Abstract

This study observes the impact of regulatory capital on liquidity creation of banks in GIIPS countries over the period 2006-2016. The results are estimated by conducting a panel data analysis and evaluating Fixed Effect model proceeded by a 2SLS regression method. The results show that there exists a negative relationship between regulatory capital and liquidity creation. They give support to policymakers of Basel III/CRD IV to be concerned about the consequences of imposing higher capital requirements. Furthermore, size of the bank is correlated negatively with liquidity creation, and financial crisis does impact the magnitude of the relationship between regulatory capital and liquidity creation. Nevertheless, we suggest that new buffers on liquidity and capital requirements should be accompanied by other prudential tools to ensure a stable financial system in GIIPS countries.

JEL Classification	E58,F33, G21, G28
Keywords	Regulatory Capital, Liquidity creation, Bank Regulation, Fixed Effect

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