IWH-IBL
International Banking Library

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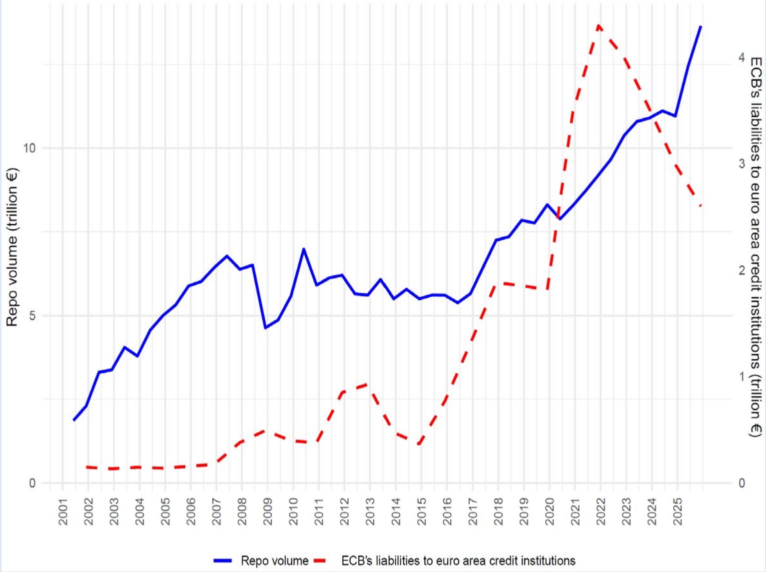
The International Banking Library (IBL)

is a web-based platform for the exchange of research on cross-border banking. The IBL-Newsletter addresses researchers working on topics related to international banking and provides the latest updates on new research and conferences in the field. The **47th issue** of the newsletter presents recent research on how banks manage and allocate their liquidity.

The euro area repo market as a substitute for central bank liquidity

The chart shows the evolution of euro area repo market volumes and ECB liabilities to euro area credit institutions between 2001 and 2025. Repo market volume (blue, left axis) has grown continuously from around €2 trillion in 2001 to over €12 trillion in 2025, while stagnating between 2007 and 2017. ECB liabilities to credit institutions (red dashed, right axis) rose sharply starting from the financial crisis of 2007/08, peaking at over €4 trillion around 2022 before declining again. Notably, the two series move in opposite directions in recent years: as ECB liabilities to euro area credit institutions contracted, repo market volumes continued to surge. This divergence suggests that banks have turned to the private repo market to manage their liquidity needs as central bank reserves contract.

Repo Market Growth and ECB Liabilities to Euro Area Credit Institutions



Source: Own illustration based on data provided by the ICMA European Repo Market Survey (2026) and the European Central Bank (2026).

Editors' Note: Comments and suggestions are welcome! Bankinglibrary.com is supported by the Halle Institute for Economic Research and Leipzig University.

At the Research Frontier

What's new in international banking?

- **States as Financiers: International Lending in War and Peace**
  Sebastian Horn, Carmen M. Reinhart, and Christoph Trebesch (2026), NBER Working Paper 35225.

- **The Trafalgar Squeeze of Global Liquidity**
  Vincent Bignon, Benoit Mojon and Miguel Ortiz Serrano (2026), BIS Working Paper 1347.

- **The Cyclicality of Direct Lending**
  Franz J. Hinzen, Giorgio Mondini, Paul Rintamäki and Sascha Steffen (2026), SSRN Working Paper 6490423.

Quarterly Selected Study

The Editors' Pick

Liquidity Regulation and Bank Funding Costs

Iñaki Aldasoro, Sebastian Doerr and Haonan Zhou (2026), *BIS Working Papers No. 1352*.

- **Research Question**: Does the Liquidity Coverage Ratio (LCR) causally reduce banks' wholesale funding costs?

- **Data:** The study uses monthly instrument-level data on U.S. MMF portfolio holdings from Crane Data, based on SEC regulatory filings (N-MFP forms), covering 223 distinct funds across 72 fund families lending to 28 banks between February 2011 and December 2015. The dataset includes granular position-level information on investment amounts, instrument types, remaining maturities, and annualized yields.

- **Main Findings:** The paper provides causal, instrument-level evidence that the Liquidity Coverage Ratio (LCR), a cornerstone of the Basel III regulatory framework, significantly lowered banks' wholesale funding costs. A one-standard-deviation increase in the pre-regulation LCR gap is associated with a reduction in wholesale funding costs of about 8%. This effect is more pronounced for longer-maturity instruments, as funding costs decline more strongly for banks with greater LCR exposure. Additionally, these banks shift their borrowing away from shorter-term and toward longer-term instruments.

Articles and Posts

Latest Updates

- **Lending operations are back: Lessons from German banks**
  Daniel Fricke and Franziska Schobert revisit the pre-GFC experience of German banks to draw lessons for the Eurosystem as lending operations regain importance. The evidence shows that banks were operationally ready to access central bank reserves when needed.
- **How cross-border NBFI flows constrain financing for euro area firms**
  In this ECB Blog, experts analyse two trends weighing on financing for euro area firms. NBFIs have shifted portfolios towards US equities at the expense of European assets, while banks have increased lending to foreign NBFIs rather than domestic firms. Together, these cross-border flows slow the recovery in firm financing and complicate monetary policy transmission.
- **Stablecoins and the international monetary and financial system**
  Aldasoro, Frost and Ito (BIS) analyse how widespread stablecoin adoption could affect the international monetary and financial system, with risks for emerging market and developing economies. The authors develop three scenarios ranging from niche adoption to digital dollarisation and domestic integration.
- **New Historical Financial Data**
  Sergio Correia, Stephan Luck and Emil Verner have compiled a new publicly available data resource containing information on bank balance sheets, bank runs, and bank failures from the 19th century to the present.

Research Agenda

Forthcoming Conferences

- **Bank of Greece / ECB Workshop on "Unintended consequences of macroprudential policy"**
  Athens, Greece | October 15, 2026
  CfP deadline: August 21, 2026
- **International Conference on Trade Wars, Geopolitical Fragmentation and Repercussions for Financial and Monetary Stability**
  London, United Kingdom | November 4-5, 2026
  CfP deadline: September 01, 2026
- **5th ASB/Banco Central de Chile/CEPR/ERSA Workshop on Macroeconomic Policy in Emerging Markets**
  Pretoria, South Africa | January 14-15, 2027
  CfP deadline: September 15, 2026