

Discussion of “Is there a zero lower bound? The real effects of negative policy rates on banks and firms” by C. Altavilla, L. Burlon, M. Giannetti and S. Holton

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What they do

- Empirically evaluate how ECB's NIRP has influenced the behavior of banks and firms
 - **Banks:**
 - Do banks charge negative rates on corporate deposits?
 - Which kinds of banks can charge negative rates on corporate deposits?
 - How do deposits evolve when negative rates are charged?
 - How does bank lending respond to negative rates?
 - **Firms:**
 - How do firms' liquid assets, investment and debt maturity respond to negative rates?

Some key findings

- Sound banks in the Euro area started to charge negative rates shortly after ECB's DFR became negative.
- A few banks even lowered the interest rate on corporate deposits below the DFR.
- Deposits did not decrease for banks offering negative rates
- Banks with negative rates increased their lending
- Firms facing negative rates responded by:
 - Decreasing short-term assets
 - Increasing fixed investment
 - Increasing debt maturity

Outline

1. Motivation
2. Determinants of interest rates on corporate depositors
 - a) Analysis in levels
 - b) Analysis in first differences
3. Comparison with existing literature
4. Concluding remarks

Motivation: why negative rates as a policy tool?

- Neutral nominal policy rate has fallen substantially
 - Example: Canada
 - Mid-2000s: 4.5 to 5.5 per cent
 - Today: 2.5 to 3.5 per cent
 - Implication: assuming an ELB= -0.5%, simulations show that unconditional probability of negative policy rates is now about 13%, instead of about 3% if the neutral rate were around mid-2000s values.

Motivation: why rates could be negative?

- Switching large quantities of deposits to cash does have costs, which are primarily for storage and insurance.
- Therefore the effective return on holding large quantities of cash is actually negative. How negative depends on the costs of storage and insurance.
- Witmer and Yang (2016) find that the costs of storing and insuring cash dictate the ELB in Canada, which is likely to be around -50 bps.

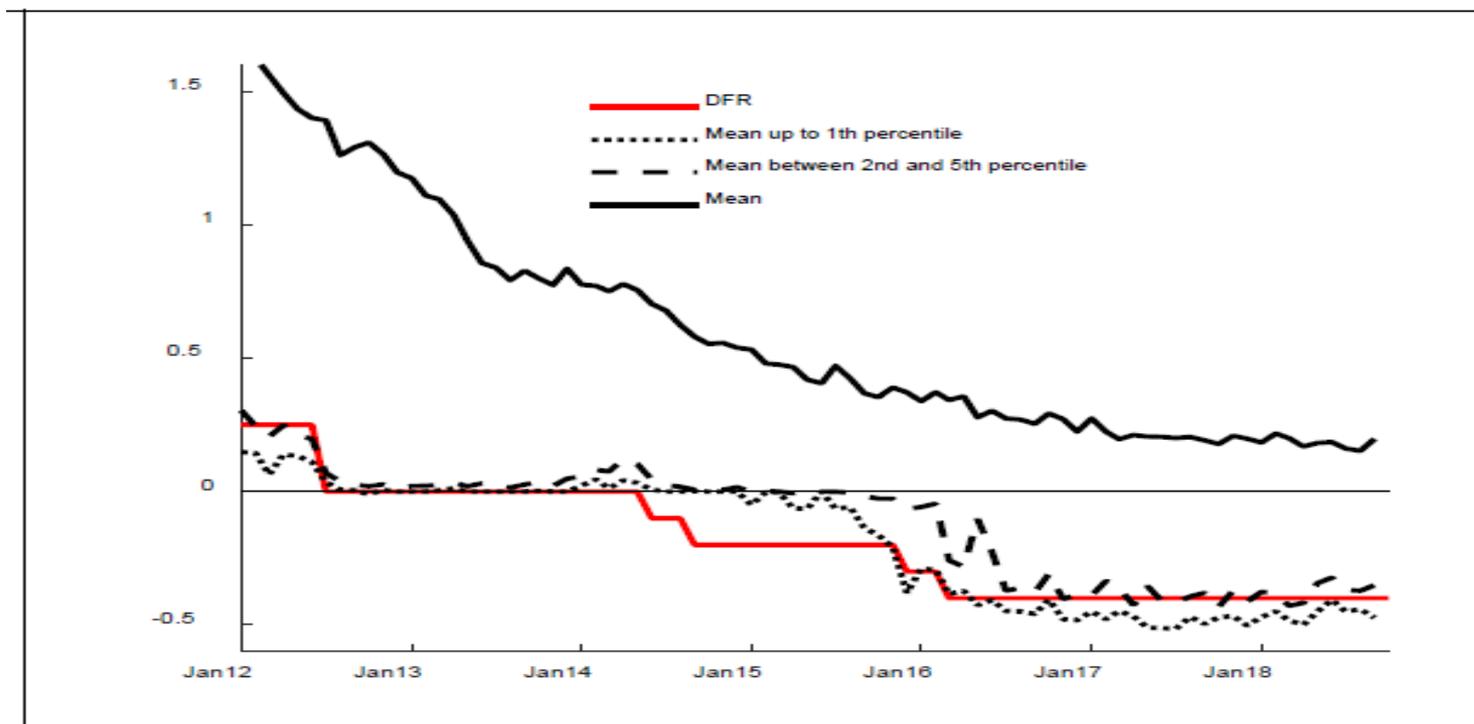
Determinants of interest rate on corporate deposits

- Two determinants:
 - Risk free rate
 - Risk premium
- Analysis in levels:
 - For sound banks, rate on corporate deposits (i^d) is likely to be close to risk free rate (r^f).
 - This can explain why $i^d < 0$ when $r^f < 0$
 - For less healthy banks, quantitatively important positive gap between i^d and r^f
 - This can explain why $i^d > 0$ when $r^f < 0$

Determinants of interest rate on corporate deposits

- Simple analysis in first differences seems to suggest that pass-through was also important for less healthy banks.

Panel B: New Deposits



Comparison with existing literature

- For Sweden, Eggertsson, Juelsrud, Summers and Wold (2019) find that deposit rates do not follow the policy rate when this is negative.
- For Switzerland, Basten and Mariathan (2018) document that a negative policy rate has not led to negative deposit rates.
- Why are experiences in Sweden and Switzerland different than the one in the Euro area?

Concluding remarks

- Very interesting paper. It shows that NIRP can effectively stimulate the economy by impacting the behavior of both banks and firms.
- More work is needed on:
 - How uncertainty and economic activity matter for firms' investment
 - Exchange rate channel for firms.

