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AN IMPACT ASSESSMENT OF HIGHER CAPITAL ADEQUACY REQUIREMENTS: EVIDENCE FROM INDIA

Abstract:

Regulatory norms aim to ensure stability and resilience in the banking sector as episodes of crises may have a spill-over effect in the real economy. Literature based on studies of developed economies, suggests that higher capital norms improve the resilience of the banking sector, which in turn, reduces the probability of a financial crisis. An important benefit of which is on the size of the economic loss if the crisis does occur. On the other hand, higher capital requirements pose significant costs to banks, which are, in turn, passed on to the rest of society through reductions in lending volumes, credit rationing and increase in prices of credit that culminates into decreasing the output of the economy. This study aims to find the net impact of implementing Basel norms in a fast-growing economy, (yet under-researched) of Asia, i.e, India. The results prove that the implementation of Basel norms has significant benefits (using a step wise approach, multivariate logistic regression), along with costs (using vector auto regression). In sum, there are positive net benefits in terms of output saved.

Keywords:

Basel, Banking, Financial crisis, India, Comparative study

JEL Classification: G28, G01, O57