Discussion of "Life Below Zero: Bank Lending Under Negative Policy Rates", by Heider, Saidi and Schepens

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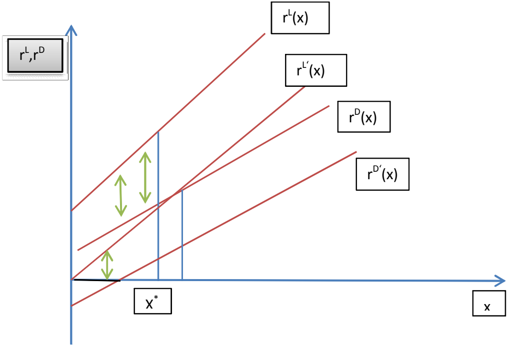
Motivation and Novelty

- Test the risk-taking and lending channel at the zero lower bound (for depositors)
- Main novelty: granular data and policy experiment at June 2014
- Regress: firms' risk proxies on banks' deposit ratio and other controls

$\longrightarrow$(and syndicated loans over deposit ratio to test lending channel)

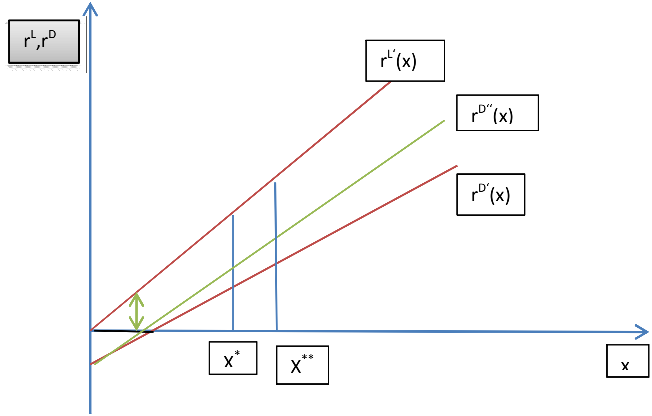


$$
\begin{aligned}
Max_{x_{i,j}} \pi(x_{i,j}) &= \left[r^L(x_{i,j}) x_{i,j} L_{i,j} - r^D(x_{i,j}) x_{i,j} D_{i,j} - \xi x_{i,j} D_{i,j} \right] - \mu_{i,j} x_{i,j} L_{i,j} \\
s.to\ r^D(x_{i,j}) &= r^{MM} + \psi(x_{i,j}) \geq 0
\end{aligned}
$$

- Floor rate is an insurance to depositors$\Rightarrow$ their expected losses decline, bank's break-even implies less monitoring intensity

Possible Instrument

- Authors find evidence that banks did not change returns on loans or other loans conditions
- If $r^L(x_{i,j})$ did not change$\Rightarrow$given the floor on deposits, monitoring intensity shall decrease
- Loan loss provisions usually proxy monitoring intensity
- Could this be an instrument in a first stage where intensity declines with respect to deposits-share
- In second stage firms' risk would naturally increase if intensity decreases



- Banks' reluctance to pass-through lower rates:

    1. Fear of bank runs
    2. Competition in deposit markets and/or low switch/search/attention costs

Risk-taking channels

- Balance between oligopsonist deposit markets and oligopolistic loan markets:

$\longrightarrow$Allen and Gale 2001, Boyd and De Nicolo 2005, Faia and Ottaviano 2015
$\longrightarrow$ if competition in deposit markets prevails$\Rightarrow$risk-taking
$\longrightarrow$If deposit competition prevents pass-through: Herfindhal index as instrument of demand?

- Fear of runs and delegated monitor:

$\longrightarrow$Diamond and Rajan 2005, Angeloni and Faia 2013: risk-taking channel on the liability side
$\longrightarrow$Coupled with delegated monitor$\Rightarrow$search for yields, bank invests in risky firms with lower collateral

Monetary Policy Endogeneity

- Monetary policy is endogenous: it might have responded to previous falls in demand
- Temporal causality makes it harder to identify demand and supply
- Makes it harder to identify reaction of supply to the unexpected component or reaction of MP to anticipation
- Isolate exogenous/unexpected components of MP through panel VAR
- Or use news: albeit more difficult for monetary policy than for fiscal policy

ECB Bank Lending Survey

Loan Demand Enterprises

	$13Q4$	$14Q1$	AVG
Euro Area	-11	2	-9
Germany	-9	0	1
Spain	10	20	-8
France	-15	7	-20
Italy	-13	0	0
Netherlands	-57	-29	-16

Net percentages of banks reporting tightening credit standards or positive loan demand

Bank Lending Channel

- Authors find that lending decreases (for syndicated loans)
- They attribute that to the bank lending channel
- Not clear:

1. Banks' net worth is asset minus liabilities, which is bank capital
2. If banks' bond prices increase, bank capital raises too
3. Hence higher loss absorption capacity

Conclusions

- Very interesting paper
- On a topical issue and with courageous message
- Further assessment of the channels through
- This could be done through a more structural model
- Panel VAR evidence to assess temporal causality