INTERNATIONAL MONETARY FUND
Public Information Notice

EXTERNAL
RELATIONS
DEPARTMENT

Public Information Notice (PIN) No. 07/135
FOR IMMEDIATE RELEASE
November 20, 2007

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes Financial Soundness Indicators—Experience with the Coordinated Compilation Exercise and Next Steps

On November 7, 2007, the Executive Board of the International Monetary Fund (IMF) reviewed the experience with the work program on Financial Soundness Indicators (FSIs) and discussed proposals for taking forward the work on FSIs. The Executive Board discussion was based on a paper entitled "Financial Soundness Indicators: Experience with the Coordinated Compilation Exercise and Next Steps," and on supporting information provided in a background paper entitled "Financial Soundness Indicators: Experience with the Coordinated Compilation Exercise and Next Steps: Background Paper."

Background

FSIs are a relatively new body of economic statistics that are used, along with other economic and financial indicators, to assess the financial strength and vulnerabilities of a country's financial sector. The IMF worked closely with national agencies and regional and international institutions to develop a set of core and encouraged FSIs. The Executive Board endorsed the set of FSIs in June 2001 and a work program in June 2003 aimed at (i) increasing member countries' FSI compilation capacity and supporting their compilation efforts; (ii) expanding reporting and analysis of FSIs in the work of the IMF; and (iii) undertaking further analytical work on FSIs.

As part of this work program, the IMF produced the *Financial Soundness Indicators: Compilation Guide (Guide)* and launched a voluntary Coordinated Compilation Exercise (CCE) for FSIs in March 2004. The 62 countries[1] participating in the CCE undertook to compile the 12 core FSIs and as many of the 28 encouraged FSIs as possible, as of end-2005, using the *Guide* as reference. Countries also undertook to provide these indicators, the underlying data series,

[1] The term "countries" also covers a nonsovereign entity, for which statistical data are provided internationally on a separate basis.

and related metadata (i.e., information about the data) to the IMF for dissemination (http://www.imf.org/external/np/sta/fsi/eng/cce/index.htm).

FSIs represent an essential starting point for stability analysis. As such, they have also become part of the indicators routinely monitored by IMF staff as part of the IMF's enhanced surveillance of financial systems, and are frequently reported in staff reports and in Financial Sector Assessment Program (FSAP) reports.

The two papers mentioned above report on the experience of the CCE and the use of FSIs in the work of the IMF.

Executive Board Assessment

Executive Directors commended the IMF's work on the conduct of the Coordinated Compilation Exercise (CCE) for Financial Soundness Indicators (FSIs), which involved sixty-two countries as well as cooperating international organizations. The CCE has helped strengthen the FSI compilation capacities of the participating countries, and provided useful support for their work on financial stability issues. Directors noted that the CCE, as a pilot undertaking, has yielded valuable lessons for FSI methodology, and for guiding the IMF's work in this area more generally.

Directors considered the IMF's work on FSIs to be appropriately aligned with the IMF's Medium-Term Strategy and as contributing to the IMF's responsibilities on surveillance and crisis prevention. Directors underscored the importance of continued IMF engagement with regard to FSIs, consistent with its overall budgetary envelope.

Directors had a wide-ranging discussion on various aspects of the IMF's FSI work. They noted that the variety of methodologies in compiling FSIs that were observed in the CCE reflect the differences across member economies in supervisory and accounting practices, in the availability of data, and in the costs of data collection, as well as different approaches in methodology. In this context, Directors emphasized the importance of adequate metadata, which allow more informed comparisons.

Directors were of the view that FSIs represent an important starting point for analysis of financial stability and a key element of the IMF's financial soundness assessment toolkit. Directors urged that FSIs continue to be a standard part of surveillance, FSAP reports, and the IMF's Vulnerability Exercise, and welcomed the increasing reporting of such indicators in staff reports. As FSIs are generally current or lagging indicators of soundness, they must be complemented by analysis of higher frequency market-based data to provide more forward-looking information on expectations and volatility. In this context, a few Directors considered that the Vulnerability Exercise should be expanded to cover developed countries. Several Directors also called for further reflection on how best to use FSIs for anticipating possible future risks.

Directors noted that FSIs need to be interpreted with caution given the diversity of the accounting, regulatory, and legal systems that underpin them. Directors underlined the importance of ensuring that FSIs remain reliable and relevant at an individual country level, even if full comparability across countries is difficult to achieve. At the same time, Directors felt that the CCE has been helpful in fostering convergence in compilation methodology over the medium term, and by introducing transparency through metadata. Directors called for further progress on improving cross-country comparability, which they saw as a key benefit of the IMF's role in FSI compilation, and encouraged continued efforts by the IMF and other international agencies to harmonize the methodologies of data compilation and reporting. Directors noted that the IMF's *Guide* had been helpful during the CCE, and acknowledged the need for some amendments to the *Guide* in light of experience.

Directors generally agreed that, for the time being, the list of "core" and "encouraged" FSIs should remain unchanged. Looking ahead, they urged the staff to give consideration, within the medium-term budgetary envelope, to further refining the list of FSIs. Some Directors called for inclusion of specific new FSIs for other financial corporations, and nonfinancial corporations and households, especially as these tend to be leading indicators of vulnerability. However, there was broad agreement that any proposed additions to the FSI list should be based on consultations with staff and Executive Directors, as well as with international experts. Directors agreed that FSIs should not be included as a required data category in the Special Data Dissemination Standard at this time.

Directors saw clear value in the regular collection and dissemination of FSIs by the IMF, with the creation of a centralized public FSI database that would be available to member countries, international institutions, and markets. This would enhance data availability, encourage greater cross-country comparability of indicators in financial analysis, contribute to greater transparency, and reduce the reporting burden of countries to the IMF—thereby enhancing IMF surveillance. A few Directors felt that consideration should be given to charging a fee for access by investors to the database.

Directors agreed that countries should be encouraged—but not required—to report FSIs to the IMF. Many Directors supported the voluntary provision of FSIs with quarterly periodicity and with a one quarter lag, while many others felt that semiannual or annual reporting would be sufficient.

Directors noted that the CCE had been funded by a reallocation of resources in the IMF Statistics Department (STA). They considered that work on FSIs should remain a priority for STA, and funded within its budget. Some Directors, however, were concerned that the FSI work had come at the expense of traditional STA activities, such as technical assistance in macroeconomic statistics. Directors emphasized that the IMF's future work on FSIs—including the pace at which FSI reporting is expanded to additional countries—will have to be mindful of the institution's increasingly challenging budgetary environment. A number of Directors preferred a slower pace than the proposed 10 new countries per year, to allow time to assess priorities and to consolidate lessons learned. Several Directors emphasized that a proper assessment of the relative IMF-wide priority of FSI work would need be placed in the context of the overall effort to ensure that the IMF continues to fulfill its core mandate.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.