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Discussion of „Excess Reserves and Monetary Policy Tightening“ by Fricke, Greppmair and Paludkiewicz

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Summary of the paper

- The authors show that the excess liquidity created by QE dampens the effects of monetary policy tightening
- This is due to the effect of excess reserves on the net worth of banks
- Main result is a reduced form equation that explains lending conditional on the level of excess reserves and bank characteristics
- Disentangle supply and demand effects using Khwaja and Mian, 2008 (and Degryse et al. 2019)

- Well written, neat idea, and extremely important for policy!

Demand controls

- Ignoring firms that lend only from one bank biases the results

1. You loose about one third of the observations, although coverage is high, it may be not representative of the euro area landscape
2. Also given that the share of firms with one bank tend to be concentrated in certain countries (Kosekova, Maddaloni, Papoutsi and Schivardi, 2022) means that there may be a country bias in your results.
3. Heterogeneity in lending relationships, but also where the excess liquidity is, importance of banking systems, for example AT and DE;
4. Also it biases your results towards less risky firms. May underestimate the risk-taking channel

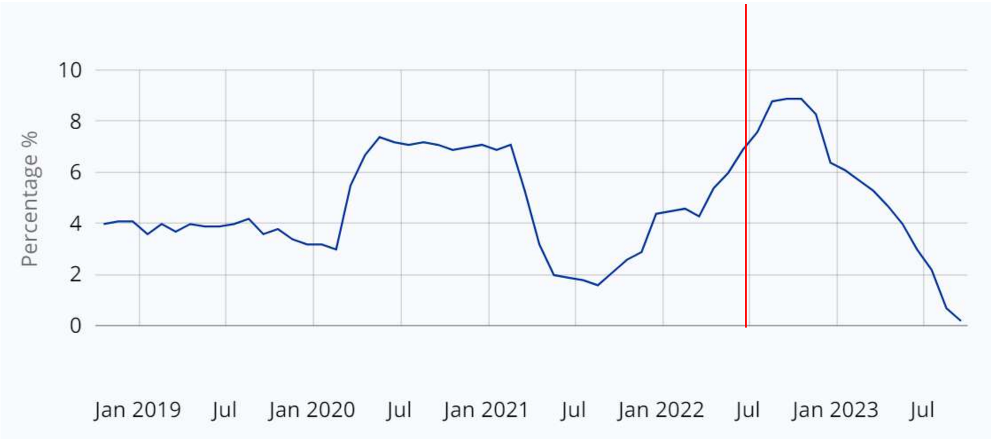
- Given that the estimations are still significant, do not understand why not use the whole sample, the effect is half, but still statistically and economically significant

Disentangling supply and demand

- Without a theoretical framework, the results in this paper could be driven by other factors not modelled:
- For example: could the growth in loans be driven by the wish to lock-in lower interest rates? How could one disentangle this motive: maybe looking at different types of loans and maturities
- For banks: some cost adjustments ? Anticipating that reserves will be reduced and/or that reserves will be less costly (remunerated at DFR)
- What about different type of lending? Is there are difference between lending to NFCs and HH? What about maturities? Some are more sensitive to interest rates than others, makes also a difference for the portfolio decision of the bank. (Ivashina et al., 2020)

Growth in loans in the euro area

Corporations



Households

Policy implications

Paper fits very well in the theoretical framework of Diamond, Jiang and Ma (2023), “The reserve supply channel of unconventional monetary policy (UMP)“

Has wide reaching implications for monetary policy implementation: are the „side effects“ of UMP larger than the intended effects? And are they symmetric over the cycle (easing vs. tightening)?

Important policy implications in terms of efficiency and proportionality of UMP

If QE dampens the transmission of monetary policy over the cycle, then not an adequate policy instrument!

Also, important for monetary policy calibration (policy and modelling). In particular, it implies that larger interest rates increases are needed during the tightening cycle to compensate for the “easing effect” from excess liquidity. But need more precise estimate

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Danke für Ihre Aufmerksamkeit

Thank you for your attention

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