

Abstract

The term procyclicality refers to the ability of a system to amplify business cycles. The recent financial crisis has revealed that the current regulatory framework, Basel II, affects the business cycle in exactly that manner. The newly published Basel III therefore sought to include tools that would mitigate the procyclical nature of regulatory framework. The aim of the thesis is to analyze whether such tools are effective and whether the procyclicality under Basel III has been mitigated when compared to Basel II. In order to conduct such analysis we employ a simple model with the households and firms sector. Using the OLS estimation method we estimate the sensitivity of Basel risk weights to the business cycle under both Basel II and Basel III conditions.

As the Basel III framework has been published only recently, there are few studies that would analyze its effect on procyclicality. The main contribution of this thesis consists of implementation of Basel III countercyclical tools and the comparison between both frameworks. The thesis further contributes to the existing literature by conducting the analysis on the data for the Visegrád Group, that is for the Czech Republic, Slovakia, Hungary and Poland.

JEL Classification E32, E44, E58, G21

Keywords procyclicality, Basel II, Basel III, banking supervision