Discussion: Is There a Zero Lower Bound? By: ABGH

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Big questions

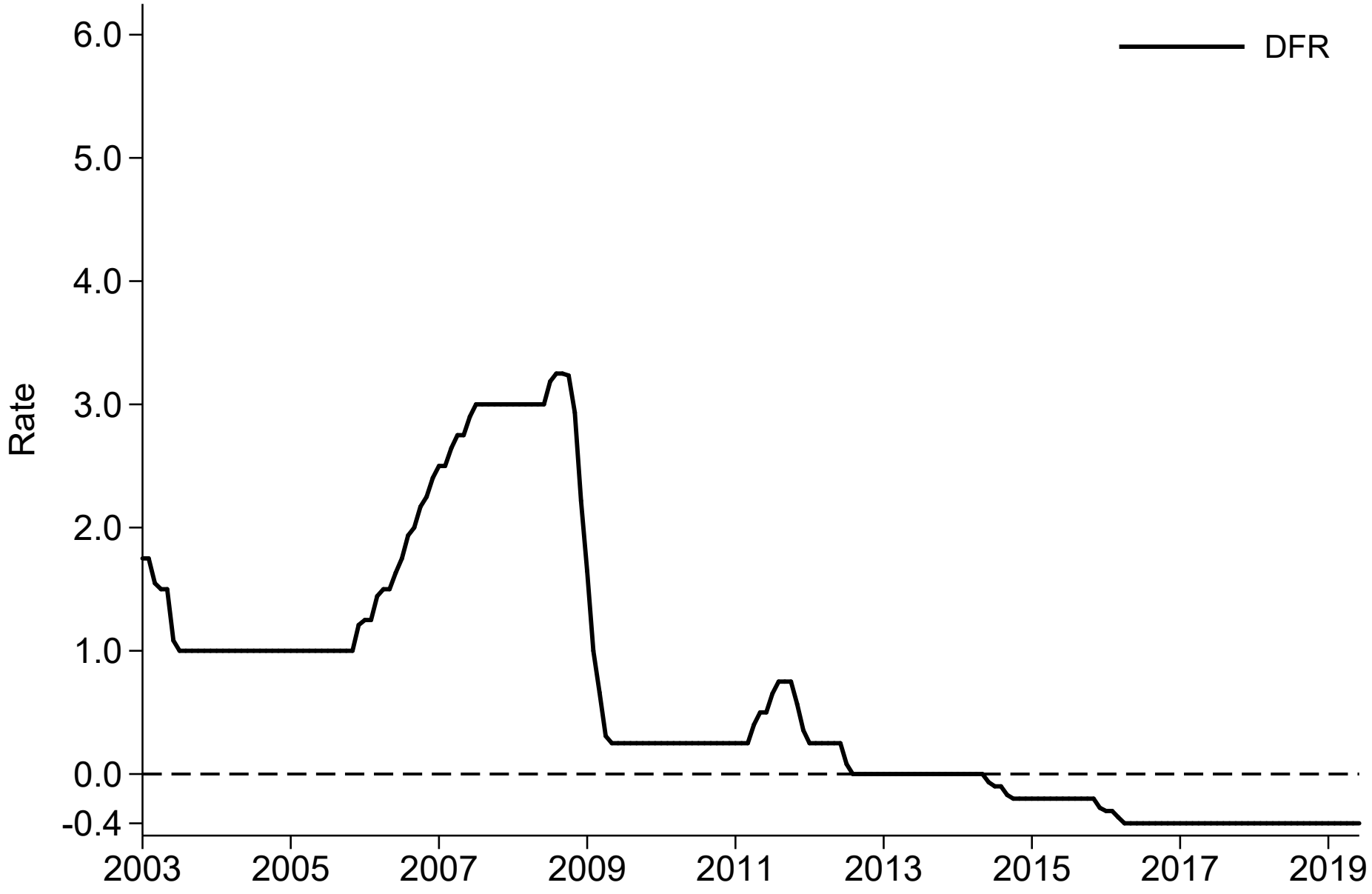
1. Do banks pass on NIRP?

2. Does NIRP lead to wanted benefits or unwanted side effects?
   - Benefits: loan rates fall, stimulating economy.
   - Side effect: lower NIM $\Rightarrow$ lower bank profits $\Rightarrow$ higher loan rates?
   - Side effect: lower NIM $\Rightarrow$ lower bank profits $\Rightarrow$ higher risk taking?

3. Is NIRP different from traditional monetary policy?

Large emerging literature: Basten, Mariathasan (WP); Bottero, Minoiu, Peydro, Polo, Presbitero, Sette (WP); Brunnermeier, Koby (WP); Claessens, Coleman, Donnelly (WP); Eggertsson, Julesrud, Summers, Wold (WP); Heider, Saidi, Schepens (RFS, 2019); Lopez, Rose, Spiegel (WP); Rognlie (WP); Ulate (WP).

Deposit rates



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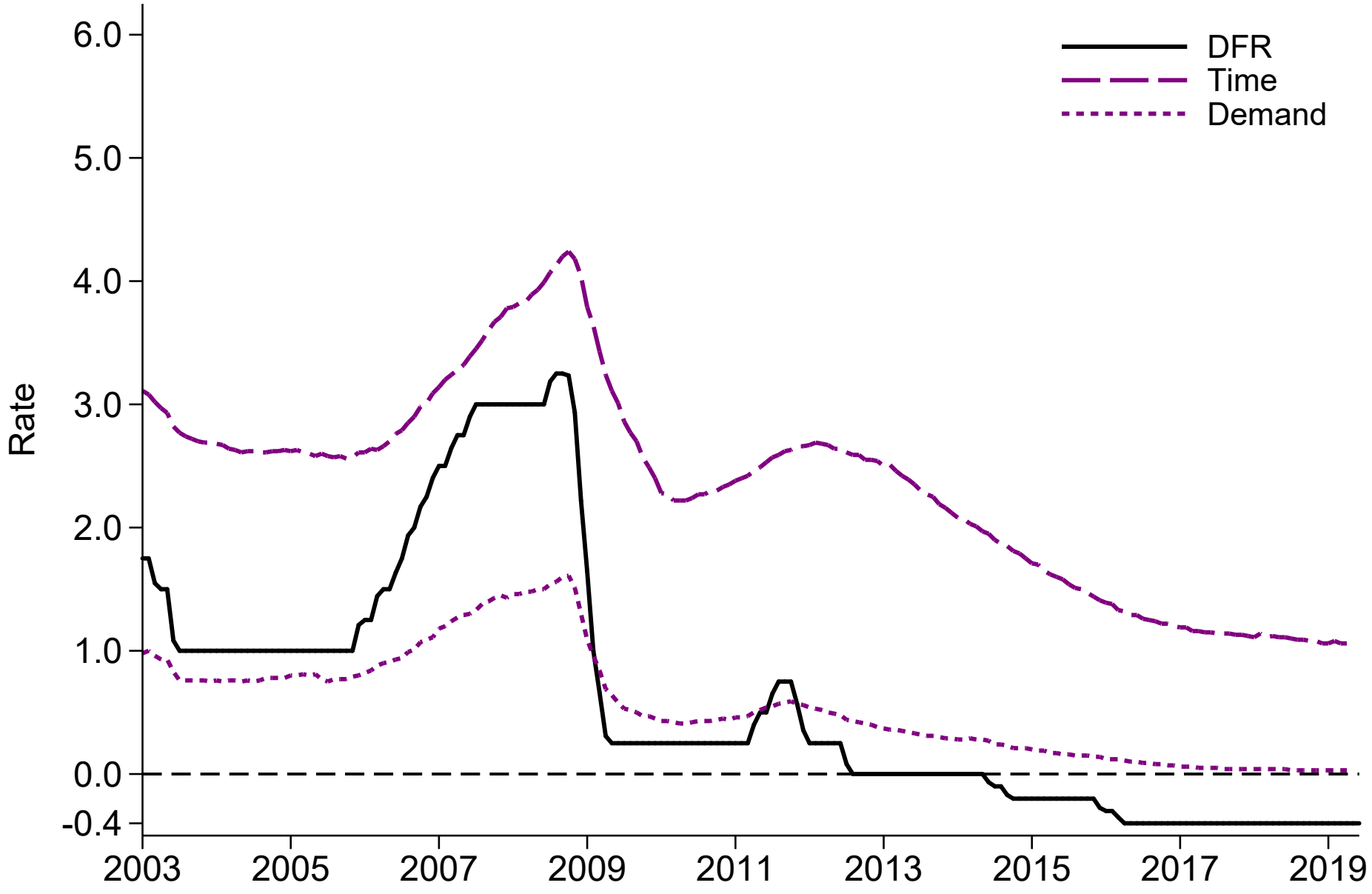

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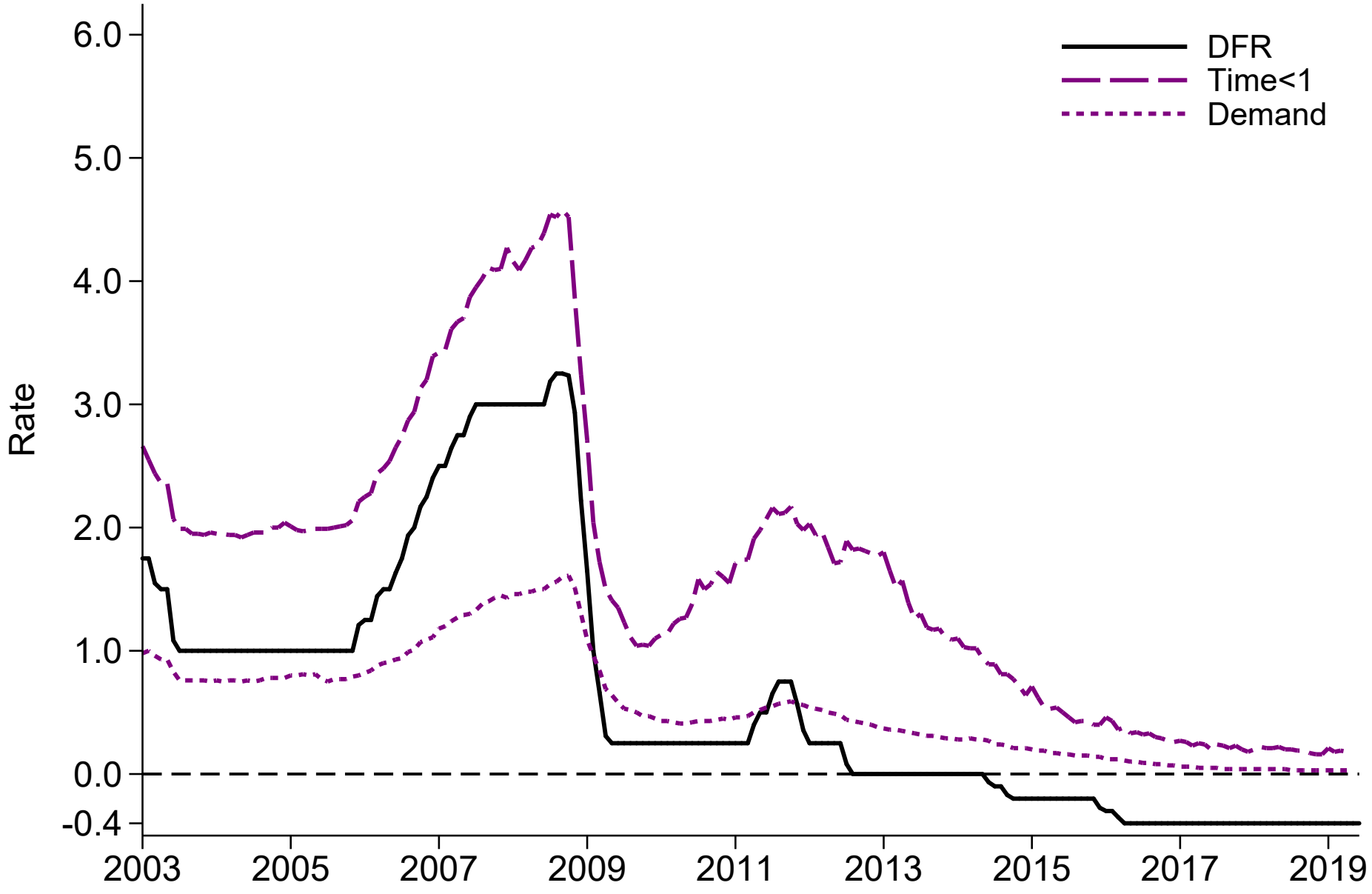

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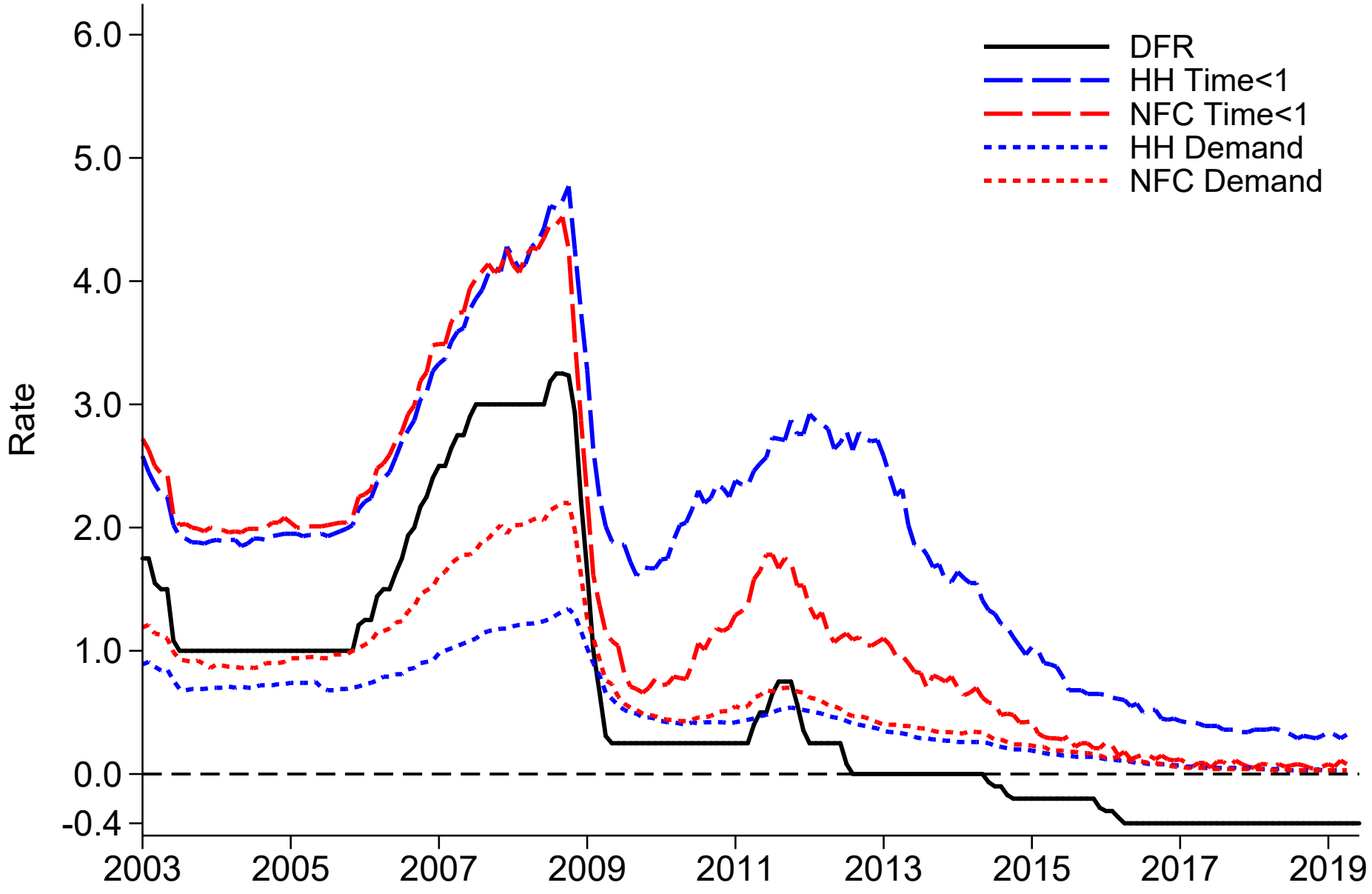
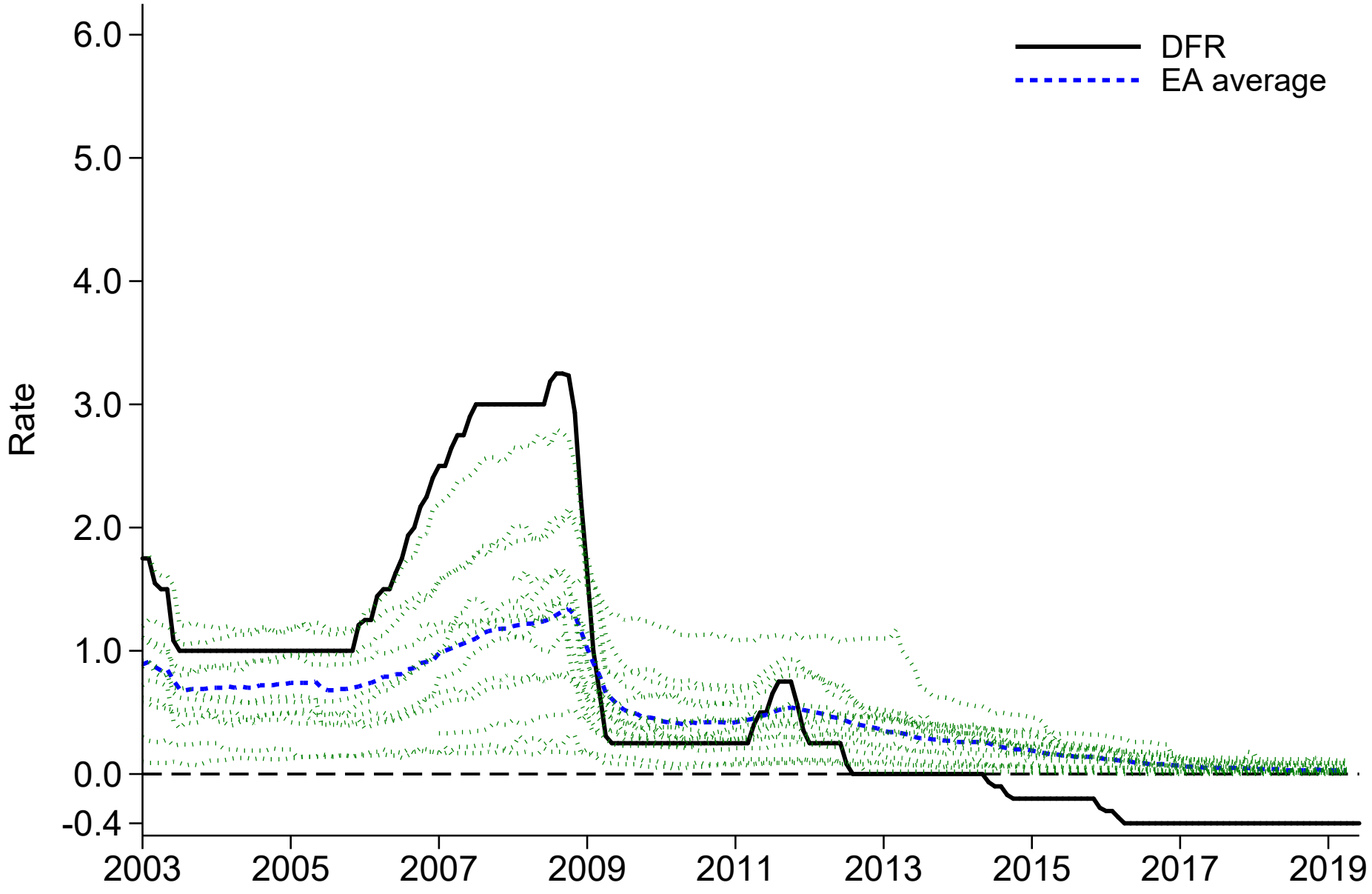
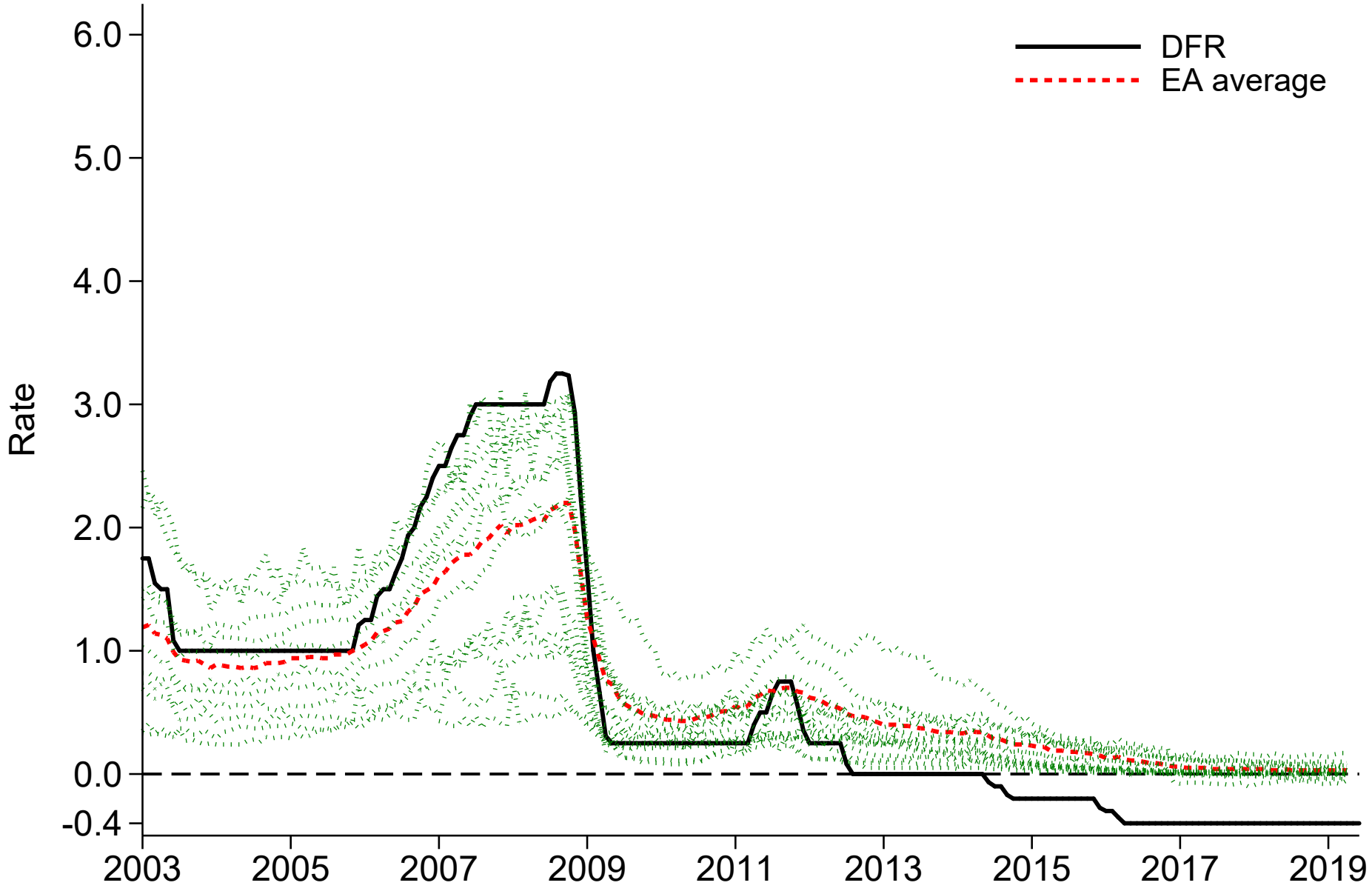


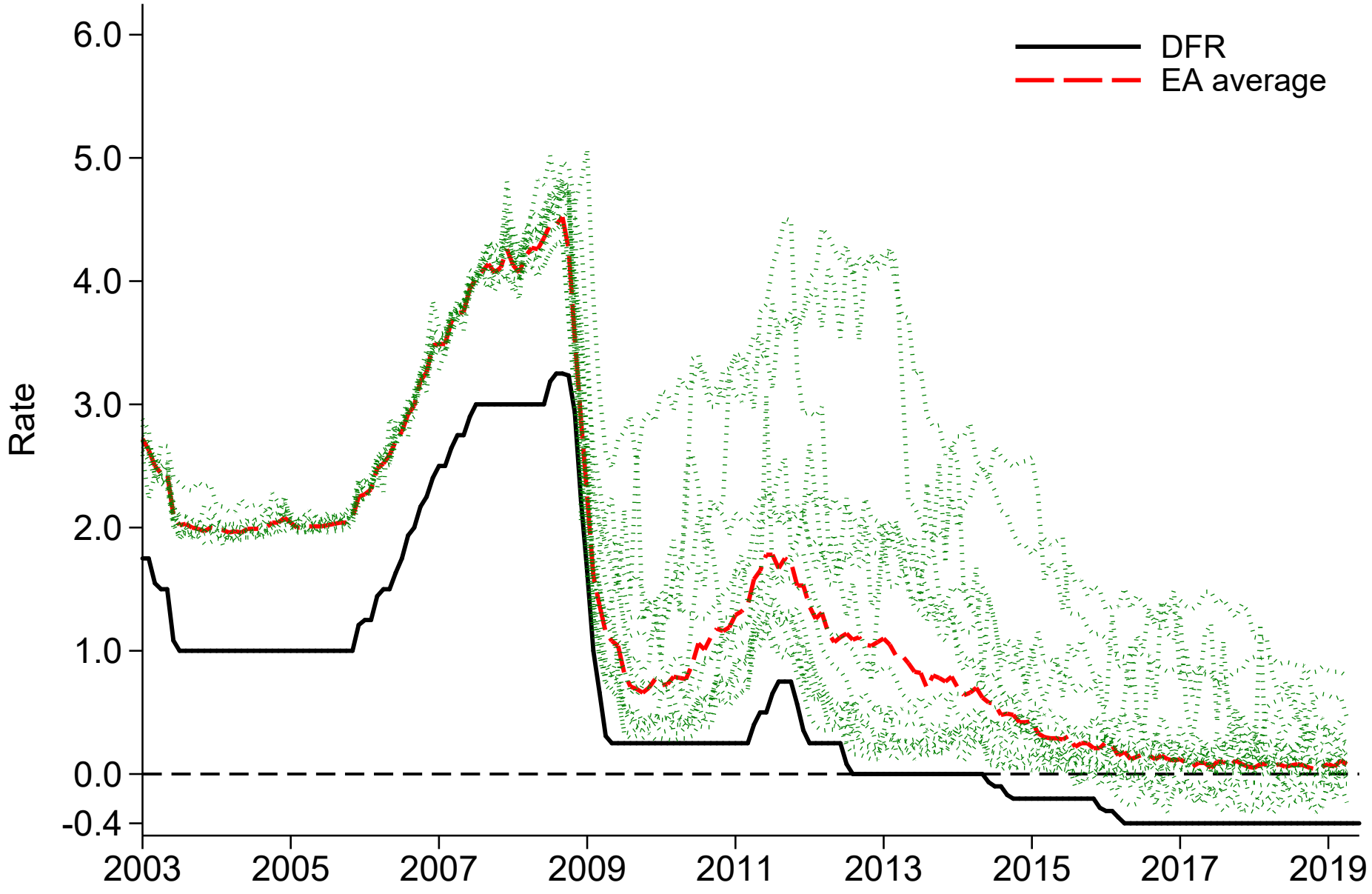
HH DEMAND DEPOSIT RATES, BY COUNTRY



NFC DEMAND DEPOSIT RATES, BY COUNTRY



NFC TIME<1 YEAR DEPOSIT RATES, BY COUNTRY



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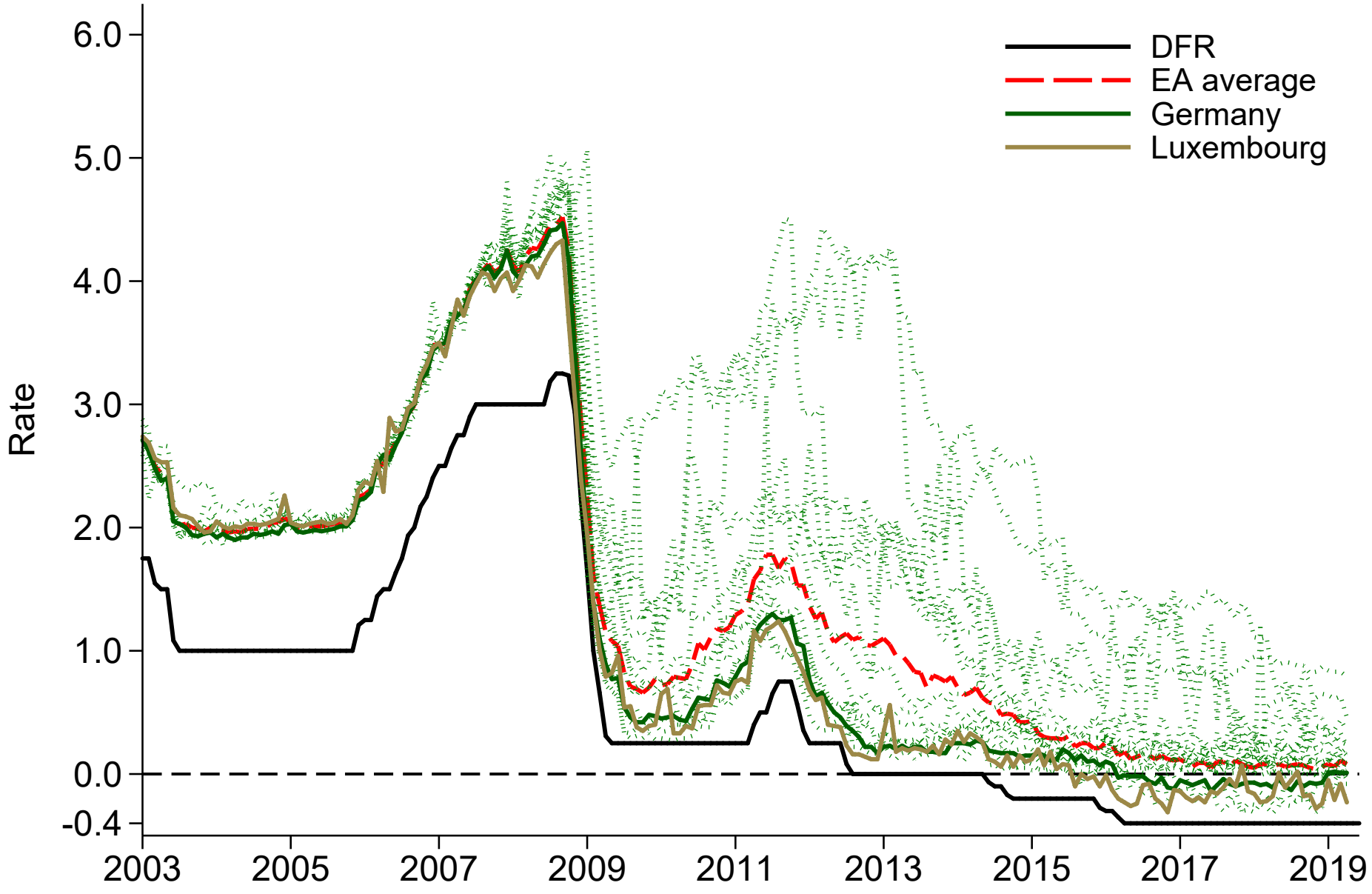

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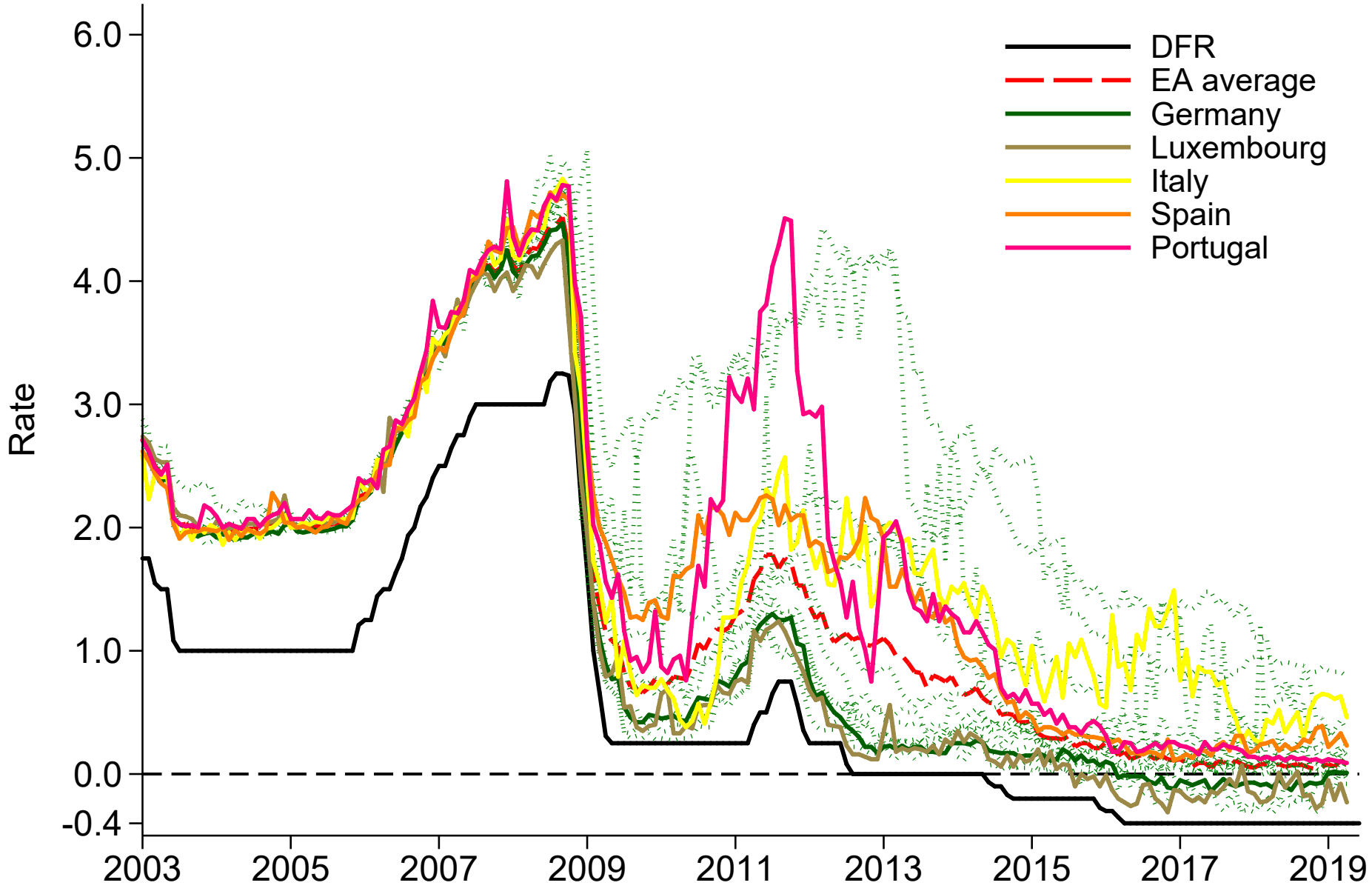

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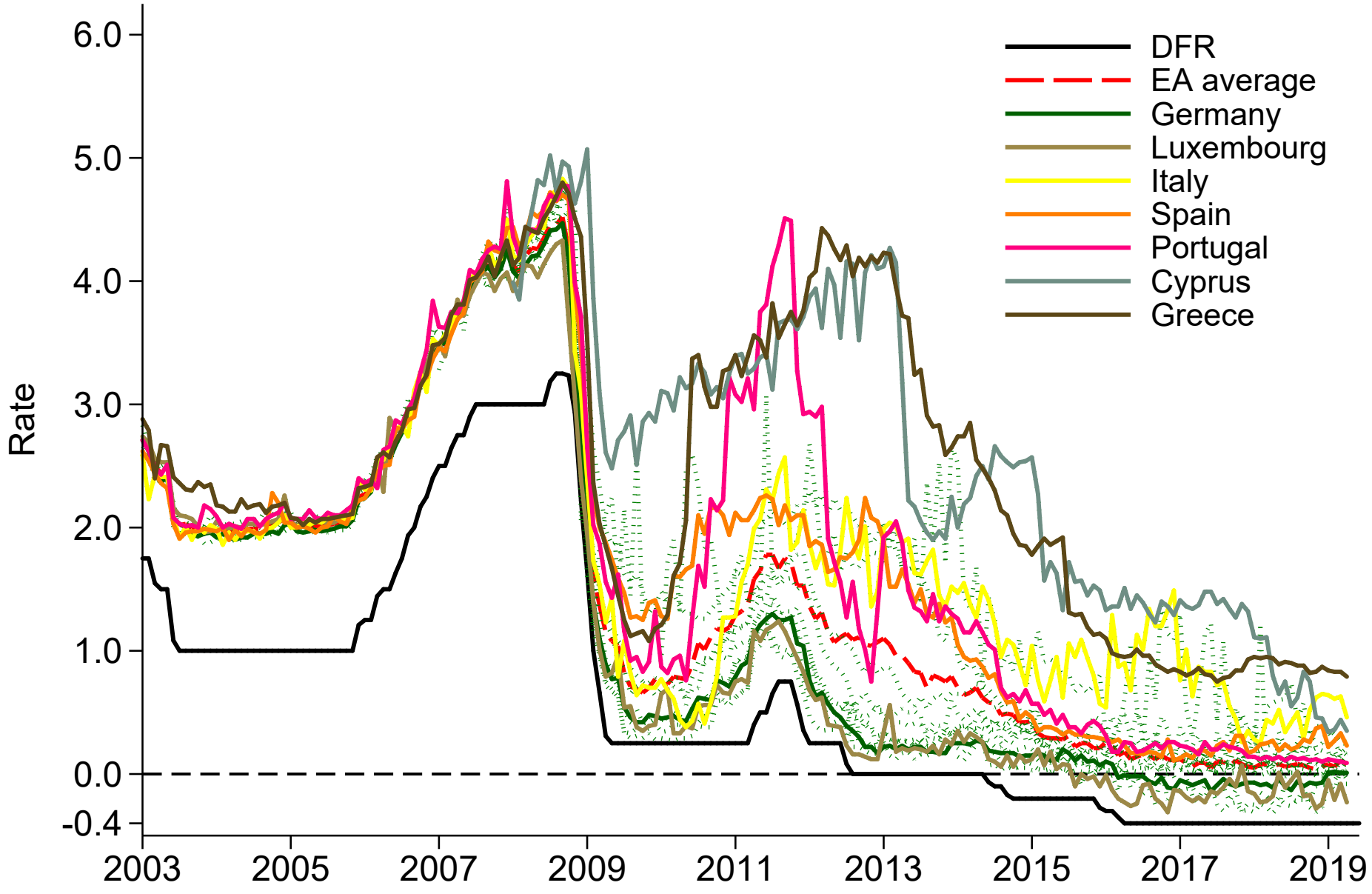

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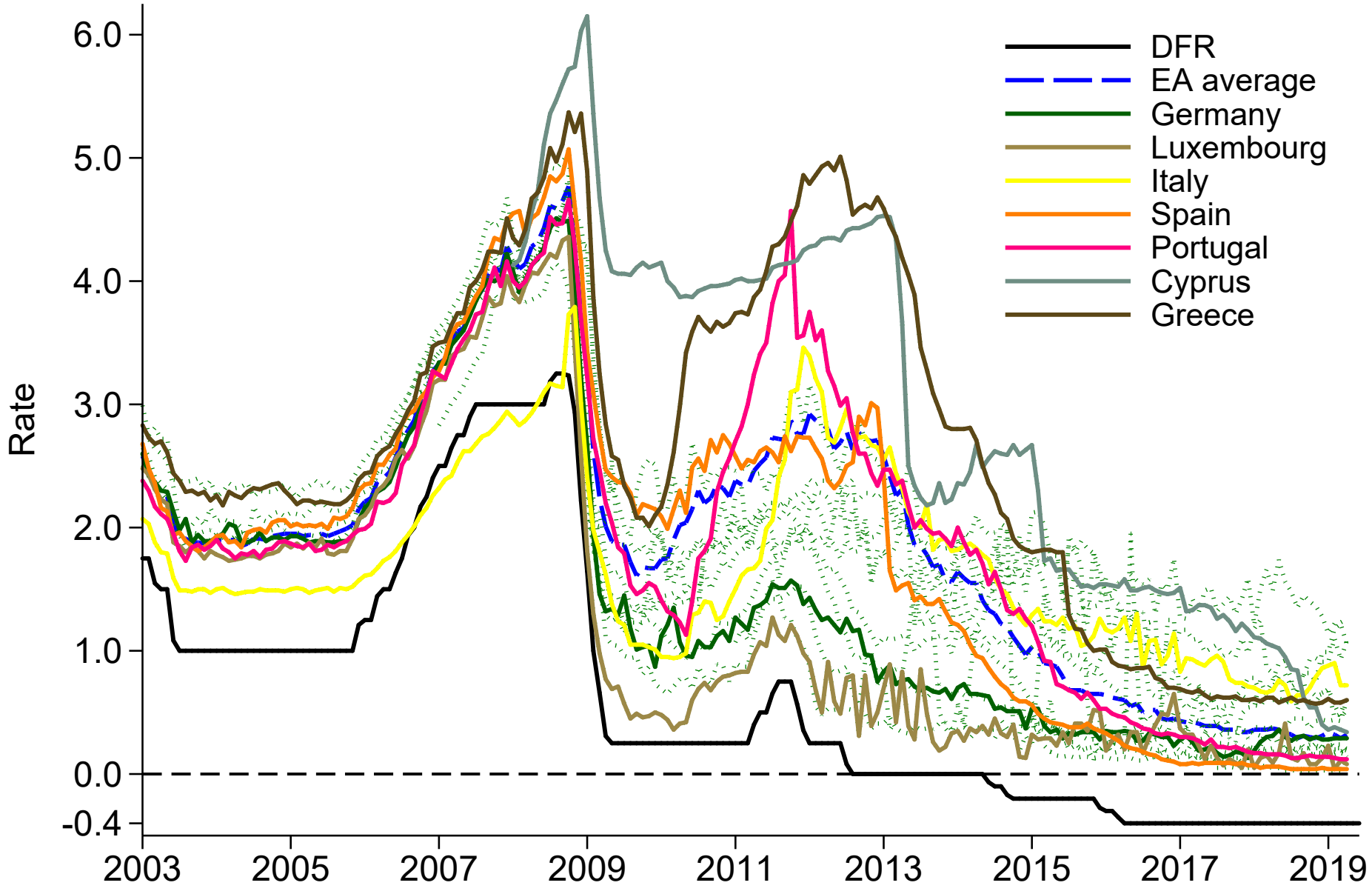

Summary

1. Zero bound applies to substantial portion of deposits.
   - All household deposit rates above zero.
2. Differences in deposit spreads across banks reflect premia for stable funding, not ZLB per se.
   - Still no euro-area wide deposit insurance, insurance cap €100,000.

Bank-level evidence on lending

- Typical study: some variation in banks orthogonal to borrower quality.
- Here: variation is bank health, measured as NPL ratio.
- By construction, borrowers of "treated" banks are from distribution with higher NPL share.
- This is a problem!
- Not solved by granular (e.g. country$\times$times) FE – regression still identified from within-country variation in NPL share of lender.
- Not solved by controlling for borrower demand – lending depends on borrower demand and borrower quality.

Panel B. Loan Rates

Dependent Variable:	(1)	(2)	(3)	(4)	(5)
Change in loan rates since May 2014	until Jun-15	until Sep-18	until Sep-18	until Sep-18	until Sep-18
NPL ratio in May 2014	0.007	-0.007	-0.008	0.018	0.013
	(0.014)	(0.021)	(0.019)	(0.012)	(0.010)
Assets in May 2014	0.040	0.051	0.026	-0.063	-0.093
	(0.049)	(0.051)	(0.046)	(0.058)	(0.107)
ROA in May 2014	0.023**	0.006	0.009	0.017	0.046
	(0.009)	(0.013)	(0.013)	(0.010)	(0.032)
Foreign branch/subs.	-0.071	-0.039	0.050	-0.185	-0.224*
	(0.129)	(0.160)	(0.154)	(0.134)	(0.120)
Deposit ratio in May 2014			-0.030***	-0.011	-0.008
			(0.011)	(0.009)	(0.011)
Excess liquidity in May 2014			-0.010	-0.009	0.004
			(0.020)	(0.013)	(0.104)
Deposit rate in May 2014				0.059	-0.176
				(0.100)	(0.213)
Lending rate in May 2014				-0.687***	-0.550***
				(0.099)	(0.136)
Deposit volume in May 2014				0.000	0.000
				(0.000)	(0.000)
Loan volume in May 2014				0.000	-0.000
				(0.000)	(0.000)
BLS demand growth since May 2014					0.008
					(0.010)
Country FE	Yes	Yes	Yes	Yes	Yes
Observations	125	125	125	125	54
R-squared	0.796	0.434	0.474	0.757	0.896

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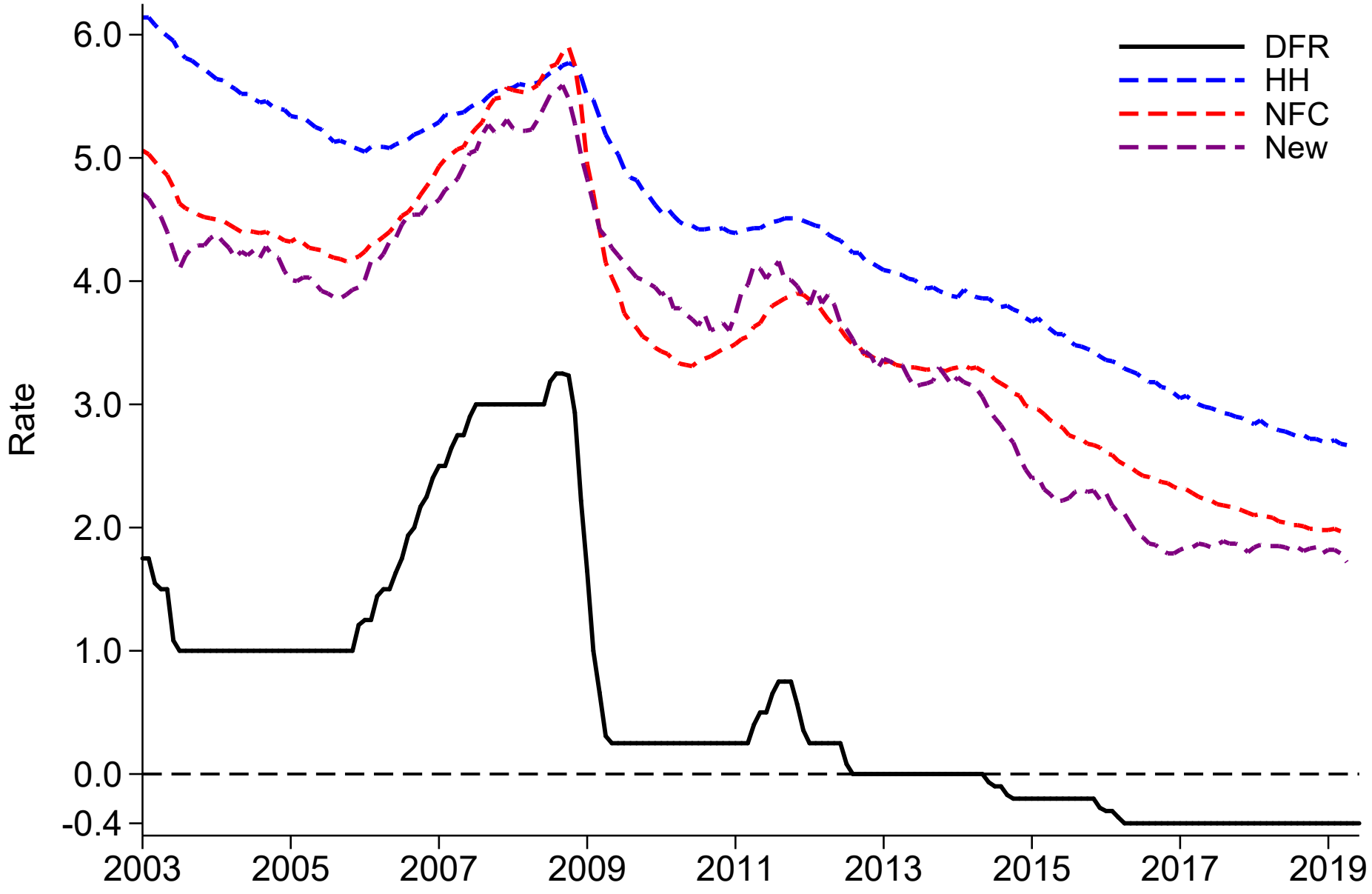
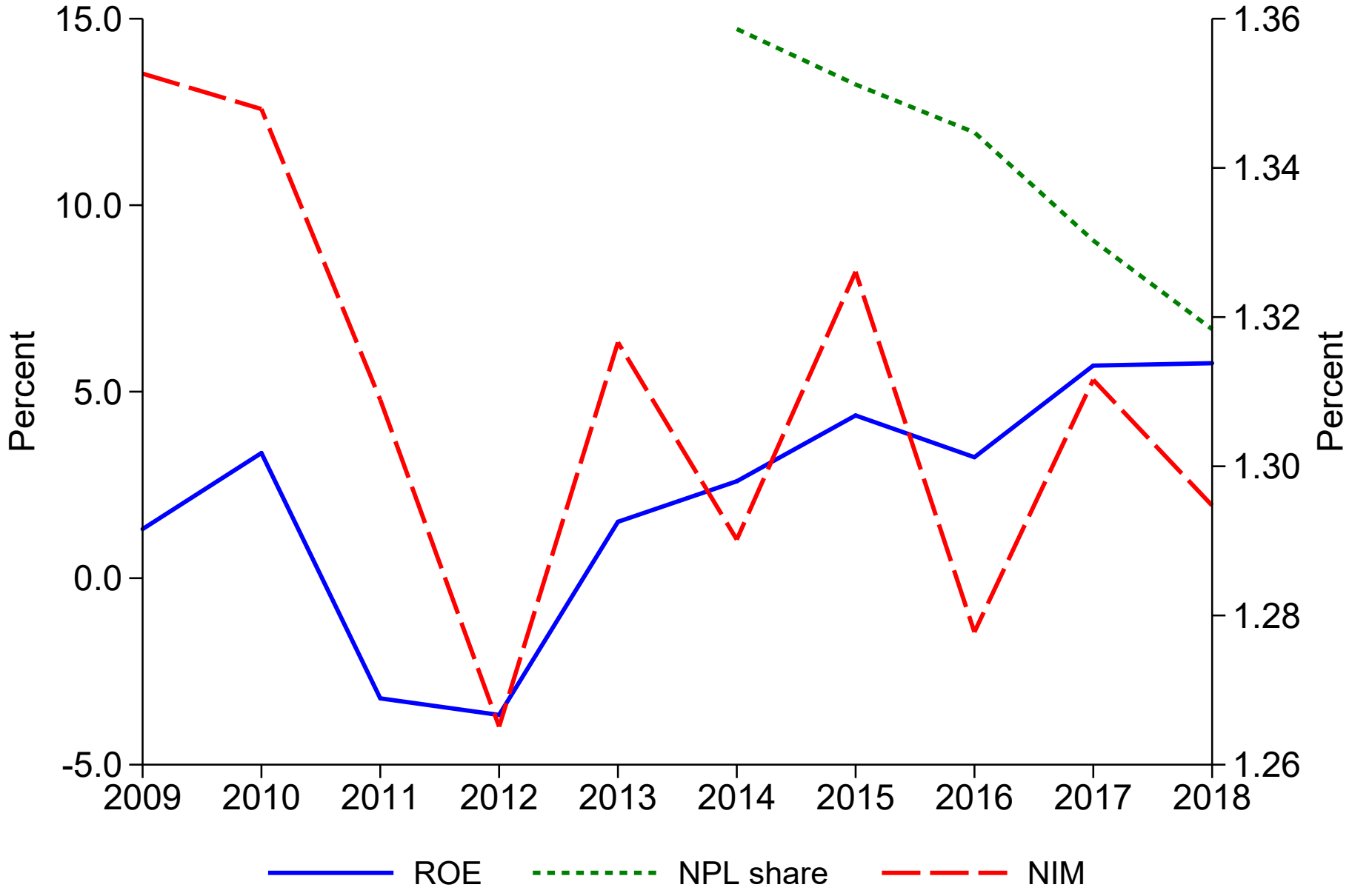

DFR
HH
NFC
New
Rate
6.0
5.0
4.0
3.0
2.0
1.0
0.0
-0.4
2003
2005
2007
2009
2011
2013
2015
2017
2019

MACROECONOMIC PERFORMANCE OF BANKING SECTOR



Summary

3. Strong pass-through to loan rates.

4. Bank profits not suffering. Growing economy, low interest rate environment of 2016-18 better than recessionary, higher interest rate economy of 2011-13. Asset revaluation through reduced default exposure also characteristic of U.S. uncoventional monetary policy experience (Chodorow-Reich, 2014).

Caveat: period coincides with other ECB actions (LTRO,AAP,ETC) and macroeconomic shocks.

Is NIRP different?

- Evidence in paper says no:
  - Firms with high cash holdings at banks that cut deposit rate more increased investment.
  - Lower safe rate $\Rightarrow$ investment$\uparrow$ is textbook channel of monetary policy.
  - Table 12 (above/below ZLB) not informative unless banks that cut during NIRP also more sensitive to DFR pre-NIRP. I doubt this is true.
- Monetary policy cut $\Rightarrow$ lower loan rate, lower interest spread characteristic of rate cuts above zero.
- I conclude that transmission under NIRP is not different, *at least at rates tried so far.*

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- Deposits competitively priced in risk-adjusted sense?

Mechanism?

- Firms with high pre-NIRP cash and facing negative deposit rate:
  - Have negative profitability shock.
  - Increase investment.
  - Have increased profitability ex post.
- If deposits competitively priced, why impact on investment?
- Were firms mismanaged ex ante that they weren't seizing these investment opportunities?
- Or is there something else about these firms that made them investment more and become more profitable...

Conclusions

1. Zero bound applies to substantial portion of deposits.
2. Differences in deposit spreads across banks reflect premia for stable funding, not zlb per se.
3. Loan rates follow policy rate down.
4. Bank profits (and NIM!) not suffering. Low interest margin in growing economy better than high interest margin in crisis economy. Asset reflation through default exposure rather than interest rate exposure.
5. NIRP transmission not so different from traditional monetary policy, at least in range of experience so far.
6. Mechanisms in paper require further elucidation.

Minutiae

1. Tables 2 and 3 should cluster at country and time level.
2. Is figure 4 weighted?
3. Paper not inconsistent with Heider, Saidi, Schepens. No effect of deposit *share* on deposit *rate* means on average high deposit share banks had bigger spread squeeze from NIRP.
4. What does clustering by bank mean when firm has multiple banking relationships?

Appendix slides