Press release

Press enquiries: +41 61 280 8188
press@bis.org
www.bis.org

Report on the assessment of the macroeconomic impact of stronger capital requirements for G-SIBs

The Financial Stability Board (FSB) and Basel Committee on Banking Supervision (BCBS) released an assessment of the macroeconomic costs and benefits of proposals for higher loss absorbency for global systemically important banks (G-SIBs).

The assessment, produced by the joint FSB-BCBS Macroeconomic Assessment Group (MAG) in close collaboration with the International Monetary Fund, is summarised in the MAG's report, *Assessing the macroeconomic impact of higher loss absorbency for global systemically important banks*. The report provides an assessment of the transitional impact of the implementation of the stronger requirements set out in the Basel Committee's consultative document on additional G-SIB loss absorbency released in July. The assessment builds on the MAG's report from 2010 on the transitional macroeconomic costs of the Basel III framework, as well as on the August 2010 BCBS report, *An assessment of the long-term economic impact of stronger capital and liquidity requirements*, which assessed the net economic benefits and costs of stronger capital and liquidity reforms once implementation is complete.

The MAG assessment concludes that the transition to stronger capital standards on G-SIBs is likely to have at most a modest impact on aggregate output, while the benefits from reducing the risk of damaging financial crises will be substantial. Raising capital requirements on an illustrative group of potential G-SIBs by one percentage point over eight years is estimated to lower GDP by less than one one-hundredth of a percentage point (0.01%) per year during the implementation period. The primary driver of this macroeconomic impact is an estimated increase of lending spreads of between 5 and 6 basis points. The overall impact of the Basel III proposals (which apply to all banks) and the G-SIB framework is also quite small, with GDP at the point of peak impact projected to be lower by 0.34% relative to its baseline level. Roughly four one-hundredths of a percentage point (0.04%) are subtracted from annual growth during this period, while lending spreads rise by around 31 basis points.

The permanent benefits of the G-SIB framework arise from the reduced likelihood of systemic crises that can have long-lasting effects on the economy. The MAG estimated that the Basel III and G-SIB proposals combined contribute a permanent annual benefit of up to 2.5% of GDP – many times the costs of the reforms in terms of temporarily slower annual growth.

As with any economic analysis, these results rest on a number of assumptions, including about the role of G-SIBs in the financial system and about how banks will go about meeting stronger requirements. The report reviews a number of alternative assumptions and concludes that they would not affect the overall conclusions. Many of these assumptions apply equally to the costs and benefits of higher capital levels. For example, it could be argued that G-SIBs play a unique role in the economy, so the transitional macroeconomic impact of their adjustment to higher capital levels should be greater than what is estimated here. But if this is the case, then the benefits from strengthening their balance sheets, and thereby reducing the risk of a devastating financial crisis, should be greater as well.

About the Financial Stability Board

The Financial Stability Board has been established to coordinate at the international level the work of national financial authorities and international standard setting bodies and to develop and promote the implementation of effective regulatory, supervisory and other financial sector policies. It brings together finance ministers, central banks, supervisors and regulators responsible for financial stability in 24 jurisdictions, international financial institutions, sector-specific international groupings of regulators and supervisors, and committees of central bank experts.

The FSB is chaired by Mario Draghi, Governor of the Bank of Italy. Its Secretariat is hosted by the Bank for International Settlements.

About the Basel Committee

The Basel Committee on Banking Supervision provides a forum for regular cooperation on banking supervisory matters. It seeks to promote and strengthen supervisory and risk management practices globally. The Committee comprises representatives from Argentina, Australia, Belgium, Brazil, Canada, China, France, Germany, Hong Kong SAR, India, Indonesia, Italy, Japan, Korea, Luxembourg, Mexico, the Netherlands, Russia, Saudi Arabia, Singapore, South Africa, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States. The Committee’s Secretariat is based at the Bank for International Settlements.