

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

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)

1. Angle d’attaque

- ▶ Paper’s focus is on welfare implications, **not** on macro stimulation
- ▶ CBs target mandated goals (π^T , U etc.) → potential disconnect (c.f. Moll, 2020)

2. Benchmarking

- ▶ What is the counterfactual scenario used in the model?
→ **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)

	NIRP	FG	APP	TLTRO
NIRP	1.1 Empowered rate cut effect on rate expectations (removes their typical upward skew) and term premium (Gesell tax effect)	1.2 Signals a potential future rate cut, which generates curve inversion and downside pressure on lending rates	1.3 Reinforces impact of APP on term premium through the Gesell tax effect	1.4 Reinforces incentive scheme: stronger loan origination entitles banks to negative borrowing rate

- ▶ *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

1. Acharya and Plantin (2020). *Monetary Easing, Leverage Payouts and Lack of Investment*. NYU/Sciences Po Paris Working Paper.
2. Altavilla, Boucinha and Peydró (2018). *Monetary policy and bank profitability in a low interest rate environment*. *Economic Policy*, 33, pp. 531–586.
3. Fabo et al., 2020. *Fifty Shades of QE: Conflicts of Interest in Economic Research*. NBER Working Paper 27849.
4. Liu, Mian and Sufi (2020). *Low Interest Rates, Market Power, and Productivity Growth*. NBER Working Paper 25505.
5. Moll (2020). *Heterogeneity*. Presentation, Bank of England Agenda for Research: The Monetary Toolkit, 16 November 2020.
6. Rostagno et al. (2019). *A tale of two decades: the ECB's monetary policy at 20*. ECB Working Paper 2346.
7. Schnabel (2020). *Going negative: the ECB's experience*. Speech at the Roundtable on Monetary Policy, Low Interest Rates and Risk Taking at the 35th Congress of the European Economic Association, 26 August 2020.
8. Whelan and Ryan (2019). *Quantitative Easing and the Hot Potato Effect: Evidence from Euro Area Banks*. CEPR Discussion Paper 13499.