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FINLANDS BANK
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Discussion on the paper by Coulier, Pancaro, Reghezza "Are low interest rates firing back: interest rate risk in the banking book and bank lending in a rising interest rate environment"

7th annual AWG and MPAG workshop, 1 July 2024, Riga

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Helinä Laakkonen

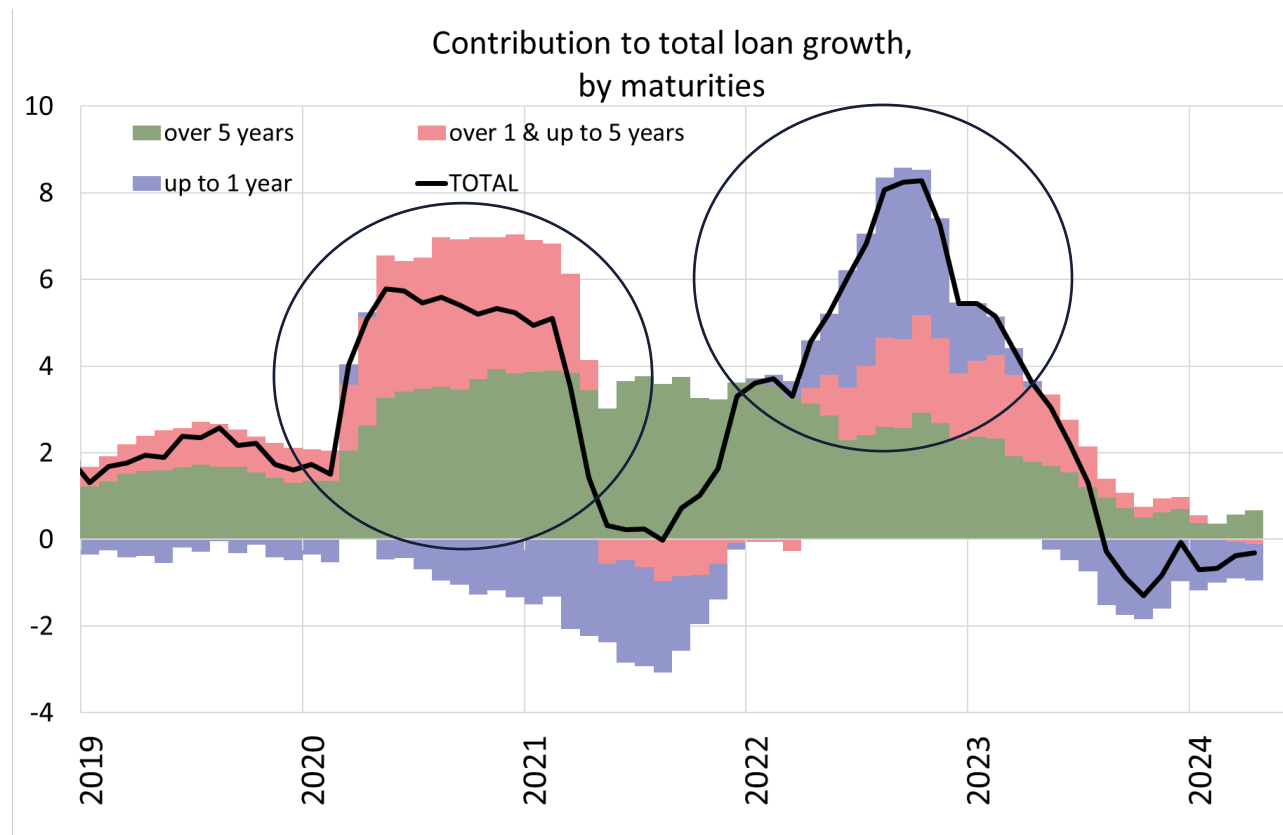
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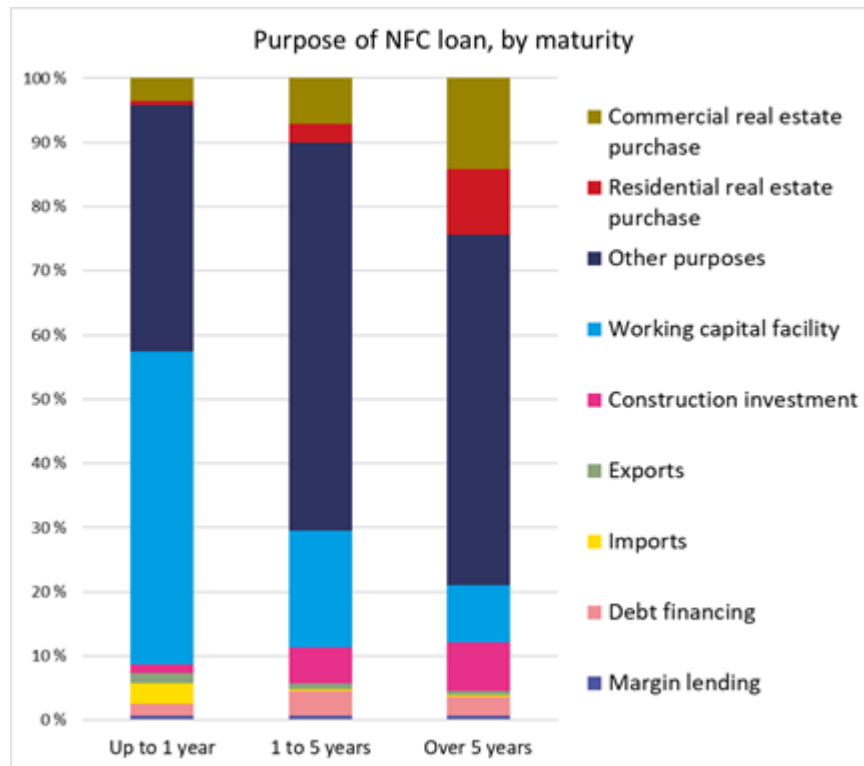
Summary – great study!

- Important and timely topic assessing the relevance of the banks' interest rate risk exposure to bank lending supply
- Great data and careful analysis in matching granular supervisory and credit register data and conducting various robustness checks
- Interesting findings: banks with a higher exposure to interest rate risk, i.e., with a larger duration gap
 - curtailed corporate lending more than their peers,
 - reshuffled their loan portfolio away from long-term loans and
 - targeted their lending contraction to small and micro firms
- Clear contribution to the literature

The Covid-19 period has been left out from the data – how about the energy crisis?



Would the the purpose of the loan matter?



- Loan maturity is typically connected with the purpose of the loan – what if used instead or in addition to the loan maturity?
- Could also solve potential problems related to loans granted in extraordinary circumstances (Covid-19, energy crisis) for liquidity purposis

Few other comments

- Euro area heterogeneity – country-level differences in the duration risks?
 - German banks has a large weight in the data (17/73) - robustness of the results without them?
- Differentiating the effects of supply and demand is always a tricky task
 - When the interest rates increase, the demand of the long-term loans also contracts more than that of short time loans, according to BLS data.
- Why? And so what?
 - Why banks' increased duration risk taking – because they have to, or because they can?
 - Policy implications for regulation or macroprudential policy?



Thank you!

Helinä Laakkonen
Rahoitusvakaus- ja tilasto-osasto
Suomen Pankki

Julkinen | SP/FIVA-EI RAJOITETTU



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6