Also, changes in micro-prudential capital requirements on banks have statistically significant spillovers on the GDP growth rate in the short term; yet, their effects significantly lessen over a longer period. Keywords: Basel II, regulatory capital requirements, bank capital, lending rate, aggregate growth. Finalized in 1988, Basel I was the first accord on capital requirement and standards issued by the Basel Committee on Banking Supervision (BCBS). Accordingly, all international banks are required to reserve at least 8% of capital based on their risk-weighted asset volume (BCBS, 1988). However, Basel I is criticized for only focusing on credit risks and ignoring other types of risk that could also threaten banks’ safety. The original Basel Accord (Basel I) on common minimum capital requirements, which had the overall The Basel Committee on Banking Supervision is currently in the process of examining substantial m... 2.1 The effect of Basel I on the Canadian banking system. The phasing-in of Basel I coincided with significant regulatory changes and macroeconomic developments in Canada. The combined effect on the balance sheets of Canadian banks was pronounced. Determinants of target capital structure According to trade-off theory the balance of costs and benefits of debt and equity financing results in the identification of target leverage. However, it is not evident that firms actually have such a target and move towards it. In support of trade-off theory difference in leverage between industries is greater than within one industry (DaB, Raviv, 1991) meaning that capital structure is affected by characteristics of a firm. In the dynamic trade-off framework changes in leverage are determined by target ratio change and adjustment speed. Macroeconomic and institutional factors U.S. firms’ aggregate data demonstrates the debt leverage is time-invariant in long-term (Myers, 1984; Frank, Goyal, 2008).