

# Impact of Financial Regulation on Emerging Countries

---

María Abascal, Luis Carranza, Mayte Ledo y Arnoldo López Marmolejo\*

8 March 2011

## Abstract

This article analyzes the potential impact of a higher level of capital and liquidity of banks on the credit penetration and the economic development in emerging countries. To do so, it employs an econometric exercise in two stages. In the first stage it is estimated the impact of capital and liquidity on the quantity and the price of credit. In the second stage it is quantified the impact of credit and its price on the GDP per capita. Thus, the impact of regulation on output is estimated using a chain rule. The article shows that in general the effects of capital and liquidity are higher in emerging countries in terms of banking penetration and GDP per capita.

JEL: G21, G28

Keywords: Basel III, capital, liquidity, banking penetration.

---

\* We thank Tatiana Alonso, Saïfeddine Chaïbi and Victoria Santillana for their comments and help in the preparation of this document.