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

José Dorich

The views expressed herein are those of the author. No responsibility for them should be attributed to the Bank of Canada.
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 Mariathasan (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.