Press release

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Assessment of the macroeconomic impact of stronger capital and liquidity requirements

The Financial Stability Board (FSB) and Basel Committee on Banking Supervision (BCBS) today published reports prepared as inputs to the calibration of the new bank capital and liquidity standards and to inform the transition arrangements for implementation of the new standards.

The two reports are *An assessment of the long-term economic impact of stronger capital and liquidity requirements,* prepared by the Basel Committee, and *Assessing the macroeconomic impact of the transition to stronger capital and liquidity requirements,* the interim report of the joint FSB-BCBS Macroeconomic Assessment Group (MAG). Together, the two reports provide an assessment of both the net economic impact of stronger capital and liquidity reforms once implementation is complete and the macroeconomic implications during the transition to full implementation.

The Basel Committee's assessment of the long-term economic impact finds that there are clear net long-term economic benefits from increasing the minimum capital and liquidity requirements from their current levels in order to raise the safety and soundness of the global banking system. The benefits of higher capital and liquidity requirements accrue from reducing the probability of financial crisis and the output losses associated with such crises. The benefits substantially exceed the potential output costs for a range of higher capital and liquidity requirements.

The FSB-BCBS MAG assessment of the macroeconomic transition costs, prepared in close collaboration with the International Monetary Fund, concludes that the transition to stronger capital and liquidity standards is likely to have a modest impact on aggregate output. If higher requirements are phased in over four years, the group estimates that each 1 percentage point increase in banks' actual ratio of tangible common equity to risk-weighted assets will lead to a decline in the level of GDP relative to its baseline path by about 0.20% after implementation is completed. In terms of growth rates, this means that the annual growth rate would be reduced by an average of 0.04 percentage points over a four and a half year period, with a range of results around these point estimates. A 25% increase in liquid asset holdings is found to have an output effect less than half that associated with a 1 percentage point increase in capital ratios. The projected impacts arise mainly from banks passing on higher costs to borrowers, which results in a slowdown in investment. A two-year implementation period leads to a slightly larger reduction from the baseline path, with the trough occurring after two and a half years, while extending the implementation period beyond four years makes little difference. In all of these estimates, GDP returns to its baseline path in subsequent years.

Mr Mario Draghi, Chairman of the FSB and Governor of the Bank of Italy, said: "The analysis undertaken is comprehensive and utilises state-of-the-art macroeconomic modelling methods currently in use at national authorities and international organisations. The analysis shows that the macroeconomic costs of implementing stronger standards are manageable, especially with appropriate phase-in arrangements, while the longer-term benefits to financial stability and more stable economic growth are substantial."

Mr Nout Wellink, Chairman of the Basel Committee and President of the Netherlands Bank, added: "The economic benefits of the proposed reforms are substantial and need to be considered alongside the analysis of the costs. These benefits result not only from a stronger banking system in the long run, but also from greater confidence in the stability of the financial system as soon as implementation starts."

The MAG's final report will reflect the fully calibrated global capital and liquidity standards, which are to be delivered in advance of the Seoul G20 Leaders summit.

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 national authorities responsible for financial stability in significant international financial centres, international financial institutions, sector-specific international groupings of regulators and supervisors, and committees of central bank experts.

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.