	O	O	O	O	O
3. Accuracy and Reliability						
3.1 Source data	LNO	LO	LO	O	O	O
3.2 Assessment of source data	LNO	LNO	O	O	O	O
3.3 Statistical techniques	LNO	O	LO	O	O	O
3.4 Assessment and validation of intermediate data and statistical outputs	O	O	O	O	O	O
3.5 Revision studies	LO	O	O	LO	O	LO
4. Serviceability						
4.1 Timeliness and periodicity	O	O	O	LO	O	O
4.2 Consistency	LO	O	O	O	O	O
4.3 Revision policy and practice	LO	O	LO	LO	O	O
5. Accessibility						
5.1 Data accessibility	LO	O	O	LO	O	O
5.2 Metadata accessibility	LO	LO	O	LNO	O	O
5.3 Assistance to users	LO	LO	O	LO	O	O

O - Observed; LO - Largely Observed; LNO - Largely Not Observed; NO - Not Observed

Data Dissemination Standards A Peer Review of the Advisory Panel Assessment

By Neil Patterson

The scope of the draft Report is appropriate, although the work goes considerably beyond an assessment of India's dissemination practices against the IMF's Special Data Dissemination Standard (SDDS), as implied by the Report's title. It also includes, and adds considerable value by doing so, an assessment of the quality of selected SDDS data sets against the IMF Data Quality Assessment Framework (DQAF). The methodology of both assessments is generally sound, and the resultant recommendations are consistent with the assessments. However, analysis of the Report would be facilitated by more clearly distinguishing between the SDDS and DQAF assessments, as is good international practice. Some other modifications, corrections, and enhancements are suggested.

Section 3 of the draft Report

As mentioned above, it would be helpful to clearly distinguish between the SDDS and DQAF assessments. To help achieve this outcome, the Advisory Panel's summary observations could, for the SDDS, be essentially as spelt out in the first two sentences of the third paragraph of Section 3. With one exception, the remaining discussion in the third paragraph could then be described as being about assessment of quality against the DQAF. The exception is the cross-reference to Annex III, which is primarily an SDDS issue.

Stance of the Panel: The following has been added in Section 3 of the Report in response to the peer reviewer's comments:

'As India is largely compliant with the requirements of SDDS and exceeds the disclosure requirements in several areas, the present assessment essentially articulates areas where India can deliver a performance that is better than expectations and relies mainly on the DQAF. The focus is on improving the generation of economic and financial data and on increasing transparency and credibility. The Report, therefore, does not consciously cover in detail the requirements of the SDDS in terms of the access, integrity and quality dimensions or whether India fulfills its responsibilities as an SDDS subscriber with regard to the NSDP, Advance Release Calendar and metadata. Even in the DQAF, the emphasis has been on those issues which are more relevant in the Indian context'.

The (ROSC - 2004), like most other IMF 'data module' ROSCs, made such a distinction by dealing first with SDDS observance and then making a comprehensive data quality assessment of selected key data sets. Such a two-part approach has the merit of being widely used internationally and, thus, more readily understood worldwide. The essence of the SDDS is the prescription of a set of good statistical dissemination practices that can be observed or monitored by statistical users on an ongoing basis. The subsequent development of the DQAF was to permit more detailed assessment of the quality of countries' macroeconomic data. Although the DQAF contains many more best practices, the SDDS

best practices are encompassed within the DQAF and the links between the two systems are described in the SDDS metadata.

The second paragraph in Section 2 is not quite correct. While the Report's assessment against the DQAF covers the listed data sets, its assessment of 'coverage, periodicity, and timeliness' (the 'data dimension' of the SDDS) covers all of the prescribed SDDS data sets (data categories).

Stance of the Panel: The comments of the peer reviewer have been accepted and the Report has been amended suitably.

Section 1 contains a good overview of the SDDS, but some amendments would add precision to the overview. For the SDDS 'data dimension,' the word 'coverage' should be included in the first sentence, together with 'periodicity' and 'timeliness.' (Coverage has a specific meaning in the SDDS and the sub-heading 'coverage of the SDDS' should be modified, perhaps to 'scope of the SDDS.')

The National Summary Data Page (NSDP) is not part of the 'access (by public) dimension,' but instead its provision and timely updating is a specific responsibility of SDDS subscription. The SDDS 'integrity dimension' contains four prescribed practices: two are described, although the second one would be more correctly described as being about providing 'information about revision and advance notice of major changes in methodology.' The un-mentioned two practices relate to 'identification of internal government access to data prior to release' and 'the identification of ministerial commentary on the occasion of statistical releases.'

In the paragraph that starts with a description of the IMF Data Standards Bulletin Board (DSBB), a better national perspective would be achieved by starting with a list of certain of India's responsibilities as a subscriber to the SDDS; *i.e.*, to provide an NSDP (as correctly described previously, *albeit*

misplaced, under the 'access dimension' subheading), to provide and certify metadata, and to provide an Advance Release Calendar. The description of the composition of the DSBB and responsibilities of the IMF staff could follow as general information. The information about the DQAF could be contained in a separate paragraph. However, it would be useful if extra content could be provided about assessments against the DQAF: see also the comments about Section 3.

Stance of the Panel: The comments of the peer reviewer have been accepted and the Report has been amended suitably.

A perusal of the contents of the DSBB for India provides indications of how this Report could be further strengthened. The Summary of Observance on the DSBB shows, in a convenient tabular format, India's dissemination policy concerning coverage, periodicity and timeliness of the SDDS prescribed data categories and their components, as well as the flexibility options allowed under the SDDS that India has exercised. In this Report, similar information can be found in Section 4 under separate 'coverage, periodicity, and timeliness' headings for each data set. By summarising and consolidating that information in Section 4, the addition of a Summary of Observance table would enhance the clarity of the Report. India's Annual Observance Report (not 'Assessment Report') on the DSBB contains, *inter alia*, several very useful tables. One shows, for the applicable annual period, for each prescribed data category how well India actually met the SDDS requirement for timeliness. To provide context, the table also shows the disseminated periodicity and indicates whether it exceeds the SDDS requirement. Another table shows India's punctuality of dissemination against the Advance Release Calendar: this table appears in the Report as Annex III. The latter two DSBB tables report India's timeliness and punctuality according to when each data

category was updated by the Indian authorities on the NSDP, which is not necessarily at the same time as when the data were originally disseminated in Indian sources. Perusal of the DSBB suggests that the Indian authorities may have been timelier in disseminating their data locally than in their updating of the NSDP. Similarly, there may have been some delays in providing Advance Release Calendar information for the DSBB. It would strengthen the Report if the methodology of these two tables were to be followed for a recent 12-month period, but, because it is a national Report, by making use of the release dates in Indian sources rather than the NSDP posting dates.

Stance of the Panel: The following tables have been added in the Report: Summary of SDDS Observance (Coverage, Periodicity and Timeliness); India's Status against Advance Release Calendar and India's Status against SDDS Requirements.

Section 2

In Section 2.2, the findings of the (ROSC - 2004) are clearly and succinctly presented. The first sentence about assessment against the SDDS is correct: India was in observance of the SDDS (as it is now). The second sentence is not entirely correct and the following words should be added: 'except for (1) the timeliness of data for general government operations, for which it takes the flexibility option to which it is entitled and (2) the periodicity and timeliness for labour market data, for which it takes 'as relevant' flexibility options.'

To highlight the parallels between the findings of the Advisory Group Report on the SDDS-May 2001 and of the (ROSC - 2004), the main observations of the (ROSC - 2004) could be more fully spelt out. In particular, the observations about 'pre-requisites of quality' could be more fully described as follows (additions are in italics):

'Indian statistical agencies demonstrate awareness of quality *as the cornerstone of statistical work. In the main, they have a framework that supports statistical quality. However, no single government unit has the authority and responsibility to compile and disseminate, nationally and internationally, an integrated and comprehensive statement of government finance statistics, thereby complementing existing accounting and specialised reports. Also, the Report has observed that India's ongoing liberalisation.....*'

Stance of the Panel: The comments of the peer reviewer has been accepted and the Report has been amended suitably.

A very useful inclusion (on page 10 of the Report) is the summary of the 'present status of various issues highlighted by earlier Reports. Most welcome would be expanding this section to include, as well as progress achieved at the Reserve Bank of India, progress made in other agencies. Such progress is evident, but not so readily accessible, from details provided in various places in Section 4 and Annex I.

Stance of the Panel: The Panel feels that as the progress made by agencies other than the Reserve Bank in disseminating the data has been given in detail in the summary of

assessment, incorporating the same in Section 2 is not considered necessary.

Sections 4 and 5 and Annexes 1 and 2

These sections and annexes contain a considerable body of valuable information about the quality of India's statistical institutions and processes and recommendations for further enhancements.

The assessments, for each SDDS data category, of India's practices in respect of 'coverage, periodicity, and timeliness' against the SDDS 'data dimension' are generally sound, subject to previous comments and a few more detailed comments below. The Report, however, does not consistently address, across all SDDS data categories, whether India meets the requirements of the SDDS in terms of the access, integrity, and quality dimensions, or whether it fulfills its responsibilities as an SDDS subscriber with regard to the NSDP, Advance Release Calendar, and metadata. Some of India's practices in relation to these requirements are described in the assessments against the DQAF (*i.e.*, under the headings of 'pre-requisites of quality,' 'assurances of integrity,' 'serviceability,' and 'accessibility'). But some are not; partly because the DQAF assessments exclude some SDDS data categories (the international investment position, international reserves and foreign currency liquidity, merchandise trade, and external debt), and partly because, even for the covered data categories these practices are not always described (for example, whether there is a public statement of policy regarding any internal government access to the data prior to their release is only described for the national accounts, financial accounts, and balance of payments).

Otherwise, the assessments against the DQAF, including in the Annexes, appear, in general, to be sound. While these assessments are not presented in the same level of detail as in ROSC - 2004 (see for that ROSC – the

Detailed Assessments of Data Quality), the fact that the Report takes appropriate account of the ROSC - 2004 analysis and compares the current findings with the earlier findings, and explains changes since the ROSC - 2004, adds credibility to the current assessments and rankings. The recommendations in section 5 appear consistent with the assessments and rankings in Section 4 and Annexes 1 and 2.

Some specific comments follow:

- (1) National accounts, page 14, Transparency. The DQAF issue is whether the information about *major* changes in methodology is made available *in advance of general dissemination*.
- (2) Prices, page 29, Resources. While the situation for the WPI is mentioned, the situation for the CPI is not.
- (3) Prices, page 30, Transparency. The last paragraph is misplaced. It should be included under Relevance.
- (4) Fiscal sector, page 34, Periodicity. It appears from the NSDP that, instead of the discrete monthly data required by the SDDS, the data on Central Government operations are disseminated monthly on a cumulative year-to-date basis. The Report should contain a recommendation to disseminate discrete monthly data.
- (5) Fiscal sector, page 35, Coverage. Although India is apparently deemed to meet the SDDS coverage requirement for general government operations, it would be helpful to mention (as in the IMF Annual Observance Report for India) whether 'improvements are underway to expand the scope of the data.....to include local government operations'.
- (6) Fiscal sector, page 39, Accuracy and Reliability. The words – ' of the SDDS' – in the last sentence are incorrect and should be deleted. The last sentence should be qualified because, in Annex 1,

- element 3.5, a ranking of 'largely observed' is assigned to Revision Studies.
- (7) Financial sector, page 41, Transparency. The DQAF issue here is whether internal government access to the data is *publicly identified*.
- (8) Financial sector, page 42, Assessment of Source Data. The DQAF issue is whether source data are adequately assessed. Therefore, the first sentence should be moved to Source Data.
- (9) External sector, page 45, Coverage, Periodicity, and Timeliness. India does not fail to meet the SDDS timeliness requirement for the international investment position. The SDDS timeliness requirement is 9 months, and not 6 months as stated. The described deficiency in external debt dissemination no longer exists. It is apparent from the NSDP that the required link to the World Bank Quarterly External Debt Statistics (QEDS) database now exists.
- (10) Balance of payments, page 46, Relevance. The recent introduction of new services data, in response to users' needs, could be mentioned.
- (11) Balance of payments, page 47, Revisions Studies. The revisions policy should be covered under Serviceability: Revisions Policy and Practice.
- (12) Annex 1, National accounts, 2.2, Scope. The information about industrial classification under 'current practice' could be moved to 2.3, Classification.
- More importantly, in the light of the release of imports and exports data at constant prices, consideration should be given to raising the ranking to 'largely observed' The lack of such data was the most important deficiency noted for this element in the (ROSC - 2004), in which a ranking of 'largely not observed' was applied.
- (13) Annex 1, National accounts, 4.3, Revisions Policy and Practice. The last sentence under 'current practice' should be covered under 0.3, Relevance.
- (14) Annex 1, Wholesale Price Index, 0.2, Resources, and 0.4, Other Quality Management. It is unclear why a discussion of Central Statistical Office (CSO) practices is relevant here.
- (15) Annex 1, Wholesale price index, 1.2, Transparency. It is stated, under 'current practices,' that prior to release the WPI press release is given to the MoF and RBI under embargo and that this practice is not publicly identified or mentioned on the DSBB. Perusal of the DSBB indicates that such internal government access is indeed not mentioned there. This failure to disclose this pre-release would be a breach of India's undertakings under the SDDS, and a clear deviation from best international statistical practices. If this failure is indeed confirmed, a recommendation to address the problem would seem to be essential.
- (16) Annex 1, Balance of payments, 2.1, Concepts and Definitions. It is not evident why the (ROSC - 2004) ranking of

'largely observed' has been upgraded now to 'observed' in view of the statement under 'current practice' that the 'presentation structure does not follow the BPM5.' Some justification seems to be required if the ranking is to stand.

- (17) Annex 1, Balance of payments, 3.5, Revision Studies. 'Revision policy' is not relevant here, but is an issue that should be covered in 4.3, Revisions Policy and Practice. It is unclear why the (ROSC - 2004) ranking of 'largely observed' has been upgraded to 'observed.'

Stance of the Panel: All suggestions made by the peer reviewer has been accepted except item (5) as there are, at present, no efforts underway to include data on local government operations. A recommendation to entrust the Reserve Bank with the task of compiling and publishing data on General Government operations including local government has already been made in the Report.

Neil Patterson
26 February 2008



Chapter VI

Summary of Recommendations

6.1 Transparency in Monetary Policy

Legislative mandate for objectives of monetary policy

The Reserve Bank has several objectives of monetary policy. While recognising that the relative emphasis on each of these objectives may change over time, there may be merit in clarifying the importance assigned to different objectives and the *inter se* relationship between them. The objectives of monetary policy are not precisely mandated or stated in the RBI Act. Given the changes in the economic environment in the country and the economic experience in monetary management and the national experience since independence, there is a necessity to re-examine the provisions of the RBI Act, particularly with regard to objectives and mandate specified in the Act on the roles and responsibilities of the Reserve Bank including its relationship with the Government, for achieving legislative clarity.

The exact mandate and objectives of monetary policy may be suitably incorporated in the RBI Act. There would be merit in considering explicit treatment of the financial stability objective as well as that for monetary policy within the Act. This would both require a detailed analysis of the nature of monetary policy and financial stability activities and

processes so as to accommodate appropriate treatment of both the objectives themselves, and the enabling powers to achieve them. The Panel recommends that a Working Group may be constituted to comprehensively review the current legislation.

To the extent that prudential supervision is fragmented away from the central bank, there needs to be some mechanism in place to enable the central bank to be adequately informed, and to be able to take on the necessary powers to handle liquidity-related events which appear at times of stress. This aspect needs to be kept in mind while reviewing the RBI Act and it should be made clear that it is the central bank that has specific operational responsibilities in this area, constrained as they need to be by the threat that liquidity injection may require to be socialised by the taxpayer, which in turn requires transparency of process and accountability in relation to Government and the necessity to minimise moral hazard.

Overlaps in the responsibilities of the Reserve Bank in regulation and supervision of various institutions

The responsibilities of the Reserve Bank in regulating and supervising entities like rural financial institutions, urban co-operative

banks, chit funds and *nidhis* are not clearly specified in legislation. There are considerable overlaps with the Government and other regulators in this area. The regulatory and supervisory jurisdictions of the Reserve Bank over varied categories of institutions and markets need to be given greater clarity and re-definition through amendments in the RBI Act and the BR Act. This should be done with a view to meeting current and future requirements. The multiple responsibilities of the central bank would need to be well-defined. The proposed amendment of the RBI Act should include in specific language that the Reserve Bank nominees will not serve in any regulated entity, *e.g.*, any bank. This will over-ride the SBI, NHB and other Acts which provide for the Reserve Bank nominees on their Boards.

Though the Reserve Bank has supervisory control over banks and non-banking financial institutions, it is not privy to information pertaining to mutual funds, insurance companies and broking companies. It is necessary that the Reserve Bank has unfettered access to information across the spectrum of markets and leveraged financial firms – banks and non-banks – whose activities may require potential support in times of instability. There would be value in terms of transparency for ensuring due clarity of the roles not just of the Reserve Bank, but of agencies with whom it interacts in the interest of a robust approach to handling financial stability issues. This takes on added significance given the increasing openness of

the economy and the concomitant exposure to global trends and patterns of behaviour.

Criteria for removal of the heads and members of the governing bodies of the central bank

Section 11 of the RBI Act specifies that the Central Government may remove from office, the Governor, or a Deputy Governor or any Director or any member of the Local Board. However, the grounds for removal of the head and members of the Central Board are not specified in the Act. In the interest of central bank autonomy, the procedure and grounds for removal of the Governor and the Deputy Governors and supersession of the Board need to be specified in the Act.

Objectives of exchange rate management

The objectives of exchange rate management are not specified. The responsibility for exchange rate management should be made consistent with the other objectives of the Reserve Bank.

Relationship between the Government and the Reserve Bank

The RBI Act specifies that the Central Government may from time to time, give such directions to the Bank as it may, after consultation with the Governor, Reserve Bank, considered necessary in the public interest. In practice, as issues are resolved through mutual consultations, where necessary, there are no such directions on record. The conditions under which the Government issues directions to the Reserve Bank and the manner of disclosure are not specified in the legislation.

There is merit in taking such directions on record to ensure transparency of processes.

Separation of debt management from monetary management

In terms of FRBM Act, 2003 the Reserve Bank is precluded from participating in the primary issuance process of Central Government securities. The Budget for the year 2007-08 proposed the setting up of an autonomous Debt Management Office (DMO) to keep debt management distinct from monetary management. The preclusion of the Reserve Bank from participating in primary issues of government securities has provided greater maneuverability to the Reserve Bank in containing the monetised deficit. To be functionally independent, the Panel recommends that the proposed Debt Management Office should be set up as a statute-based entity, when the conditions are favourable. However, it is necessary to underline the importance of full information access to be made available from the DMO to the Reserve Bank on all matters as requested by it. This aspect should be laid out in statute and implemented fully.

Role of the Technical Advisory Committee on Monetary Policy

The Technical Advisory Committee on Monetary Policy (TACMP) reviews the macro-economic and monetary developments and advises on the stance of monetary policy. The TACMP is advisory in nature and provides guidance on the policy stance from time to time to the Governor, Reserve Bank. As such, the responsibility, accountability and time-paths for decision-making are not formally constrained by the meetings of the TACMP. These institutional arrangements are explained in various publications of the Reserve Bank. The role of the TACMP and its mandate should be reviewed for strengthening its functioning. This review may be undertaken

in conjunction with the review of the RBI Act, recommended earlier.

Price index for measuring inflation

At present, headline inflation in India is generally indicated by the WPI. The WPI, as it is presently computed, does not include the services sector prices. Given the rising weight of this sector in the GDP and also in household consumption, this is a major weakness. Moreover, the WPI also includes trade margins which may vary over time and across locations and, thus, distort the price trends. Due to these weaknesses, the Panel considers that the WPI may not be suitable to measure inflationary trends in the economy. An appropriate inflation indicator should (i) reflect price changes of constituent items accurately and (ii) provide some understanding of headline inflation. The Reserve Bank may, therefore, consider using a combination of Producers' Price Index (PPI) and Consumer Price Indices (CPIs) which will come closest to the first-best option of using the GDP deflator for measuring inflation. Given the likely variance of CPI across different regions, the Reserve Bank would have to design a suitable aggregating measure for preparing an economy-wide CPI that is reportedly under preparation, which, when used together with the PPI, may yield the best results.

Clarity on monetary policy statements

In line with the several recent initiatives taken to improve financial literacy in India, the language of the monetary policy statements may be simplified further.

6.2 Transparency in Financial Policies

Criteria for removal of the heads and members of the governing bodies of financial agencies

The SEBI Act, 1992 and the IRDA Act, 1999 lay down the circumstances under which the Central Government can remove the Chairman and Members of their respective Boards.

Section 11 of the RBI Act specifies that the Central Government may remove from office, the Governor, or a Deputy Governor or any Director or any member of the Local Board. However, the grounds for removal of the head and members of the Central Board are not specified in the Act. The issue is relevant and critical to central bank's autonomy. However, it involves amendment to the existing provisions of the RBI Act. Though functional autonomy is achieved through a series of reforms initiated by the Central Government and the Reserve Bank, a clear provision must be laid down specifying the criteria and manner for removal of the Governor and Deputy Governors of the Reserve Bank.

Relationship, information-sharing and consultation between financial agencies

The relationship between the main regulatory bodies is not defined in the statute but the jurisdictional issues of the regulatory bodies are often disclosed in notifications published in the Official Gazette. At present, co-operation and information-sharing between the Reserve Bank and other regulatory agencies is handled by a formal standing committee. The Government, by an executive order, has set-up a High Level Co-ordination Committee on Financial Markets consisting of Governor, Reserve Bank, Chairman, SEBI, Chairman, IRDA, Chairman, PFRDA and Secretary (Finance). The Committee has further constituted three technical committees under the jurisdiction of the Reserve Bank, SEBI and IRDA to report on matters which have a bearing on the financial and capital markets. This arrangement needs

to be institutionalised and brought under a formal and transparent arrangement.

SEBI has been entering into Memorandum of Understanding (MoU) for regulatory co-operation, mutual assistance and sharing of information with overseas securities markets regulatory authorities. IRDA does not have a formal arrangement in place for information-sharing with regulatory authorities at the international level. However, information has been shared with regulators on a case-to-case basis. In respect of international agencies, a need-based information-sharing mechanism is in place in the Reserve Bank, which can be publicly disclosed.

Disclosure of fees charged by financial agencies to financial institutions

The fee collected from both the presenting and drawee banks at the Magnetic Ink Character Recognition (MICR) centres operated by the Reserve Bank is not publicly disclosed. This may be placed in public domain. (The Panel notes that this has since been implemented).

Disclosure of information on emergency financial support by financial agencies

The Reserve Bank provides emergency financial support to banks as stipulated in Section 17 of the RBI Act. The Reserve Bank has, from time to time, issued policy statements with regard to provision of liquidity in exceptional and unforeseen circumstances.

Though temporary financial support is provided to banks in case of emergency, there is no system of disclosing aggregate data of

such assistance extended. The Panel feels that it would be appropriate from the organisation's view-point and also from the transparency angle if such information is placed in the public domain after a suitable period.

Information on consumer protection arrangements (such as dispute settlement processes)

The Reserve Bank is addressing the issue of grievance redressal in the banks on two fronts: (i) Making institutional mechanisms available in the banks to look into grievance redressal and (ii) Establishing an independent grievance redressal body in the form of Banking Ombudsman (through the Banking Ombudsman Scheme).

The Reserve Bank needs to establish a formal independent mechanism to resolve disputes arising out of government securities market transactions and investor complaints. The Reserve Bank may also disclose the mechanism for settlement of disputes.

Disclosure of internal governance procedures including internal audit arrangements

Internal governance procedures and internal audit arrangements are publicly disclosed by the Reserve Bank through information provided in the Annual Report in the chapter on 'Organisational Matters' and the publication *Reserve Bank of India - Functions and Working*. Internal governance procedures are publicly disclosed by the SEBI through information provided in the Annual Report which is placed in the public domain and tabled in the Parliament. However, internal governance and internal audit procedure of the IRDA are at present, not publicly disclosed. IRDA should consider placing this information in the public domain.

Review of data/information disclosure

SEBI, the stock exchanges and other regulators should invest into technology to

ensure that the information they receive from the companies, market intermediaries (such as brokers), mutual funds, *etc.*, and the information generated on the exchanges is disseminated instantaneously to the public at large without any privileges to any special bodies. Embargo for data releases, if any, should be for a specific time period that should be clearly articulated by the regulators. Eventually, all relevant data should be made public. Exceptions, if any, to this stance on information dissemination should be explained on the official website of the regulator.

6.3 Fiscal Transparency

Centre

- Functional encroachments by the Central Government on subjects exclusively assigned to States (List II) need to be minimised or properly institutionalised so that the roles of the Central and State Governments are clearly defined in practice and accountability established.
- For enhancing the transparency of Finance Commission awards, revenue sharing calculations must clearly be placed on the website and a transparent mechanism should be put in place for implementation of the Commission's recommendations.
- Although the detailed Annual Financial Statement in the budget documents does record off-budget borrowings, there is a need for a consolidated statement on the aggregate stock outstanding of such bonds, the repayment schedule, and the interest liability falling due in each fiscal year to maturity. Many of these off-budget borrowings are bullet bonds, falling due in a bunched manner at the time of maturity. These repayment liabilities and the timing of their

occurrence should be transparently recorded at the time of issue.

- An augmented measure of the gross fiscal deficit (GFD) capturing the impact of off-budget items such as oil bonds should be reported along with the budgetary GFD, and sensitivity analysis for fiscal projections with respect to key fiscal parameters should be carried out.
- Resource flows in the capital account from the Centre to the States are distinguished by type (*i.e.* Plan/non-Plan), but figures for the gross flow need to be supplemented by figures of repayment of each type of loan, so that the corresponding net resource flows in the capital account are obtainable by type. At present, this is not possible even from the Central Finance Accounts, because loan repayments by the States to the Centre do not distinguish between Plan and other loans.

States

- All States should set up State Finance Commissions, ensure submission of Reports within the stipulated time and explain the rationale underlying rejection, if any, of their recommendations.
- All State Governments need to consider entering into Memoranda of Understanding (MoU) with State public sector units (PSUs) in all cases.
- State Governments need to move towards a facilitative conception of Government regulation, while at the

same time retaining their role as guardians of the public interest

- An augmented measure of GFD capturing the impact of deferred expenditure and arrears items should be reported along with the budgetary GFD and sensitivity analysis with respect to key fiscal parameters should be carried out.
- Disinvestment receipts are officially provided only at the Central level. No source records disinvestment receipts in aggregate across States. The disinvestment figures from asset sales of the previous years should also be disseminated by the Government. The mode of financing the fiscal deficit and the detailed break-up of interest payments should also be reported.
- State Governments should provide an economic and functional classification of expenditure after a stipulated interval of time, such as six months after presentation of the budget. Also, State Governments should publish annual figures of staff employed by them along with the budget documents.
- Expenditure information on all government-funded schemes and what they propose to achieve should be made available, not just in the year of its introduction, for better monitoring of yearly actual expenditure on each scheme.
- States should curb the practice of covering losses of State-level PSUs

- through equity contributions from the capital account.
- The functioning of VAT needs to be tightened and timely settlement of refunds due and tax-payer appeals needs to be enforced. Also, rationalisation of other State-level levies, like stamp duty on transfer of property and financial transactions, State excise on liquor, and motor vehicle taxation, is incomplete in many States. Tax appeals through legal or quasi-legal channels are not always settled within a defined time-limit. Timely settlement of appeals from tax-payers needs to be enforced.
 - All States should provide sensitivity analysis of projections in their budget documents and make financial provisions for contributions to the consolidated sinking fund and the guarantee redemption fund.
 - The States should furnish a Statement of their assets and liabilities in their Budgets and also make actuarial estimates of pension liabilities. Data relating to debt should provide a breakdown, with details of interest rates at which loans are raised, nature of the instrument (interest-bearing or zero-coupon, bullet or amortised repayment), maturity pattern and yearly repayments falling due, as all of these have implications for future budget deficits.
 - State Governments provide information on contingent liabilities as a part of their Finance Accounts, and in many cases as a part of their budget documents as well. However, the formats in which the State Governments disclose information on guarantees, and the break-ups provided, are not uniform. State Governments should provide these details in a uniform format.
 - A common reporting framework for compensation and assignments to local bodies applicable to all States needs to be developed. Transfers of funds for the performance of functions devolved to local level should be reported in a transparent manner that is commonly adopted across all States, separately for rural and urban local bodies.
 - There should be a single data dissemination point for State-wise fiscal data based on audited finance accounts, and, in future, for local Governments.

Centre and States

- FRBM Acts in India typically configure fiscal targets in two distinct categories, the RD and GFD. The distinction between the two carries macroeconomic significance in a developing country context, but can get corrupted if there are expenditures which bundle together the two types of expenditure and get assigned uniquely to one or the other category. Three categories of bundled expenditure are candidates for fractional assignment between the current and capital expenditure categories:
 - (i) Public Works Departments' (PWD) current expenditure on maintenance of roads, which is indistinguishable from expenditure on laying a new road.
 - (ii) Annual grants from States to local bodies, and grant-funded capital expenditure schemes, like the NREGS, Bharat Nirman, and the JNNURM, have a significant capital expenditure component at the recipient end, which needs to be taken cognisance of at the grantor end, since FRBM targets are applicable individually at each level

- of Government, and not just in aggregate across all levels of Government.
- (iii) Assistance for externally-aided projects can sometimes get entirely recorded on the revenue account. Sometimes, the recording of these can vary from year to year, with a State getting logged entirely on the revenue account in one year, and split into capital and revenue the very next year. Unless these practices are standardised, comparability of fiscal indicators over time gets severely compromised. The budget documents of the Governments should transparently indicate the revenue and capital components of these categories of expenditure.
- For better monitoring of the yearly progression of actual expenditure on each scheme, expenditure on all government-funded schemes and descriptive information on what they propose to achieve should be made available, not just in the year of introduction,
 - Data relating to debt at the levels of both the Centre and the States should provide a breakdown by nature of the instrument (interest-bearing or zero-coupon, bullet or amortised repayment), maturity pattern and yearly repayments falling due, as all of these have implications for future budget deficits.
 - All tax assesses must be informed of the completion of scrutiny/assessment within a period of six months, accompanied by payment on refund of levy on additional tax as the case may be. Tax appeals through legal or quasi-legal channels are not always settled within defined time-limits. Timely settlement of appeals from tax-payers needs to be enforced.
 - Time-limits within which payments should be honoured, have to be formally included in PPP document along with a recourse mechanism. Future payments required under existing contracts should be included in the medium-term plan
 - There should be a system for tracking departmental payments down the line on an IT platform and time-limits for honouring dues to the State and local Governments.
 - Budgetary projections in the future should be accompanied by sensitivity analysis with respect to key parameters.
 - Expenditure pressures on publicly-owned corporations from the Government for provision of staff and other facilities, in an effort to export expenditure burdens out of the budget, should be made explicit.
 - A Working Group needs to be set up to sort out discrepancies in fiscal data as reported by State budgets, the Central budget, records of the Reserve Bank and the CAG Reports.

- Another Working Group needs to restructure and rationalise the budget head structure for reporting of expenditures. The revised budget head structure will then be nationally binding on all Governments at any level in the country, as is the present structure.
- The public capital outlay in any state is an aggregate of State Government-funded outlays, and outlays funded directly by the Central Government which are not all routed through the State exchequer, and can either be spent directly by line outposts of the Centre, or through sub-state level agencies, or through local Governments. There is no ready source of data on this aggregate, which makes the public capital outlay in a State impossible to quantify. Capital expenditure funded under the Member of Parliament Local Area Development Scheme (MPLADS) and the equivalent scheme for Members of the Legislature (SDFMLA) add a further element of public funding of capital outlay within each State. The Working Group on Budget Heads should address this issue specifically.
- A move to accrual accounting and accrual budgeting has to be phased in such a manner that there is no confusion and disruption of time-series on important fiscal indicators. There has to be a well-planned process of transition, with officials at the Central and the State-level well-trained in the new accounting system, before it is actually introduced.
- Borrowing by public sector undertakings (PSUs) is not reportable as part of the budgetary accounts of core government, but there is an intricate web of domino defaults by PSUs, corrective actions for

which can appear in formal budgets episodically. For example, dues on account of defaults by State Electricity Boards to the NTPC were settled in many States through budgetary purchase by State Governments of Power Bonds issued by NTPC. State Electricity Boards, in turn, have dues owed to them by defaulting State or local water authorities, and water authorities can, in turn, have dues owed to them by defaulting rural or urban local bodies. A beginning can be made towards sorting this out if the outstanding stock of dues is reported transparently for each of the wholly-owned PSUs of the reporting Government in question in an appendix to budget documents. Such a reporting requirement will also correct the enormous delays in auditing of PSU accounts, especially at the State level.

- Procedures for employment of consultants, work contracts, purchase of goods, *etc.* need to be continuously monitored so as to introduce preventive clauses for avoidance and evasion loopholes, as and when they are identified.

6.4 Data Dissemination Standards

Real Sector

National Accounts Statistics

- The Central Statistical Organisation (CSO) is the nodal agency that compiles the National Accounts Statistics (NAS). The requisite information for the compilation of the NAS is provided by a large number of independent ministries, departments and local agencies. As a large part of the data used by the CSO is collected as part of the administrative machinery, it makes the data collection system vulnerable to reforms processes. With privatisation and reforms and the

- reduction in the role of the public sector, the administration is ill-equipped to provide comprehensive or reliable data. Hence, the quality of statistics provided to the CSO has deteriorated, as the data submission by source agencies is mainly on a voluntary basis. The CSO needs to be strengthened to ensure that the generation of the national accounts system is well-supported by the legal and institutional environment it merits.
- The sources and methods in compiling the NAS are documented and available in the public domain. However, changes in methodology are communicated only to the traditional institutional users of CSO data and are not available in the public domain. CSO should place in the public domain all materials pertaining to changes in methodology in the compilation of NAS. Advance notice should also be given for major changes in methodology, source data and statistical techniques.
 - Several publications authored by the CSO officials provide valuable insights into the workings of the national accounts system. However, these are also not available in the public domain. It would be useful if such articles are systematically available on the organisation's official website.
 - The accuracy and reliability of the expenditure side of the GDP is much lower than that of the production side. Private final consumption expenditure is derived and not estimated. There is a need to substantially improve the accuracy of the expenditure side statistics of the national accounts.
 - The CSO's statistical techniques need greater independent review so that the CSO could make appropriate changes in its techniques.
 - It is not possible to ascertain whether the CSO has incorporated the available source data in the last revision or whether the new data from the sources would have its impact only in the next revision. It would be useful for the CSO to make available, reasonably comprehensively, the source data used in the computations.
 - The CSO does not have any formal process to monitor the practical utility to users of its statistics. It is recommended that the CSO conducts a survey of users of national accounts statistics at least once in three years.
 - Major changes in methodology for compilation of NAS are, however, not made available in advance of the general dissemination of statistics. It is recommended that the CSO presents a discussion paper on the changes in methodology before its final implementation.

Production Index

- With liberalisation, the institutional data collection machinery has suffered. Implementation of the existing arrangements for the compilation of the IIP should be strengthened and the

source agencies that provide the source data should be consolidated. The CSO should assume a direct responsibility in the generation of the IIP. It should create the frame, select the sample and collect the data directly from the units, for which it will require additional resources. Its reliance on the administrative machinery and on industry associations should be reduced.

- The CSO's statistical policies and practices in respect of the generation of the IIP are transparent. However, the CSO can improve the transparency of the IIP if it also reveals the size (number) of units in the frame, the sample size and the monthly response rate for each item of the IIP.
- The IIP excludes construction, gas and water supply. Their inclusion in the IIP is recommended by the United Nations Statistical Office. It would be useful if the scope of the IIP was expanded to include the construction, water supply and gas sectors.
- The IIP is based on data obtained from fifteen different source agencies. The ability of some of these sources to collect comprehensive data has deteriorated since the onset of reforms. In the interest of better practices, the data collection machinery needs to be improved substantially, particularly since the availability of data and the quality of the data has improved substantially.
- The source data does not fully capture the changes in India's industrial sector. The IIP needs to adjust its basket of commodities and the weights assigned to these quicker than it does currently.
- The revisions in IIP data are substantive enough to warrant an explanation of the causes of these revisions. These revisions are almost entirely because of

the improved response rates obtained by the source agencies that provide the underlying data. The publication of the response rate with each release would enable the users to anticipate changes in the estimates and appreciate the revisions when they occur.

- The CSO does not have any formal process to monitor the practical application of its statistics. It is recommended that the CSO conducts a survey of users of the IIP at least once in three years.
- To improve the methodology in compilation of IIP data, a move towards a chain-linked index instead of a base-linked index is recommended.

Forward-looking Indicators

- The Reserve Bank conducts quarterly surveys on capacity utilisation and order-book positions. Such quarterly surveys could be used to develop a full set of forward-looking indicators and disseminated.

Labour

- There are multiple agencies like the National Sample Survey Organisation (NSSO), the labour ministry, *etc.*, involved in the measurement of labour data. The fragmented efforts in compilation of statistics relating to the labour markets needs to be consolidated under one institution that is adequately empowered to undertake this task comprehensively and effectively. The CSO, as the premier statistical agency of the country, is the most appropriate agency to undertake this responsibility with the help of the NSSO's machinery. It would be ideal if such new efforts were made in a manner as conforms to the standards laid in the DQAF.

- Statistics on labour may be compiled by professional statistical agencies that deploy appropriate statistical methodologies rather than by the administrative arm of the Government through voluntary or statutory compliance of Acts.

Prices

- There is a need for modernisation of the administrative machinery in the Ministry of Labour (for the compilation of CPI-IW) and the Office of the Economic Advisor in the Ministry of Commerce and Industry (for the compilation of WPI), as recommended by the National Statistical Commission – 2001.
- There is scope to improve upon the selection of sources of prices data as in several markets, sophisticated systems have been established to collect reliable price estimates of commodities. This is particularly true in the light of the establishment of several commodity futures exchanges. The efforts of the agencies in collecting prices to measure inflation may also exploit these new sources.
- The Labour Bureau and the Office of the Economic Advisor, Ministry of Commerce and Industry need to improve on the transparency by releasing data regarding the number of respondents, the monthly response rates, the revision in the responses and the policies followed with respect to the revisions. In the case of the CPI and the

WPI, the underlying price used in the computation of the various indices may be made public for a fair assessment of the credibility of the price indices. To improve the methodology in compilation of prices data, a move towards a chain-linked index instead of a base-linked index is recommended.

- Prior to the release to the public, the WPI press release is given to the MoF and the Reserve Bank under embargo. However, this is not publicly identified and not described in the IMF's DSBB. Though there is no privileged access to the WPI data, the fact that such internal government access is available could be mentioned in the DSBB to make it compliant with the SDDS.

Fiscal Sector

- The Reserve Bank may continue to compile and publish, as per the present SDDS requirements, the General Government public finance statistics (Government of India and State Governments) within six months of the end of the reference year. The Panel noted that a Municipal Finance study has already been published by the Reserve Bank. Considering these, to begin with, it would be appropriate to entrust the Reserve Bank with the task of compiling and publishing data on General Government operations at regular intervals including Local Governments, sourced from the budget documents of the respective Governments. This will require

additional resources. A beginning could be made by initially covering Metropolitan Municipal Corporations and extended in stages to other Local Bodies.

- Consolidation of the currently fragmented efforts and the assigning of a clear responsibility for the compilation of the general Government statistics would ease the migration from the current system to a system that is GFSM 2001 compatible. Current resources are inadequate to undertake the proposed task of a comprehensive and integrated database on general Government operations including all levels of Government, social security systems and extra-budgetary items. Adequate resources should be provided for the same.
- The treatment and disclosures regarding off-budget items such as oil bonds need to be transparent and accrual accounting may be introduced in general Government transactions.

- Instead of the discrete monthly data required by SDDS, the data on CGO are disseminated on a cumulative year-to-date basis. The Panel recommends dissemination of discrete monthly data on CGO.

External Sector

- There is no formal law or arrangement assigning responsibility for the collection, processing and dissemination of data relating to balance of payments with the Reserve Bank. Most of the information obtained is a by-product of reporting of foreign exchange transactions by Authorised Dealers. Thus, data collection is a function of the regulations in force and is vulnerable to possible reforms in the future. Data collection may suffer as it did in the case of the IIP and the WPI. It is, therefore, recommended that arrangements are made such that the data is collected through a more professional and sustainable system.