

Banks as a safe haven for depositors: Interest rates, regulations, and interbank markets *

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ABSTRACT One of the challenges of modern banks is providing uninsured wholesale depositors with a safe haven. We model banks deciding their own capital and liquidity levels in a forward-looking manner to absorb an exogenous shock to their investment through interbank trading. A regulatory framework consisting of the upper bound of the interbank rate and regulatory minimums on both capital and liquidity is required to secure the safety of deposits by preventing banks from expropriating depositors to suit the interests of shareholders. Ex-post intervention must influence the reservation rate of depositors, as it provides the lower bound of the interbank rate.

Keywords Wholesale deposits; Interbank market; Financial shock; Banking regulations

JEL Codes G21, G28, D86

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