DISCUSSION:
IS THERE A ZERO LOWER BOUND?
BY: ABGH

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NBER Corporate Finance
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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
HH DEMAND DEPOSIT RATES, BY COUNTRY

Rate 2003 2005 2007 2009 2011 2013 2015 2017 2019
DFR
EA average

NFC DEMAND DEPOSIT RATES, BY COUNTRY
NFC TIME < 1 YEAR DEPOSIT RATES, BY COUNTRY

Rate


DFR

EA average


DFR

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NFC TIME<1 YEAR DEPOSIT RATES, BY COUNTRY
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Rate


DFR
EA average
Germany
Luxembourg
Italy
Spain
Portugal
Cyprus
Greece
HH TIME < 1 YEAR DEPOSIT RATES, BY COUNTRY

[Graph showing time series of deposit rates for various countries, with rates on the y-axis and years from 2003 to 2019 on the x-axis. The countries include DFR, EA average, Germany, Luxembourg, Italy, Spain, Portugal, Cyprus, and Greece. Each country has a distinct line on the graph, indicating their respective rate trends over time.]
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.
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

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LOAN RATES

Rate

DFR
HH
NFC
New


Rate

MACROECONOMIC PERFORMANCE OF BANKING SECTOR

Graph showing trends in ROE, NPL share, and NIM from 2009 to 2018.
Strong pass-through to loan rates.


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.*
**Mechanism?**

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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.

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