Discussion on

'Steering the LCR with the Interbank Money Market'

(Bonner&Eijffinger)

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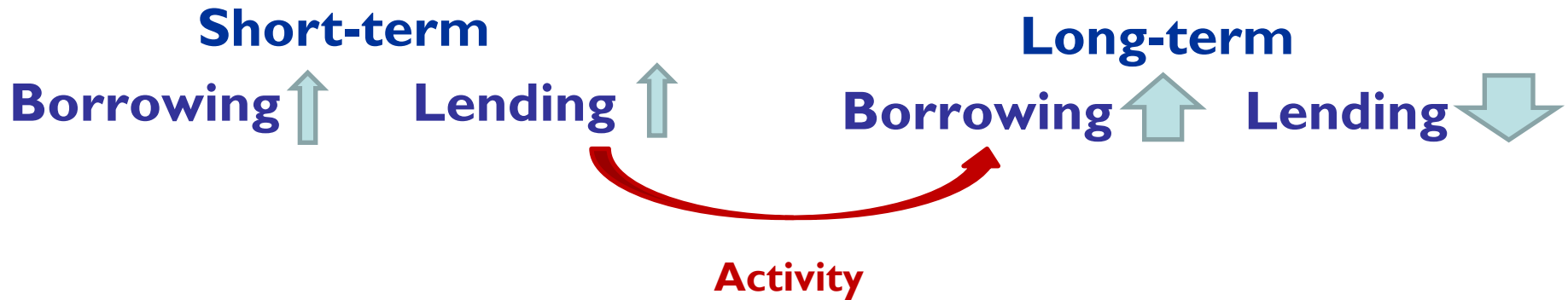### European Central Bank

ECB Workshop on Excess Liquidity and Money Market Functioning

20 November 2012

- **Summary**

- **Data issues, methodological issues, econometric issues**

- **Thoughts and suggestions**

Summary: the LCR and the interbank market

$$LCR = \frac{Stock\ of\ HQLA}{Net\ cash\ outflows\ over\ next\ 30\ days} > 100\%$$

Short-term

Borrowing ⬆ **Lending** ⬆

Long-term

Borrowing ⬆ **Lending** ⬇

Activity

Increased term premium

Less activity on the short-term (< 30 days market)

General problem for identification of effects: LCR comes into effect during crisis (= reduced activity on unsecured ST market)

Summary: main findings

1. Controlling for profits, equity over total assets, capital and the share of loans with a maturity > 30 days, banks close to the fulfilment of the Dutch quantitative liquidity requirement are willing to pay a 22 basis points higher rate for unsecured interbank loans – **stronger effect post crisis and for banks with a higher share of long-term loans**

2. Robust when including measure for relationships with other banks and for including measures of the riskiness of a bank's business model

Presence of quantitative liquidity rule distorts interbank market during crisis (in line with Perotti and Suarez 2011)

Data issues

Dependent variable: liquidity requirement

- Why no distinction between ST and LT market? (only fraction of long-term transactions)

- Selection of banks: always the same banks that are close to meeting the requirement?
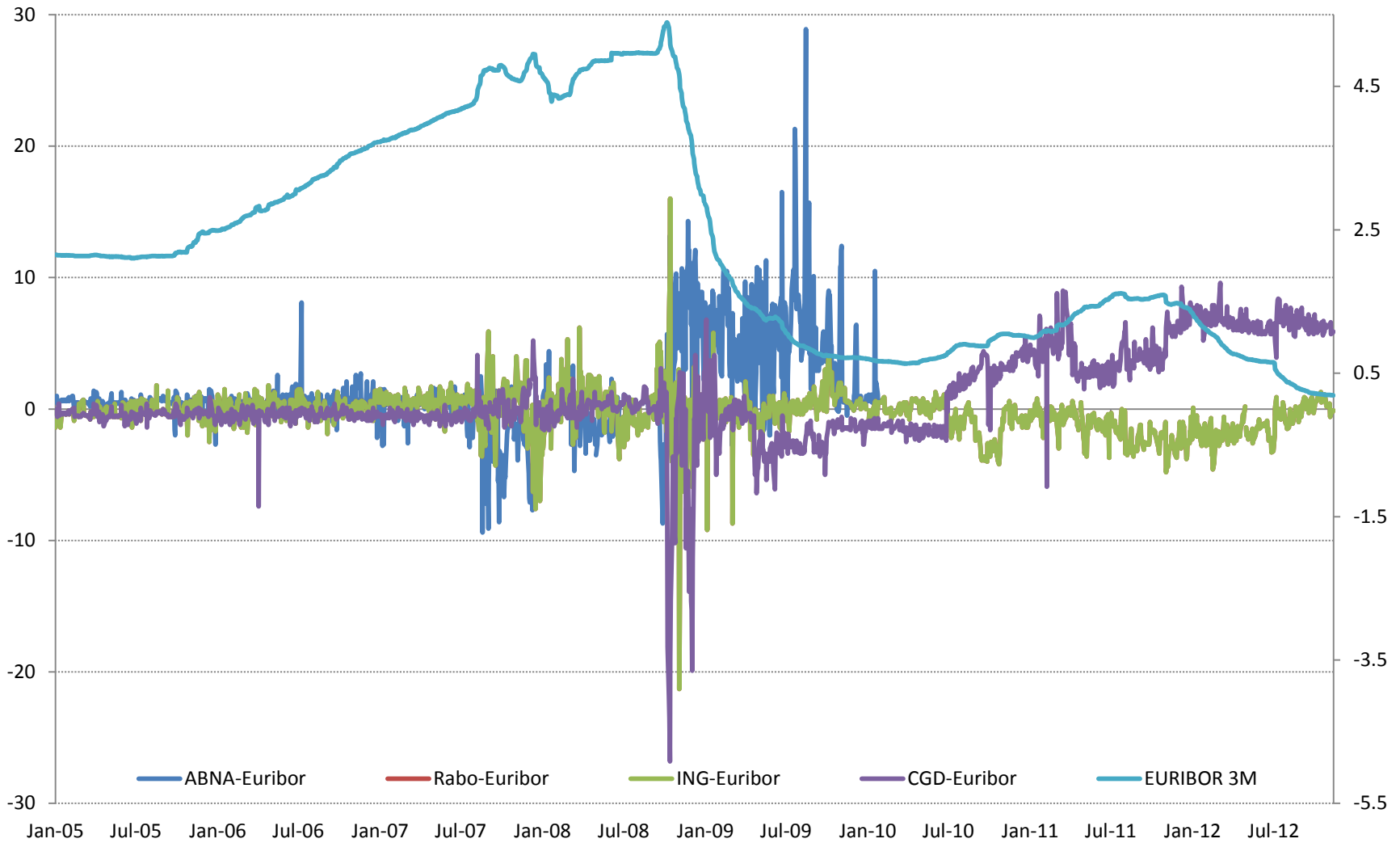
Covariates

- Sample selection based on the selection of covariates

Observations	2204	2204	1711	1621	1503	1503
R2	0.0288	0.231	0.248	0.266	0.277	0.278

- Interpolation: how many data points are missing? Selection?

- Measure of actual risk versus perceived risk: 'hard' data vs. CDS (Hilscher and Wilson 2011)

Developments on the LT Dutch interbank market

Source: Bloomberg. 3M Euribor and difference of respective bank's contribution in basis points. Latest observation: 19.11.2012

Estimation method

|						
LOW	0.224***	0.164***	0.178***	0.103**	0.111**	0.112**
	(0.0280)	(0.0263)	(0.0516)	(0.0___)	**Treatment group**	.0558)
LOWcrisis		0.0473	0.0488	0.0554	-0.00560	-0.00876
		(0.0585)	(0.0621)	(0.06__)	**Treatment on treated**	
crisis		-0.522***	-0.490***	-0.481***	-0.490***	-0.505***
		(0.0237)	(0.0267)	(0.0___)	**Post treatment**	.0340)
LongLen			0.135***	0.146***	0.140***	0.141***
			(0.0351)	(0.0364)	(0.0364)	(0.0364)
LongLenLOW			0.259***	0.242***	0.239***	0.241***
			(0.0786)	(0.0793)	(0.0851)	(0.0851)
R				-0.319***	-0.212***	-0.234***
				(0.0597)	(0.0652)	(0.0713)
C					0.000226	0.000220
					(0.000206)	(0.000206)
CCP					-0.118***	-0.117***
					(0.0368)	(0.0369)
RLATcrisis						0.0992
						(0.128)
Observations	2204	2204	1711	1621	1503	1503
R2	0.0288	0.231	0.248	0.266	0.277	0.278

Moulton (2003)
Wooldridge (2003)
Bertrand et. al (2004)
Donald and Lang (2008)
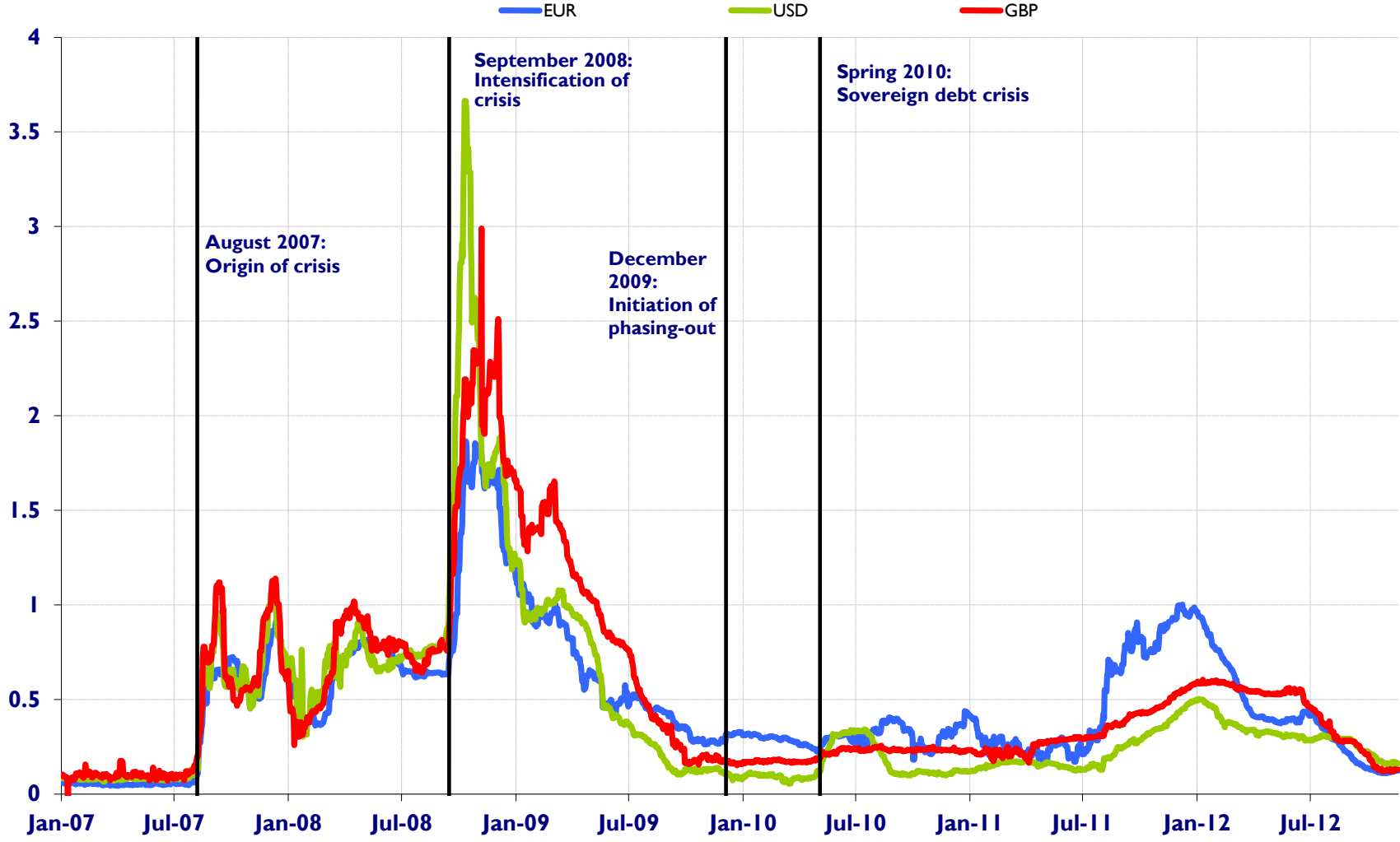**Papke and Wooldridge (2008)**

Thoughts and suggestions

1. Full DD set-up (pre-2007, 2007-9, 2009-11) + nonlinear method or terms

2. Borrowing rates vs. lending rates: joint estimation?

LCR ↑ →   HQLA ↑   OR   Net cash outflows ↓

Simultaneous decision
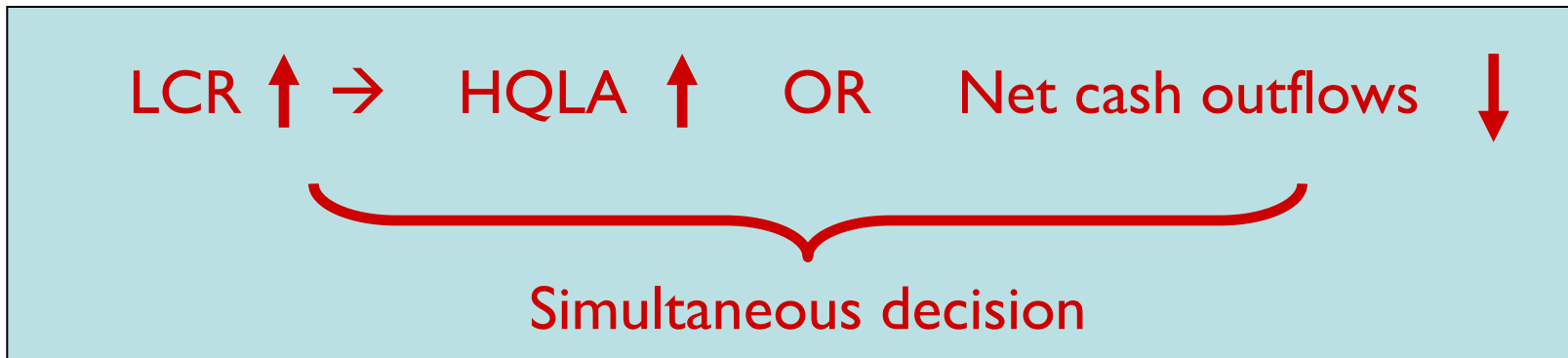
2. Short-term and long-term equations: joint estimation?

3. (Liquidity lines)

Monetary policy interventions

Source: ECB. Spread between 12M Euribor/Libor and OIS in basis points. Latest observation: 19.11.2012

Thank you

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