The Financial Sector Assessment Program (FSAP)

The global financial crisis showed that the health and functioning of a country's financial sector has far-reaching implications for its own and other economies. The Financial Sector Assessment Program (FSAP) is a comprehensive and in-depth analysis of a country's financial sector. FSAP assessments are the joint responsibility of the IMF and World Bank in developing economies and emerging markets and of the IMF alone in advanced economies. The FSAP includes two major components: a financial stability assessment, which is the responsibility of the IMF, and a financial development assessment, the responsibility of the World Bank. To date, more than three-quarters of the institutions' member countries have undergone assessments.

Assessing financial stability and development

The goal of FSAP assessments is twofold: to gauge the stability and soundness of the financial sector and to assess its potential contribution to growth and development.

- **To assess stability**, FSAP teams examine the resilience of the banking and non-bank financial sectors; conduct stress tests and analyze systemic risks, including linkages among banks and nonbanks and domestic and cross-border spillovers; examine microprudential and macroprudential frameworks; review the quality of bank and nonbank supervision and financial market infrastructure oversight; and evaluate the ability of central banks, regulators and supervisors, policymakers, backstops and financial safety nets to respond effectively in case of systemic stress.

- **To assess development aspects**, FSAPs examine institutions, markets, infrastructure, and inclusiveness; the quality of the legal framework and of payments and settlements systems; obstacles to competitiveness and efficiency; progress in financial inclusion; and access to retail payment digital technology.
  They also examine the financial sector's contribution to economic growth and development. Issues related to the deepening of domestic capital markets are particularly important in developing and low-income countries.

FSAP adapts to the post-crisis era

In 2009, the FSAP underwent the most significant changes since its inception a decade earlier, largely in response to the global financial crisis. These changes included a clear definition of the components of stability assessments (vulnerabilities and resilience of the financial system, regulatory and supervisory framework, and financial safety nets), the introduction of Risk Assessment Matrices (RAMs), and the possibility of modular FSAPs conducted separately by the IMF or the World Bank, focusing on each institution's chief responsibility.

The 2014 FSAP Review found that FSAPs conducted since 2009 improved in all dimensions and featured stress tests that covered a broader set of risks, and, increasingly, analyzed spillovers and macroprudential frameworks. The introduction of RAMs has led to a more coherent discussion of risks and their likely impact. FSAPs are highly regarded by national authorities, and countries have implemented a large share of their recommendations. Many Financial System Stability Assessment reports (FSSAs) are made public.

Integration of FSAP into IMF surveillance

FSAP findings provide valuable input into the IMF's broader surveillance of countries' economies, known as Article IV consultations. The global financial crisis demonstrated the need for an even more seamless integration of these two strands of the IMF's work.

In September 2010, the IMF made it mandatory for 25 jurisdictions with systemically important financial sectors to undergo assessments under the FSAP every five years. The list of jurisdictions for these mandatory assessments was based on the size and interconnectedness of their financial sectors. In December 2013, the IMF's Executive Board revised the methodology for determining jurisdictions with systemically important financial sectors. The new methodology places greater emphasis on interconnectedness, and its application led to an increase in the number of systemically important jurisdictions to 29. In addition, the 2014 FSAP Review discussed actions to be undertaken in FSAPs to further facilitate the integration of its findings and recommendations in Article IV surveillance. The 2014 review discussed the use of a macro-financial filter to choose, from among the FSAP's extensive micro- and macroprudential findings and recommendations, those to be reported in FSSAs.

While the decision to require stability assessments under the FSAP aims to safeguard global financial stability, it also poses a challenge in terms of resource intensity and technical rigor. Also, a balance must be maintained with FSAPs for non-systemic countries—particularly low-income countries—in the context of broadly unchanged resources. Several steps are underway to strengthen the focus and coverage of the FSAPs, to make innovative use of financial stability technical assistance spanning the various areas related to financial stability, and to ensure that FSAPs provide accurate and timely support to financial sector surveillance in Article IV consultations.

A list of upcoming FSAPs can be found at https://blog-imfdirect.imf.org/2017/01/05/countries-in-the-imf-financial-spotlight-in-2017/