Discussion on "Interbank Lending and Fragmentation during the Financial Crisis"

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Summary

- New algorithm to identify the Irish bank's interbank lending transactions from TARGET2 based on following key requirements:
  - Maturity period of loan <= 90 days
  - Principle have to be a rounded figure (multiple of €10,000)
  - Eurosystem deposit facility rate as an interest rate benchmark
  - Sender of principle = Receiver of repayment
- Findings:
  - A two-step freeze out suffered by Irish banks in later 2010
  - Price effect before fall in quantities
- Irish banks' liquidity source switch from interbank lending to other substitutes such as emergency liquidity support and customer deposits in the long term

Comments

- An interesting and useful research topic

- Through analysis on large volume of data (covering 2008 - mid 2017)
  - Value of implied interbank loan
  - Loan provider (Irish vs. non-Irish)
  - Maturity period
  - Interest rate spread on overnight borrowing from foreign banks

- The algorithm of interbank loan identification is valuable in liquidity analysis

Questions

- Why would you choose Eurosystem deposit facility rate as benchmark in the algorithm, instead of MRO and Eonia?
- Given the interbank lending rate is varied and determined by demand, supply and perception of counterparties' risk, how would you define the spread to calculate the plausible interest amount for matching?
- Is the algorithm able to identify which bank is a net recipient of liquidity?
- Is it possible to apply the algorithm in other payment system? Can it be developed like the BoF simulator for liquidity analysis?

Thank you