Journal of Financial Management Strategy
Alzahra University
Vol. 12, No. 47, Winter 2024

pp. 23-26

Research Paper

Analysis of the Effects of Liquidity and Capital Requirements on the Financial Stability of Iranian banks (According to the Rules of Basel III)[1]

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Received: 2024/02/05 Accepted: 2024/12/07

INTRODUCTION

After the financial crisis of 2008, financial and accounting standards as well as banking supervision faced fundamental changes in order to clarify the reporting of financial items in the balance sheet and financial statements and banking operations, and banks had to comply with very strict regulations and operate within the framework of legal supervision. Complicated were required. In this regard, in 2010, the legislators, in the form of the Basel III agreement, amended the laws related to capital requirements in response to the global financial crisis in 2007-2008. Also, the BCBS proposed new liquidity standards to minimize the maturity mismatch of banks. The need to apply the

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1. doi: 10.22051/jfm.2024.46399.2900
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requirements of the Basel III agreement in order to improve the performance of the banking system in the country and reduce the effects of the risks facing this sector, prompted this study to investigate the level of implementation of the Basel III guidelines and their effect on the performance of the banking system in Iran.

OBJECTIVES

The reason for these reforms is that banks change the content related to the weight of risky assets. Accordingly, during this process, the capital adequacy ratio and other capital-related measures are overestimated because they underestimate the risk-weighted assets, and as a result can have negative effects on banking stability as well as banks' lending. Therefore, it is clear that one of the consequences of the Basel III agreement and specifically the two capital and liquidity requirements can affect the financial stability of banks. In this regard, in this research, this issue has been investigated for the banking sector of Iran. In order to achieve this goal, the main question of the current research is whether liquidity and capital requirements are effective on the financial stability of banks admitted to the Tehran Stock Exchange.

MATERIALS AND METHODS

In this regard, this research using the information obtained from the annual financial statements of 16 sample banks, including Bank Ekhtaz Novin, Parsian, Tejarat, Sina, Saderat, Kerebehan, Mellat, Post Bank, Saman, Pasargad, Day, Shahr, Tourism, Capital , the future and the Middle East for the annual period from 2013 to 2021 studies the state of the banking system in Iran. This research uses DID models to carry out the aforementioned investigation.

FINDINGS

Based on the results, in the presence of the stable net investment ratio requirement, bank size has a positive effect on the bank stability index. This is also true for the ratio of cash balance to assets. This shows that if the investment requirement is met, the bank's assets and the amount of the bank's cash balance compared to its assets can lead to the improvement of the bank's stability. However, the effect of net profit to equity ratio and liquidity (liquidity) on bank stability is negative under the assumption of stable net investment ratio requirement. The reason for this is that the investment

requirement for the bank leads to a decrease in the liquidity of bank assets and its source is from the net profit, which puts the stability of the bank at risk. Based on this, banks in Iran have not made the necessary preparations to comply with this requirement. One of the reasons for this could be the increase in the amount of bank assets in recent years, which was adopted in order to maintain the value of cash assets against increasing inflation. At the level of 5%, the effect of bank size, the ratio of net profit to shareholders' equity, cash balance to assets, liquidity and capital flight under the conditions of applying the requirement of 8% capital ratio has a significant effect on the stability of the investigated banks. Meanwhile, the effect of the ratio of net profit to shareholders' equity and liquidity on bank stability has been evaluated negatively, and the rest of the significant variables have a positive effect. Based on this, under the obligation of banks to comply with the capital ratio of 8%, the size of banks and the ratio of cash balance to assets lead to the improvement of banking stability, and on the other hand, liquidity and the ratio of net profit to shareholders' equity reduce banking stability. This shows that banks have not consistently complied with this requirement during the period under review.

CONCLUSTION

Based on this, it is suggested that the central bank's emphasis on the implementation of Basel III requirements and the follow-up and monitoring of their implementation in the banking system should be among the priorities of the central bank. In addition, the central bank should limit the granting of unreasonable and excessive facilities from the banking sector to the public sector and emphasize more on the capital requirements and facilities granted by banks. Because most of the deposits and resources at the disposal of banks are allocated to the public sector. Therefore, although the implementation of the 8% capital requirement has led to an increase in the capital-to-asset ratio, the amount of credit received from the government sector has made compliance with this ratio not lead to an increase in banking stability. In addition, the central bank should seek to provide new solutions to the government to finance itself as the largest economic operator, so as to reduce the government's dependence on the monetary base, thus preventing the creation of new debt and its transfer to future years and the increase of the monetary base.

Keywords: Liquidity Requirements, Capital Requirements, Financial Stability, Basel Rules.
JEL Classification: *G28, G21*.

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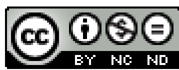

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