

Corporate Dash for Cash in the Midst of COVID and Implications for Banks

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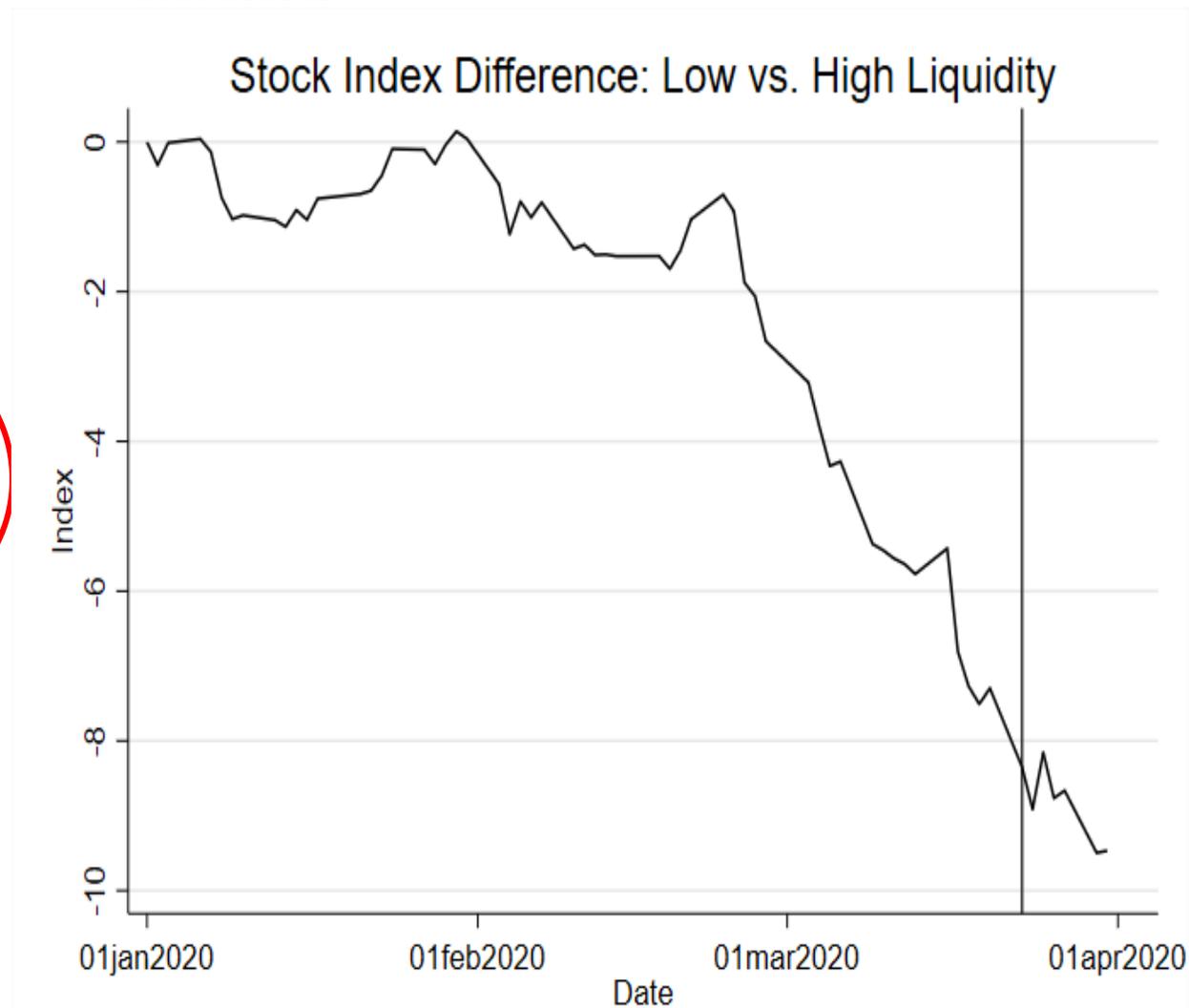
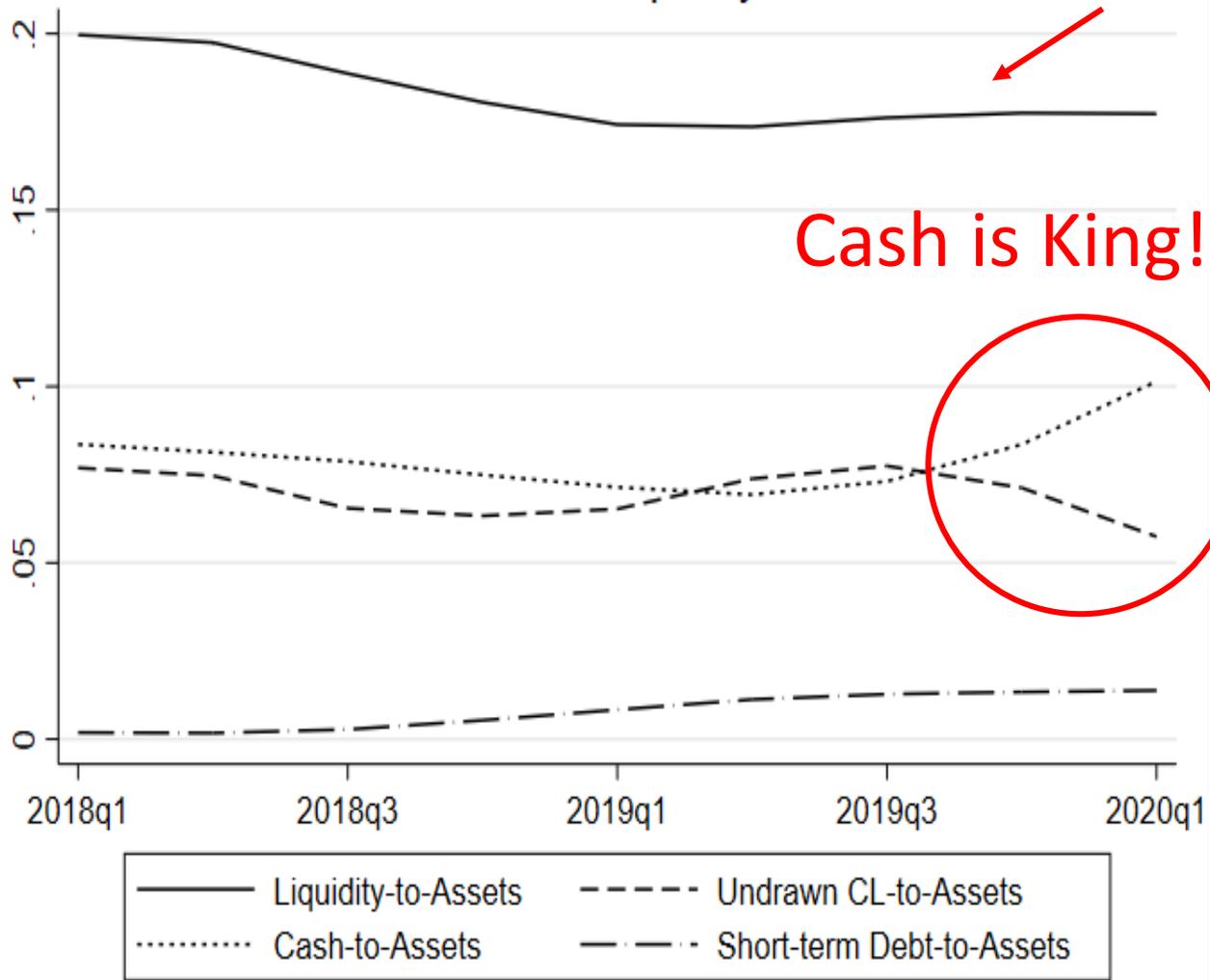
(Frankfurt School)

19 November 2020

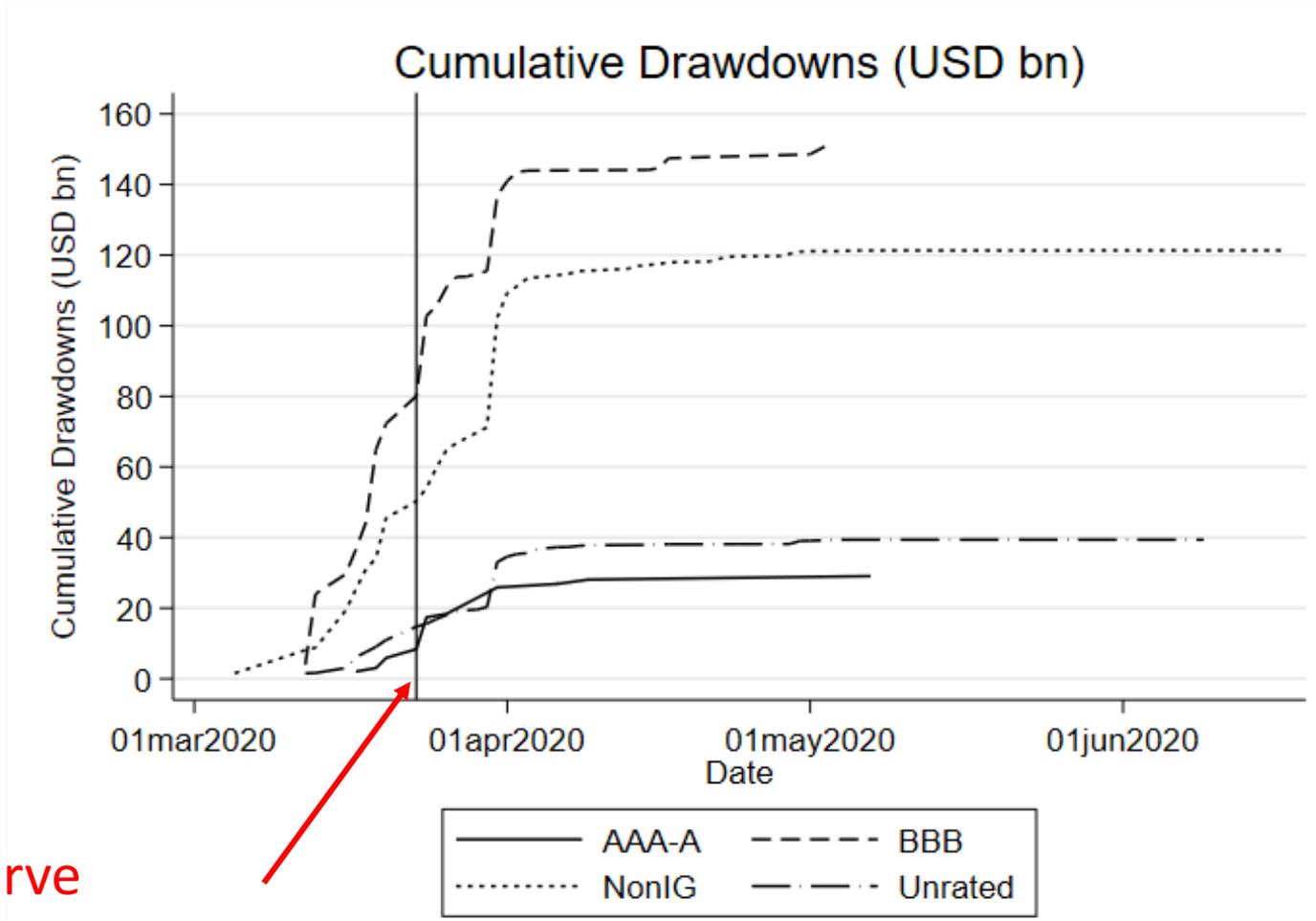
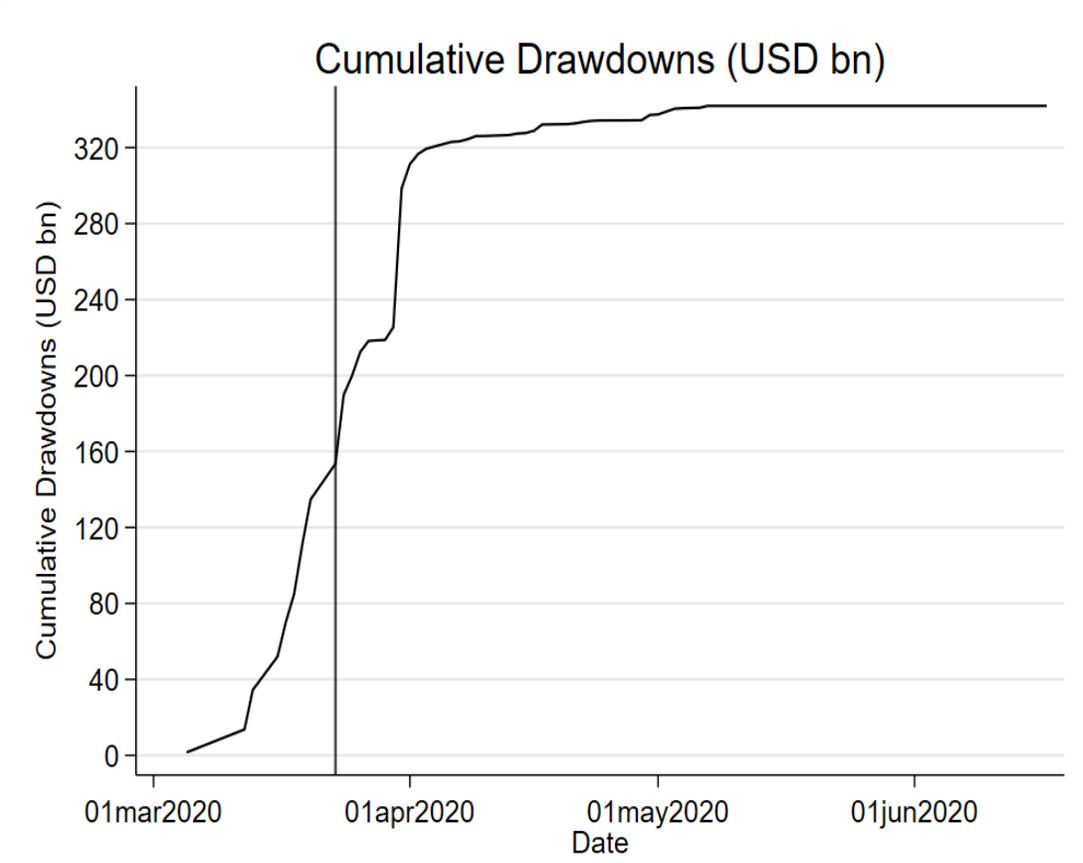
Presentation at Federal Reserve Bank of Cleveland

Firms increased cash-asset ratios and decrease undrawn credit in Q1 2020

$$\text{Liquidity} = \frac{\text{Unused credit lines} + \text{cash and short term investments} - \text{short term debt}}{\text{Total assets}}$$

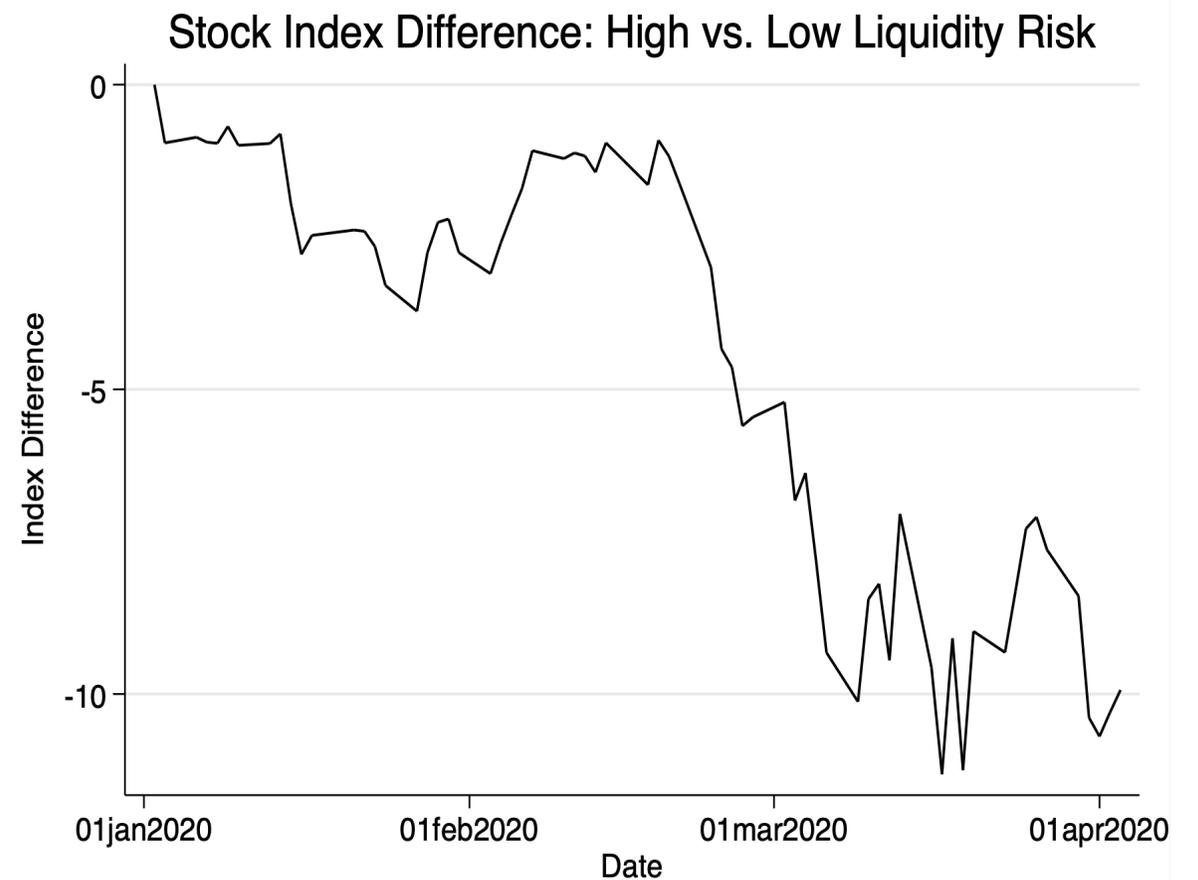
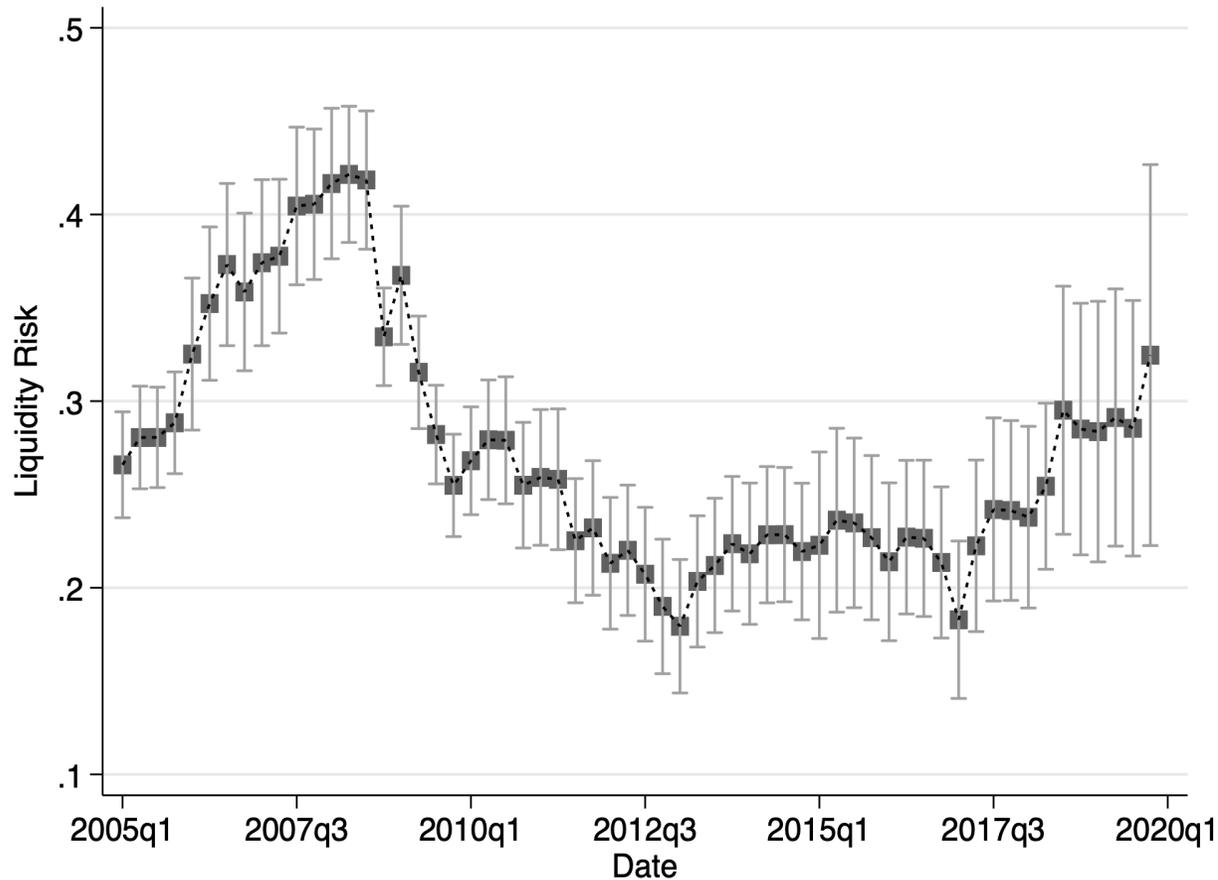


Unprecedented drawdown rate on bank credit lines since early March



Federal Reserve announced the corporate bond buying program

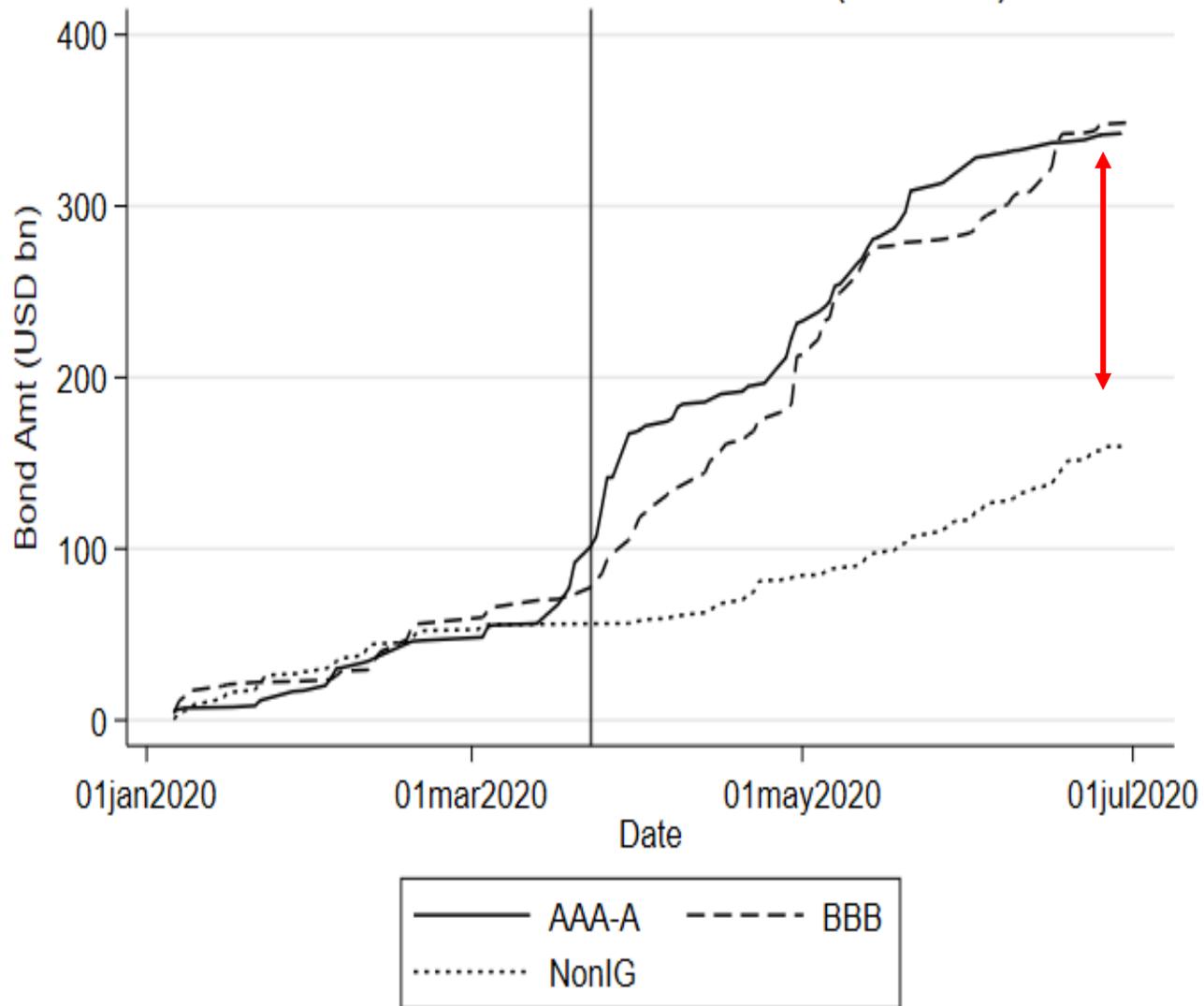
$$\text{Liquidity Risk of a Bank} = \frac{\text{Credit Lines} + \text{Wholesale Funding} - \text{Liquidity}}{\text{Total Assets}}$$



- Bank balance-sheet liquidity risk not as high as pre-2007 but was rising (particularly because of unused commitments)

IG-rated firms benefited most from Fed; LCs being repaid with bonds

Cumulative Bond Issuances (USD bn)



Difference in Yield-to-Maturity

