

# FSAP: Experience and Issues Going Forward

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Economic Forum

***Ensuring Financial Stability: The IMF's Role***

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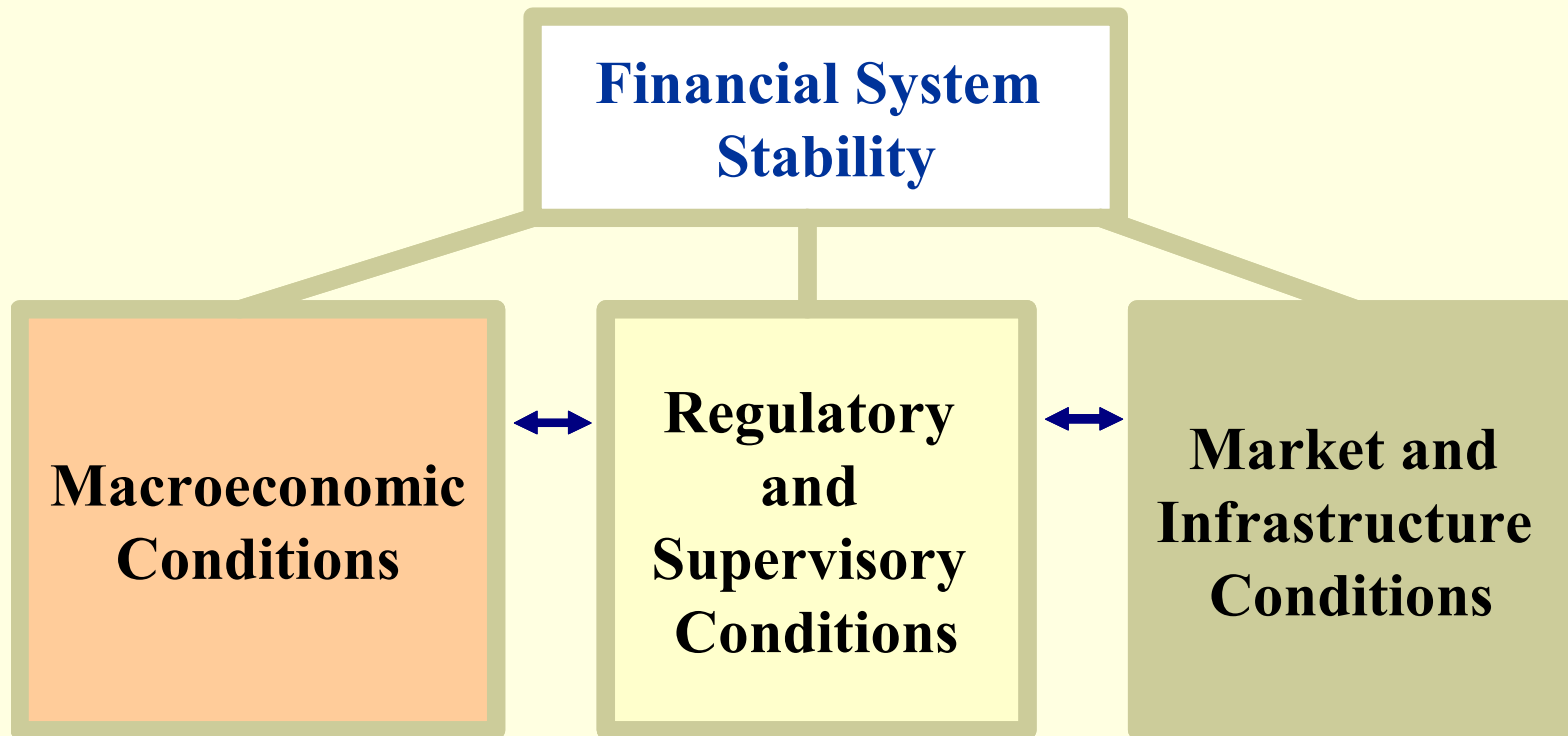
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# Background

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- Importance of strong and resilient financial systems
- Financial stability in a world of global capital markets and the Fund's mandate
- Response of IFIs: the Financial Sector Assessment Program
  - Over half of the IMF/WB membership has participated
  - The FSAP is a voluntary exercise (including disclosure of results)

# Three Pillars of Financial System Stability



# The Focus of the FSAP

## Scope

**Analysis of Structure,  
Soundness,  
and Vulnerabilities of  
the Financial System**

**Assessment of  
Observance of  
Standards and Codes**

**Review of Financial  
Sector Infrastructure  
and Governance  
Framework**

1. Overall stability assessment
2. Development needs
3. Formulation of a coordinated and sequenced action plan

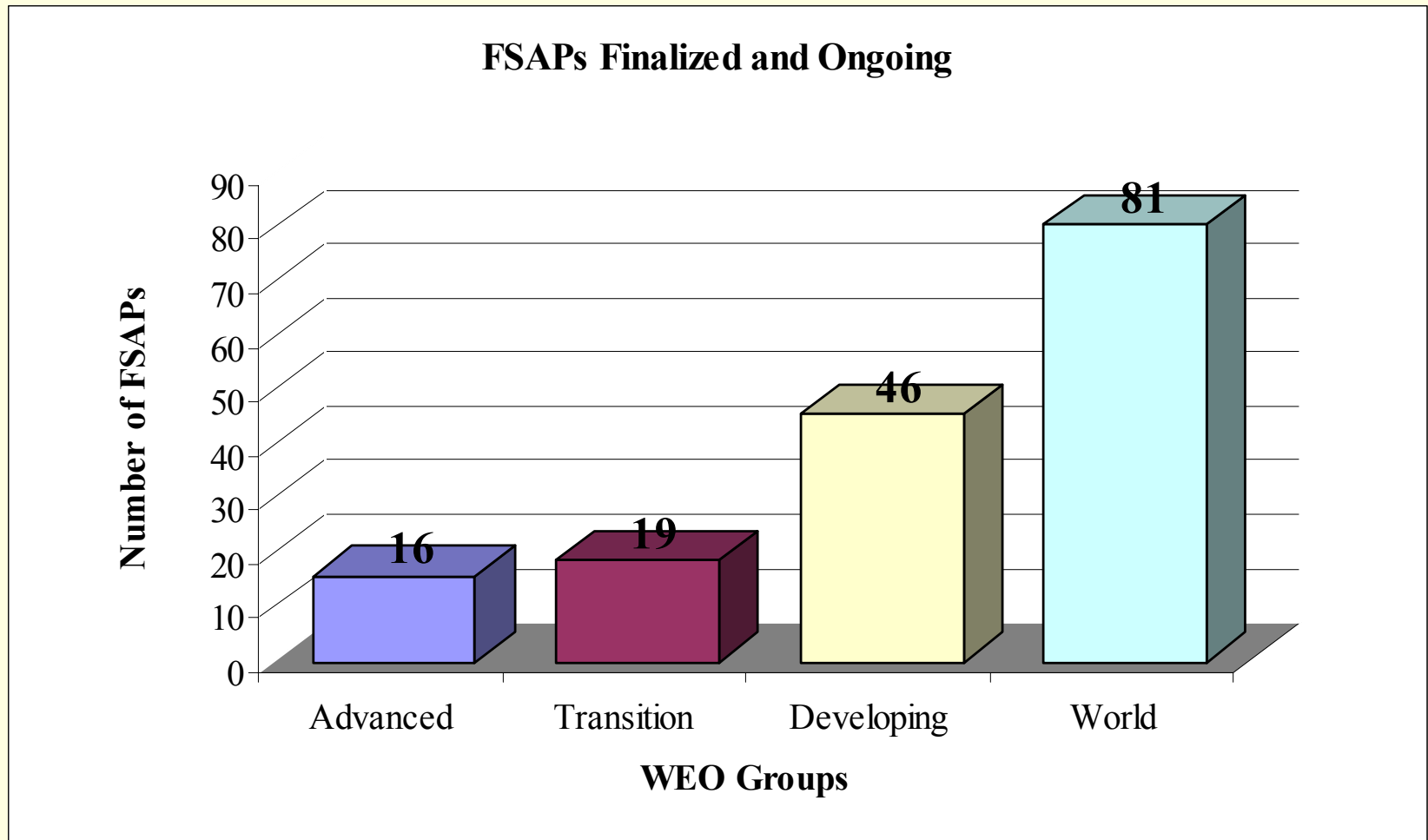
# Cooperating Institutions

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- The international cooperative effort has strengthened
- Some 75 central banks, supervisory agencies, and standard setting agencies are now cooperating institutions providing “peer review” through the FSAP

# FSAP: Total Output

(As of November 2003)



# Main Findings: Advanced Economies

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- Generally sound financial systems
- Strong compliance with standards and codes
- Traditional sources of risk (especially credit) continue to be relevant
- Dispersed public shareholders (agency problems)

# Main Findings: Advanced Economies

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- Challenges and risks:
  - New instruments of risk transfer
  - Increased concentration and conglomeration
  - Growth of large and complex financial institutions (LCFIs)
  - Need to monitor risk across activities and borders



# Main Findings: Emerging Economies

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- Significant short-term vulnerabilities remain in some emerging economies
- Some progress in financial sector reform has been made
- Important improvements have taken place in bank regulation and supervision

# Main Findings: Emerging Economies

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- Challenges and risks:
  - Rapid growth of new instruments
  - Lack of consolidated risk-based supervision
  - Weak interagency cooperation
  - Wide range of deficiencies in non-bank area

# Main Findings: Developing Economies

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- Surveillance mostly focused on banking sector
- Weak regulatory and supervisory framework
- Weak risk management procedures in financial institutions
- Inadequate market infrastructure

# Main Findings: Developing Economies

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- Challenges and risks:
  - Low diversification of economic activity and vulnerability to shocks
  - Inadequate macroeconomic policies
  - Weak legal and institutional settings

# FSAP: Issues Going Forward

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## Need to...

- Sharpen the scope, select issues and standards assessed
- Do selective FSAP updates
- Deploy other tools in financial sector surveillance, as well as in follow-up
- Improve methodology for developmental issues

# FSAP: Issues Going Forward

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## Need to...

- Do more research on financial stability issues to support more practical policy advice
- Address gaps in existing standards and methodologies
- Create swifter mechanisms for the provision of follow-up technical assistance