# Journal Essays on Economic Policy (ESPE) - Uncertainty in the money supply mechanism and interbank markets in Colombia

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We set a dynamic stochastic model for the interbank daily market for funds in Colombia. The framework features exogenous reserve requirements and requirement period, competitive trading among heterogeneous commercial banks, daily open market operations held by the Central Bank (auctions and window facilities), and idiosyncratic demand shocks and uncertainty in the daily auction. Analytical derivations of their decision making process show that banks involvement in the interbank market and open market operations depend on their individual requirement constraint and daily liquid assets. Our results do not show a linkage between the uncertainty in the money supply mechanism and activity in the interbank market. Equilibrium interest rate for the interbank market is derived, and is shown that it is distorted by uncertainty at the daily auction held by the monetary authority. Using data for Colombia, we test the main results of the model and corroborate the Martingale hypothesis for the interbank interest rate.

Fuente: https://www.banrep.gov.co/en/publications-research/espe/uncertainty-money-supply-mechanism-interbank