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REGULATIONS OF BANKS' CAPITAL AND LIQUIDITY ACCORDING TO BASEL III: PROBLEMS AND EXPERIENCE FROM EASTERN EUROPE COUNTRIES

Abstract:

Abstract
Transition towards regulation of banking activity based on Basel III requirements was caused by consequences of global financial and economic crisis 2007 – 2009 that endangered the financial system stability in many countries. The banks were forced to form a large volume of accumulations to cover bad debts and could not deal with absorption of losses. It means that the system of banking regulation and supervision existing at that time did not fully reflect the banking sector risks during the periods of economic and financial shocks.
The purpose 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 East Europe.
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.
Results of the research.
Bank regulation based on Basel III requirements may have both positive and adverse aspects and consequences.
Positive:
Growing requirements for the capital and liquidity will increase the borrowing power and solvency of banks and, therewith, the sustainability of the entire banking sector. Banking system and economy in general will be more resistant to financial shocks. Regulation based on Basel III will also contribute to reduction in systemic risk and prevention of systemic crises in future.
Negative:
Increase in the capital of banks as well as improvement of its structure and quality will lead to growing expenditures of banks, which in turn can entail growth in credit rates and reduction of banking activity. As a result, economic growth will slow. Reduction of banking activity will have adverse impact on profitability of banking business.

Keywords:

Key words: Capital adequacy, Bank's liquidity, Capital safety margin, Financial leverage, Economic growth, Economic stability

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