

Basel III Liquidity Requirements
The impact of liquidity indicators on the balance sheets and
the lending activity of Swiss banks

Master Thesis



University of Zurich

Department of Banking & Finance

Prof. Dr. Steven Ongena

Michael Hediger

Abstract

This thesis analyses the impact of the new liquidity requirements from the *Basel III* Liquidity Coverage Ratio and the Net Stable Funding Ratio on the balance sheets and the lending activity of Swiss banks. On the basis of the aggregated balance sheets of all banks in Switzerland, obtained from the Swiss National Bank (SNB), the thesis shows in a first part, that in the observation period from the year 2012 to 2016, the banks have made adjustments in their balance sheet positions since the announcement of the new liquidity standards. The most notable developments during this period are the significant enhancement of the liquid assets and the lower interbank loans. The thesis points out though, that many of the adjustments cannot solely be traced back to the new liquidity requirements, but also to other factors like the currency purchases of the SNB and the low interest rate environment in Switzerland.

In a further part, the thesis contradicts the widespread assumption of many economists, that the new Liquidity Coverage Ratio and the Net Stable Funding Ratio would have a negative influence on the lending activities of banks. The total credit volume in Switzerland has increased since the year 2012, whereby the mortgage loans in particular registered a significant growth. Additionally, the paper shows that the banks in Switzerland increased their risk appetite in the lending activities. The reason for these credit developments lies for one thing in the strong competition on the real estate market and then again in the low interest rate environment in Switzerland.