

FSC DECIDES TO ACTIVATE CCyB REQUIREMENT FOR BANKS AND BANK HOLDING GROUPS FROM MAY 2024

The FSC decided to increase the countercyclical capital buffer (CCyB) requirement for banks and bank holding groups to one percent beginning on May 2024 at the 10th regular meeting held on May 24. The decision is a follow-up measure for the plan to improve the prudential regulations in the banking sector discussed at the third working group meeting of the taskforce on improving the management and operating practices of banks and banking system held on March 15. CCyB is an additional capital buffer requirement (within zero to 2.5 percent of risk-weighted assets) which takes into account the effects of procyclicality following credit supply on the financial system and the real economy. Since its introduction for domestic banks in 2016, CCyB has remained at around zero percent.

The FSC's decision to increase the CCyB requirement to one percent takes into account comprehensive factors. First, even though the growth of household credit slowed down amid interest rate hikes, credit growth has remained high in the corporate sector. When looking at both the major total credit-to-GDP gap indicator and the complementary total credit gap indicator, there are strong signs for activating CCyB. Moreover, at the end of 2022, domestic banks' Tier 1 common equity ratio was 13.50 percent (12.57 percent when including bank holding groups), which was higher than the regulatory ratio of 7.0 to 8.0 percent but fell slightly compared to 13.99 percent at the end of 2021 due to interest rate hikes and sharp rises in currency exchange rates. Also, as domestic banks' net income in 2022 rose to KRW18.5 trillion (*up KRW1.6 trillion y-o-y*), it is deemed that banks are capable of setting aside additional capital. The FSC decided that it is necessary to preemptively require banks to build up capital to improve their loss absorbing capacity against the backdrop of macroeconomic uncertainties at home and abroad, potential growth of financial risks and the possibility of actually accruing expected losses.

Following today's decision, domestic banks and bank holding groups will have about one year to prepare and begin to set aside CCyB at one percent starting from May 1, 2024. Based on an impact analysis conducted with the end-2022 data, all banks and bank holding groups' capital ratios are expected to stay above the regulatory ratio. However, individual banks are expected to make efforts to build up additional capital to maintain their capital buffer at above certain levels. The FSC expects that this will help enhance loss absorbing capacity of banks and boost confidence on the prudential management of domestic banks. The FSC and the FSS plan to closely monitor the effects of activating CCyB on the market and make swift adjustments when necessary.

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