

# Basle III: what are the impacts of this Regulation on the financing of SMEs?

*An assessment of the possible credit shrunk and the alternative sources of financing.*

Supervisor: Prof. Christian de BOISSIEU

Thesis presented by  
**Guillaume COMPEYRON**  
for the  
Degree of Master of Arts in  
European Economic Studies

Academic Year 2013-2014

## **Abstract**

This study deals with the issue of the Basle III requirements. Specifically, it aims at understanding the impact of the ratios included in the regulation on the financing of the SMEs and how SMEs can find alternative sources of financing in case of credit shrinkage.

The literature of this study is first based on the papers written on the subject of credit rationing. We use both papers from Stiglitz and Weiss (1981) and Bernanke and Gertler (1987) to understand the issues of balance sheet and bank lending channel. In the rest of the paper, we extensively refer to the institutions papers, such as the one published by the ECB or the IMF. There are used to get both data and analyses on the ratios and the economic situation of SMEs. A number of articles are used from different journals to understand the theoretical impacts of the ratios we discuss. Finally, reports from both public (European Banking Authority) and private sources (Barclays) are used to get different points of view on the impacts we are searching.

The main text is divided into two parts. The first one wants to tackle all four ratios that are included in the Basle agreements. The solvency ratio and the leverage ratio are studied together since they have similar structures; we compare their effects inside the different businesses of the banks. The two liquidity ratios are also studied in another part. We analyze them both in theory and, when possible, empirically.

The second part consists of two main ideas. The first one consists in the assessment of the situation of SMEs across Europe. The main interest concerns their financing and particularly their financing gap. The second one addresses the issue of alternative funding for SMEs, outside and inside the banking intermediation.

After leading this research, we found that the Basle III agreements will indeed have an impact on medium and long term lending to SMEs. This is due in great part to the solvency ratio and the Net Stable Funding Ratio. Indeed, the first one forces the banks to have larger amount of capital to cover their assets and therefore requires banks to reduce their balance sheet and their exposures. The second one creates, in its current form, a great issue concerning the transformation role of banks since it aims at reducing the gap between maturities. Therefore, the issue focuses on a medium and long term horizon.

We observe that SMEs are mostly dependent on banks to fund themselves. The evolution towards alternative sources of funding is very slow and remains marginal. Our conclusions lead us to think that getting rid of the intermediation of banks will be very difficult in Europe.

## **Keywords**

Basle III, Capital requirements, Liquidity ratios, Credit shrunk, Disintermediation.