Discussion:

On the negatives of negative interest rates and the positives of exemption thresholds
by Berentsen, Ruprecht, and van Buggenum

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The effectiveness of monetary policy in a low interest rate environment

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*This presentation does not necessarily reflect the views of the OeNB, the ECB or the Eurosystem.
Research question: *Is NIRP the right tool to stimulate the economy?*

**Relevance**

- Several major central banks adopted NIRP over the last decade:
  - impact may be ambiguous: NIRP can also trigger **negative side-effects**
  - some evidence on effectiveness available, but **jury still out**

**Ruprecht et al. (2020)**

- Closed economy **DSGE** model (households, banks and central bank)
- With **imperfect transmission** to bank deposit rates, NIRP...
  1. ... negatively affects **bank profitability**.
  2. ... distorts banks’ investment decisions (some over-, some underinvest).
  3. ... has **negative welfare effects**.
- **Exemptions** (“tiering”): help with profitability but **do not address distortions**
- NIRP effective as **exchange rate management** tool
My general take

- **Commendable and necessary** effort
  → Policy-makers must not monopolize evaluation of effects (Fabo et al., 2020)

- **Thought-provoking** piece
  → in particular: unambiguousness of negative effects of NIRP

- Potential **policy relevance**, in particular as **UMP seems here to stay for a while**

My comments

1. Framing and interpretation of results
2. Miscellaneous
Framing

Starting point: your (policy) conclusion

“[The results] clearly show that NIRP is **not the right policy instrument** if the central bank’s goal is to **stimulate the economy.**” (emphasis added)
Reasons for caution (I): “theoretical” considerations

1. **Angle d’attaque**
   - Paper’s focus is on welfare implications, **not** on macro stimulation
   - CBs target mandated goals ($\pi^T$, U etc.) $\rightarrow$ potential disconnect (c.f. Moll, 2020)

2. **Benchmarking**
   - What is the counterfactual scenario used in the model?
     $\rightarrow$ **NIRP** with *perfect* transmission
   - But: NIRP does **not** occur in vacuum
   - More adequate counterfactual: *severe deflation, recession*?
3. Evidence on NIRP transmission and effects
   ▶ Main **positive** effects of NIRP are missing “by design”:
     → **expectations** effect/breaking ZLB (e.g. Rostagno et al., 2019)
     → **re-balancing** effect (e.g. Whelan and Ryan, 2019)
     → **GE** effects (e.g. Altavilla et al., 2018)

4. NIRP rarely “walks alone”
   ▶ NIRP **also** works by **reinforcing** APP, FG, TLTRO (c.f. Rostagno et al., 2019)

   ▶ **Mitigating measures**: tiering and “2-rate system”/TLTRO (c.f. Schnabel, 2020)
Take-aways

▶ My comments: **largely not** about the model/model design *per se*
▶ My point: **framing** requires some **more caution**

Re-spin main message of paper

✓ NIRP might have (some) *negative welfare effects*
✓ **Your model** shows how and when these *can emerge* as well as *play out*
✗ NIRP is wrong instrument to stimulate economy
Structure

▶ Section 6 (literature review) is informative but ...
→ ... needs more embedding into the paper:
  What are the take-aways from the literature? What is your contribution?
→ ... could be better placed after the introduction.

Literature

▶ Perhaps helpful to situate paper relative to recent, related theoretical studies:
→ Acharya and Plantin (2020); Liu, Mian and Sufi (2020) etc.

Format

▶ Use either term “NIR” or “NIRP” throughout
▶ Discussing transitions between markets: “carry on/out/over” may be clarified
References


