

Additional Information on Assessment of FSAP Updates

This annex presents the supporting analysis for the key messages on FSAP Updates that have been incorporated in the main report (see Box 4.3). The evaluation has analyzed all 11 Updates (completed by June 2005) of post-pilot FSAPs. The Updates for the countries that had the FSAP in the pilot phase were not considered since they may have been driven by factors specific to the inception of the initiative (e.g., FSSAs for pilot cases could not be published, even upon the request of country authorities). To conduct the desk reviews, a streamlined template was used based on the one applied in the detailed analysis of the 25 country studies. No additional interviews were held with staff or country authorities.¹

The exercise has sought to provide evidence on two main aspects: (1) it analyzed what Updates have done so far in terms of the nature of the exercise (focused versus comprehensive reassessments), stock taking (assessment of implementation of reforms), and the extent to which they have taken a fresh look at vulnerabilities; and (2) it assessed the institutional use and integration with surveillance in Article IV consultations (see Table A7.1).

The issue of country selection for Updates is covered in the analysis of the priority-setting process (see Annex 4).

¹Three of the countries with Updates were covered in the 25

case studies. For these countries, interviews with staff and authorities did cover their experience with the Updates.

Table A7.1. Assessment of FSAP Updates

Country (Financial Year)	Nature of the Assessment in the Update ¹	Extent of Stocktaking and Tracking of Implementation ²	Degree to Which the Update Took a Fresh Look at Vulnerabilities	Integration with Surveillance and Coverage of Recommendations
Iceland (FY2003)	<p>Focus is on stocktaking, with a particular emphasis on the reassessment of the BCP.</p> <p>The Update discussed the bulk of the financial system (although the team consisted of only 2 staff).</p> <p>A clear description of the rationale for the scope of the Update was lacking.</p>	<p>Stocktaking is most in depth in the case of the BCP and CPSS core principles (with recommendations centering on the former).</p> <p>There is an overall assessment of progress (even though several sectors received only a general coverage).</p>	<p>The FSSA provided an assessment of the external indebtedness of the Icelandic financial system (this topic was covered more in depth in an Annex to the 2003 Article IV Staff Report).</p>	<p>The accompanying Article IV Staff Report and PIN reflected the Update's main findings and recommendations.</p> <p>Prioritization and sequencing of recommendations are minimal.</p>
Ghana (FY2004)	<p>The Update has primarily a developmental perspective and presents findings and recommendations along three broad themes: competition, integrity, and fairness. But it has also a strong coverage of stability issues.</p>	<p>The tracking of implementation carefully covers the recommendations of the FSAP, and reports on the reasons for lack of progress.</p> <p>The FSSA presents a clear and candid overall appraisal of progress in implementation.</p>	<p>The emphasis of the Update is not on taking a fresh look at vulnerabilities (stress testing is replicated from the FSAP).</p> <p>But the analysis includes some topics that were not addressed in the FSAP (e.g., the effects of fiscal consolidation on bank profitability).</p>	<p>There is a cursory mention of the Update's findings in the Staff Report of the Article IV.</p> <p>However, accompanying program documents draw significantly from the Update.</p> <p>The PIN is cursory on financial sector issues and does not refer to the Update.</p> <p>The key recommendations are clear, well grounded in the analysis, and fairly specific in some cases.</p>

Table A7.1 (continued)

Country (Financial Year)	Nature of the Assessment in the Update ¹	Extent of Stocktaking and Tracking of Implementation ²	Degree to Which the Update Took a Fresh Look at Vulnerabilities	Integration with Surveillance and Coverage of Recommendations
Slovenia (FY2004)	<p>The Update was comprehensive with a broad overall assessment.</p> <p>There is no explicit rationale for the scope and timing of the exercise (Slovenia's entrance into the EU and ERM2 has likely played a significant role).</p>	Tracking of recommendations is in depth (but does not provide reasons for lack of progress).	The Update incorporates a rather detailed fresh look at vulnerabilities (e.g., the housing market, corporate governance, and macroeconomic risks linked to the entrance into ERM2).	<p>The Article IV Staff Report integrates the Update well (the main findings and recommendations are included in a section on financial sector issues and in the staff appraisal).</p> <p>The PIN reports the main Update messages.</p> <p>Prioritization is good (with high specificity and detail of recommendations).</p>
Kazakhstan (FY2004)	<p>This exercise provides a comprehensive assessment of the financial sector, including banks, insurance companies, pension funds, and securities market.</p> <p>The Update has an emphasis on assessing what has happened since the FSAP.</p> <p>The FSAP was not very explicit about the rationale behind the timing and coverage of the exercise.</p>	The Update reports on implementations of reforms. It provides a fairly in-depth update of reforms in the banking sector, while for other sectors there is more mechanical reporting.	Some new challenges are analyzed, but generally the coverage was similar to that of the FSAP. Stress testing did not improve on the methodology used in the FSAP.	<p>Discussions of the Update in the Article IV Staff Report are only cursory (it only mentions the creation of the FSA). The PIN mentions only briefly the Update.</p> <p>The FSAP presented a wide range of poorly prioritized recommendations, and the Update does not provide a clearer order of the previous and new recommendations.</p>
El Salvador (FY2004)	<p>The reassessment is rather focused, with coverage of the banking sector, cross-border operations, payments and securities settlement, and central bank functions. On development issues, it covered microfinance.</p> <p>No rationale for the scope of the exercise was presented.</p> <p>The report presented an overall assessment of the financial sector standing, despite that the scope of analysis was rather focused.</p>	<p>The analysis of progress in implementation of reform was in depth for the core sectors of focus. Other financial segments received a more mechanical reporting on implementation.</p> <p>There is no overall assessment of progress in implementations.</p>	<p>Some new vulnerabilities are included, but the emphasis is placed on topics that were covered previously.</p> <p>Stress tests are largely similar.</p>	<p>Main findings and recommendations covered in Article IV reports. The PIN makes a general mention of the financial sector being generally in good health.</p> <p>Prioritization is not prominently discussed in the report.</p>
Senegal (FY2005)	This is a focused Update. The terms of reference indicate that development issues will be the main focus.	<p>The Update provides in depth follow-up on selected sectors: banking, microfinance, and legal issues. FSAP recommendations on other (smaller) sectors (insurance and pensions) are not followed up.</p> <p>There is limited explanation on the reasons for the lack of progress.</p>	Stress tests are more elaborated than in the FSAP, but cover the same type of risks.	<p>The Article IV Staff Report has limited coverage of the Update. The PIN does not mention the Update.</p> <p>Prioritization of recommendations is weak.</p>

Table A7.1 (continued)

Country (Financial Year)	Nature of the Assessment in the Update ¹	Extent of Stocktaking and Tracking of Implementation ²	Degree to Which the Update Took a Fresh Look at Vulnerabilities	Integration with Surveillance and Coverage of Recommendations
Colombia (FY2005)	<p>The exercise has a broad coverage and the emphasis on stability and development issues is more balanced than in the FSAP (which focused on stability in the aftermath of financial turmoil). The Update is to a good extent a stocktaking exercise.</p> <p>No explicit rationale is mentioned for the timing and scope of the Update.</p>	<p>The analysis of progress in implementation of reforms is generally thorough. The reasons for lack of progress are generally well explained.</p> <p>No specific overall assessment of progress in implementations.</p>	<p>Efforts to capture new vulnerabilities were somewhat limited. Stress tests are largely similar to those in the FSAP.</p>	<p>The most important findings and recommendations are reported in the Article IV Staff Report. The PIN also presents the main messages.</p> <p>Prioritization is reasonably well done.</p>
Peru (FY2005)	<p>Overall, the Update provides comprehensive analysis of the issues raised in the FSAP, and of remaining vulnerabilities and developmental needs.</p> <p>The report indicates that, since the FSAP had focused on the resolution of financial sector problems, the Update would cover remaining stability and developmental issues.</p>	<p>The tracking of implementations is in depth, although findings are scattered through the document.</p> <p>The Update provides reasons for areas with a lack of progress.</p>	<p>The Update covers remaining vulnerability, but the implications of recent developments in the banking sector are not followed up in the analysis of risks.</p>	<p>The Update is adequately discussed in the second review of the Stand-By Arrangement. The PIN also conveys the main messages in the Update.</p> <p>Prioritization is somewhat weak; e.g., the overall assessment does not indicate the priority actions.</p>
Armenia (FY2005)	<p>The assessment is fairly comprehensive, taking into consideration the small size of the financial system (especially outside of the banking sector).</p> <p>The Update has a balanced focus on stability and development. The latter includes a detailed analysis of non-bank financial sector development</p>	<p>There is detailed tracking of implementation of FSAP recommendations. Progress is reported, but the reasons for lack of advancement are not always provided.</p>	<p>Some new sectors were covered: pension system and housing finance.</p> <p>The Update captured newly emerging risks related to the rapid credit growth and the monetary consequences of remittances.</p>	<p>The findings and recommendations have a prominent place in the accompanying PRGF document. The Update's main conclusions are well embedded in the document.</p> <p>Although the Update provides some sense of urgency, the list of recommendations appears too long for effective prioritization.</p>
Hungary (FY2005)	<p>The Update's nature comes close to a full reassessment, with the overall appraisal covering the broad financial system.</p> <p>The report was not very explicit about the rationale for selection and scope (the accession into the EU and ERM2 likely played a role).</p>	<p>The tracking of implementations of reforms is comprehensive across the sectors and standards and codes assessed in the FSAP.</p> <p>But the degree of depth across sectors varies, and the reasons for lack of progress are not provided.</p>	<p>A new look at vulnerabilities identified new risks (e.g., the growth of the nonbanking sector; the rapid growth of unhedged foreign currency borrowing by households and small and medium-sized enterprises (SMEs).</p>	<p>The coverage of findings and recommendations in the Article IV Staff Report is limited. The PIN only reflects on the risks from household and SME borrowing.</p> <p>Although recommendations are clear, prioritization is limited to a time classification of medium and long term.</p>

Table A7.1 (concluded)

Country (Financial Year)	Nature of the Assessment in the Update ¹	Extent of Stocktaking and Tracking of Implementation ²	Degree to Which the Update Took a Fresh Look at Vulnerabilities	Integration with Surveillance and Coverage of Recommendations
Uganda (FY2005)	<p>The Update focuses on developmental aspects to improve financial intermediation, but also pays attention to overall financial stability.</p> <p>There is little discussion of the rationale behind the timing and scope of the exercise (the Update was conducted relatively soon after the FSAP).</p>	<p>The tracking of implementation of reforms is thorough and tends to provide the reasons when there is lack of progress.</p> <p>There is a concise overall assessment of progress in implementation of FSAP recommendations.</p>	<p>The Update does not explicitly conduct an assessment of new vulnerabilities.</p> <p>The stress testing is somewhat more sophisticated than in the FSAP.</p>	<p>The discussion of Update findings and recommendations in the accompanying PRGF review covers the most important findings. The coverage in the Article IV report is minimal (largely limited to a Selected Issues paper). The PIN discusses the main findings and recommendations.</p> <p>Prioritization of recommendations is largely limited to a classification of medium and long term (except those for the pension system that provide guidance on sequencing).</p>

¹This includes whether the Update was a focused or fuller reassessment (in terms of scope and depth), and what was the balance between stocktaking and new assessments and between stability and development aspects.

²The review comprised what was the level of detail of analysis and whether there was an overall assessment of progress in implementation of reforms, including their significance in addressing the vulnerabilities that the FSAP had identified.