42nd Forum Financial Market Regulation of 23 March 2018

Safe Asset Shortages: Evidence from the European Government Bond Lending Market

The unique role of the government bond lending market in accessing safe assets during periods of market stress is in the focus of this presentation. Using a novel database, the paper provide evidence that safe assets in the lending market have higher demand, higher borrowing cost, and higher usage of non-cash collateral relative to non-safe assets during stressed market conditions. Moreover, it is found that market participants are able to obtain safe assets using relatively low-quality non-cash collateral, allowing for collateral transformation. These attributes are important since they increase the velocity of safe assets, and hence alleviate the pressure of safe asset shortages. It is shown that policy interventions by central banks can help reduce safe asset shortages by returning sought-after safe assets to the market.

Agenda

12:15 p.m.   Welcome
             Prof. Alexander Wagner (University of Zurich, Dept. of Banking & Finance)

12:20 p.m.   Presentation
             Prof. Luc Laeven (Director-General, Research Dept., ECB)

01:30 p.m.   End of the event

This special seminar is held jointly with the Department of Banking & Finance at the University of Zurich, Plattenstrasse 14, 8032 Zürich.