

Interbank Money Market

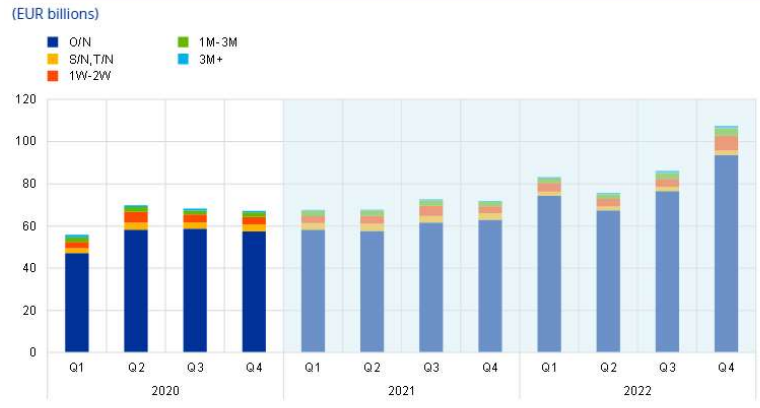
Belfius & Barclays

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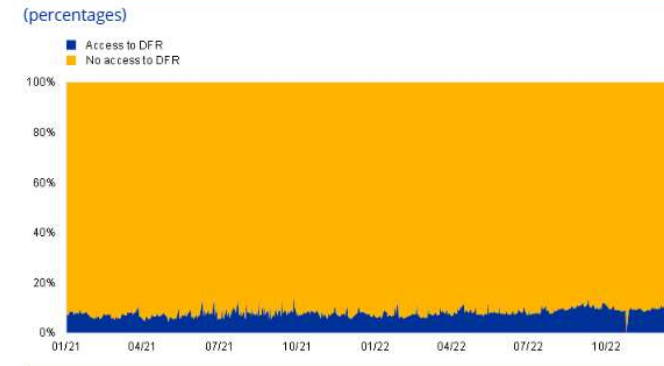
Are Interbank Money Markets a thing of the past

Quarterly daily average volume traded by maturity bucket



Source: MMSR.

Percentage of unsecured lending and borrowing volumes across counterparties with and without access to the DFR



Source: MMSR.

- Interbank deposits increased during 2022
- Primarily overnight placements
- Percentage of overnight vs term increasing
- Vast majority from counterparties with no DFR access
 - Is this parking of liquidity as opposed to 'Interbank lending'
- Increased volumes as no longer zero rate environment
- Differences between large bank vs small bank

Interbank Money Markets...how has the market evolved

Balance Sheet & Ratios

- Anything deposit less than 30 days is liquidity ratio detrimental
 - Eg. $5/4 = 125\%$ vs $6/5 = 120\%$
- Balance sheet gross up
- Capital intensive for lender
- Return on RWA / Leverage too low
- Adverse NSFR impact for longer tenors
- Cross border impact post Brexit
- Internal currency rebalancing done via FX swaps

Crisis

- Activity reduces during crisis / flight to quality
- Fear of domestic contagion
- Quicker bank runs due to digitalization

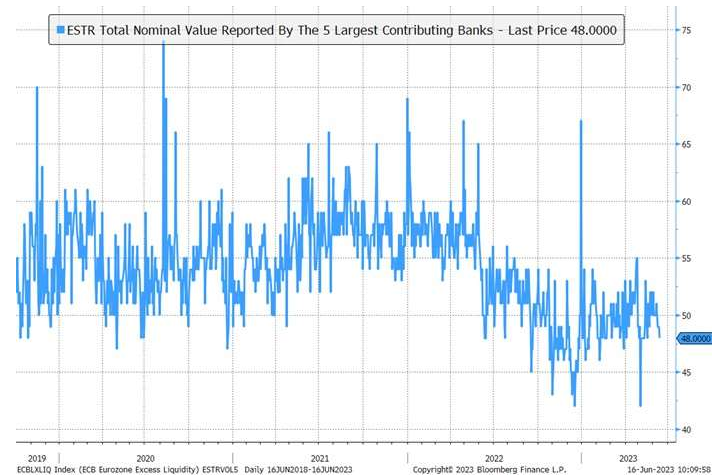
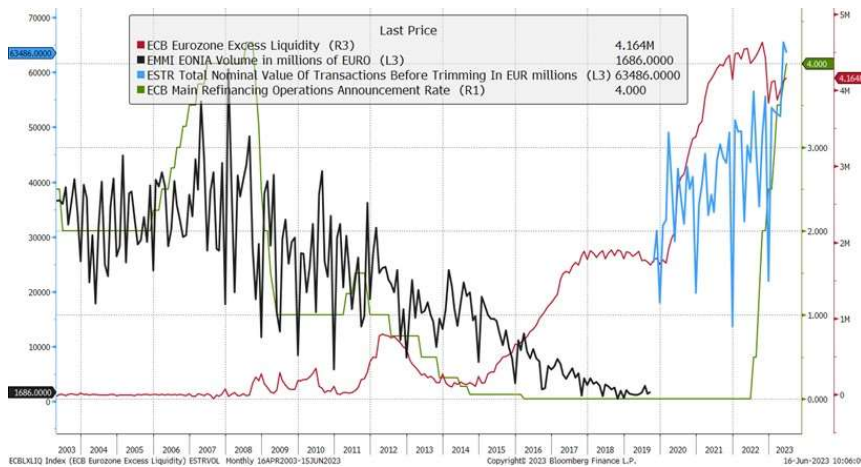
Interbank Money Markets...how has the market evolved

Monetary Policy

- LCR surpluses reduce need for short term liquidity
- Overall surplus liquidity (QE) reduces need for funding
- Hiking cycle increases cost of funding but not via Interbank

Alternatives

- Product innovation : notice accounts, collateral swaps, fee based borrows, secured activity
- Direct dealing vs Broker for wholesale (CP, CD) vs Interbank
- Less successful cross border platforms for interbank compared with repo / FX swap product



Options to support Interbank Money Markets

- All Bank CD / CP pledgable as ECB collateral to encourage a liquidity secondary market
- Introduce sterilisation operations
- Corridor vs floor model
- Exempt DFR placements from leverage ratio
- Tweak LCR / NSFR metrics
- Reduce RWA on interbank loans
- ECB acts as central clearer on interbank unsecured trades
- Promoting Interbank platforms and digitalisation

Implications of the absence of Interbank market

- Benchmark calculations
- Reduced monetary policy transmission
- More reliance on central bank in times of crisis
- Could increase cost of funding for banks
- Increase rate instability

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