



International Monetary Fund

Financial Sector Analysis: Lessons from the FSAP

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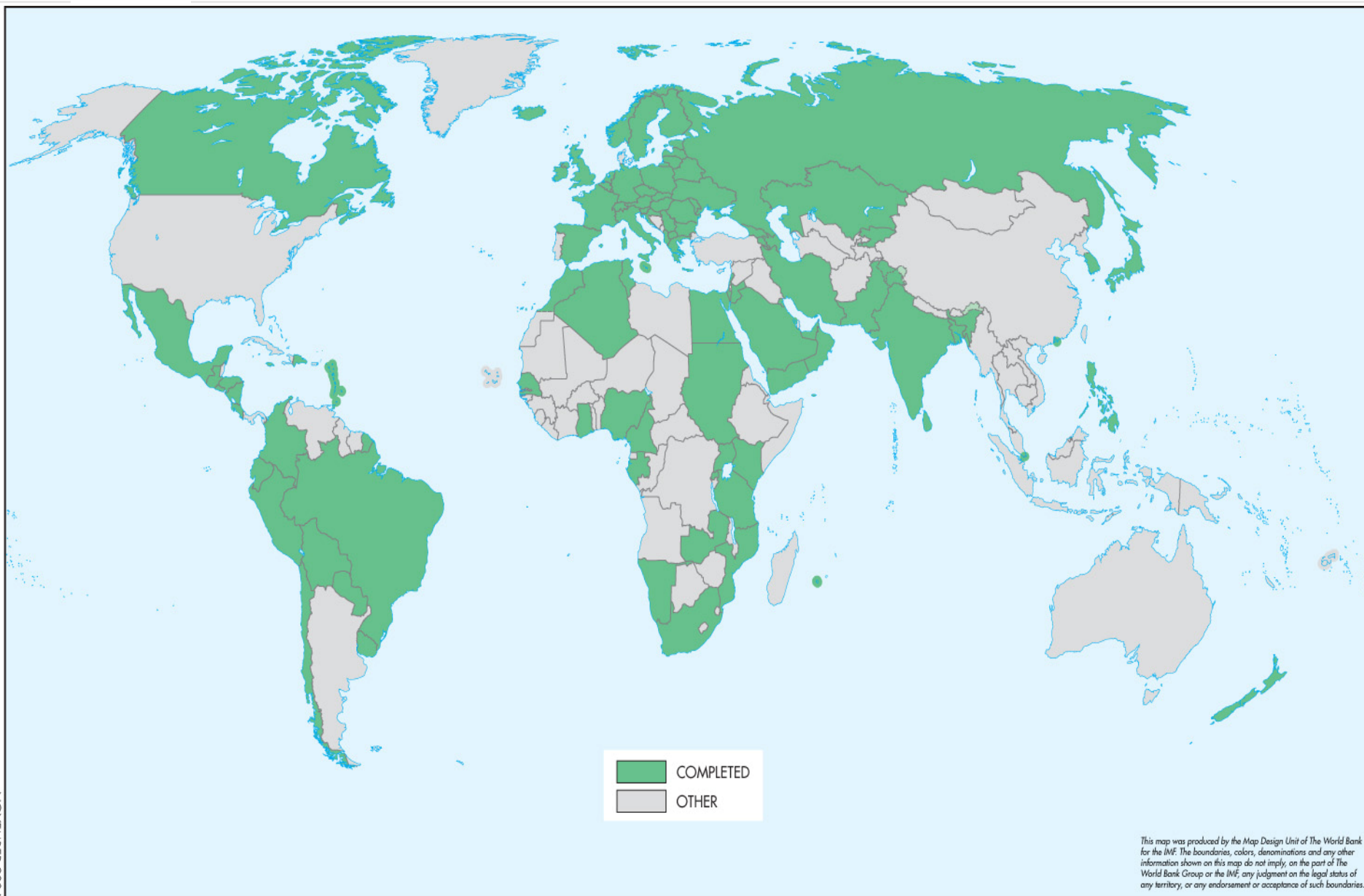
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Outline

- Brief Overview of the FSAP
 - Objectives
 - Analytical Tools
- Challenges Ahead
 - Data and methodology
 - FSAPs in broader surveillance analysis
 - Transnational issues
 - Costs





FSAP Objectives

- **To strengthen and deepen financial systems and enhance their resilience**
 - Gauging the system's stability and resilience
 - Addressing structural weaknesses
 - Reducing the potential for systemic crises
 - Limiting the severity of crises

Analytical Tools and Methodology

Risks and vulnerabilities are identified using both quantitative and qualitative tools



- Financial Soundness Indicators
- Stress Tests
- Early Warning Systems

- Standards and Codes
- Arrangements for Crisis Prevention and Management



Top-Down vs. Bottom-Up

□ Top-Down

- Analysis of macroeconomic drivers of vulnerabilities
- Standards and Codes Assessments
- Stress Tests on supervisory data on system aggregates

□ Bottom-Up

- Analysis on the level of individual institutions
- Stress tests by the individual institutions on their (proprietary) data
- Key complement to top-down analysis



Standard & Codes Framework

- Financial Sector Regulation and Supervision (4)
- Policy Transparency (3)
- Market Integrity (5)



Challenges Ahead

- Improve data and methodology
- Better integrate FSAP analysis in broader surveillance analysis
- Incorporate transnational issues
- Manage costs



Challenges Ahead

- Improve Data and Methodology
 - Data quality
 - Data availability
 - Information lags
 - Stress tests and vulnerability analysis



Challenges Ahead

- Better integrate FSAP analysis in broader surveillance analysis
 - Keep FSAPs updated and make use of their recommendations
 - Better link financial sector issues with other macroeconomic issues
 - Integrate with multilateral surveillance of the international financial system



Challenges Ahead

- Incorporate transnational issues
 - Global financial groups
 - Home-host issues in supervision
 - Safety net issues
 - Crisis management & lender of last resort
 - Cross-border infrastructure (e.g., Euro Zone's TARGET, CLS for FX transactions)



Challenges Ahead

- Incorporate transnational issues (cont'd)
 - Limited scope of FSAPs
 - Resources
 - Access to cross-border information
 - Cross-border policy recommendations
 - Complementary regional studies



Challenges Ahead

- Manage the costs
 - Periodic internal assessment to gauge FSAP effectiveness and recommend course of action
 - Exploit synergies with other international financial stability activities (e.g., FSRs)
 - Streamlining vs. comprehensiveness



Table. Average Number of Standards and Codes Assessed

	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
FSAPs	4.2	5.1	4.8	3.9	2.6
FSAP Updates	1.3	...	1.0	2.5	1.2



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Thank You
