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Bank of Finland

Comments to the paper "*The Fountainhead: Analyzing the Impact of Intraday Liquidity on Payment Behavior*" by Rafael Jimenez-Duran, Aldo Marini and *Javier Pérez, Banco de México*

Comments by Matti Viren, Bank of Finland

Issue

- The consequences of an access to Central Bank's intraday liquidity facilities
- Result:
- Leads to (1) prompter payments and (2) lower dependency of incoming payments. In other words, leads to smoother payments stream

Question 1

- If so, does that mean that allowing all market participants have an access to CB’s liquidity facilities leads to even smoother payments practice?
- Broader perspective: does this mean that increased liquidity altogether has similar implications

Question 2

- Critical issue: what is the mechanism which determines which institutions have an access to liquidity facilities (DRM upper limits and access to RSP)
- In the short-run, this things are probably (?) exogenous but in the long-run, not necessarily.
- Can you somehow open the case?

Question 3

- Some preliminary analyses with the Target2 system seem to suggest that many (most?) banks follow a quite stable pattern in they payment system
- Have you found similar payment patterns? Say, in terms of the size of the institution (total volume of transactions), age of the institution, liquidity, profitability, location and so on?
- Personal comments: I would be surprised if the payment strategy is decided/”optimized” every day and every payment…. Compare consumption behavior: intertemporal optimizers and hand-to-mouth consumers

Question 4

- How much institutions that have an access to CB’s liquidity facilities actually use these facilities? Are they just some sort of reserve?

Analysis 1

- Do we have any sort of theoretical values (restrictions) for the parameter values for received payments and the account balance?
- For sure if we increase the time-span of payments (from, say from 15 minutes)
- How can the coefficient of the *received payments* variable be about 2 while the coefficient of the *account balance* is very small (0.04) in Table 3?
- Much lower for the DRM/RSP facility members... Does this show up in actual use of CB's liquidity facilities?

Analysis 2

- Are very large transactions handled in a different way?
- Are very large banks (say, in terms of the total volume of transactions) different?

Analysis 3

- Everything is significant”; with millions of observations everything is significant. Should use VERY conservative marginal densities
- Should we cluster the standard errors, not by day, but by ”bank” ?

Economics

- Payment delays could provide signals of liquidity problems; could be useful information for the CB
- Particularly relevant because market participants probably know who have an access to CB liquidity facilities
- Broder question: does it really matter how the payments take place? Are the features just technicalities that do no interest economists/authorities?

Nice paper

- Would be interesting to see how the payment patterns change in the time of crises (for instance, does the coefficient of received payments increase)
- Different banks & institutions: are “good” (liquid & well-capitalized) banks different?