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**Statement by Mr. Andrianarivelo and Mrs. Raolisoa Andrianometiana on FSAP Review
(Preliminary)
Executive Board Meeting
May 12, 2021**

We thank staff for the informative report and background papers, as well as for reaching out to our office.

We welcome this timely review of the Financial Sector Assessment Program (FSAP) which is taking place in parallel with the Comprehensive Surveillance Review. We note that the FSAP is increasingly appreciated by country authorities even though more is needed to further enhance traction and authorities' ownership of FSAP recommendations. The progress made in strengthening FSAP's focus, tools and implementation since the last review is commendable. We broadly concur with staff analysis and proposals and offer the following comments.

Regarding scope, we support the proposal to further strengthen the risk-focused approach to determining the scope of financial sector assessments (FSAs). We agree that the three-pillar framework remains useful for scoping the FSAs. We also agree that a greater flexibility within that framework would be appropriate to adapt FSAPs to the evolving global environment, including the effects of the pandemic. In this context, we encourage staff to further customize the FSAs to country specificity, building on the Risk Assessment Matrix (RAM). A greater emphasis on *oversight* would be warranted in future FSAs, especially as policy normalization strategies are being developed and implemented. As regards to *safety nets*, we support a Fund endorsement of the Key Attributes for reviewing insurance resolution schemes in the context of FSAPs. *Collaboration with the World Bank* remains an important part of the program—for emerging market and developing economies (EMDEs) but also, in some cases, advanced economies. This collaboration should be strengthened in the context of the Financial Sector Stability Reviews (FSSRs), especially with respect to the impact of the pandemic on digitalization and on financial inclusion.

On analytical foundations, we agree with the proposals to enhance the quantitative analysis in FSAPs. The quality of FSAP stress testing, as well as the other key areas of risk analysis remain appropriate. In addition, the FSAP clearly identified the most important contagion channels. The proposed increased focus on emerging issues—notably climate change, cyber security and fintech—and the calibration of macroprudential policy issues are warranted to adapt to the evolving landscape. We share the view that FSAP may need to further develop the analysis of granular financial risks stemming from vulnerabilities in households, corporate sectors, non-bank financial institutions (NBFIs), banking-sovereign nexus, and the interconnectedness of financial systems. Given the importance of country-specific circumstances, we would also like to see more attention to vulnerabilities stemming from the withdrawals of correspondent banking relationships in those members where this challenge remains. Additionally, modalities and implications of exits from policy support in response to the pandemic will be an important issue for many FSAs.

Regarding traction, we welcome its improvement among various stakeholders, and share the view on the necessity to further increase it, through greater integration of FSAP recommendations into Article IV surveillance, including for the most systemic jurisdictions. A closer integration of FSAP findings and recommendations into Article IV reports is warranted, notably through prioritization of FSAP recommendations based on macro-criticality. In this regard, providing streamlined or simplified analytical tools for Article IV follow-up is important and the participation of FSAP team members in Article IV missions is in our view logical. It is important to consider and incorporate the authorities' views in FSSA reports. As such Authorities can provide their views and insight, and FSAP team member may identify potential areas where further dialogue is needed to strengthen financial sector stability. We believe that publication of their views could also be considered. In addition, we believe that it is valuable to extend the scope of FSAP discussions to government agencies and parliamentarians to broaden political support and maximize the chances of implementation.

With respect to participation, a continued comprehensive coverage of jurisdictions with systemically important financial sectors (SIFS) is warranted while also paying attention to voluntary assessments and regional-level needs. We welcome the proposed refinements to the methodology for identifying SIFS to better reflect the key principles of relevance, transparency, and evenhandedness. With the significantly larger list, we must ensure that MCM gets the needed resources to accommodate these mandatory assessments. That said, requests for voluntary assessments from other central banks as well as requests for financial stability analyses from country teams should also be adequately met. On frequency, we are favorable to one assessment in five years per jurisdiction concerned. However, we underscore the importance of flexibility to conduct FSAP at a higher frequency as needed to account for major changes in regulatory systems and for emerging issues that warrant more immediate attention. Moreover, we support the proposal to conduct regional exercises on thematic topics where relevant and when resources permit.

Concerning resource implications, we take note that costs of FSAs have remained broadly stable over time but stress the importance of continuous vigilance on this front.

Although the scope of risk analysis has been expanding with new risks, the risk-based prioritization of topics has contributed to addressing the resource constraints. Likewise, with the reprioritization within the MCM budget, staff manage to address resource needs related to the expansion in the number of mandatory assessments as well as greater works on quantitative analysis. We encourage close monitoring of the adequacy of resources going forward.

Finally, we would have appreciated a concomitant review of the program of FSSRs to ensure that its focus also remains appropriate. The FSSRs introduced in 2017 have proven to be a useful complement to the FSAP in identifying financial sector vulnerabilities and guiding financial sector reforms in low-income and lower-middle-income countries. *While FSSAs and FSSRs are different exercises, we wonder whether the outcome of the current FSAP review will affect the FSSR program in any way? Moreover, we would welcome further elaboration on how FSSAs and FSSRs interact.* Going forward, greater Board engagement on FSSRs through informal briefings would be needed.