I Overview

Substantial progress has been made during recent years in forging a consensus on the importance of strengthening the architecture of the international financial system. The international community, acting through various forums, has identified a number of priorities in this work, including the need to enhance its own—and the markets'—ability to assess the strengths and vulnerabilities of financial systems, and to develop the analytical and procedural tools needed to perform this task. In particular, the importance of assessing the soundness of financial systems as part of the IMF's surveillance work was given prominence by the Group of Twenty-Two finance ministers and central bank governors in the *Report of the Working Group on Strengthening Financial Systems* in October 1998. The working group recommended that financial sector surveillance be anchored to the IMF surveillance process, with expert support from the World Bank and elsewhere. This process is now well under way as part of the joint World Bank-IMF Financial Sector Assessment Program (FSAP), and the related Financial System Stability Assessments (FSSAs).[1] The development and possible dissemination of so-called macroprudential indicators (MPIs)—defined broadly as indicators of the health and stability of financial systems—have been encouraged recently by both the Group of Seven (G–7) and the IMF Interim Committee.[2] Such indicators will be critical in producing reliable assessments of the strengths and vulnerabilities of financial systems as part of IMF surveillance, and to enhancing disclosure of key financial information to markets.

[1]The FSAP was launched jointly with the World Bank on a pilot basis in May 1999. The program is designed to identify financial system strengths and vulnerabilities and to help develop appropriate policy responses. The FSSA reports, which focus on financial system issues of significance for macroeconomic performance and policies, are prepared on the basis of the FSAP by IMF staff for discussion in the IMF Executive Board, within the context of Article IV surveillance. In the World Bank, the FSAP reports provide the foundations for the formulation of financial sector development strategies.

[2]See United States, Department of the Treasury (1999) and International Monetary Fund (1999a).

This paper aims to take stock of current knowledge in the area of MPIs—notably, analytical, identification, and measurement issues—with a view to providing reference material for national authorities, the private sector, and other users of MPIs. The paper also looks at issues related to the use of MPIs in IMF surveillance, and their dissemination either through the IMF Special Data Dissemination Standard (SDDS), or in other ways. In particular, the paper looks at:

- the MPIs that could be used most effectively by the IMF in its surveillance work under Article IV of the IMF's charter and within the framework of the FSSAs;
- the modalities and options for the compilation of such data; and
- the possible dissemination of MPIs to the public, including through the SDDS.

This paper has benefited from feedback provided during a consultative meeting on macroprudential indicators and data dissemination, which was held at IMF headquarters on September 10–11, 1999.[3] The objectives of this outreach meeting were to discuss experiences of member countries and the international community in identifying and using MPIs for analyzing financial sector soundness, and to consider possible modes of disseminating these indicators to the public. Participants in the consultative meeting included high-level experts from central banks, supervisory agencies, international financial institutions, academia, and the private sector (banks, investment funds, rating agencies). IMF management, senior staff, and representatives of the Executive Board also participated. The main conclusions of the consultative meeting are summarized in Box 1.

One difficulty with identifying MPIs for use in surveillance work is that the research conducted so far has not produced a consensus on a core set of indicators. This is, in part, because different indicators may be relevant in different circumstances. It may

[3]See Hilbers, Krueger, and Moretti (1999) for details.

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also reflect the short time that analytical work in this area has been done. In any case, this has meant that the initial set of MPIs that the IMF is experimenting with, in its strengthened surveillance of financial sectors, has been identified as much through past experience in the field as through research.

Box 1. Main Conclusions of the Consultative Meeting on Macroprudential Indicators and Data Dissemination

The main conclusions reached by the participants of the September 1999 consultative meeting are summarized below:

Identification, Analysis, and Use of MPIs

- While work on identifying and measuring MPIs has advanced substantially in recent years, knowledge in this area is still limited and more research and analysis is needed. In particular, there is no consensus on a model for determining the vulnerability of a financial system or on a set of widely accepted MPIs.
- Prioritization among MPIs and the selection of a core set of indicators is desirable. Use of a single composite indicator, however, would be overly simplistic and could be misleading.
- Analyses of financial sector vulnerability cannot rely on quantitative indicators alone. Qualitative information on institutional circumstances, combined with informed judgment, is also essential.
- There is a need to: (1) improve the quality of accounting practices in many countries; (2) assess the health of nonbank financial institutions and of the corporate sector; (3) address the limitations of aggregating microprudential information to obtain MPIs; (4) develop benchmarks and norms for the indicators; and (5) use stress tests as part of a forward-looking approach to macroprudential analysis.

Measurement and Data Dissemination Issues

- Efforts should be directed toward a greater harmonization of MPIs in terms of coverage, periodicity, timeliness, and public access.
- No single set of MPIs is currently being disseminated by a group of countries or seen as superior to other sets.
- National authorities differ in their approaches to the dissemination of data on the financial system, and no clearly identifiable set of best practices for dissemination of MPI data has emerged. While there is a presumption that disclosure of information promotes market discipline, there remain inevitable confidentiality concerns, notably about releasing information on individual institutions.
- Given the substantial work ahead in crafting a core set of MPIs, it would be premature to include MPIs within the SDDS, though consideration should be given to how to provide national authorities with incentives to compile and disseminate MPIs.
- It would be useful to conduct a survey of national supervisors, statistical authorities, and users to evaluate prospects for compiling MPIs, in view of the complex questions raised about the scope of macroprudential work and the technical feasibility of compiling MPIs.

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