



EUROJÄRJESTELMÄ
EUROSYSTEMET

Liquidity risks of Finnish participants in TARGET2

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Disclaimer

The opinions expressed are those of the author and do not necessarily reflect the views of the Bank of Finland.

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Motivation

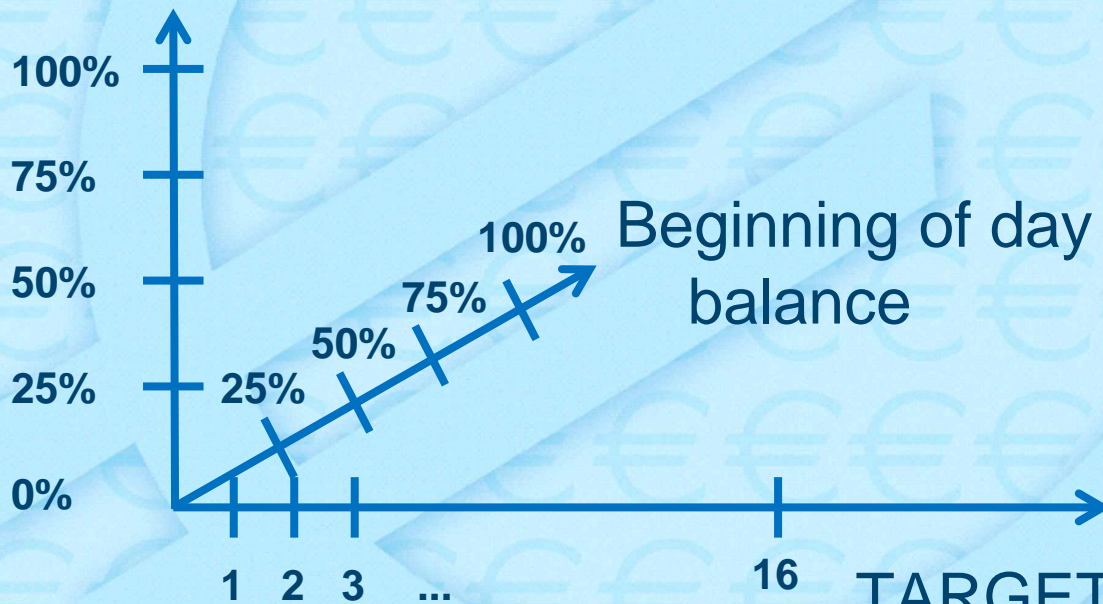
- ◆ Liquidity situation of Finnish participants in TARGET2
- ◆ Support for financial stability analysis
- ◆ Aim: easy-to-use tool for every day oversight work
- ◆ Example case: how to use BoF-PSS2 simulator
- ◆ User experience of BoF-PSS2 simulator

Preparing scenarios

- ◆ How to choose critical participants?
 - Often already known from other sources
 - Network tool can be used
- ◆ How bad is the worst case scenario?
- ◆ How to create different scenarios?
 - Excel is one solution i.e. how to modify TRAN input file before importing to the simulator
 - However it takes time and is prone to mistakes
 - Simple solution is to use MySQL Query Browser
 - First, to duplicate TRAN or ICCL data table
 - Second, to modify the duplicated data tables

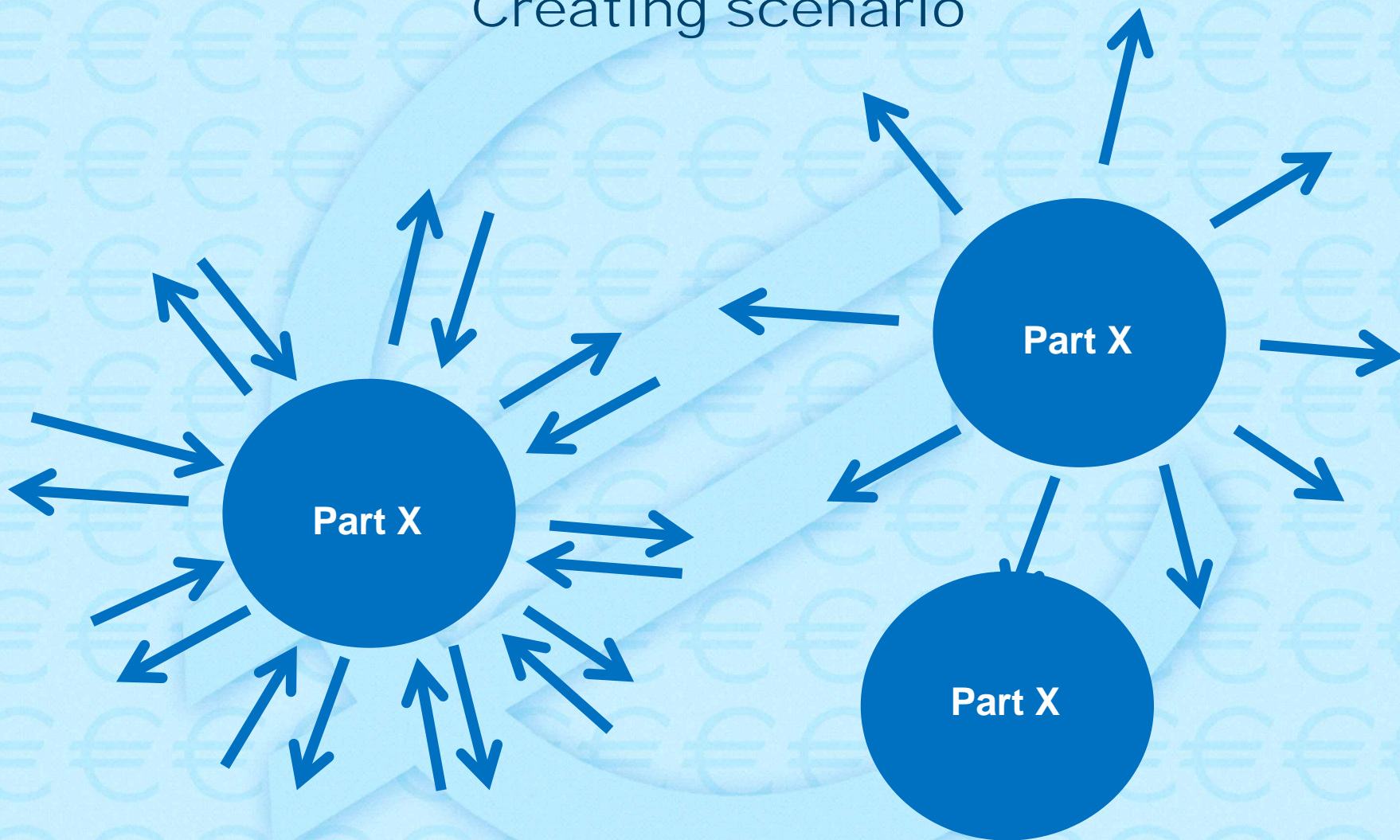
Three dimensions when creating scenarios

Credit limit

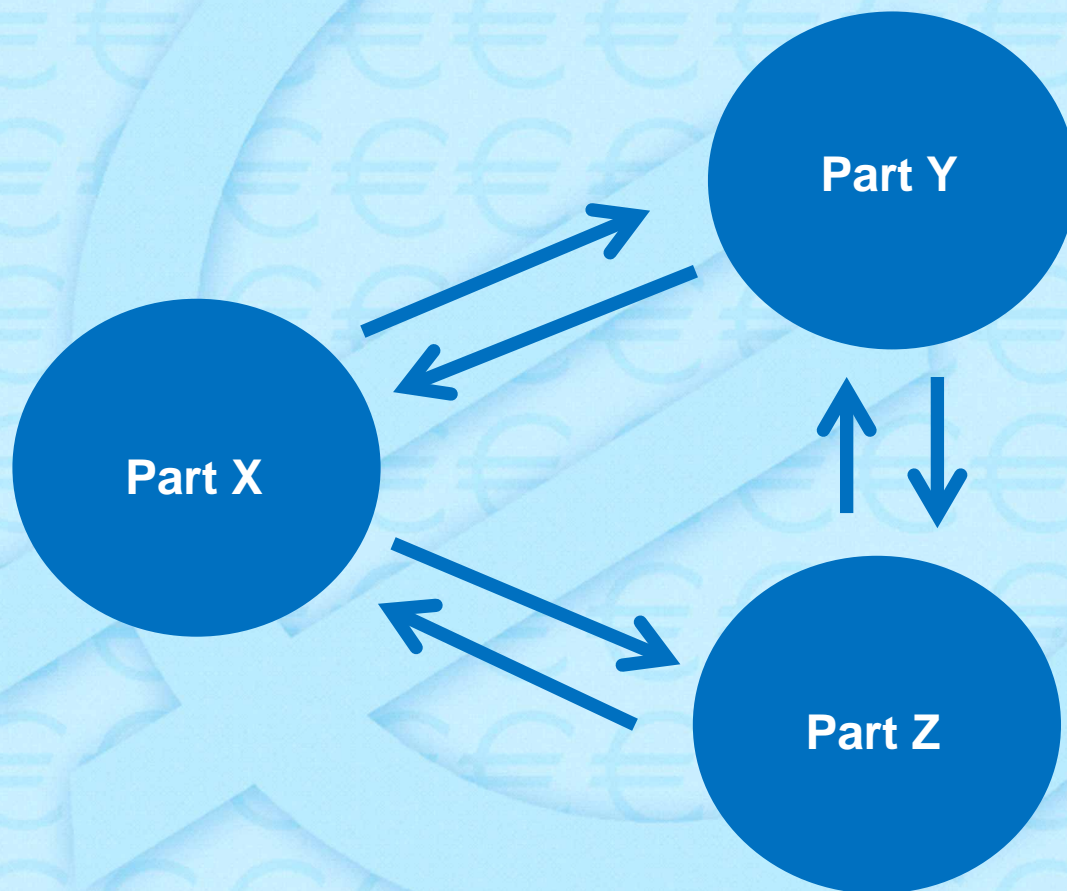


TARGET2-Suomen
Pankki Participant

Creating scenario



Creating scenario



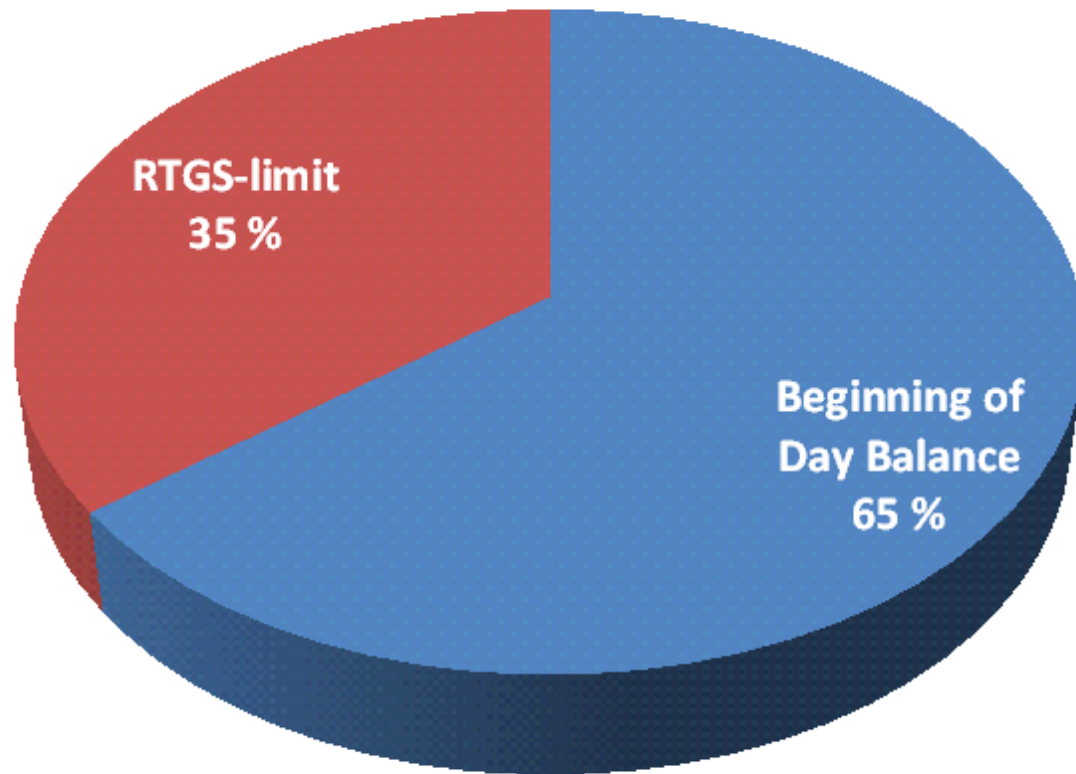
Idea in this exercise

- ◆ Take only customers of TARGET2 Suomen Pankki component
- ◆ Take T2-simulator
- ◆ Create scenarios
 - Drop out largest TARGET2 Suomen Pankki participants / cross-border transactions from countries having most payments with TARGET2 Suomen Pankki participants
 - Adjust liquidity of TARGET2 Suomen Pankki participants
- ◆ Maintain the rest of TARGET2 system same
- ◆ Analyze the scenarios / results
 - Idea: Identify the most vulnerable banks and level of additional liquidity needed

TARGET2 Suomen Pankki component

- ◆ How to select simulation day: 23.4.2013
 - No Eurosystem's tender operations on that day
- ◆ Sort out participants and their PM accounts
- ◆ Compare credit limits and BOD balances
 - Five largest ones have RTGS-limit and BOD over 1 billion
 - Average daily turnover of TARGET2-Suomen Pankki is 50 billion

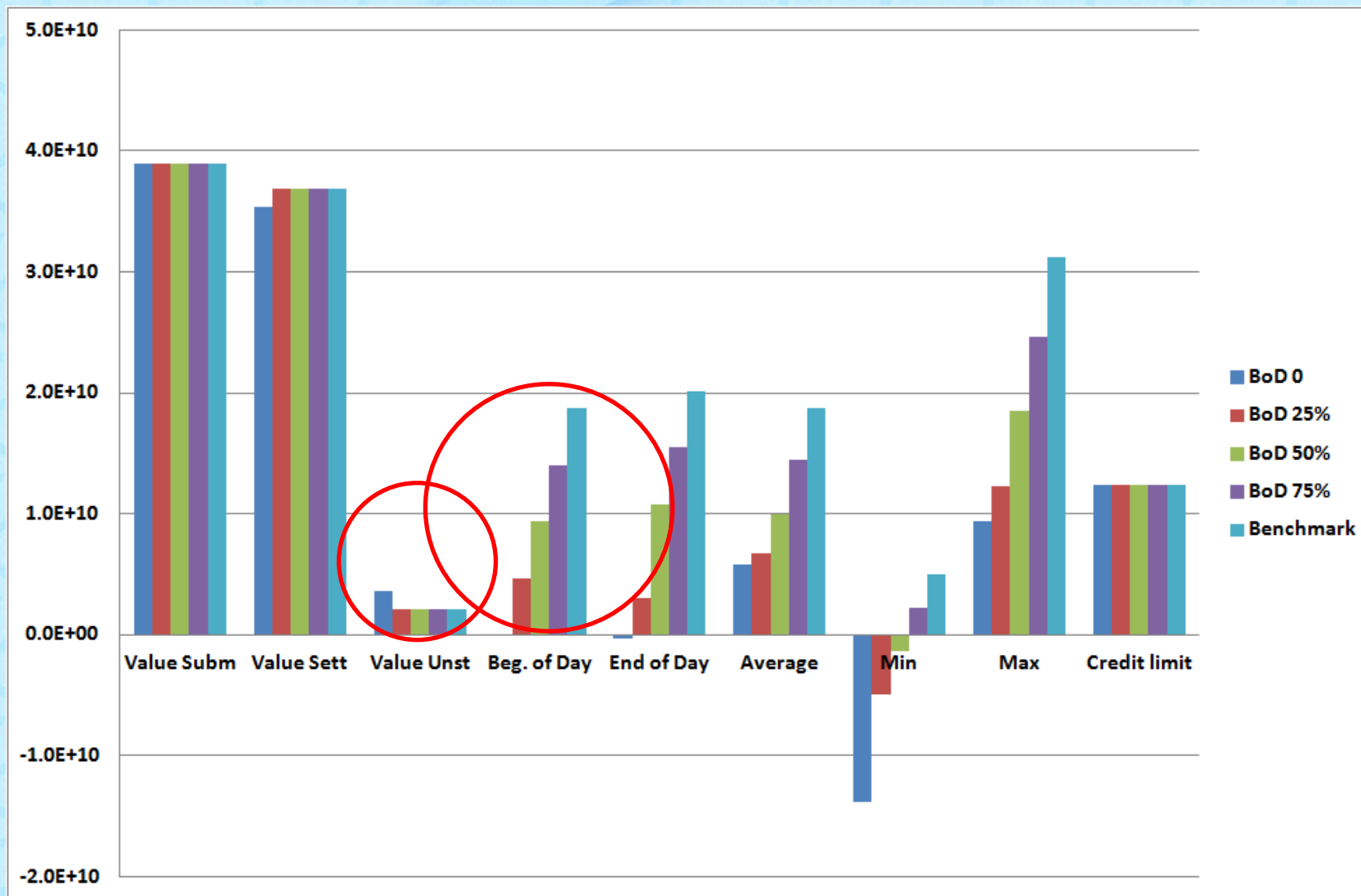
System total liquidity - six largest make 90% of that



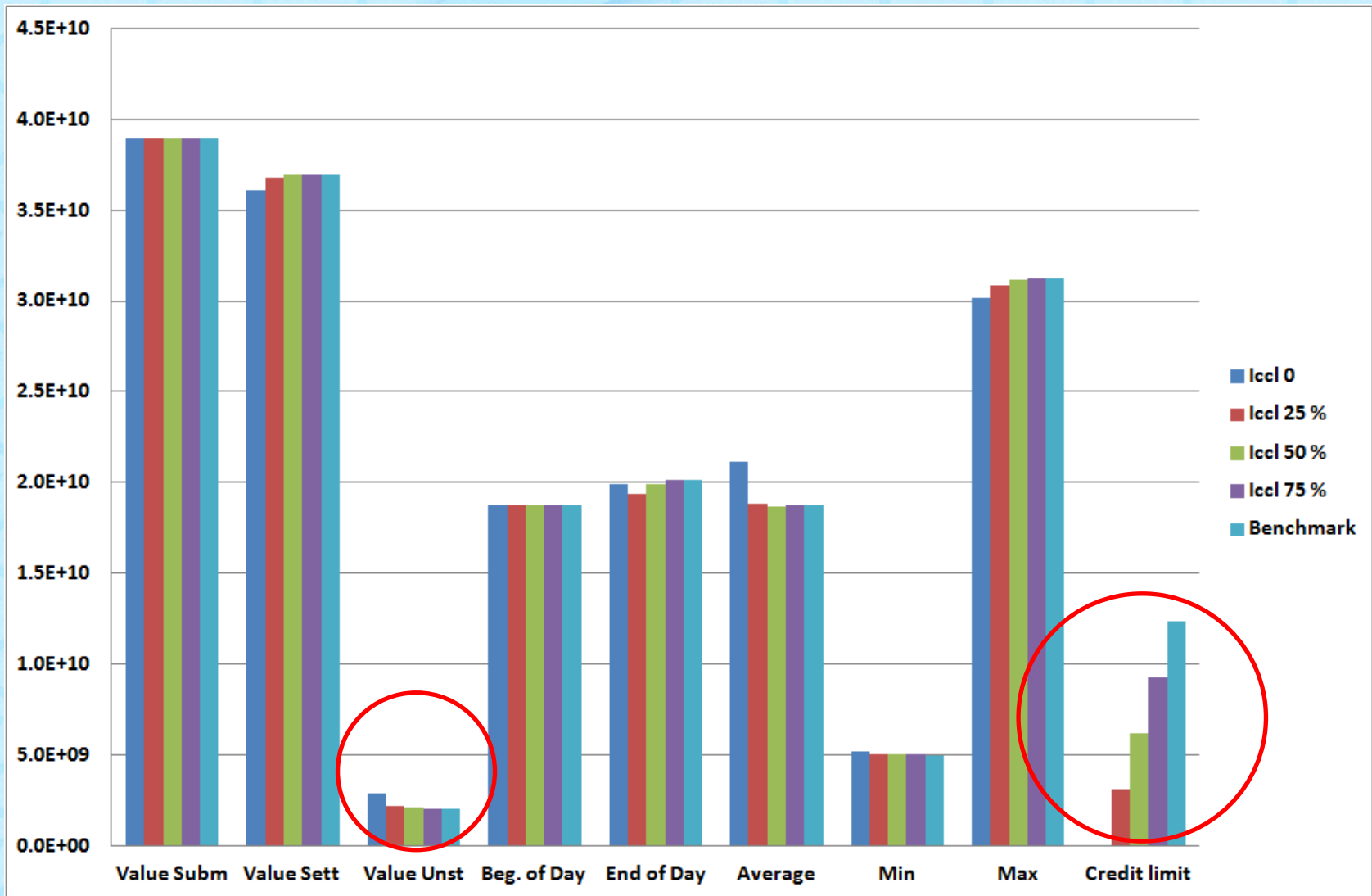
Variables

- ◆ Beginning of day balance [0, 25%, 50%, 75%, 100%]
- ◆ Credit limit [0, 25%, 50%, 75%, 100%]
- ◆ Cross-border transactions [DE, DK, NL]
- ◆ Domestic participant – drop out
- ◆ Domestic participant – not sending

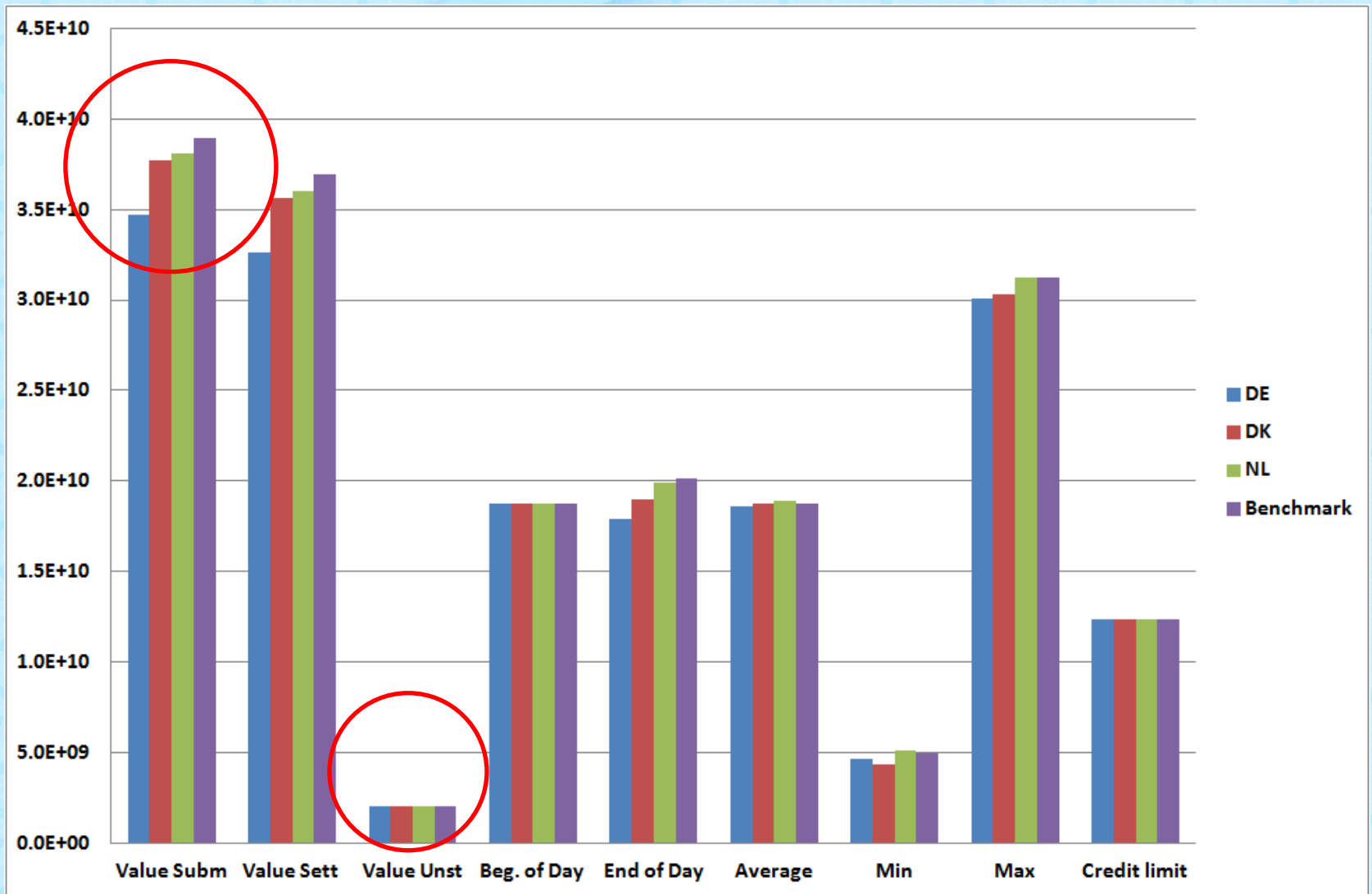
Variable – Beginning of Day Balance



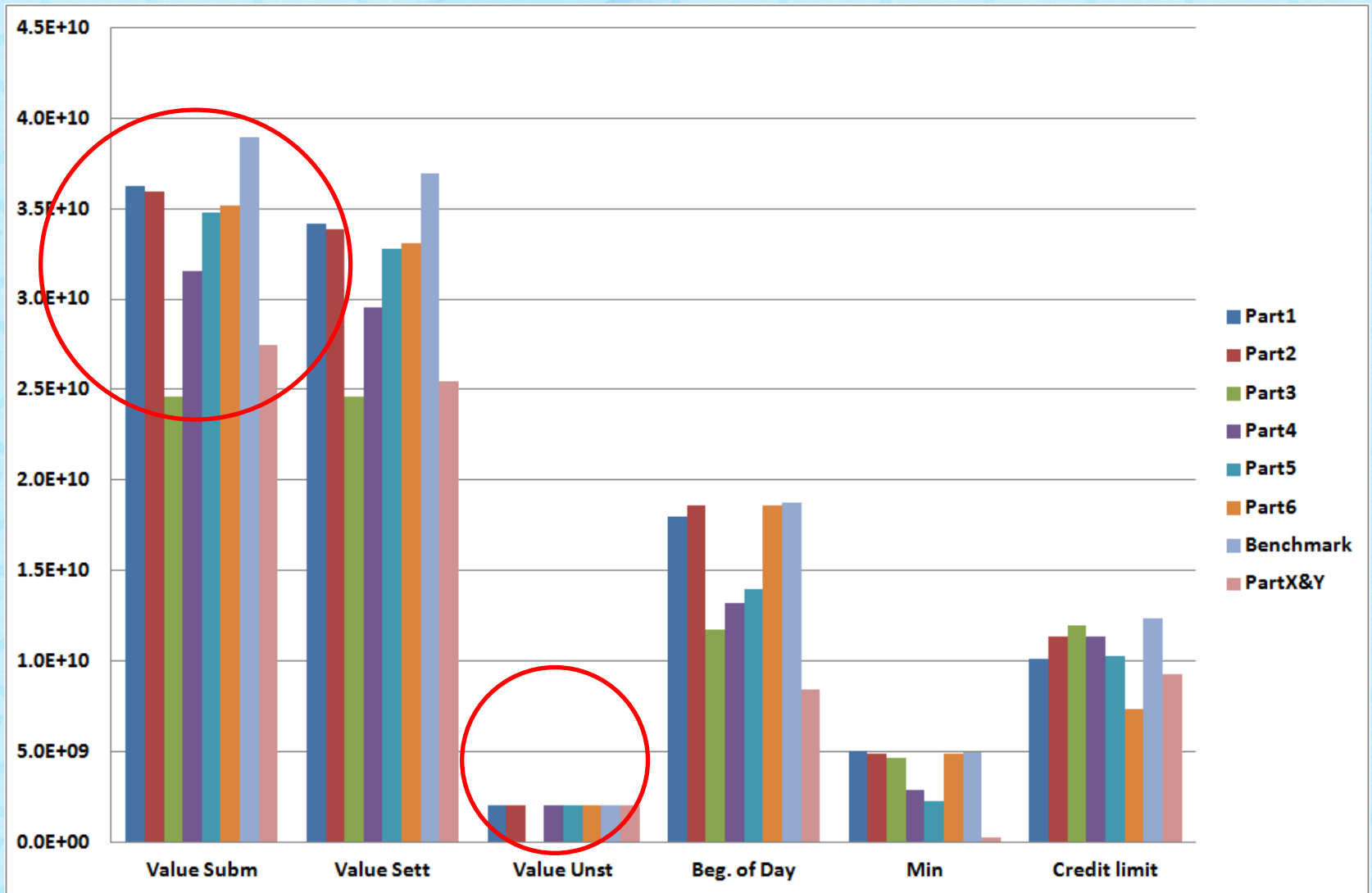
Variable - Credit Limit



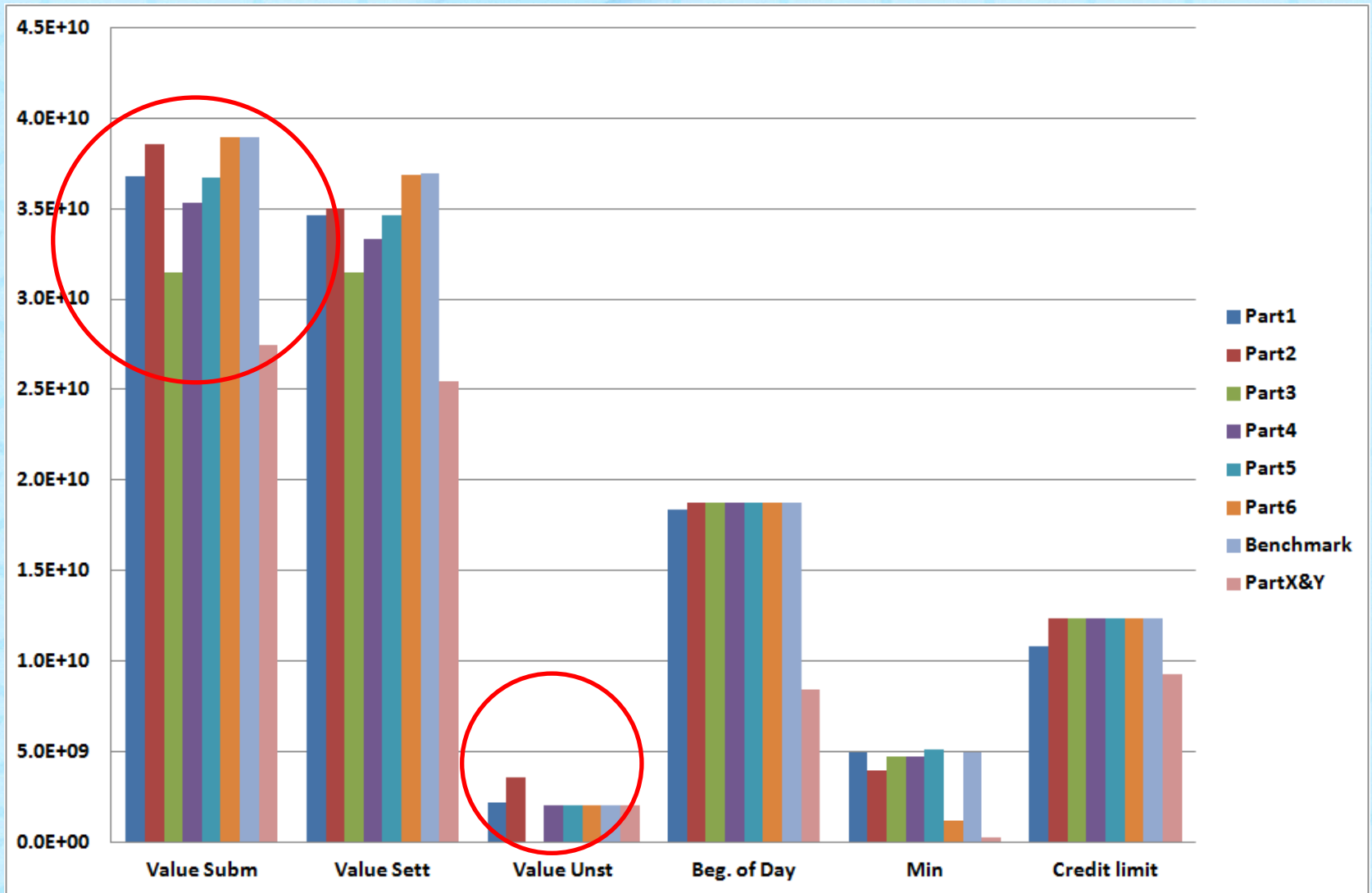
Variable – Cross-border Transactions



Variable - Domestic Participant



Domestic Participant – Not Sending



Results - summary

- ◆ Finnish experience - No news, good news
- ◆ Simulator studies payment profiles and reveals root cause dependencies
- ◆ This information can be used to support financial stability analysis and FSA analysis
- ◆ This analysis should be made on frequent basis
- ◆ User experience:
 - work flow could be more automated
 - ready-made output reports / queries