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IMPACT OF BASEL REQUIREMENTS ON ECONOMIC DEVELOPMENT IN COUNTRIES OF EASTERN EUROPE

Abstract:

The article gives an assessment of banking activity regulation based on the implementation of Basel III requirements, which have become a response of supervisory bodies to the prevention of crisis events. It was reflected in the toughening of requirements for the capital and liquidity, which in turn required the revision of banking activity management methods. Basel III requirements are nonmonetary management methods oriented to the restriction processes in economy and financial system. In accordance with Basel III requirements, the banks shall increase the capital safety margin and liquidity cushion, strengthen the control and monitoring of banking indicators. The banks will be forced to have a large stock of immediately available funds and increase the capital base as well as to form the capital buffer. It all makes a positive impact on the banking system stability and the banks’ capability to withstand the financial shocks. However, it will also entail a reduction in the banks’ free resources and possible drop in the volume of bank operations, especially in the credit sector, which in turn will lead to the slowdown in economic growth. The objective of the study is to identify the influence of Basel III nonmonetary regulation methods on the banking system stability and economic growth. The study has been carried out based on financial accounting of banks in countries of Eastern Europe. Main outcomes of the study: identification of factors influencing the economic growth, identification of positive and negative impact by Basel III, determination of relationship between GDP growth rates and fulfilment by the banks of new regulations on the capital and liquidity, as well as development of recommendations on the easing of nonmonetary regulation of banking activity in countries of Eastern Europe.

Keywords:

Capital adequacy, Bank’s liquidity, Capital safety margin, Financial laverage, Economic growth

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