Sibande and Milne

Review 1

I recommend the attached paper ‘The impact of Basel III implementation on bank lending in South Africa’ for publication in the SARB Working Paper series.

I would only qualify that by noting that, notwithstanding its good research content and exposition, the paper requires strong copy-editing to achieve the editorial standard that is required for the Working Paper series.

The paper reports on research into the effects Basel III changes to minimum capital requirements have had on bank lending in South Africa. Using a model similar to the model Fang et.al. used in a study of Peru’s banks, the authors’ panel data estimates lead to the conclusion that the effects of higher requirements have had little or no effect on the level of bank lending, and similar results were found using Jorda’s local projection method. The authors compare and contrast  these results with published estimates for other countries.

The paper adds to the growing body of research on the effects of bank regulation changes in South Africa. One of its strengths is its rigorous use of panel data estimation techniques and the use of a dynamic model’s local projection estimates for a robustness check. Another is the use of unpublished granular data held by SARB. The authors highlight the need for further research but these results are strong enough to inform policy.