

Discussion of

As Interest Rates surge: Flighty Deposits and Lending

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The Deposits Channel of Monetary Policy

Drechsler, Savov and Schnabl (QJE, 2017)

- 1** In the US, the deposit spread ($=$ policy rate - deposit rate) is positive and increases with the policy rate.
- 2** The growth rate of bank deposits and the change in the policy rate are negatively correlated (and more so in concentrated markets).
- 3** Implications: monetary policy affects
 - (a) how the financial system is funded,
 - (b) the quantity of safe and liquid assets it produces, and
 - (c) its lending to the real economy.

Cappelletti et al. (2024)

□ Research goal

- ▶ To examine the significance of the implications of the deposits channel of monetary policy in the eurozone.

□ Approach

- ▶ Consider the period of the recent interest rate hike in the eurozone as a quasi-natural experiment (2022Q3 - 2023Q1; sample starts in 2021Q1).
- ▶ Combine proprietary databases to identify banks experiencing deposits outflows and isolate their effect on the lending behavior to firms.

□ Findings

- ▶ Banks experiencing deposits outflows during the recent MP tightening reduce their lending rather than increase their deposit rates.
- ▶ Lending restrictions are stronger for (1) new borrowers, (2) fixed rate and (3) longer maturity loans.
- ▶ Banks with a larger duration gap in their portfolios are more keen to restrict lending subject to the deposit outflow.

Empirical strategy

$$Y_{b,j,t} = \alpha DEP_OUTFLOW_{b,t} + \beta DEP_OUTFLOW_{b,t} \times MP_Tightening \\ + \Psi \Sigma X_{b,t-1} + \eta_{j,t} + \rho_b + \epsilon_{b,j,t}$$

- Y can be $\Delta \log loan$ or the interest rate charged by bank b to debtor j
- $DEP_OUTFLOW$ is a dummy variable for experiencing **persistent** deposit outflows since the start of the monetary policy tightening (2022Q3)
- $MPTightening$ is a dummy that takes the value one from 2022Q3
- $\eta_{j,t}$ - firms' fixed and time effects (Khwaja and Mian, AER 2008)
- X vector of lagged bank-level controls

Contribution

- Illuminating what banks do *in detail* when they experience outflows of deposits.
- Eurozone focus.
- Wonderful use of various *confidential* data sources (micro informing macro).
- Overall a very important and useful paper.

Comments

Do deposits outflow because of the low pass-through of policy rates into the deposit rates?

Comment #1a

- Page 11: *The evidence shows that banks with more deposit outflows (i.e. flighty deposits) passed the rise in the short-term interest rate to their depositors to a far lower extent compared to other banks. This is shown by the average beta for rates on deposits for these banks which is around 7.5% compared to 13% for other banks (see Figure 7).*
- But regressing the change in the deposit rates on $DEP_OUTFLOW \times MP_Tightening$ yields insignificant results (Table 4).
- This might suggest that the observed outflow was not because of lower rates.
- Why then? This is crucial to understand the causal link of monetary policy changes.

Is really the deposits channel in play?

Comment #1b

- Are deposits flowing out of the banking system due to an insufficient pass-through?
 - ▶ What about higher living costs due to higher inflation and people dissaving?
 - ▶ Pandemic-induced excess savings (= stored as deposits) used by households?

- Shall the paper document more the deposits channel (i.e. policy rate → deposit rates → outflow of deposits)?

- Given that this is arguably the first paper evaluating the deposits channel in the eurozone, a more detailed exhibition of stylized facts about the pass-through from policy rates to deposit spreads would be very useful.
 - ▶ See for instance Choi and Rochetau (JME, 2023) or Nery Caetie et al. (J of Banking and Finance, 2022).
 - ▶ Is the deposit spread passthrough positive and higher for more liquid deposits?
 - ▶ Is the growth rate of aggregate deposits strongly negatively correlated with changes in the policy rate?

Is the deposit spread passthrough positive and higher for more liquid deposits?

Choi and Rochetau (JME, 2023)

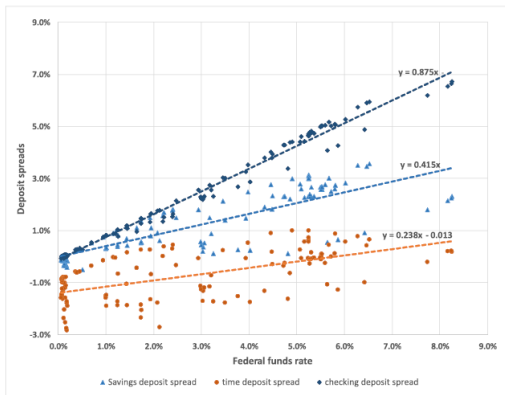


Fig. 1. Passthrough from federal funds rate to deposit spreads.

Intensity of outflows

Comment #2

$$Y_{b,j,t} = \alpha DEP_OUTFLOW_{b,t} + \beta DEP_OUTFLOW_{b,t} \times MP_Tightening \\ + \Psi \Sigma X_{b,t-1} + \eta_{j,t} + \rho_b + \epsilon_{b,j,t}$$

- $DEP_OUTFLOW_{b,t}$ relates to the extensive margin only. What about the intensive margin of outflows?
- How large is the outflow? Losing 1% vs 10% of deposits might matter.
- Can you draw a distribution of outflows across banks with $DEP_OUTFLOW = 1$?
- Is it necessary to have a constant outflow in each quarter between 2022Q3-2023Q1?
- What about four groups: persistent outflows, mixed but outflow, mixed but inflow, and persistent inflow?

Which banks are experiencing the outflow?

Comment #3

- Is there something special about them?

Table 10: Differences in bank characteristics

This table shows bank-specific characteristics for banks with constant deposit outflows and banks with mixed inflows and outflows post-tightening. The table is divided in two panels. Panel A reports descriptive statistics for the unmatched sample of bank covariates employed the loan-level analysis, whilst Panel B reports descriptive statistics for the matched sample. The PSM applies a logit model and one-to-one nearest neighbour imposing a tolerance level on the maximum propensity score distance (caliper) between the control and the treatment group equals to 0.03. DEP_OUTFLOW is a dummy variable that takes the value 1 for banks experiencing constant deposit outflows post tightening, and 0 otherwise. L.CET1 ratio is the lag of the common equity tier1 ratio. L.DEP/TA is the lag of the deposits-to-total asset ratio. L.TA.(log) is the lag of the logarithm of bank total assets. L.LOAN/TA is the lag of the credit exposures-to-total assets ratio. L.ROA is the lag of the return on assets. L.NPLs is the lag of the non-performing loans-to-total loans ratio. L.CASH/TA is the lag of the ratio of cash and cash held at the central bank-to-total assets ratio. *, **, *** indicate statistical significance of 1%, 5% and 10% respectively.

	DEP_OUTFLOWS=1 N. banks=151	DEP_OUTFLOW=0 N. banks= 1,426	Welch test
Panel A: Pre-PSM			
CET1 ratio	0.184	0.174	0.010**
DEP/TA	0.837	0.858	-0.020***
TA (log)	8.805	7.794	1.101***
LOAN/TA	0.645	0.684	-0.038***
ROA	0.400	0.275	0.125***
NPLs ratio	0.026	0.025	0.001
CASH/TA	0.136	0.091	0.045***
Panel B: Post-PSM			
	DEP_OUTFLOWS=1 N. banks=151	DEP_OUTFLOW=0 N. banks= 131	Welch test
CET1 ratio	0.184	0.187	-0.002
DEP/TA	0.837	0.841	-0.003
TA (log)	8.89	8.64	0.254
LOAN/TA	0.645	0.642	0.03
ROA	0.400	0.434	-0.03
NPLs ratio	0.025	0.027	-0.002
CASH/TA	0.136	0.139	-0.03

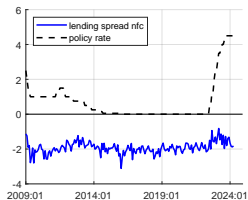
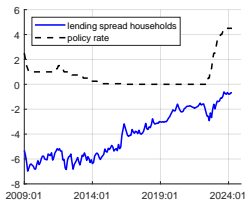
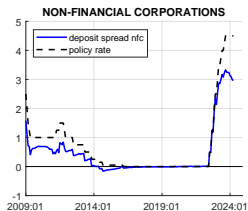
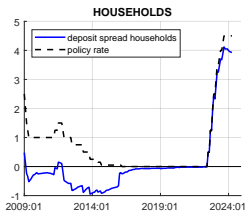
Final questions

Comment #4

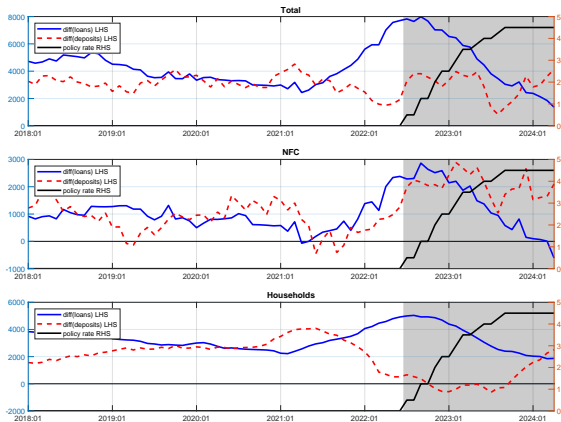
- How important are the findings in the aggregate? 151 out 1577 banks (9.6%). Some back of the envelope calculation possible?
- What about lending to consumers?
- Country effects: Banks headquarter country-time fixed effects are used to control for the heterogeneous effect of monetary policy tightening across euro area countries. Is this sufficient?

Case of Slovakia
8 banks & 3,658 firms

Deposit and lending spreads in Slovakia



Deposit and lending volumes



Firms' net inflow of deposits

