



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

FSSRs 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 will be 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.

Country/region

Global

Executing agency

International
Monetary Fund

Partners

United Kingdom, Italy,
China, Saudi Arabia,
United Kingdom,
European Investment
Bank,

Duration

2017-2021

Total budget

USD 30 million

SECO contribution

CHF 4 million



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 will be implemented as a multi-donor trust fund. Work of the FSSF will be guided by a Steering Committee (SC) composed of development partner representatives and IMF staff, with the World Bank (WB) as observer. The SC will be 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 will review progress under the work plan as well as performance under the program.

Results so far

The trust fund only started implementation in 2017. Results are expected to be reported toward the end of 2018.

How to get involved

Interested countries should contact the local IMF resident office.

Further information and contact details

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