Net Stable Funding Ratio and Liquidity Hoarding

Martin Windl*

University of Augsburg

Abstract

The Net Stable Funding Ratio ($NSFR$) as a component of the Basel III liquidity requirements seeks to limit maturity transformation of banks. This paper deals with the question if this form of regulation also influences liquidity hoarding motives and stability of interbank markets. Therefore the model introduces regulation into a two-period framework with asymmetric information and stochastic credit risk based on Acharya and Skeie (2011). It results that the $NSFR$ increases the bid-ask spread on the interbank market due regulatory costs. Furthermore, institutional observability increases regulatory pressure and decreases liquidity hoarding motives of banks following from asymmetric information.

Keywords: Basel III, regulation, liquidity hoarding
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*Faculty of Business Administration and Economics, University of Augsburg, D-86135 Augsburg, Germany, e-mail: Martin.Windl@wiwi.uni-augsburg.de