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Revised

May 7, 2021

**Statement by Mr. Hosseini and Mr. Ahmed on FSAP Review  
(Preliminary)  
Executive Board Meeting  
May 12, 2021**

We thank staff for the excellent papers, as well as the helpful prior engagement with our office. We broadly agree with the 2021 review proposals put forth in the papers. These are largely consistent with the Board discussions held in December 2020 and March 2021. We welcome additional progress made by staff to identify new risks and policy priorities in the context of evolving financial stability landscape and global challenges from the COVID-19 pandemic.

New regulatory and crisis management policy initiatives in response to the COVID-19 pandemic have heightened financial stability risks. We underscore that the FSAP remains a highly and progressively valuable exercise and a critical element of surveillance. Encouragingly, stakeholder surveys suggest that authorities value the FSAP for focusing on the most relevant issues and providing in-depth analysis framed in the country's circumstances and appreciate their contribution to policy debate.

**Scope.** We note the authorities' overwhelming endorsement of the three-pillar framework (risk analysis, oversight, and safety nets) and extend our support to greater flexibility within the framework to customize scope. We welcome the envisaged focus of FSAP in coming years on assessing financial stability risks emanating from vulnerabilities in the households, corporate, NBFIs, financial market infrastructure, and public sectors, including from possibly long-lasting scarring effects due to the pandemic. We emphasize the need for the FSAP to remain nimble to address emerging challenges in a fast-changing financial system, including potential stability risks posed by the rapid adoption of digitalization and climate change for many in the Fund's membership. Tackling these issues in FSAP would require enhanced collaboration with the World Bank, FSB, BIS and other international organizations, as well as increased investment in human capital within the Fund.

**Modalities.** We concur with MCM staff views that remote engagement could complement physical missions, but the former is less effective given the challenges of time zone variations, sharing of confidential information, and building relationships with authorities and engaging in sensitive conversations.

**Analytical Tools.** We support staff's work on improving the modelling of interconnectedness and macrofinancial feedback effects, the coverage of nonbanks, the calibration of macroprudential policies, and financial stability analysis frameworks for risks related to climate change and digitalization. We caution that addressing complexities in assessing climate-related financial risks, including data availability, and incorporating them into stress testing, and monitoring, will be challenging.

**Traction.** We note positively that FSAP traction is strong and has improved in recent years. However, we are of the view that traction could be increased further by deepening the integration with Article IV surveillance which is not seen as adequate by several Directors. Also, the low-frequency of FSAPs makes them less well-suited to identifying fast-changing risks creating an opportunity for Article IV consultations to look at higher-frequency risks. In this context, we encourage training of desk economists in developing/using analytical tools to leverage the FSAP to strengthen financial surveillance in Article IV consultations. Furthermore, Article IV may rely on authorities' stress testing capabilities and self-assessments.

We encourage acceleration of targeted technical assistance on financial stability issues and, where appropriate, use the World Bank's development modules to counterbalance the impact of the global systemic focus of the FSAP on LICs. We welcome the increased support for members without mandatory assessments through the FSSR to help low and lower-middle-income economies diagnose financial sector vulnerabilities and prioritize financial sector reforms, supported by targeted TA. The FSSR is not a substitute for FSAP, but it is a useful part of IMF's toolkit and it complements the World Bank's work on financial sector development in these economies. We stress the importance of coordination between capacity building and surveillance, particularly of the financial sector, is a key element of Fund's mission. Therefore, we call for a stronger engagement of Fund surveillance and capacity building, including training, on macro-financial issues in emerging and developing economies.

**Country Participation.** As discussed in the March Board meeting, we reiterate our support for staff proposal to update the current list of systemically important financial systems based on a *refresh-plus-risk-based approach*, by adding another level of risk tolerance to identify additional jurisdictions assessed at a lower frequency. We endorse staff proposal to assess the 32 jurisdictions at a 5-year frequency, identified on the basis of size and interconnectedness, and the additional 15 jurisdictions to be assessed on a 10-year cycle. We note positively staff

calculations which confirm that no major gaps exist between FSAP demand and supply and the two are largely balanced. We support staff proposal to conduct thematic assessments for regions without supra-national authorities subject to resource constraints.

**Resources.** We note that the budgetary implications from increasing mandatory FSAPs can be addressed by reprioritization within the MCM. We underscore the need to focus on macro-critical areas with clear financial stability implications to increase resource efficiency. We recall that, in the March Board meeting, several Directors called for continued focus on emerging issues including climate change, fintech, cyber security and digitalization, which would have resource implications. On the issue of human resources also, we note that additional staffing requirements are expected to be accommodated by reprioritization within MCM resources (¶92). *Could staff provide more clarity on how the resources needed for emerging issues would be met over the medium term? We would appreciate elaboration on the incremental costs of including emerging issues like climate change and digitalization into FSAs?* Since these issues are now part of the Fund's strategic agenda, we are concerned at exclusive reliance on continued reprioritization and reallocations. This will prove detrimental to the quality of the Fund's work and to its engagement with the membership, alongside work pressure on staff. Augmentation of the structural budget in these areas will be critical. As recommended by the IEO, significant additional resources are needed to strengthen financial and macrofinancial surveillance in Article IV consultations and to respond to members' requests for voluntary FSAPs.