

THE BANK LIQUIDITY SMILE ACROSS EXCHANGE RATE REGIMES

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Abstract:

Combining panel data on bank liquidity at the individual level and data on their macroeconomic environment, for a sample of commercial banks in emerging countries between 1995 and 2000, we show that there exists a “bank liquidity smile across exchange rate regimes”. In extreme regimes at both ends of the line, i.e. for pure floating exchange rate regimes at one end and currency boards and dollarized economies at the other end, bank assets are more liquid than in intermediate regimes. This result seems to be very robust to changes in the definition of liquidity (we used different liquidity ratios), or the difference between official and *de facto* exchange rate regimes.