

The Impact of the LCR on the Interbank Money Market

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De Nederlandsche Bank

joint with Sylvester Eijffinger, Tilburg University and CEPR

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Views expressed are not necessarily those of DNB



Purpose

- Show the effects of a quantitative liquidity requirement on the interbank money market

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- Main explanatory variable: The fulfilment of the Dutch quantitative liquidity requirement

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- Due to the high run-off assumptions, particular concerns regarding hampering of the interbank market
- Very little to no empirical evidence

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- Schmitz (2011) argues that the LCR disincentivises banks to lend and/or borrow on the unsecured money market.
- Other: No direct effect of the LCR on loans with maturities shorter than 30 days but on loans with maturities longer than 30 days

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 - HQLA: haircuts, more diversification

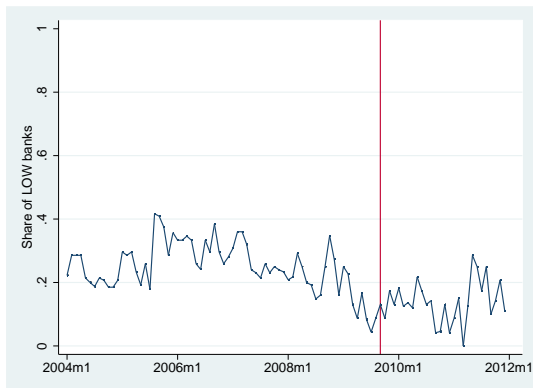
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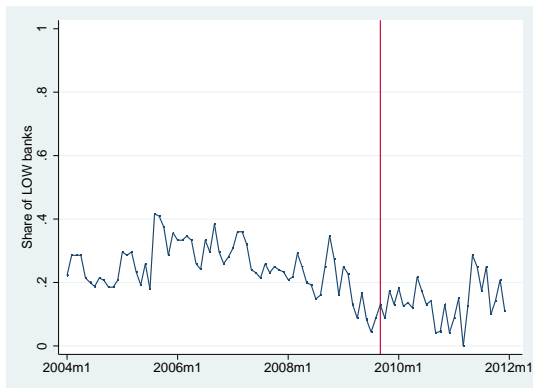
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 - Inflows: No Cap on inflows compared to outflows

The liquidity variable

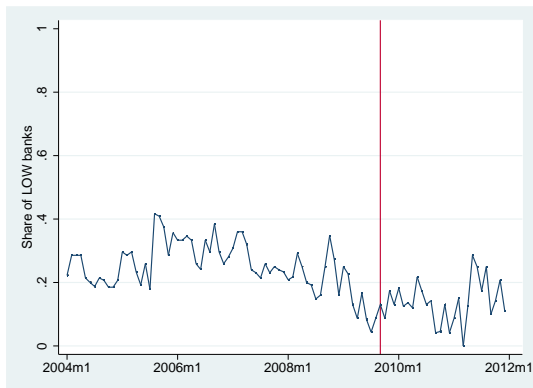


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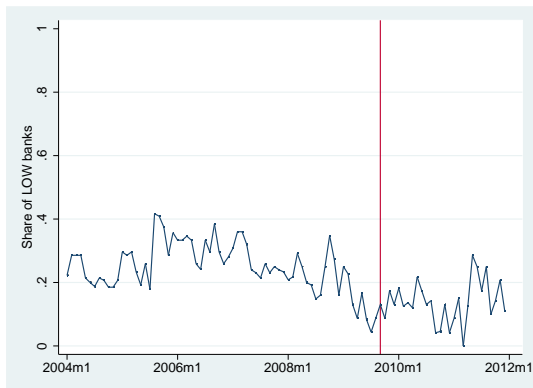
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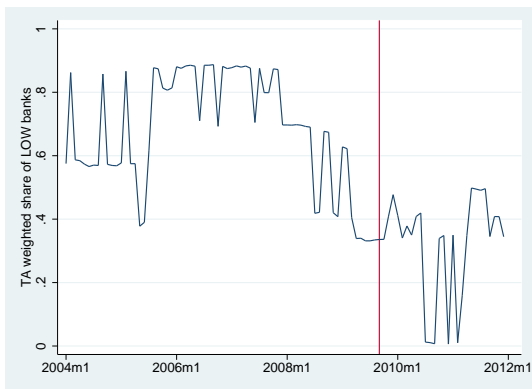
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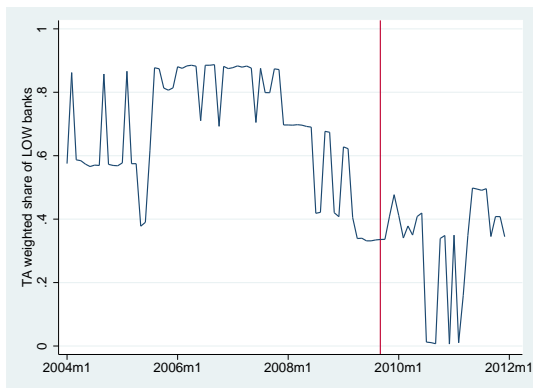


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- 536 cases (22%)
- average time 4.4 months, median 2 and maximum 54 months

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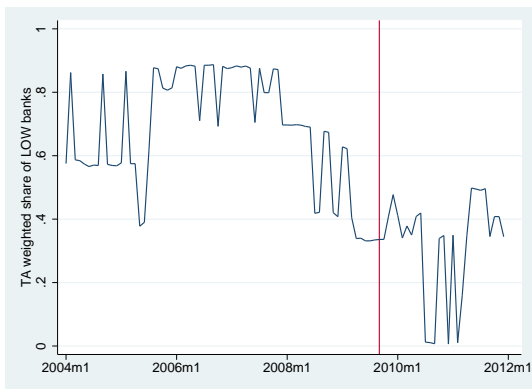


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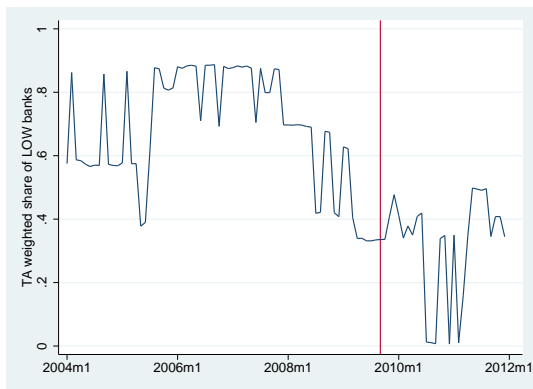
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- Steady improvement starting in November 2007
- Crisis puts pressure on liquidity position but quick recovery

Empirical model

$$\Delta L_{it} = \beta_0 + \beta_1 \text{LOW}_{i,t} + \beta_2 \text{Loan}_{i,t} + \beta_3 \text{Bank}_{i,t} + \beta_4 \text{RLAT}_{i,t} + \beta_4 \text{CCP}_{i,t} + \epsilon_{it}$$

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 - *borrower preference index* weighted by the *lender preference index*
- CCP: Health of borrowing counterparts
 - Volume weighted average capital ratio of counterparts
- Crisis dummy: 1 after failure of Lehman Brothers

Lending Rates

VARIABLES	(1) FE	(2) FE	(3) FE	(4) FE	(5) FE	(6) FE
LOW	0.224*** (0.0280)	0.164*** (0.0263)	0.178*** (0.0516)	0.103** (0.0523)	0.111** (0.0557)	0.112** (0.0558)
LOWcrisis		0.0473 (0.0585)	0.0488 (0.0621)	0.0554 (0.0622)	-0.00560 (0.0725)	-0.00876 (0.0726)
crisis		-0.522*** (0.0237)	-0.490*** (0.0267)	-0.481*** (0.0269)	-0.490*** (0.0276)	-0.505*** (0.0340)
LongLen			0.135*** (0.0351)	0.146*** (0.0364)	0.140*** (0.0364)	0.141*** (0.0364)
LongLenLOW			0.259*** (0.0786)	0.242*** (0.0793)	0.239*** (0.0851)	0.241*** (0.0851)
RLAT				-0.319*** (0.0597)	-0.212*** (0.0652)	-0.234*** (0.0713)
Capital					0.000226 (0.000206)	0.000220 (0.000206)
CCP					-0.118*** (0.0368)	-0.117*** (0.0369)
RLATcrisis						0.0992 (0.128)
Constant	0.798*** (0.0104)	0.889*** (0.0101)	0.806*** (0.0213)	0.851*** (0.0245)	0.873*** (0.0266)	0.875*** (0.0268)
Observations	2204	2204	1711	1621	1503	1503
r2	0.0288	0.231	0.248	0.266	0.277	0.278

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Lending Volumes

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LOW	-3.402 (8.429)	2.545 (8.879)	-5.701 (13.80)	4.849 (14.03)	5.048 (9.262)	5.288 (9.276)
LOWcrisis		-45.10** (19.70)	-64.34*** (16.59)	-63.57*** (16.69)	-17.26*** (4.580)	-20.28*** (5.792)
crisis		5.317 (7.993)	9.145 (7.136)	11.09 (7.229)	2.311 (12.04)	4.832 (15.07)
LongLen			-15.95* (9.422)	-16.78* (9.790)	-20.01*** (6.060)	-19.71*** (6.073)
LongLenLOW			21.25 (21.01)	8.328 (21.28)	-0.0101 (14.13)	0.499 (14.15)
RLAT				-61.92*** (16.03)	-21.14* (10.85)	-25.03** (11.87)
Capital					-0.0134 (0.0342)	-0.0144 (0.0342)
CCP					13.94** (6.121)	14.15** (6.129)
RLATcrisis						19.46 (22.82)
Constant	87.02*** (3.138)	86.04*** (3.439)	63.78*** (5.731)	70.40*** (6.632)	57.25*** (4.454)	57.57*** (4.478)
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 - Rethink monetary policy framework

Thank you

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