**The impact of Basel III implementation on bank lending in South Africa**

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This paper looks at the effect of Basel III capital requirements on lending among the four largest banks in South Africa. Three different categories of lending for both household and corporate borrowers are examined, but there is little evidence of an impact of capital requirements on lending. The paper is a useful addition to our understanding of how regulatory requirements affect bank credit and I recommend publication after the following concerns have been addressed.

My two main concerns are:

1. It is not clear exactly how ΔKR (the main variable of interest) is defined. On page 15, it is described both as an “interactive dummy that isolates the specific Basel III changes to the regulatory capital buffer requirements” and as the “bank level change in the minimum capital requirement between months and ”. The summary statistics in Table 4.1 suggest it is a dummy (the min value is 0 and the max value is 1, with a median of 0). The exact definition matters for the understanding of the results. The month-year fixed effects will absorb all changes that are common across banks, leaving only the effect of bank specific variation in ΔKR. If ΔKR is a dummy capturing whether or not capital requirements changed, then this only captures changes that did not affect all banks. If ΔKR is the bank level change, it is capturing only the effects of changes to Pillar 2B since all other capital requirements are common across the four banks (Table 3.2). It would be helpful to clarify the definition of ΔKR and the source of variation exploited in the regressions.

Thank you for this comment. The submitted draft was unclear and thre was a mistake in the statistics for this variable reported for Table 4.1. ΔKR is defined as the bank level change in the minimum capital requirement between months t and t-1 in January of each year from 2014 to 2019 when the Basel III increases in capital requirements were introduced. The definition and reported statistics in Table 4.1 (now Table 3) has been update to reflect this. We agree with your explanation of the source of variation exploited in the regressions. We have added this to the explanation in section 4.

1. It is not clear that the change in the interest rate margin (lending rate less the SARB policy rate) is an appropriate measure of loan demand. Ceteris paribus, a change in the policy rate will change the interest rate margin and this could be due to factors other than demand. At least some product rates are defined as a fixed margin over the policy rate (e.g. prime + 2%), and the authors should make clear if this is the case for all lending categories studied in the paper. Further, the lending rate is an observed price and so reflects both supply and demand factors. For example, the price could increase if supply decreases but demand remains the same. Bank lending rates are affected by cost of funding, credit risk of households/corporates, bank’s risk appetite, etc.

Thank you for this comment. We have clarified in section 4 that we use only flexible rates and not fixed rates. Therefore, this approach requires that we only utilise flexible rates which can adjust with the policy rate. We also agree that despite the use of controls the interest rate margin may not only reflect demand aspects. We have therefore renamed the variable () in order to highlight that it is not a direct measure of demand. We believe that these loan category specific margins are still useful as a control for other factors besides changes in capital requirements impacting lending, both demand and supply, and so informative for our study. And it this data seems promising for further work taken forward by other researchers. We have added these points to section 4 and the conclusion.

Some minor comments:

1. Section 3.1 could be removed, or at least shortened.

Thank you for this comment. We have remove the general economic commentrary and left two paragraphs.

1. Figure 3.1 warrants more discussion. For example, corporate unsecured credit was actually increasing over 2011/12 to 2018 and this is not mentioned.

Thank you this comment. We have added an additional paragraph which further explains Figure 3.1.

1. The number of observations in Tables 5.1. and 5.2 should be constant across all columns in order to compare the estimates.

Thank you for this comment. In general the sample is more than 98 percent the same. We just loose one or two observables due to the lag structure. And this pattern is consistant. So We do not see any problem such as sample bias in the regression estimates.

1. There are some typos.

Thank you for this comment. We have addressed some. The paper will go for further copy-editing.