Comment on
Eggertsson, Juelsrud, Summers and Wold
‘Negative nominal interest rates and the bank lending channel’

Lawrence Christiano
Northwestern University

Motivation

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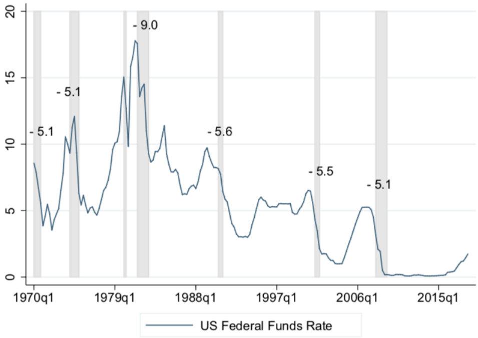

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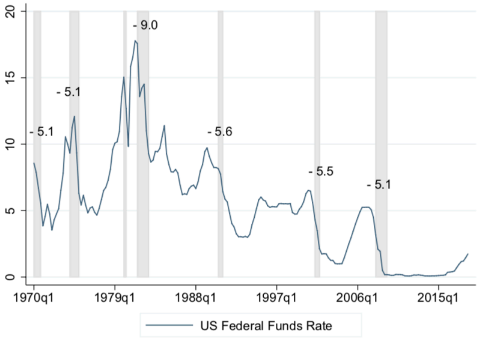

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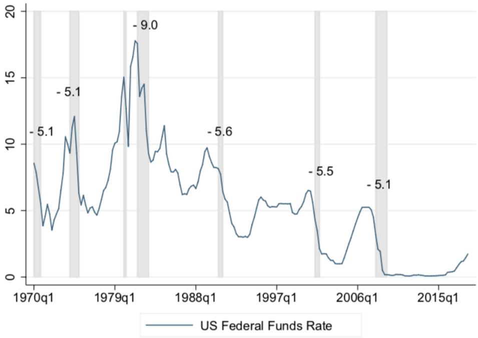

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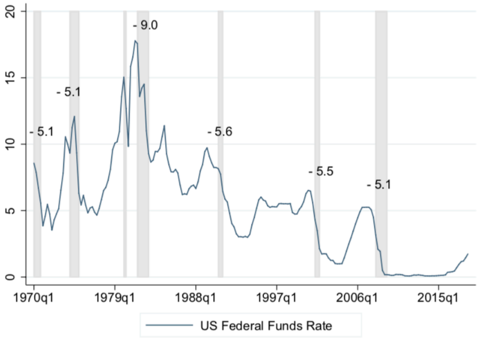

- Many expect:
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  - The US and other countries will stick to $\simeq 2\%$ inflation target.
  - With low average nominal rate, zero lower bound will bind frequently.

Loan Market

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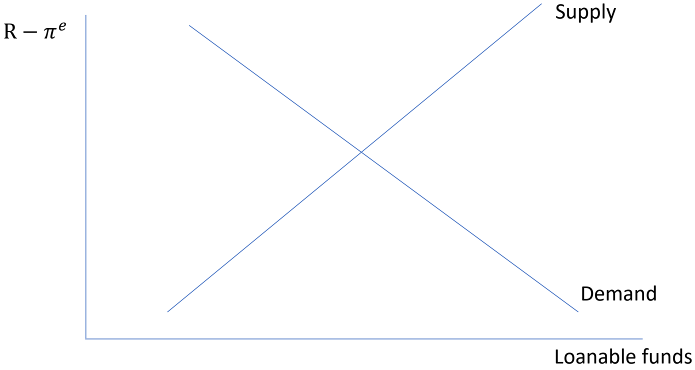

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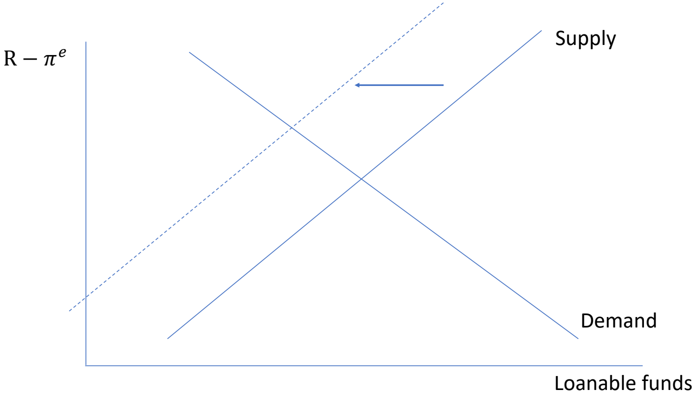

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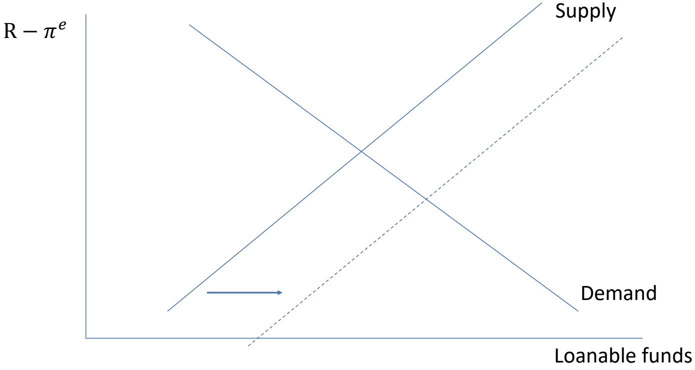

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Zero Lower Bound In (Past?) Normal Times

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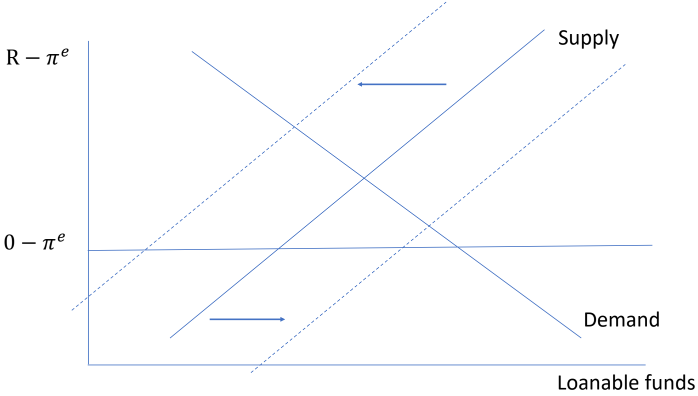

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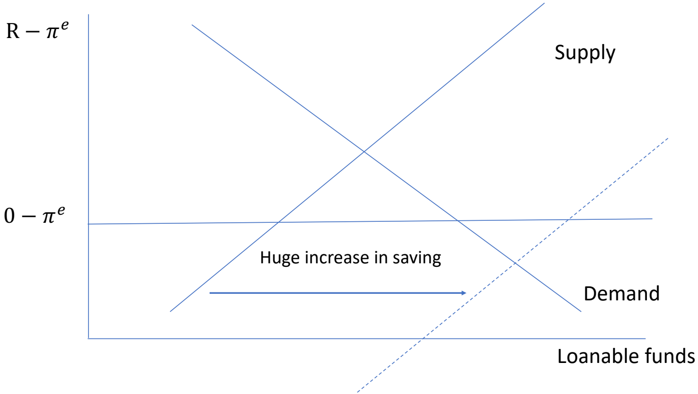

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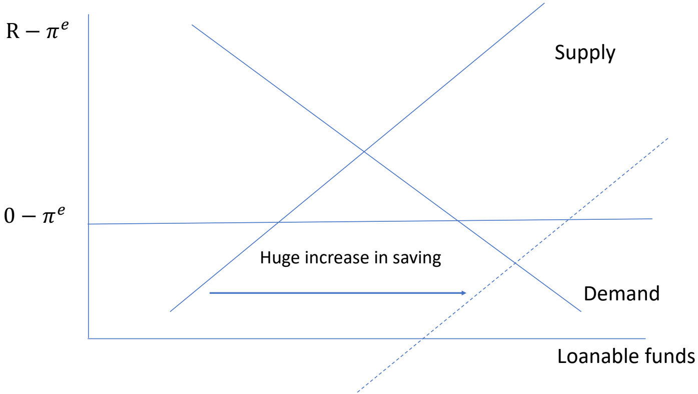

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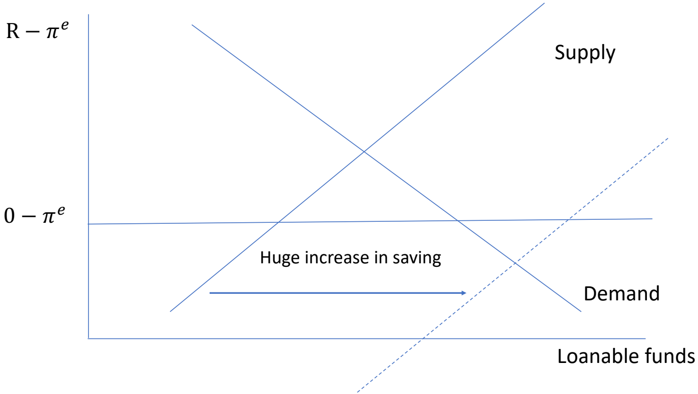

- Problem: with big enough increase in saving and inflation expectations anchored, R can't fall enough to clear loan market.
- But, loan market must, as a matter of logic, clear.

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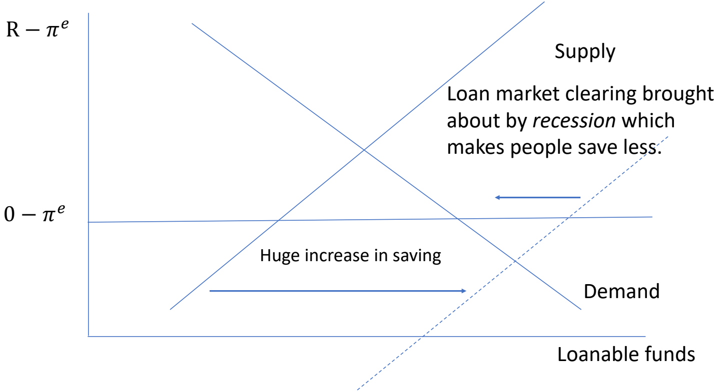

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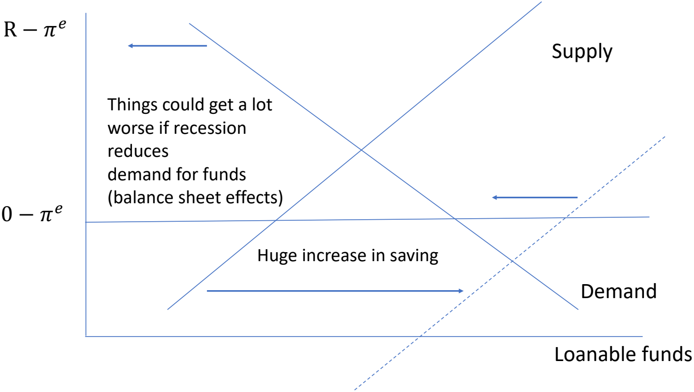

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- Proposal considered here: negative interest rates on bank reserves.

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- Does *not* look very effective, consistent with empirical evidence compiled by authors for Swedish data.

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  - Official reserve requirement 10 percent, so loans could increase loans by \$15 trillion, 50% more than total non-financial firm debt.
  - Taking into account sweep accounts, effective reserve requirement much lower, around $1/65$, in which case of a \$1.5t increase in reserves supports astronomical $65 \times 1.5 = \$97.5$ trillion increase in reserves.

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        - costs are lower in recessions.