NEGATIVE MONETARY POLICY RATES AND SYSTEMIC BANKS' RISK TAKING: EVIDENCE FROM THE EURO AREA SECURITIES REGISTER

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SUMMARY

- Negative interest rates in Euro-area after June 2014
- If not passed through to customers, profits and banks' net worth reduce, resulting in aggressive risk-taking
- This paper: consider search for yield in banks' investment portfolio
- 26 large Euro-area banks with detailed data securities holding
- <u>Relative</u> increase in holdings of riskier securities after negative interest rates implemented for banks with high deposit ratios

AM I READING THE RESULTS CORRECTLY?

- Search for yield – shift into riskier securities
- Table 3: post-June 2014 banks invest less in securities with higher adjusted current yield
- Table 4: Overall effect of interaction term (Post*ACY) positive only for deposit ratio above 51.6% (column 2) or 48. 2% (column 3) or 42.3% (column 4). Above which deposit ratio does it turn significant? For which range of deposit ratios is it negative and significant?
- Which banks are actually affected?
- Very rigorous identification strategy, but are the aggregate effects consistent with search for yield?

SOME MORE COMMENTS

- Most banks seemed to have reduced holdings of riskier securities, except the ones with very high deposit ratios, which increased these holdings
  - Is this an "income vs. substitution effect" story? Less earnings on securities – reduce them, unless you really depend on that income?
- Reduction in interest rates – increase in securities' prices – thus higher net worth for banks – off-setting effect?
- What about intensive vs. extensive margins?
- What about a simple before-after comparison?
- What about looking within rating classes (combined with leverage analysis)?

BIG PICTURE QUESTION

- Increasing evidence that changes in interest rate have different effects on banks' decisions and balances sheet below and above zero.
  - Less (or more?) lending but to riskier borrowers
  - More non-domestic government bond holdings
  - Interest rate reductions negatively affect banks' equity prices, but not banks' profits, at least not in short-term
- What about relative importance of these channels?
- But what about macro-picture (growth, unemployment)? Are there negative long-run consequences (NPLs)?

IN SUMMARY

- Great micro-data set with rigorous identification strategy
- I am not quite convinced yet by the story-line
- There seems to be more effects than you currently interpret

THANK YOU!

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