The Determinants of Bank Liquid Asset Holdings

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Date:2022-08-01

Keyword:NA

Url:[click here](https://www.nber.org/papers/w30340)

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From:NEBR-working\_paper

Bank liquid asset holdings vary significantly across banks and through time. The determinants of liquid asset holdings from the corporate finance literature are not useful to predict banks’ liquid asset holdings. Banks have an investment motive to hold liquid assets, so that when their lending opportunities are better, they hold fewer liquid assets. We find strong support for the investment motive. Large banks hold much more liquid assets after the Global Financial Crisis (GFC), and this change cannot be explained using models of liquid asset holdings estimated before the GFC. We find evidence supportive of the hypothesis that the increase in liquid assets of large banks is due at least in part to the post-GFC regulatory changes.