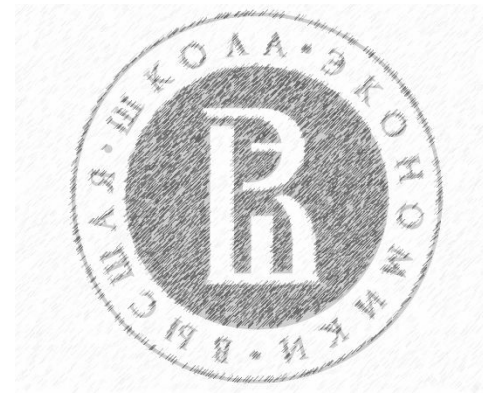


# Limited GDP benefits of Basel III expected for developing economies

Moody's Investors Service

Reviewed by Porso Olimpuri



# Summary

In this comment were estimated the net benefits of Basel III implementation for a diverse sample of developing economies:

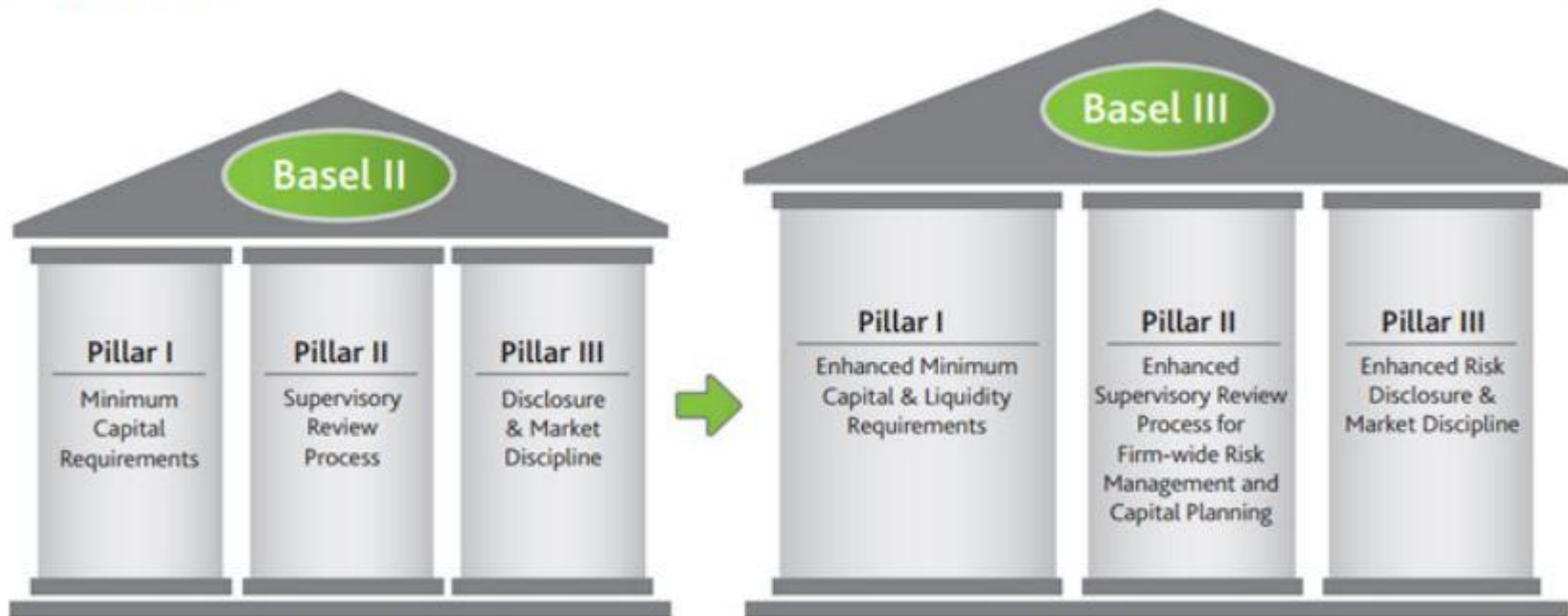
- Brazil, Mexico;
- China, India;
- Nigeria, South Africa;
- Russia, Ukraine.

The main aim of the study is to examine the long-term effect on GDP growth.



# Basel III – A Quick Primer

## Basel's Pillars



The goal of the proposed Basel III reforms is to strengthen both **microprudential** regulations (by increasing the stability of individual banking institutions) and **macroprudential** regulations (by reducing systemic risks).



# Methodology Overview

The methodology considers the long-term effects on GDP because:

- there are data constraints in calculating the short-term costs;
- national regulations are still not in line with Basel III requirements;
- bank data on risk-weighted assets and liquidity ratios are under Basel II calculations;

## Costs of Basel III

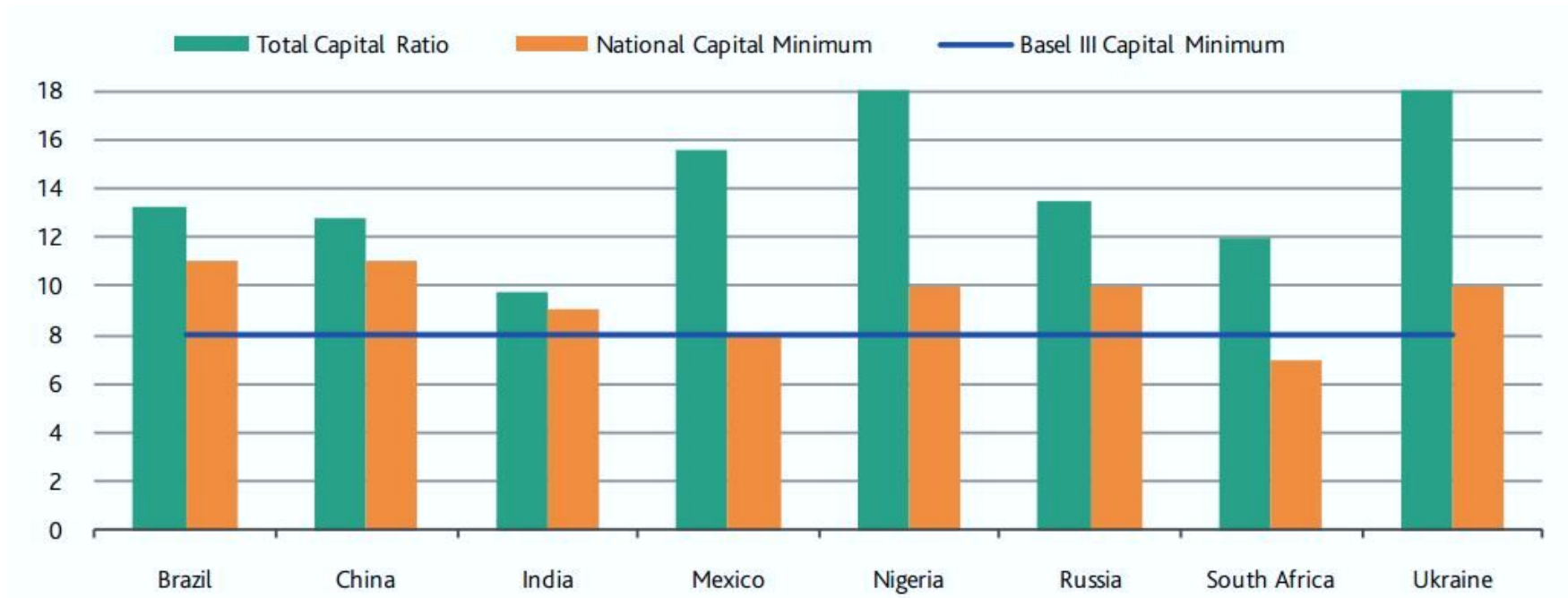
- how higher capital ratios affects bank lending spreads;
- translating the increase in bank lending spreads into an impact on GDP.

## Benefits of Basel III

- more stringent regulations reduce the probability and severity of future financial crises



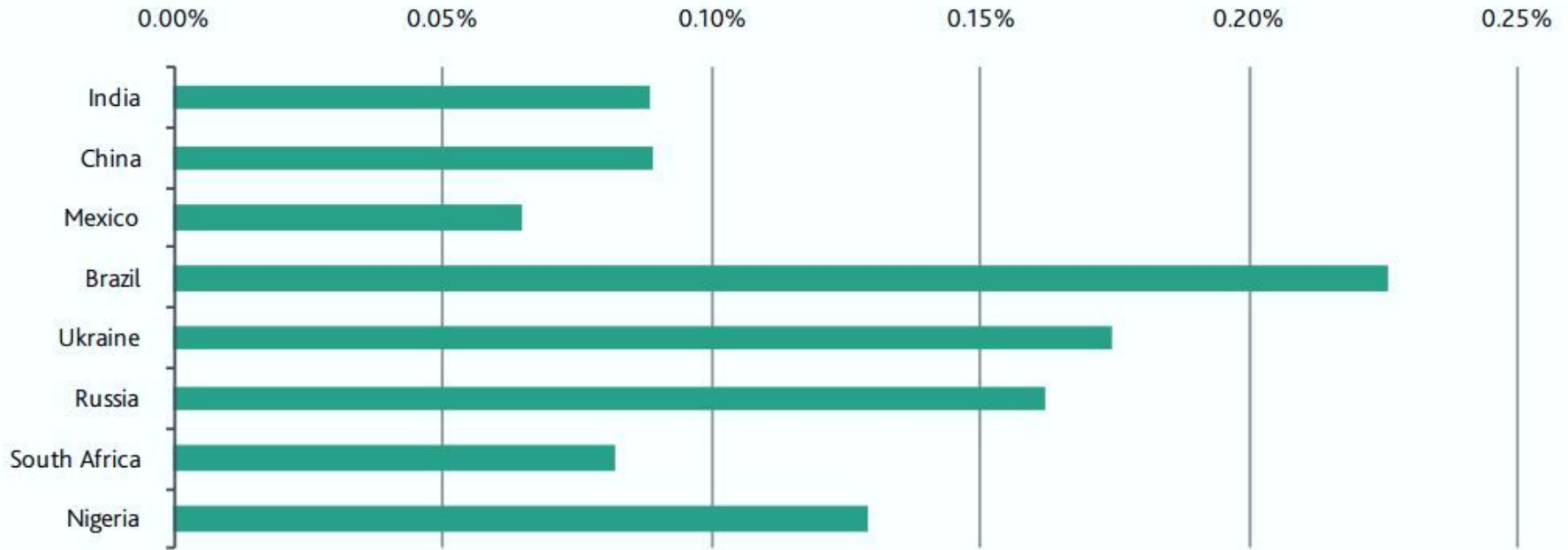
# Minor Benefit for a Majority of Countries



- the higher the existing capital levels, the smaller the net benefits from increased capital.



# Impact of Raising Equity on Banks' Lending Spreads



these results lead to two observations:

- the increases in lending spreads are mostly similar for countries in a given region, except Latin America;
- the highest calculated lending spread increases are in Brazil, Russia and Ukraine.



# Costs of Basel III on GDP (other components)

## Increase in Firms' Cost of Capital (in basis points)



## Elasticity Factor



# Basel III Costs (as a % of GDP)

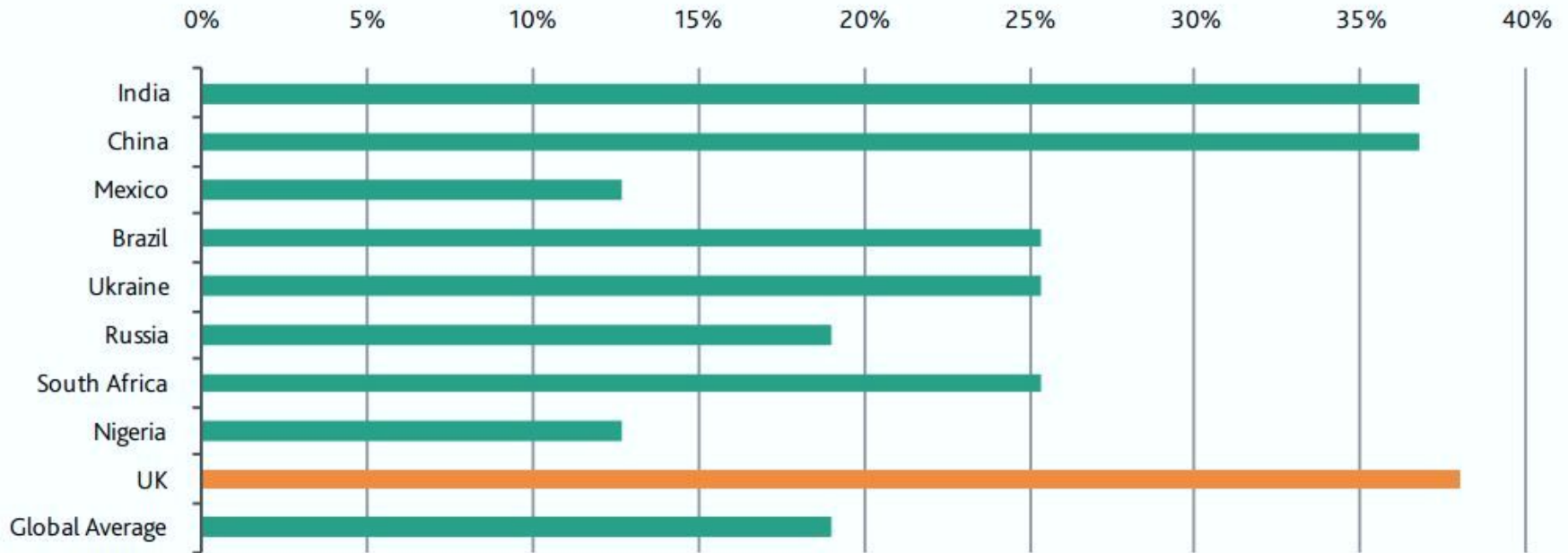


- the combination of previous factors yields the different costs of Basel III implementation;
- UK were added as a benchmark.





# GDP Loss from a Crisis

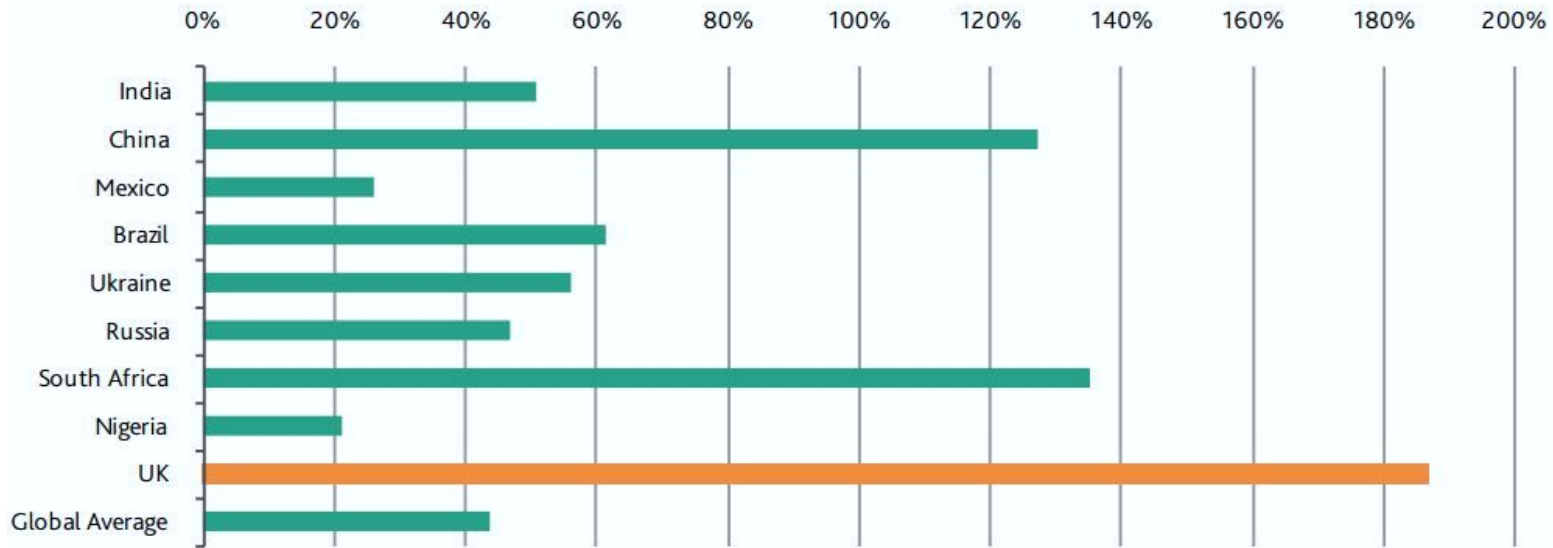


- the cumulative GDP loss from a financial crisis in each specific country



# Financial development assessment

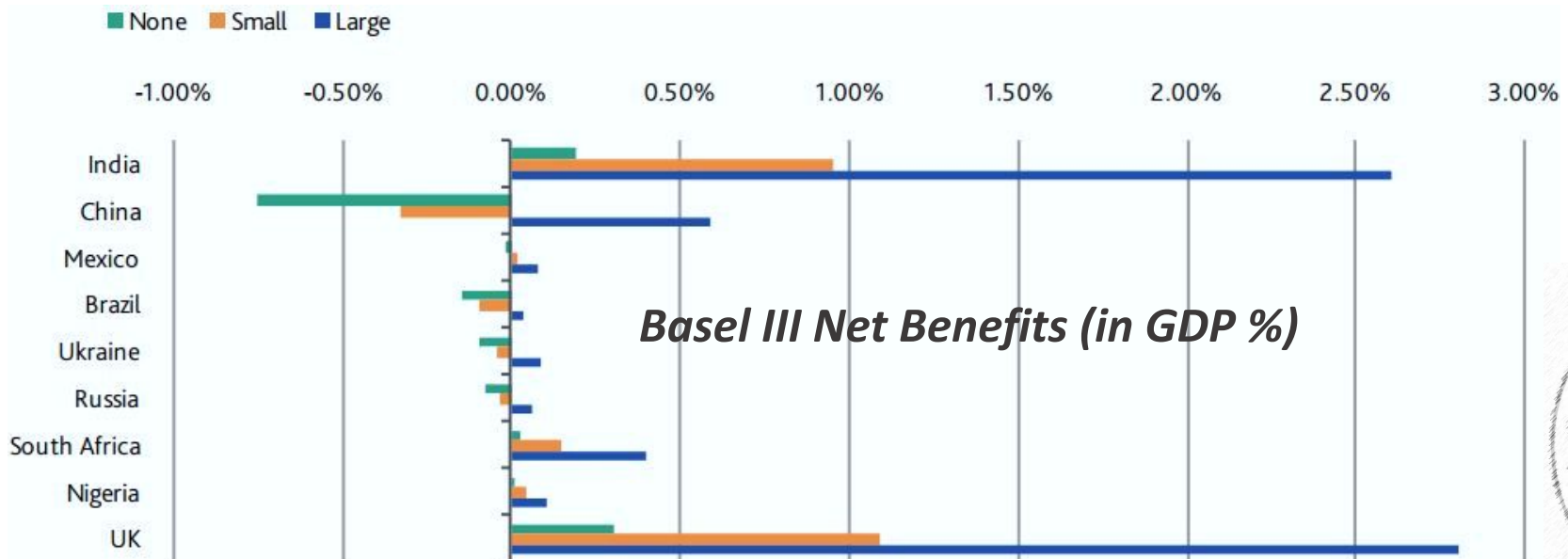
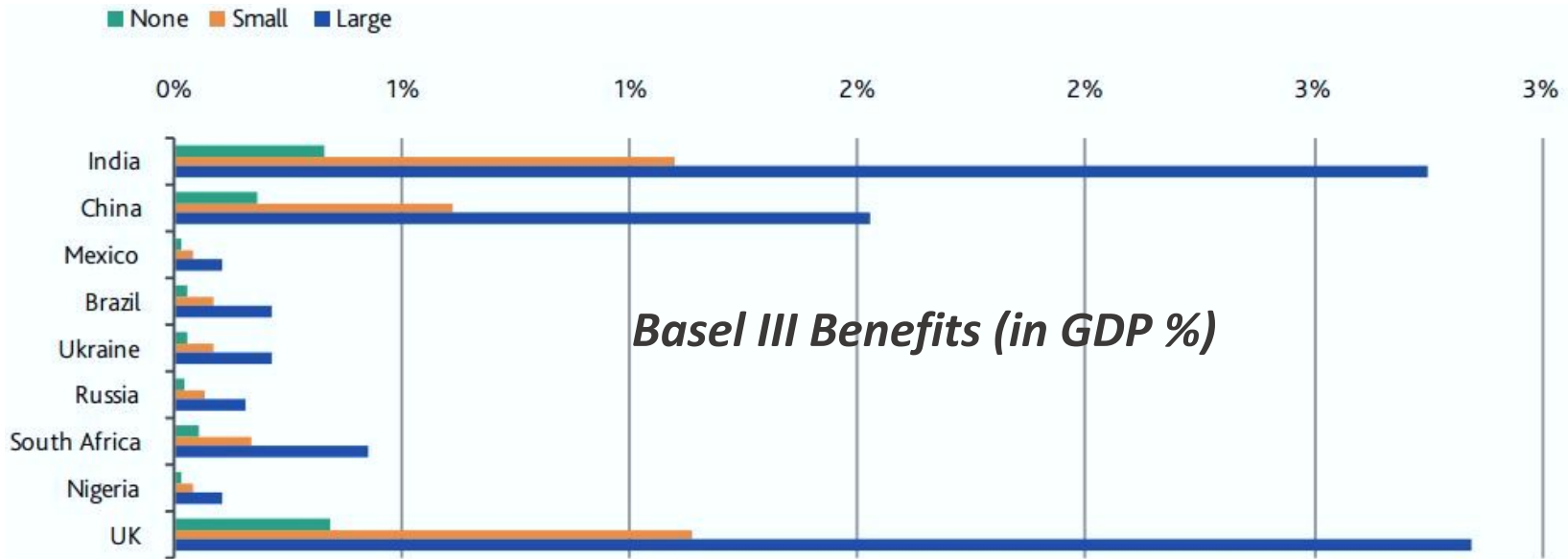
## Credit Share in GDP



## Investment share in GDP



# Benefits of Basel III



Thank you  
for your attention !

- 20, Myasnitskaya str., Moscow, Russia, 101000
- Tel.: +7 (495) 628-8829, Fax: +7 (495) 628-7931
- [www.hse.ru](http://www.hse.ru)

