Macroeconomic Impact of Basel III

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Abstract

The estimated medium-term impact of Basel III implementation on GDP growth is in the range of -0.05 to -0.15 percentage point per annum. Economic output is mainly affected by an increase in bank lending spreads as banks pass a rise in bank funding costs, due to higher capital requirements, to their customers. To meet the capital requirements effective in 2015 (4.5% for the common equity ratio, 6% for the Tier 1 capital ratio), banks are estimated to increase their lending spreads on average by about 15 basis points. The capital requirements effective as of 2019 (7% for the common equity ratio, 8.5% for the Tier 1 capital ratio) could increase bank lending spreads by about 50 basis points. The estimated effects on GDP growth assume no active response from monetary policy. To the extent that monetary policy will no longer be constrained by the zero lower bound, the Basel III impact on economic output could be offset by a reduction (or delayed increase) in monetary policy rates by about 30 to 80 basis points.

Keywords: bank regulation, financial intermediaries, bank, monetary policy, Basel III, bank lending, bank capital requirements, interest rates, Basel accord

JEL Classification: E52, G21, G28

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