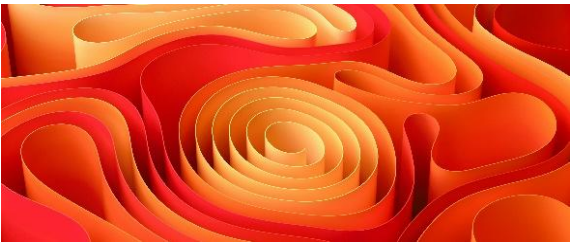
Pills

Regulatory/Supervisory Pills | N.159 November 2026

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TOPICS:

Liquidity risk

SOURCE:

Bank for International Settlements

BIS: Bank Liquidity Regulation and the Growth of Private Credit

- The paper examines how **bank liquidity regulation** has contributed to the expansion of private credit in the United States, focusing on the **Liquidity Coverage Ratio (LCR)** introduced under Basel III following the global financial crisis.
- The LCR requires banks to maintain sufficient high-quality liquid assets to withstand a 30-day liquidity stress scenario. By increasing liquidity requirements for large banks, the regulation has influenced lending activities and encouraged a **shift towards nonbank financial intermediaries**.
- Using US county-level data covering 2010–2019, the study finds that **private credit expanded significantly faster** in areas with greater exposure to LCR-regulated banks. Specifically, a 10-percentage-point increase in the local market share of affected banks was associated with approximately **20% higher private credit volumes**.
- The research also demonstrates that the impact of liquidity regulation on private credit growth is **comparable to that of bank capital requirements** introduced through the 2012 Comprehensive Capital Analysis and Review (CCAR) stress tests. Effects are particularly pronounced in industries heavily dependent on external financing and those holding less liquid assets.
- From a financial stability perspective, the migration of lending towards private credit funds may **reduce systemic liquidity risks**, as these institutions generally operate with lower leverage and longer-term funding structures than traditional banks.
- However, potential vulnerabilities remain, including **increasing interconnectedness between banks and private credit funds**, leverage and the growth of semi-liquid investment vehicles.
- Overall, the study highlights the importance of **assessing liquidity regulation beyond the banking sector**, considering its broader implications for credit allocation, nonbank financial intermediation and systemic financial stability.