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Assessing Macrofinancial Risks from Crypto Assets

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Introduction

By the end of September 2023, the International Monetary Fund (IMF) published the Working paper "Assessing Macrofinancial Risks from Crypto Assets" aimed to provide a conceptual framework to identify the micro and macroprudential risks of cryptocurrencies. A three-steps approach called Crypto Risk Assessment Matrix (C-RAM) is a tool proposed to evaluate from a comprehensive view these risks and their systemic risk implications within individual countries.

Recent events in crypto assets have highlighted the need of **perform a systemic risk assessment**, as well as to establish **regulatory and policy frameworks for financial regulators and supervisors.**

For the IMF, one of the main benefits of cryptocurrencies is the ability to facilitate fast and cost-effective cross-border payments and transactions, which in the traditional financial system are facing delays and issues. However, **the use of cryptocurrencies introduces new risks** such as higher volatility, lack of transparency (about the underlying value and the transactions) and instability in exchange rates which can have a direct impact on the financial sector and real economy.

The authors indicate that these risks need to be orchestrated by a regulatory and policy framework capturing the macrofinancial linkages.

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C-RAM approach to evaluate risks of cryptocurrencies

The C-RAM tool is structured to ensure a systematic risk assessment with a three-step approach which allows to identify, measure, understand and monitoring potential risks:

1. Decision tree	Quantitative and qualitative assessment to identify key risks in a particular country and to provide key sectors to be evaluated according to the crypto assets economic significance in the country.
2. Country risk mapping	Quantify the risks identified and evaluate the vulnerabilities (systemic importance & risks, such as credit, concentration, liquidity, market, regulatory and operational).
3. Identify policy options to mitigate risks	Such as, insurance mechanisms, data provisioning, national/international regulatory frameworks, additional Risk Weighted Assets buffers for crypto exposure for banks.

It allows to create a map of Global Crypto Risks for or from crypto assets with implications for macroeconomic stability and systemic risk.

The Paper shows how to apply the C-RAM to specific countries such as El Salvador or Vietnam.

Finally, there are **key challenges highlighted by IMF:**

a) **better data availability** (more granular and with higher frequency) would help to quantify the impact of global crypto risks at the country level.

b) promote an **effective monitoring and supervision** which is prevented by the decentralized market and governance structure of the crypto eco system.

c) reinforce **micro and macroprudential supervision** to avoid vulnerabilities.

From Grant Thornton we believe that the paper provides a mechanism to promote the balance between taking advantage of the benefits of cryptocurrencies, mitigating the risks inherent to the activity to safeguard global financial stability.

See the Working Paper in the following **link**.

For more information on this topic, consult with our experts:

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