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Higher Capital and Liquidity Regulations of Basel Standards Have Made Banks and Banking Systems Become More Prone to Financial and Economic Crises

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Abstract

Basel II and III standards are a regulatory consequence following two major crises in systemic nature, the homegrown Asian crisis of 1997-98 and the global financial crisis of 2007-08. Basel I, despite high expectations and claims by the Basel Committee, failed to prevent the following financial crises from occurring in the 1990s; Finnish and Swedish banking crises (early 1990s), Indian economic crisis (1991), Mexican peso crisis (1994), Turkish economic crisis (1994), Asian crisis (1997-98), Russian financial crisis (1998), Argentine economic crisis (1999-2002), and Brazil crisis (1999). The Asian financial crisis in systemic nature cost global investors a jaw dropping close to one trillion dollars. Replacing Basel I with a Revised Framework did not stop the recurrence of financial crises in the new millennium which have been ever more costly, longer-lasting, and unbearably damaging. Basel II, just like Basel I, failed to avoid the following crises either originated in the U.S. or caused by contagion; the bust of the dot.com bubble (2001-02), mortgage debacle (2006), global financial crisis (2008), and sovereign debt crisis in eurozone (2010-12). Just these four crises cost the world's economies as much as thirty trillion dollars. The probability of a high-magnitude financial crisis to occur is between 4% and 5%, which means that by 2030 Basel III may have a chance to prove its ability to withstand shocks; in the event of a failure, the extent of financial losses may be the largest ever (\$50 trillion?).

Keywords: Basel I, II, III; Higher Capital; Liquidity Regulation; Financial Crisis; Financial Stability**JEL Classification:** E41, E42, E44, E58, G12, G21, G28[Suggested Citation](#) >[Show Contact Information](#) >[Download This Paper \(Delivery.cfm/SSRN_ID3401378_code3200906.pdf?abstractid=3401378&mirid=1\)](https://papers.ssrn.com/sol3/Delivery.cfm/SSRN_ID3401378_code3200906.pdf?abstractid=3401378&mirid=1)[Open PDF in Browser \(Delivery.cfm/SSRN_ID3401378_code3200906.pdf?abstractid=3401378&mirid=1&type=2\)](https://papers.ssrn.com/sol3/Delivery.cfm/SSRN_ID3401378_code3200906.pdf?abstractid=3401378&mirid=1&type=2)

170 References

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