Abstract

The aim of this paper is to investigate the procyclical behavior of banks in terms of lending and loan loss provisioning, and its dynamics with regard to the adoption of the Basel II capital regulation. Using bank-level and country-level panel data spanning from 1996 to 2013 we answer this question for the OECD and BRIC countries. We find a positive effect of bank capitalization on loans growth, which, perhaps due to the recent financial crisis, weakened after 2008. Together with evidence of income smoothing and capital management we also find strong cyclical behavior of banks in terms of loan loss provisioning. At the same time, we do not find any robust changes to this behavior after the introduction of the Basel II capital regulation. We fill a gap in the empirical literature as there has been hardly any research done on changes brought forward by the adoption of the Basel II capital regulation. The results may be therefore of interest for regulators and other professionals. Moreover, we use in our analysis data for BRIC countries, which have been often neglected.