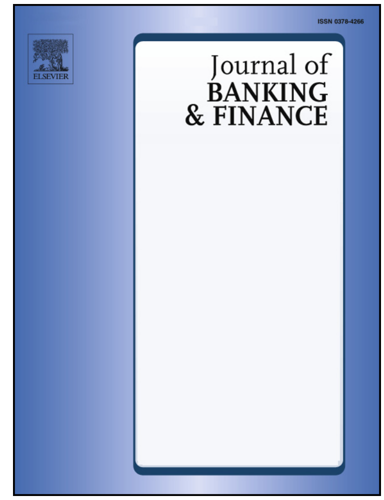

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Do Banks Actively Manage their Liquidity?

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Abstract: We test whether and how U.S. commercial banks actively managed their liquidity positions between 1992 and 2012, prior to the implementation of the Basel III liquidity rules. On average, the data are consistent with a liquidity management regime in which banks targeted the traditional loans-to-core deposits (LTCD) ratio. Perhaps surprisingly, the data are also consistent on average with the net stable funding ratio (NSFR), a regulatory liquidity ratio that was not formally introduced by the Bank for International Settlements until 2010. We find evidence of LTCD and (implicit) NSFR targeting at banks of all sizes, but concordance is strongest for small banks and weakest for so-called SIFI banks. As banks increase in size, they set lower liquidity targets—often in violation of the coming Basel III standards—but manage those targets more efficiently.

JEL Codes: G21, G28
Key words: commercial banks, core deposits, liquidity management, partial adjustment models

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