

**Discussion of**  
***Is There a Zero Lower Bound?***  
***The Effects of Negative Policy Rates on Banks and Firms***

(Altavilla-Burlon-Giannetti-Holton)

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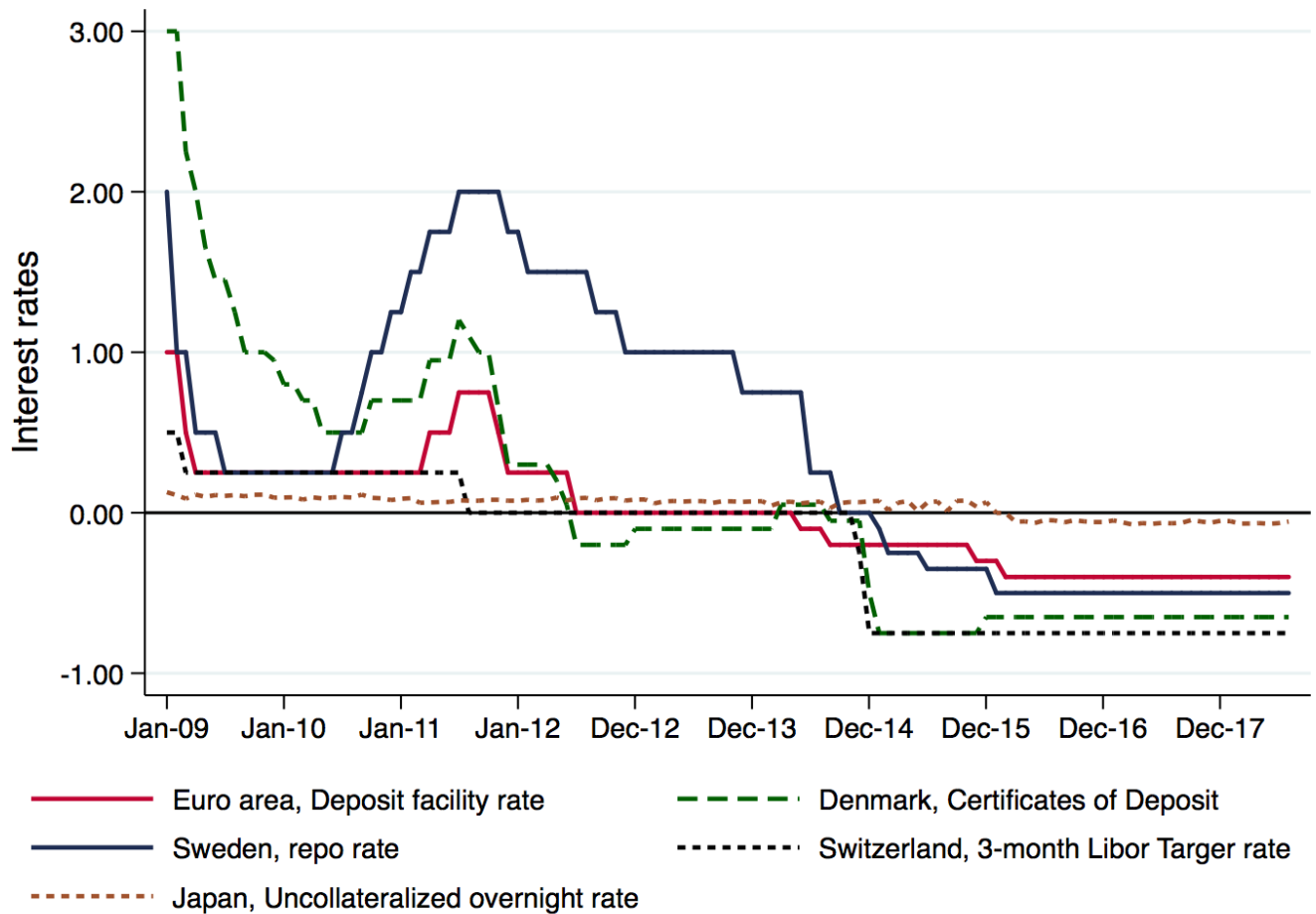
*(Imperial College London, UPF-CREi-BGSE-ICREA, CEPR)*

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## Motivation: some facts, key questions, and identification problems

- Lower rates increase aggregate demand, but we thought that there was a zero lower bound. Is there a zero lower bound? If not, what is the lowest bound?
  - May become more crucial in the future due to secular trend in low real rates & inflation
- More than 15 \$ trillion bonds yield negative nominal rates in Europe and Japan. Banks pass negative rates to the wholesale market (e.g. interbank, corporate deposits), but not to household deposits yet (higher fees may apply here)
- Are negative rates expansionary on the economy? And if so, is it via banks? Or are negative policy rates contractionary via e.g. the bank channel, is there a reversal rate?
- Tricky question as negative rates are provided when the economy is not performing very well, and there are other policies and shocks at the same time. Moreover, there is not a deposit register, so difficult to track changes in deposit transactions

# Negative nominal monetary rates in Europe and Japan



## Altavilla-Burlon-Giannetti-Holton paper

- Exploiting changes in policy and confidential data (on negative deposit rates & bank-firm links) from the Euro Area, they show that sound banks pass negative rates on to their corporate depositors without experiencing a contraction in funding
  - The tendency to charge negative rates becomes stronger as policy rates move deeper into negative territory
- The negative interest rate policy (NIRP) provides stimulus to the economy through firms' asset rebalancing: firms with high current assets linked to banks offering negative rates increase their investment (in tangible and intangible assets) and decrease their cash holdings (to avoid the costs associated with negative rates)
- Overall, their results challenge the commonly held view that conventional monetary policy becomes ineffective when policy rates reach the 0 lower bound

## General comments

- Excellent paper (both in the identification and data) showing expansionary effects of negative rate policies, with an interesting channel on firm portfolio rebalancing. My specific comments provide some few suggestions to improve the paper
- The paper contributes to a growing literature on negative rates (Brunnermeier-Koby (2018); Eggertsson-Julesrud-Summers-Wold (2019); Heider-Saidi-Schepens (2019); other ECB-IMF-BIS-central banks papers...)
  - Negative rates are still expansionary, and the pass-through is economically important. E.g. in Germany, deposits remunerated below zero account for 15% of total deposits and around 50% of enterprises' deposits
- Bottero,-Minoiu-Peydro-Polo-Presbitero-Sette (2019) show that NIRP has expansionary effects on bank credit supply via a “*portfolio rebalancing channel*”
  - Banks with ex-ante more liquidity reduce their net holdings of liquid assets; expand credit supply, especially to *ex-ante* riskier constrained firms; reduce lending rates; with positive real effects. No effects on excessive risk-taking or defaults
  - A complementary but different channel

## Specific comment/suggestion #1: frictions to move firm deposits

- A key assumption is that there are frictions in switching across banks for deposits
- It is clear that there are frictions in the lending market to form new relations, especially in crisis times (e.g. Jimenez-Ongena-Peydro-Saurina, 2012, 2017)
- But, why in the deposit market? And can you provide some suggestive evidence? Results within country-time, so no frictions to change deposits across countries...
- So why a firm would change its investment policy (and reduce liquid assets), and not just change deposits across banks? These are not unsophisticated households (not as in DDS QJE; (household) retail deposit channel)
- Is there a friction, e.g. due to the bail-in regulation? Or in deposit insurance (100K in Europe)? As results driven by core countries, are firms afraid of bank failures? Can you exploit some regulatory changes such as bail-in?

## Specific comment/suggestion #2: data

- You have access to deposit rates for different deposits at the bank level (ECB confidential data) and bank-firm relations from Kompass/Orbis.  
Ideal dataset: a deposit register and a credit register (e.g. with the deposit register one could check restrictions to switching deposits across banks, with rate info; with credit register, one could isolate bank credit supply effects vs. demand/firm effects)
- What does Kompass/Orbis bank-firm measure: deposits or loans or both? I have a paper on Eastern Europe using the data, and main bank was measured infrequently
- When a bank offers a loan (e.g. credit line), the firm has a deposit. Hence, to check the expansionary effects, one needs to check both its loan rate minus deposit rate
- Identification via comparing sound vs. weak banks, but these banks may have stronger vs. weaker (borrower) firms. Could you provide a “balance table” on firm observables? And how the estimated effects change with less controls? Key for some GE effects & for measuring the covariance of treatment variable with firm unobservables

## Specific comment/suggestion #3: this time is *not* different

- How is NIRP different from previous rate cuts within positive territory, or via other non-conventional policies such as QE?
- Could you maybe within the identical interactions effects test NIRP vs. other policy changes? Maybe running same panel and adding interactions also of those other policy changes with the same bank and firm variables?
- Ideal to check that the bank/firm frictions before NIRP (e.g. weaker vs. sound banks) are different, and hence understand better the mechanisms behind the results
- Also to answer, why there is not the same firm portfolio rebalancing towards investment when rates are very low but still positive, with sound vs. weak banks?
- How is tiering system (exempting some of the bank holdings of liquidity from negative rates) changing the results? If NIRP is not so special, why the new tiering?



## Specific comment/suggestion #4: real effects

- A key strength of this paper (in addition to have data on deposit rates) is to have many firms across the euro area: unbalanced panel of 465,860 firms for 11 years from 2007 to 2017, and 89 banks, 715 4-digit NACE2 core industry classifications
- To understand better the real effects and the mechanisms behind the results, you could test differences across different industries, e.g. depending on the ex-ante productivity, exports, external finance dependency, etc: desirable higher (good) Inv?
- As some more affected firms may crowd out investment from less affected, you could aggregate some results up, e.g. at the industry-location-time period...
- With 500k firms, many will be listed, so you can analyze the reaction of stock prices to unexpected changes in NIRP. E.g., how are the stock markets assessing the decrease in liquid assets & increase in investment? And the bondholders? ...

## Conclusions

- There is not a lower bound yet
  - Good news for some 😊, even more as negative rates may become even more important in the future due to secular trend in low real rates and inflation
  - Would the results strengthen with the ECB Sept 2019's tiering, so that the lower/lowest bound is even further away? Moreover, if NIRP is not so special, why the new tiering policy?
- Summary: excellent paper. I provided some suggestions, especially on the identification and on understanding better the mechanisms behind the results

Thank you