

# BHARAT SCHOOL OF BANKING

## LIBOR, MIBOR, MIBID

### Inter-Bank Offer Rate

When a bank offers **loan** to other banks (or any other financial institutions), then it **charges interest** on that loan. The **interest rates** charged on the loans vary from bank to bank. But these **rates** need to follow a **benchmark**, so that **interest rates** does not differ **too much** among them (meaning, it should not happen, that an X bank charges 10 % interest per annum on a loan, whereas, Y bank charges 20 % on the same type of loan, it should be at par)

Generally, **Inter-bank offer rate** is of **short-term** nature (**overnight to 1 year**), and is **followed** for deciding **interest rates** to be charged on the **loans** offered to other banks (refer **Call / Notice / Term Money**) (inter-bank market). It acts like a **benchmark** for deciding **interest rates**.

Several financial markets follow different **Inter-bank offer rates**, like -

- **London** Inter-Bank Offer Rate (**LIBOR**)
- **Mumbai** Inter-Bank Offer Rate (**MIBOR**)
- **Tokyo** Inter-Bank Offer Rate (**TIBOR**)
- **Singapore** Inter-Bank Offer Rate (**SIBOR**)
- **Hong Kong** Inter-Bank Offer Rate (**HIBOR**), etc.

### LIBOR

LIBOR was first published in **1986** for three **currencies** - **USD, GBP** (Great Britain Pound) and **JPY** (Japanese Yen). Later on several other **currencies** were added in the list (currently **10 currencies**). It is published **daily** at **11:30 A.M** (London time) by **Thomson Reuters**, and **Libor rates** are determined for **15 borrowing periods** (e.g., **overnight, 1 week, 2 weeks, 1 month**, etc. up to **1 year**).

Formerly the **Libor** was maintained by **British Bankers' Association (BBA)**, but the responsibility is now transferred to **Intercontinental Exchange**.

### How is Libor rate calculated?

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At **11:00 AM**, major **banks** (**18 major global banks** for the **USD Libor**) are called to participate on the **survey** asking for the **inter-bank offer rates**. The **highest four** and the **lowest four** interest rates (on the survey) are **trimmed** out (not used for calculation). Then the **remaining** (remaining **10** for **USD Libor**) interest rates are **averaged**, and makes the **Libor rate**.

Libor rate is published at **11:30 A.M.** This happens for all the **10 currencies**, taking **major banks** for **each currency**.

### **MIBOR**

MIBOR rate is for **Indian inter-bank market**, and is calculated on **daily basis** by **National Stock Exchange (NSE)**, along with **Fixed Income Money Market and Derivative Association of India (FIMMDA)**.

It is a **weighted average** of **lending rates** of a group of **banks** (including **Public Sector banks**, **Private Sector Banks**, **Primary Dealers**, **Foreign Banks** in India, etc.), on funds lent to **first-class borrowers** (well rated borrowers)

MIBOR is published on different timings (e.g., **9:40 A.M.**, **11:30 A.M.** etc), and for several **maturity periods** (e.g., **overnight**, **3 days**, **2 weeks**, **1 month**, etc.)

### **MIBID**

**Mumbai Inter-Bank Bid Rate (MIBID)** is the opposite of **MIBOR**. While **MIBOR** is the benchmark rate at which banks are willing to **offer loans** to other bank, **MIBID** is the benchmark rate at which **banks** are willing to **take loans** (paying the **MIBID** interest rate) from other banks.

Note that **MIBID** rate is always less than **MIBOR** rate, because, banks will try to **pay less interest** after taking loans, and will try to **get more interest** while **offering** loans. It is also the **weighted average** of interest rates at which several banks (taken as survey) are willing to pay.

Currently **FIMMDA** and **NSE** came with a new product, named as '**FIMMDA-NSE MIBID/MIBOR**' which acts like the **benchmark** for the **inter-bank market** in **India** (taking both **MIBOR** and **MIBID** together)

### **Products linked with LIBOR/MIBOR**

- Call, Notice, Term Money
- Forward Rate Agreements

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- Future Interest Rate
- Interest Rate Swaps (IRS)
- Swap Options
- Overnight Index Swaps, etc.

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