The Role of Bank Capital Requirements in the Propagation of Monetary Policy

福島大学　福田慎

This study uses a dynamic stochastic general equilibrium (DSGE) model to investigate whether the principles of the Basel III regime are countercyclical as it uses a countercyclical buffer to respond to high levels of credit growth. Specifically, in the model presented, banks weight their risk depending on the probability of entrepreneurs and impatient households defaulting, given the existence of credit growth and accumulation of capital. The findings presented herein imply that contrary to Basel II, the principles of Basel III are countercyclical. As Basel III requires accumulation of capital by banks in recessionary periods and liquidating bank capital in boom periods, if the central bank increases the policy rate, Basel III suppresses the degree of economic recession.