



# Financial Sector Stability Fund (FSSF)

Strengthening financial sector stability globally

## Rationale

Financial stability and financial inclusion are critical to long-term growth and development. Systemic stability is a necessary condition for the financial sector to act as intermediary channelling savings into productive investments. To sustain growth of the real economy in the long run, however, the financial sector needs to deepen and include more companies and individuals in growing their businesses and optimizing long-term consumption and investment choices. Financial inclusion has been demonstrated to reduce inequalities and is a key requirement for inclusive growth. Policy makers, as a result, face the challenging task to pursue two equally important objectives. As such, they aim to expand financial services to previously unbanked populations and businesses, while regulating the financial sector in order to prevent asset bubbles and financial crises disrupting economic activity.

## Objectives and activities

Financial Sector Stability Reviews (FSSR) assist low and middle-income countries in identifying and addressing weaknesses in financial stability frameworks. The main objective is to help countries establish sound prudential frameworks and safety nets, which are essential for minimizing the risks that may come with financial inclusion and deepening. The program is delivered through two independent but mutually reinforcing modules:

1. The financial sector reform module will provide baseline diagnostic assessments highlighting key weaknesses in financial systems and institutional capacities, and setting out prioritized action plans for well-sequenced financial sector reforms including follow-up assistance. As a result of the work under the financial sector statistics module, it is expected that policy makers have access to key data, enabling them to assess financial sector stability risks and vulnerabilities, as well as interconnectedness of sectors within an economy.

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Country/region

Global

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Executing agency

International  
Monetary Fund

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Partners

China, European  
Investment Bank,  
Germany, Italy,  
Luxembourg, Saudi  
Arabia, Sweden,  
Switzerland, United  
Kingdom

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Duration

2017-2021

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Total budget

USD 30 million

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SECO contribution

CHF 4 million

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2. The financial sector statistics module is comprised of two complementary work streams.
  - a. The Financial Soundness Indicators (FSI) work stream is intended to strengthen the capacity of participating countries to compile and disseminate FSIs. The FSI assess the structure, health and resilience of the financial sector. The assessment is essential for stress testing, detecting financial sector risks and vulnerabilities, and formulating macro-prudential policies. The FSI are listed as an indicator of the Sustainable Development Goals.
  - b. The Balance Sheet Approach (BSA) work stream aims to support participating countries in developing a consistent framework to compile critical balance sheet data in different sectors. Balance sheet data includes assets and liabilities – for instance debt, outstanding credit and foreign reserves – at a certain point in time, and helps to identify and quantify different fragilities such as liquidity, default and currency risks. Financial balance sheet vulnerabilities played a big role in the build-up of the global crisis, and as a result the BSA has increasingly become important for the IMF surveillance work.

### **Governance structure**

The initiative is implemented as a multi-donor trust fund. Work of the FSSF is guided by a Steering Committee (SC) composed of development partner representatives and IMF staff, with the World Bank (WB) as observer. The SC is chaired by a development partner representative, with the possibility of rotating the chairpersonship among partners. SC's function is to provide strategic guidance and contribute to the setting of policies and priorities, including through the endorsement of an annual work plan. The SC reviews progress under the work plan as well as performance under the program.

### **Results so far**

Since the FSSF's inception in November 2017, ten FSSR diagnostics have been completed, six more are in train making solid progress, and 27 technical assistance missions and workshops on financial sector statistics have been conducted to date. Further, investment in financial sector statistics is coming to fruition. Technical assistance has helped bring the total number of low and middle-income countries reporting to the IMF's FSI database to 51, on track to achieve the targeted quasi-universal coverage of the mentioned country income group by the end of the FSSF cycle. Technical assistance on statistics in support of the BSA has enabled an increasing number of low and middle-income countries to undertake cross-sectoral spill-over and risk analysis.

### **How to get involved**

Interested countries should contact the local IMF resident office.

### **Further information and contact details**

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