

**EXECUTIVE
BOARD
MEETING**

SM/21/40
Correction 1

May 10, 2021

To: Members of the Executive Board

From: The Secretary

Subject: **2021 Comprehensive Surveillance Review—Background Paper on Systemic Risk and Macroprudential Policy Advice in Article IV Consultations**

Board Action:

The attached correction to SM/21/40 (3/30/21) has been provided by the staff:

Factual Errors Not Affecting the Presentation of Staff's Analysis or Views

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Questions:

Mr. Valencia, SPR (ext. 36355)
Mr. Kang, MCM (ext. 38693)

advice, as financial vulnerabilities were still rising or elevated in many jurisdictions, consistent with the overall analysis of risks presented in the GFSR (IMF, 2019h). Experience with advice on “easing” remained limited until 2019 (Figure 14). In response to the COVID-19 crisis, many countries have relaxed macroprudential policy (Box 2). These actions, along with other policies, have helped stabilize financial market conditions and maintain the flow of credit to the real economy, as highlighted in the October 2020 GFSR (IMF, 2020c). The experience from the recent macroprudential policy easing provides an opportunity to deepen the understanding of the effects and tradeoffs associated with macroprudential policy relaxation, as well as how to manage vulnerabilities in the context of extraordinary support measures.¹⁰

Box 2. Macroprudential Policy Relaxation amid the COVID-19 Crisis

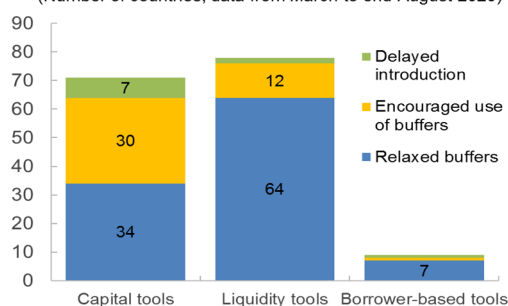
In response to the COVID-19 shock, many countries have relaxed macroprudential policy to allow banks to absorb losses and support the flow of credit to the real economy (IMF, 2020a).

Many ~~countries-economies~~ have relaxed capital and liquidity tools or encouraged banks explicitly to use such buffers. For example, they lowered countercyclical capital buffer rates (e.g., the U.K., Hong Kong SAR), released domestic systemic risk buffers (e.g., Poland, Netherlands, South Africa), and loosened liquidity requirements (e.g., Brazil, India) to absorb losses and manage liquidity strains. Some countries have also relaxed sectoral tools (e.g., loan-to-value limits) to ease access to credit for borrowers who experienced financial distress (e.g., New Zealand, UAE).

The experience during the COVID-19 crisis provides good opportunities to learn more about the effects of macroprudential relaxation. Under the operational guidance, two circumstances can warrant a macroprudential policy relaxation: if underlying systemic vulnerabilities dissipate, or if systemic risk materializes and financial conditions tighten, threatening to drag down real economic activities with it (IMF, 2014b). Where buffers have been built-up, their release can support the provision of credit when conditions warrant it. But its ultimate effects depend also on the overall policy mix and if and how banks use the released buffers. Additional analytical work and learning from country experiences can shed light on these questions and can also help inform the timing of reversing macroprudential policy easing.

Covid-19: Relaxation of Macroprudential Policy Tools

(Number of countries, data from March to end-August 2020)



Source: IMF (2020d).

Note: Liquidity tools include reserve requirements. For borrower-based tools: blue, yellow and green reflect a relaxation of LTV, D(S)TI, and other tools, respectively.

33. Emerging risks from climate change and fintech developments call for approaches to assess their financial stability implications.

Staff reports have increased attention to climate- and

countries for 17 instruments at a monthly frequency from January 1990; (ii) detailed description of each policy action; and (iii) country-level average of limits on loan-to-value ratios.

¹⁰ There is growing attention to understanding the effects of policy intervention during the COVID-19 pandemic, including those from regulatory easing. Demirgüç-Kunt and others (2020) find that easing of prudential regulations negatively affected bank stock valuations. Valencia and others (2021) find that looser prudential regulations helped eased overall financial conditions, but the effects differed across sectors and tools.