

Additional Information on Impact of the FSAP

This annex presents supporting evidence collected in the course of the evaluation on the impact of the FSAP process in each of the 25 case studies (see Table A10.1). The sources of evidence comprise mainly interviews with country authorities; interviews with staff and reviews of documents served a complementary role.

The purpose of the exercise has been to identify policy and institutional changes that have taken place subsequent to the FSAP. Several important methodological caveats should be noted:

- It is not possible to attribute any changes specifically to the FSAP given the complexity of the factors at work. Rather the aim is to examine (1) whether any changes have taken place (since if

little has happened it is difficult to see how the FSAP could have had much impact); and (2) what qualitative evidence exists on how the FSAP might have contributed to the policy discussion and processes.

- Even when specific policy and institutional changes are identified, it is generally not possible to say, with available evidence, whether these changes have effectively addressed the vulnerabilities and developmental needs highlighted in the FSAP. Such a conclusion would require an in-depth assessment akin to another FSAP (e.g., this review can say whether or not a new law was passed, but it cannot come to a conclusion about the effectiveness of the new law).

Table A10.1. Evidence on Policy and Institutional Change

Country (Date of FSAP Completion)	Contribution to Policy Discussions	Evidence on Contribution to Policy and Institutional Changes ¹	Policy Process in General
Brazil (12/2002)	Senior officials indicated that the FSAP contributed to interagency discussions.	The <i>Financial Stability Report</i> , incorporating more comprehensive risk-based stress testing, launched. It also helped in enhancing the capacity of the government's debt management office. Some changes in the pension fund and insurance sector also took place. There was progress in restructuring some of the large federal banks and some steps have also been taken to upgrade financial sector supervision to best international practices.	According to former officials interviewed, the FSAP contributed to the design and launching of the Financial Stability Report and to improve the debt management process. Soon after the FSAP, there was an election and change in government which resulted in shifts in the priorities for the financial system: A number of officials interviewed said that this timing of the FSAP adversely affected its impact.
Bulgaria (7/2002)	The FSAP contributed to discussions by providing an agenda of modernization for the financial sector.	After the FSAP, a new bank insolvency regime was implemented, the Deposit Insurance Fund was strengthened, and central bank powers were enhanced. In the securities area, there were amendments to the public offering law.	According to authorities, the FSAP helped to build momentum at the central bank to enhance the financial sector regulatory framework. According to authorities and one rating agency, FSAP findings were instrumental to achieve an upgrade in the sovereign rating.

Table A10.1 (continued)

Country (Date of FSAP Completion)	Contribution to Policy Discussions	Evidence on Contribution to Policy and Institutional Changes ¹	Policy Process in General
Cameroon (6/2000)	The FSAP (together with the one for Gabon) contributed to fostering regional awareness and discussions on the need to strengthen prudential regulations and tighten enforcement.	At the national level, microfinance institutions are being relicensed, and a regulatory and supervisory framework is being put in place in collaboration with the regional banking commission. At the regional level, prudential banking standards have been brought closer in line to international standards, and a regional payment system continues to be developed.	The authorities indicated that the FSAP contributed to raise their awareness of the need for a major upgrade in the legal framework, in the broader context of improving transparency and governance.
Chile (8/2004)	According to senior officials, the FSAP contributed to discussions and coordination between the central bank and supervisory agencies.	Chile's is a very recent FSAP. The Capital Markets Reform II legislation has addressed some of the findings on corporate issues, insurance, and cross-sectoral financial oversight. Market risk regulations have been introduced, commercial banks' restrictions to enter into derivative activities have been relaxed, and the legal protection to supervisors is being discussed in congress.	Senior officials indicated that they were already well aware of the issues raised in the FSAP, but that it contributed by providing a comprehensive view and a sense of priority and importance. Authorities reported that the FSAP was useful at a time when the central bank was setting up the <i>Financial Stability Report</i> .
Costa Rica (3/2003)	The FSAP contributed to interagency coordination efforts, to discussions with financial sector participants, and in informing discussions with legislators.	Political gridlock has historically interfered with a speedy reform process. The government submitted comprehensive legislation promoting financial reforms after the FSAP, but the legislation failed to pass in congress. Subsequently, the government has submitted some measures through piecemeal legislation.	Senior officials indicated that the FSAP findings and recommendations, as well as discussions by the FSAP team with various authorities, contributed to the piecemeal work after the failed attempt at a comprehensive financial reform.
Dominican Republic (5/2002)	Limited initial contribution as authorities did not fully share the FSAP's main findings and the sense of priority and importance. Substantial contributions during the program negotiations after the crisis.	Some FSAP recommendations were implemented in the postcrisis period, including a draft Monetary and Financial Law.	Financial crisis erupted following the FSAP, and attention was on crisis management. FSAP staff indicated that it contributed to improving the draft banking law.
Egypt (11/2002)	FSAP findings (e.g., on insurance) have been used by incoming officials as inputs in their discussions and formulation of sectoral reform agendas.	Reform progress has gathered momentum since mid-2004, including the enactment of new banking sector legislation, recapitalization of state banks, and appointment of new management, unification and floating of exchange rate, and announcement of a broad reform plan for the financial sector.	According to senior officials, the FSAP helped to raise the authorities' awareness of the need to assess the condition of state-owned banks and for wide-ranging financial sector reforms. In so doing, it helped rekindle the momentum for financial sector reform. The authorities indicated that the FSAP findings and recommendations were used as background for the formulation of the government's Financial Sector Reform Plan launched in mid-2004.
Germany (11/2003)	The FSAP contributed to a significant for public discussion of banking consolidation issues. It also raised some "taboo" issues in the insurance sector.	Stress testing started to be included regularly in the <i>Financial Stability Report</i> .	An official said the increased emphasis on stress testing was already under way, but the FSAP contributed to the momentum. The FSAP helped in the effort to create a new law on reinsurance companies.

Table A10.1 (continued)

Country (Date of FSAP Completion)	Contribution to Policy Discussions	Evidence on Contribution to Policy and Institutional Changes ¹	Policy Process in General
Ghana (6/2001)	The authorities indicated that the FSAP played a catalytic role in authorities' discussions on financial sector issues. It also provided a platform for policy discussion with the international financial institutions on financial sector matters.	Legislation was enacted granting independence and setting a narrower set of objectives to the central bank. But there has been little progress in the recapitalization of the central bank, the portfolio management practices of the social security administration, and the framework for contract and collateral enforcement. The exposure of banking system to a single major borrower was reduced, while its debt was restructured.	The authorities indicated that the FSAP served as a wake-up call, and helped build up consensus, for a timely adoption of corrective actions to tackle impending problems in the banking system. It provided an important building block in the development of the authorities' Financial Sector Strategic Plan.
India (6/2001)	The authorities indicated that the FSAP contributed to raising awareness of risks, informing authorities' discussions, and opening a space for coordinating different agencies' views and positions (Reserve Bank of India, Ministry of Finance, and state regulators).	There has been a gradual reform process involving a change in the paradigm of financial sector organization (from command and control to a more market structure) and regulation and supervision—a process that began before the FSAP and has continued thereafter.	According to senior officials, the FSAP served as a confidential second opinion to the authorities' reform plans—buttressing the case for reforms. The mere existence of the initiative stimulated the authorities to pursue reform efforts further and show progress in the assessment. But none of the specific actions taken can be attributed to the FSAP; internal self-assessments also played a significant role.
Ireland (8/2000)	The FSAP contributed to the debate on whether to create a single supervisory agency (IFSRA) under the umbrella of the central bank or Greenfield.	The IFSRA was created under the central bank's umbrella. Stress testing has been used more intensively for monitoring the household sector. Supervision of insurance sector shifted to risk-based assessments from exclusive focus on consumer protection.	Senior officials said the FSAP recommendations had a significant influence on the institutional location of the IFSRA and contributed importantly to the debate on insurance sector supervision.
Japan (8/2003)	The authorities considered that the FSAP contributed to greater international understanding of Japan's financial sector situation including a greater dissemination of knowledge about actual practices. A number of senior officials also indicated that it contributed to inform the dialogue between key agencies, but others expressed skepticism about its contribution to the domestic policy dialogue.	There has been good progress with the stock problem of nonperforming loans in large systemic banks. There has also been more accurate reporting of data and better risk management frameworks, amid tighter oversight by the Financial Services Agency. The adoption of changes in the corporate governance framework has been slower.	There are different views among senior officials on whether the FSAP contributed to informing the policy dialogue. Some expressed the view that there was too little discussion during the FSAP process about recommendations and policy alternatives that could better conform to country conditions and that therefore the overall impact was limited. Some others had a more positive assessment. All agreed that the most significant contribution to the domestic debate had come from the opportunity to have discussions on the assessment with respected experts.
Jordan (4/2004)	The FSAP influenced the thinking of a small group of key policymakers that had limited impact on discussions among various agencies and regulators because circulation of the report was highly controlled. There were no public discussion as the FSSA was not published.	Progress areas include the regulation for prompt corrective actions, bank corporate governance, a new manual on licensing banks, the conduct of regular stress testing by the Central Bank of Jordan, assessment of country risk in evaluation of banks, and other segments (payment systems, insurance sector, and securities markets).	According to senior officials, the FSAP made a very positive contribution to the momentum for reforms, to setting reform priorities, and to solidifying a culture of financial stability.

Table A10.1 (continued)

Country (Date of FSAP Completion)	Contribution to Policy Discussions	Evidence on Contribution to Policy and Institutional Changes ¹	Policy Process in General
Kazakhstan ² (12/2000)	The FSAP helped to build a road map of reforms for the capital market development.	There have been enhancements of banking supervisory powers. Consolidated prudential norms were introduced. A new regulatory framework for securities was implemented in 2003. Since 2005, International Accounting Standards are compulsory for financial institutions. A new insurance legislation was adopted in 2000 to better observe international practices. The payment system has been further reformed. A Financial System Authority was created.	Senior officials noted that the FSAP provided an impact to the various financial sector reforms as well as a broad road map of the necessary steps to develop the capital market. Subsequent IMF-supported program contributed to the development of more specific action plans.
Korea (3/2003)	According to the authorities, the FSAP contributed to strengthening the reform agenda within the government, and recommendations influenced discussions among various agencies. The FSAP contributed to explaining reforms needed and to support the position of the government in the National Assembly.	There has been important progress in reform implementation (e.g., Bank of Korea Act, payment system). There are still pending issues including the unification of supervisory functions and further advancing with risk-based supervision.	Senior officials expressed the view that the FSAP, as an expert review, contributed to the credibility of the authorities' reform program. It also helped with the prioritization of the reform agenda. The FSAP was an important contribution to the authorities' thinking about the nature of risks and regulation (e.g., in insurance and banking). According to officials, the FSAP also contributed to fending off pressures on directed credit to SMEs.
Mexico (8/2001)	Authorities said that the FSAP contributed to the government's internal debate on development banks, crisis resolution, and improvement in the management of the deposit insurance system.	Progress includes approval of the People's Savings and Credit Law, approval of the Securities Market Law, approval of the new Investment Fund Law, creation of a Federal Housing Institution, overhaul of development banks, reforms of credit institutions law, strengthening of bank regulation and supervision by enhancing the mandate of the Comisión Nacional Bancaria y de Valores, reforms to the pension system law, amendments to bank's capitalization requirements, approval of a law that regulates the operation of credit information institutions, approval of a law that regulates the operation of a new bankruptcy law, and approval of other reforms to promote development of institutional investors (with an environment of higher accountability and transparency).	According to senior officials, the FSAP served as a confidential advisor to the authorities, helping them to discuss their proposed reform agenda in a comprehensive manner with an expert team. They viewed the high-level discussions at the end of the FSAP mission, rather than the report itself, as having the most important impact. The timing of the FSAP mission (early on in the term of the new government, at the authorities' request) was an important factor contributing to the positive effect of the FSAP.
New Zealand (4/2004)	The FSAP helped to generate momentum for financial reform, and served to get the attention of authorities of the government and Reserve Bank. On many occasions, the Governor and the Finance Minister have used the FSAP findings in public speeches.	New Zealand's is a recent FSAP. Regular publication of the <i>Financial Stability Report</i> was started, including the use of stress testing. The areas of recent work by the Reserve Bank include (1) strengthening the ability to monitor risks by adopting a framework for independent reviewers of banks' systems and controls; (2) reviewing the disclosure regime, which includes a framework for strengthening market discipline; and (3) enhancing the capacity to manage financial stresses by operationalizing the Reserve Bank's lender of last resort role and determining options for responding to bank failures.	Authorities indicated that FSAP recommendations were a useful contribution to set the agenda for reforms in the banking sector. The Reserve Bank Governor adopted the FSAP recommendations as a road map for further improvements in the financial sector, and requested periodical updates of the state of implementation of the recommendations.

Table A10.1 (continued)

Country (Date of FSAP Completion)	Contribution to Policy Discussions	Evidence on Contribution to Policy and Institutional Changes ¹	Policy Process in General
Philippines (9/2002)	It is unclear whether the FSAP had any significant impact on policy discussions.	There has been little progress with enacting reform legislation on prompt corrective action powers and protection of supervisors. But stress testing is now part of supervision practices.	According to authorities, reform plans for the securities and exchange commission have drawn from the IOSCO assessment as input.
Romania (11/2003)	According to authorities, the FSAP encouraged discussion of financial stability issues within the government, but there was no significant public debate on the matter.	There is greater focus on stability issues and the overall financial system; and more attention to staff and building expertise. The central bank has been reorganized (new department and staff dedicated to financial stability issues). Stress testing is now a regular feature of supervision. The regulatory framework for credit unions has been amended. Progress has been made in implementing the new banking law (on consolidated approach, corporate governance, bank internal controls, and definition of past due loans).	Authorities noted that the FSAP supported them in promoting attention on financial system stability. Authorities indicated that FSAP contributed significantly to securities regulation.
Russia (5/2003)	A press conference was held after the FSAP. According to authorities, FSAP results were used in discussion within the central bank, and in discussions in parliament to pass legislation.	There was a change in regulations concerning large exposure, connected lending, consolidated supervision, and amendment to the method for computing bank capital. Bankruptcy regulations were also changed. Supervision at the central bank started using regularly stress testing, and improving on methodology. Reform of accounting practices toward International Accounting Standards has received new momentum. Adoption of payments system action plan and implementation of Real Time Gross Settlement system.	Senior officials indicated that, although most issues were not new to them, the FSAP contributed significantly to the momentum for financial sector reforms. FSAP findings contributed to central bank's "Strategy of Banking System." They also said that improvements in use of stress-testing approaches as part of supervision stemmed directly from the FSAP.
Singapore (3/2004)	While issues raised in FSAP were not new to the authorities, the FSAP did contribute to increased discussion of them, especially within the Monetary Authority of Singapore.	According to senior officials, the adverse effects of the Central Provident Fund interest rates on the development of the life insurance market have started to be corrected. Authorities began to publish a Financial Stability Report, and stress testing is conducted regularly as a part of the exercises. Local capital requirements for banking sector were reviewed. A new risk based capital framework for the insurance industry was implemented.	According to senior officials, most FSAP recommendations have been implemented but they expressed that this should not be attributed the FSAP per se.
Slovenia (5/2001)	Senior officials indicated that the FSAP contributed to discussions at the central bank and among various agencies and institutions (e.g., on dynamic provisioning), and to inform the dialogue with parliament. There was little public discussion.	A Stability Unit (in charge of stress testing) was established in the central bank. There has been broad implementation of recommendations, including on connected lending, large exposures, market risk regulation, and governance criteria. Payments systems were upgraded.	According to authorities, the FSAP provided significant support to the authorities' reform initiatives in parliament. Other important contributing factors to the reform momentum include the EU accession and entering into ERM2 system.

Table A10.1 (concluded)

Country (Date of FSAP Completion)	Contribution to Policy Discussions	Evidence on Contribution to Policy and Institutional Changes ¹	Policy Process in General
South Africa (2/2000)	Authorities viewed the FSAP as part of their broader efforts to promote credibility by encouraging greater transparency of their policies and institutions.	Procedures for consolidated supervision were strengthened. Stress testing began to be conducted on a regular basis and regular publication of a financial stability report began.	According to senior officials, the FSAP was useful in providing an integrated analysis and recommendations across the whole financial sector. Reserve Bank officials expressed the view that most reforms would have happened in any case, but that the FSAP helped accelerated the pace in some areas.
Sri Lanka (9/2002)	According to authorities, the FSAP assisted discussions within the central bank and contributed to coordination with other agencies. It helped to increase transparency of the policy stance.	Progress has been made in several areas: prudential norms were strengthened, banking supervision was enhanced, and financial indicators were improved across the entire banking system (including for the two large state-owned commercial banks).	Senior officials indicated that the FSAP was helpful to identify and raise awareness of vulnerabilities, to prioritize measures, and to support the reform momentum.
Tunisia ² (6/2002)		Progress has been slow (including on the restructuring of state banks facing continued non-performing loan problems) amid preference for gradual reform efforts.	

¹Policy and institutional changes refer to the identification of outcomes; it does not imply any attribution to the FSAP.

²A blank space indicates that evidence could not be obtained; it does not imply that there has been no impact.