

# **The impact of Basel I capital regulation on bank deposits and loans: Empirical evidence for Europe**

**Birgit Schmitz\***

University of Bonn

June 2005

## **Abstract**

The Basel Committee on Banking and Supervision established minimum capital requirements for banks in their 1988 Capital Accord. This capital regulation was adopted for European Union banks at the beginning of 1993. After the implementation, a widespread concern emerged about the possible negative impact that higher capital requirements could exert on the level of economic activity, especially on bank lending. This paper investigates the impact of the Basel Accord on bank deposits and loans for eight European countries. We follow the approach taken by Peek and Rosengren (1995a) and test for the regulatory effect in a panel structure with about 2500 individual bank balance sheets for the years 1993-1995. We find that changes in deposits are positively correlated with changes in capital. Lower-capitalized banks show a stronger response to a change in capital than their higher-capitalized competitors. This evidence is consistent with the hypothesis that the implementation of minimum capital requirements had a negative effect on the supply of bank loans.

---

\* IIW Institute for International Economics and ZEI Center for European Integration Studies, University of Bonn, Lennéstr. 37, 53113 Bonn, Tel. 0049/228/73 92 23, email:birgit.schmitz@uni-bonn.de