

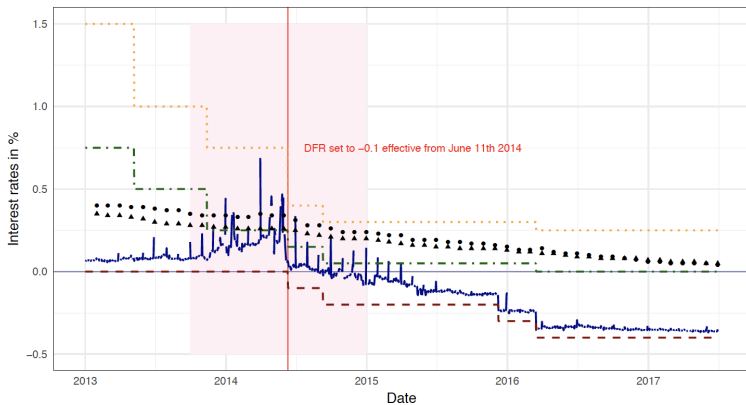
Discussion of:
**Negative Monetary Policy Rates and Systemic Banks'
Risk-Taking: Evidence from the Euro Area
Administrative Securities Register**
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Negative Policy Rates in Europe



— ECB DFR — ECB MRO • Overnight household deposits at EA MFIs
- - - ECB MLF — EONIA ▲ Overnight NFC deposits at EA MFIs

Negative Rates and Banks' Holdings of Securities

- **Clear contribution**

- Existing work on credit to firms and equity valuations (e.g., Heider et al, 2019)
- Securities account for roughly 20% assets
- This paper fills this important gap

- **Identification**

- Cross sectional variation in banks' exposure to the policy
- Exposure measured by reliance on customer deposits
- Security-level data on holdings of 26 large banks

- **Results**

- Negative rates caused reach-for-yield using securities
- $\uparrow 10\%$ deposit ratio $\Rightarrow \uparrow 1\text{-}2\text{pp}$ in the sensitivity of holdings of that security following a 1% change in (adj) yield
- Results also hold in a sample of syndicated loans

Source of Variation

- **More deposits** → **higher exposure**
 - ↓ rates → ↓ cost of funding → ↑ net worth
 - ! *“deposit rates are sticky when reaching the zero lower bound and therefore negative policy rates are not fully passed through”*
- **Authors rely on previous literature**
 - Heider et al, 2019: the distribution of deposit rates of EU banks truncated at zero and deposit rates bunch at zero once the ECB sets negative policy rates
 - Eisenschmidt and Smets, 2018: ZLB only for households deposits, not for deposits by NFC
- **Is the pass through really limited? If yes, how limited?**
 - Banks can pass through negative rates using fees
 - Not all depositors are the same
 - Not all deposit markets are the same (e.g., competition)
 - Can the authors exploit the legal impossibility of some institutions (cooperative banks) to charge negative rates?

Identification

$$\ln(\text{holdings})_{ijt} = \beta_0 \times \text{Post}_t \times \text{Deposit_Ratio}_{jt} \times \text{ACY}_{it} + \beta_1 X_{ijt} + \mu_j + \eta_\phi + \varepsilon_{ijt}$$

- **Deposit_Ratio might capture a meaningful variation but is not randomly assigned**

- How do high- and low-deposits banks differ?
- Do results survive if we include bank-time fixed effects?

- **Last period is 2014Q4 to avoid overlap with PSPP**

- Unclear in which direction the PSPP might confound
- Policy rates become more negative after the *Post* period
- Extend the sample period

- **Cross-country heterogeneity**

- Sample includes 1AT, 2BE, 8DE, 4ES, 5FR, 3IT, 3NL banks
- Which countries drive the results?
- Countries differ in home bias, competition for deposits, etc.

Theory

- **Why do banks increase their risk-taking?**
 - Not risk-shifting
- ✓ **Step 1: effect of negative rates on banks**
 - Negative policy rates affect profitability
 - As discussed, need to show this
- **Step 2: bank portfolio choice**
 - Why does step1 affect bank portfolio choice?
 - Are debtholders not fully pricing this risk-taking?
 - Need to clarify the theoretical framework

Conclusion

- Very policy relevant paper
- Clear contribution in a growing literature
 - ▶ More analysis on the partial pass through hypothesis
 - ▶ A few comments on the main specifications
 - ▶ Illustrate the theoretical framework