

# The Impact of Bank Income Diversification on Capital Buffer Periodicity

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## Abstract

Based on the panel data of 16 listed banks in China from 2004 to 2014, this paper makes empirical analysis to examine the relationship between bank's capital buffer and macroeconomic fluctuations or income diversification. The results show that the banks' income diversification has negatively correlation with macroeconomic fluctuations. It means the banks' capital buffer behaves in a counter-cyclical way, and different bank ownership structure or capital level also has asymmetric influence in expansion and slack time. What's more, the non-interest income of bank has a significant negative impact on capital buffer and its periodicity. The diversification of bank income structure not only reduces the bank's capital buffer level, but also weakens the counter-cyclical characteristics of capital buffer. At the same time, the diversification of the income structure of the bank with high capital adequacy ratio has no obvious effect on the counter-cyclical characteristics of the capital buffer. Based on the above conclusions, this paper believes that the regulatory authorities in the implementation of the counter-cyclical capital regulation should fully consider the impact of bank income structure and bank capital levels.

## Keywords

Macroeconomic Fluctuations, Income Diversification, Capital Buffer

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## 1. Introduction

The global financial crisis in 2008 exposed many problems of current financial regulation system, especially the procyclicality of bank regulation, which, with the increased economic fluctuations, not only made the bank itself became more risky, but also amplified the impact of prosperity and recession in the economic cycle, further exacerbated the turmoil in the financial system, and ultimately affected the banking system and macro financial stability. By the end of 2010, the author of Basel agreement III proposed the counter-cyclical capital buffer as one