OESTERREICHISCHE NATIONALBANK
EUROSYSTEM

Discussing: “QE: implications for bank risk-taking, profitability and systemic risk” by Supriya Kapoor and Adnan Velic

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FINMA

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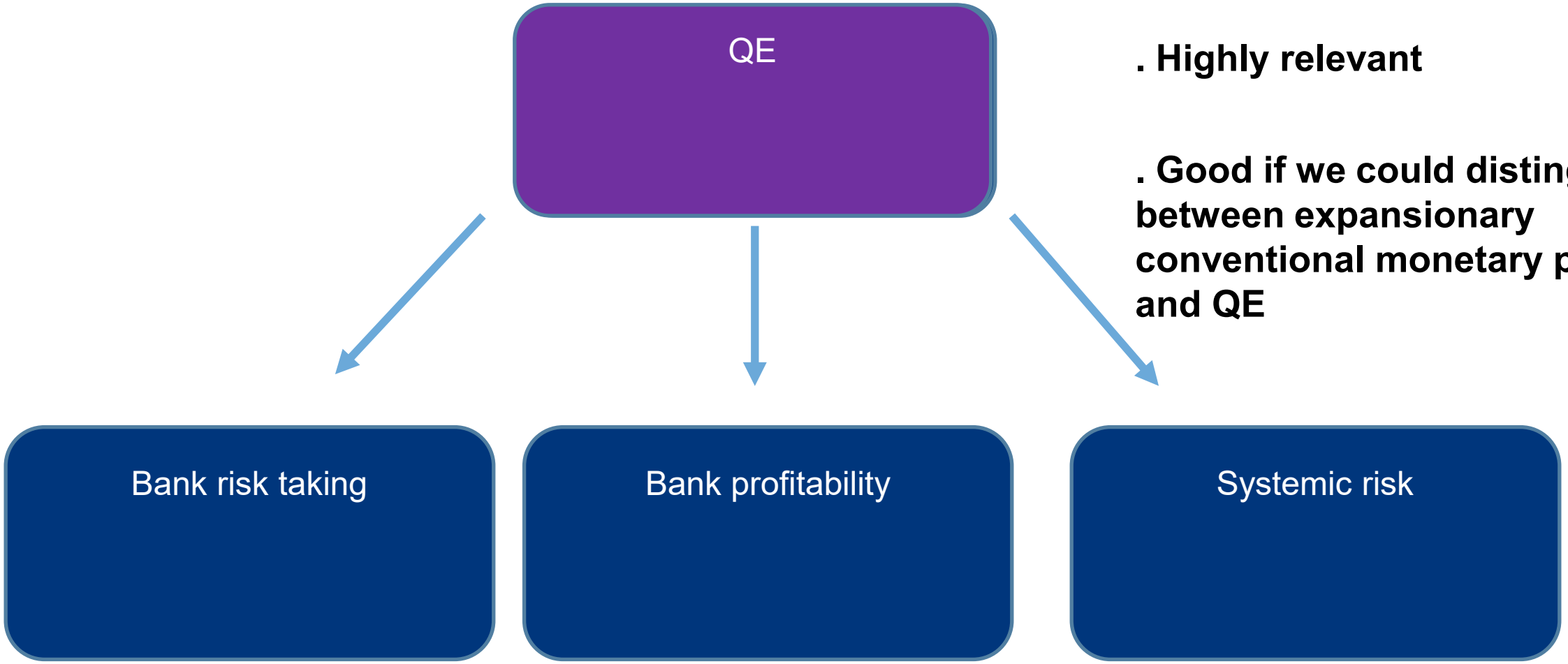
Research Question:

What is the impact of QE on individual bank risk-taking, bank profitability, and systemic risk?



. Highly relevant

. Good if we could distinguish between expansionary conventional monetary policy and QE

Identification Strategy via Interaction Term consisting of:

1. Time-Dummy (QE)

QE1 2008:Q4 - 2010:Q2,

QE2 2010:Q4 - 2011:Q2,

QE3 2012:Q3 - 2014:Q3.

2. "Treatment" variable:

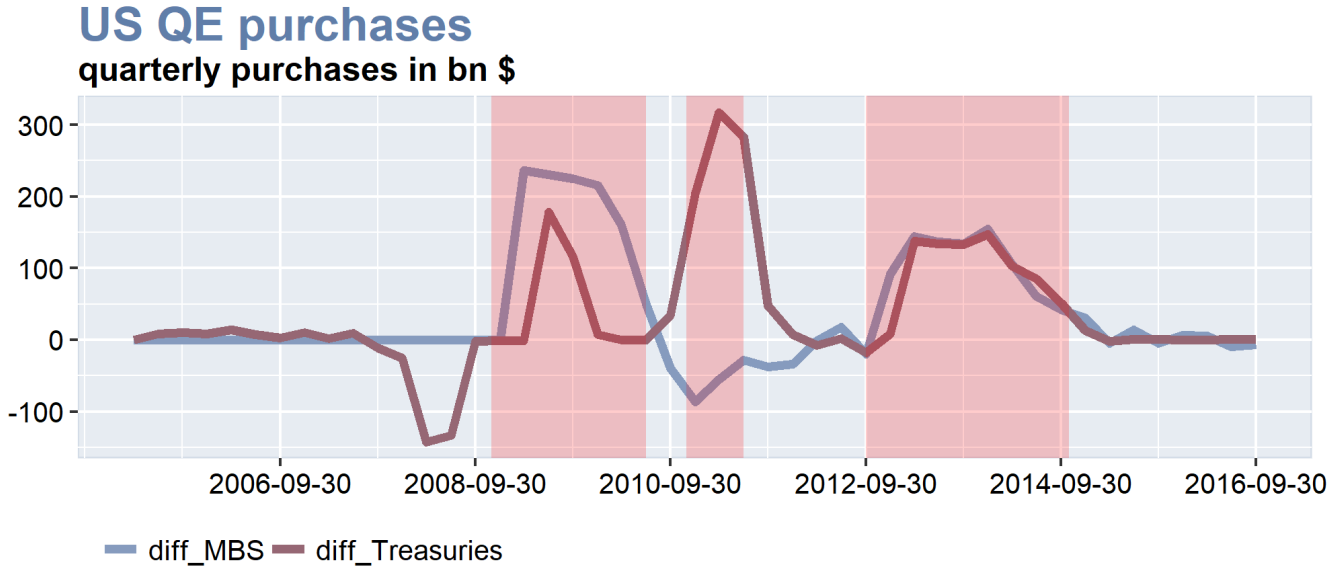
QE affected those banks that had a high share of MBS in their portfolio.

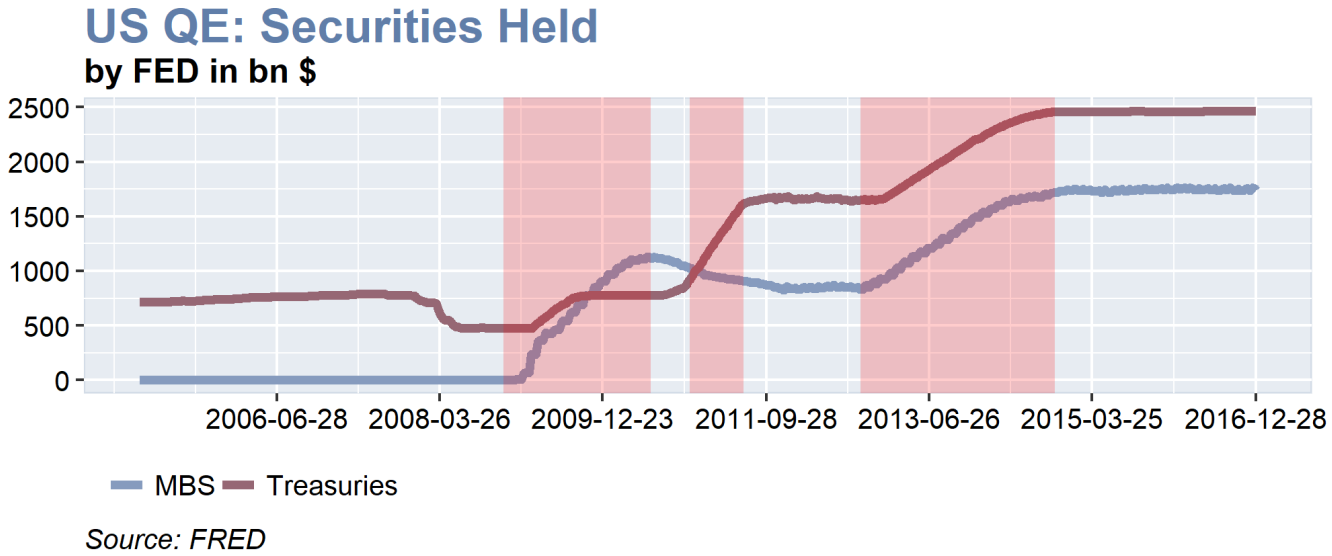
2a. Top 25% in 2007-12

2b Top 10% in 2007-12

2c MBS / Total Assets in 2007-12

2d Top 50% in 2007-12





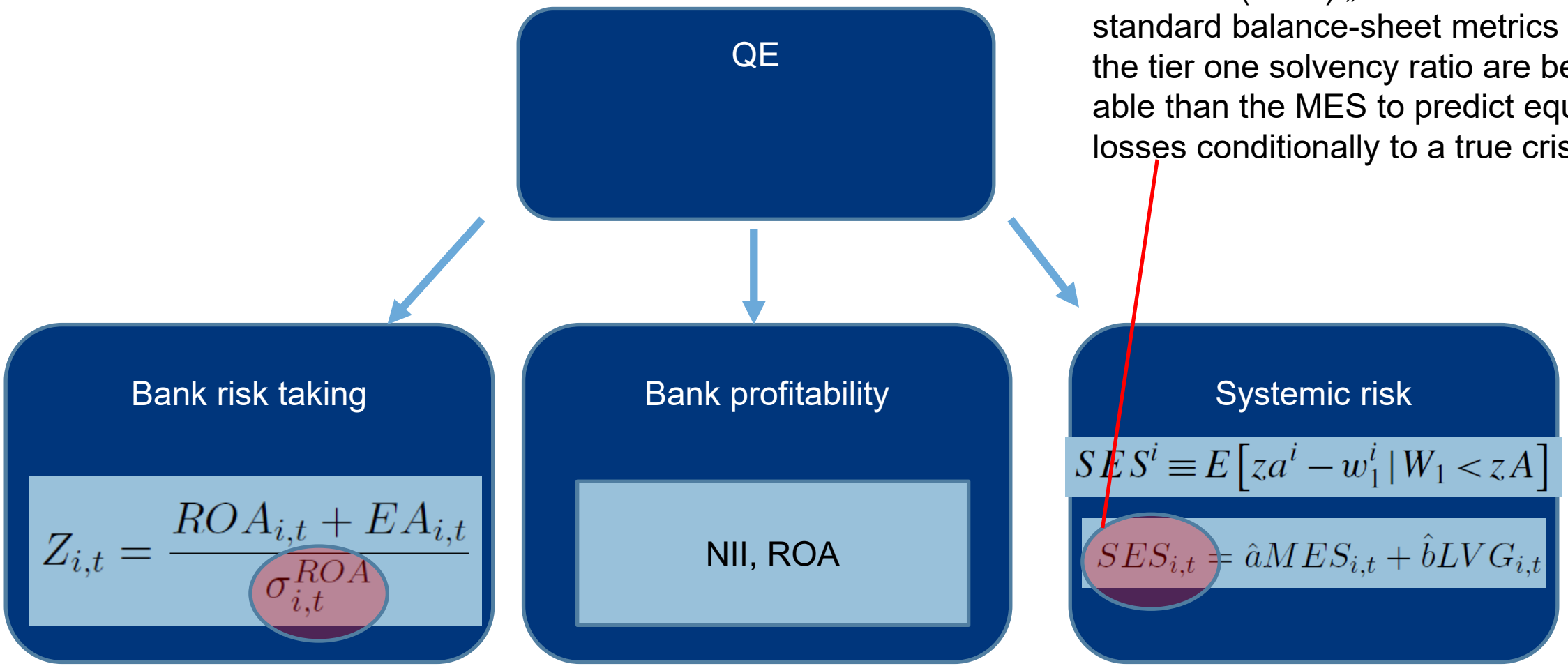
Source: FRED

Data from Board of Governors of the Federal Reserve System (US), Assets: Securities Held Outright: U.S. Treasury Securities: Wednesday Level [WSHOTSL], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/WSHOTSL, October 9, 2023.

Measurements:

How are the variables of interest measured?

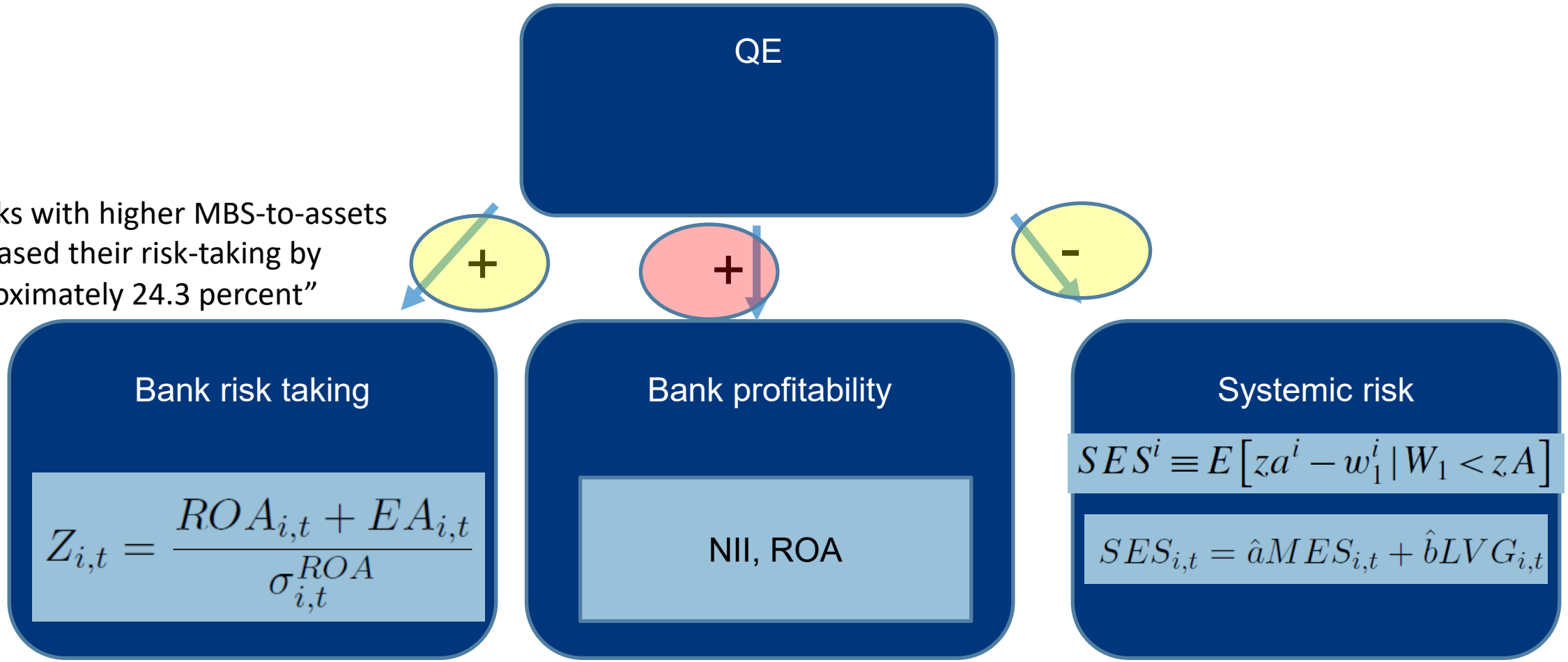
Idier et al (2013) „We find that standard balance-sheet metrics like the tier one solvency ratio are better able than the MES to predict equity losses conditionally to a true crisis.“



Results:

Can we understand the results?

"banks with higher MBS-to-assets increased their risk-taking by approximately 24.3 percent"



Results: the puzzles

1. How can QE increase risk taking, but at the same time decrease systemic risk?

Attempt at explanation:

Perhaps decrease of systemic risk *contribution* of *these* banks, but overall increase of risk?

2. How has QE increased NII when we know low interests weigh negatively on NII?

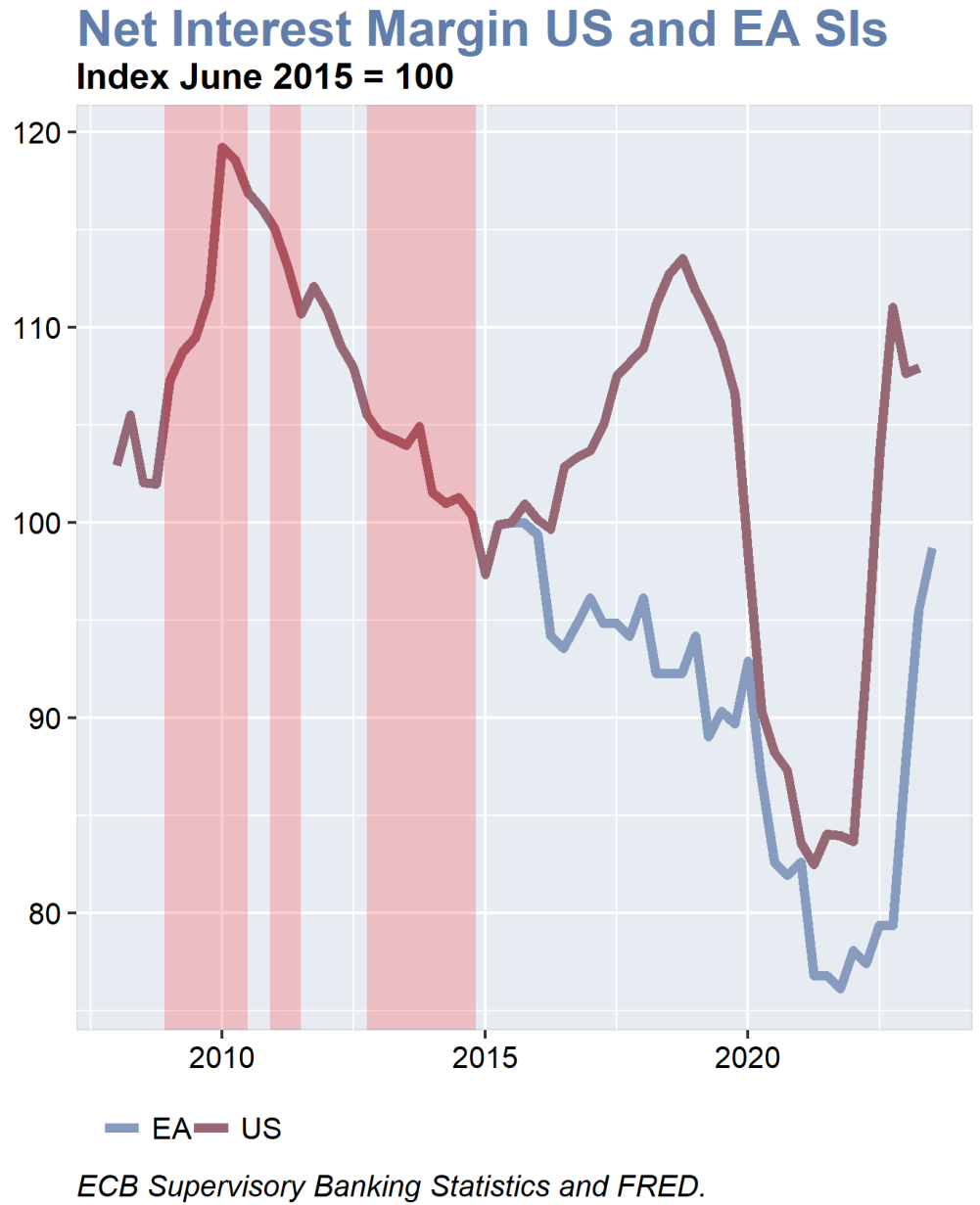
(see also Kerbl & Sigmund 2016)

Attempt at explanation:

Regression measures profitability *change in comparison to other banks (non-treatment)*.

3. Why QE3 so strong, while not QE1 (and QE2)?

4. Robustness checks show 5-10 fold stronger effects.



Conclusions

Applaud:

+ research question

+ variations in endogenous variables explored

Recommend:

. Identification strategy that allows more flexibility with regards to entities and time periods

. Measure what you want to measure & what can be interpreted.

Literature

Board of Governors of the Federal Reserve System (US), Assets: Securities Held Outright: Wednesday Level, retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/WSHOTSL, October 9, 2023.

Idier, J., Gildas Lamé and Jean-Stéphane Mésonnier (2013) How useful is the Marginal Expected Shortfall for the measurement of systemic exposure? A practical assessment. ECB Working Paper Series, No 1546

Kapoor, Supriya and Adnan Velic (2023) QE: Implications for Bank Risk-Taking, Profitability, and Systemic Risk. Working Paper.

Kerbl S. and Sigmund M. (2016). From low to negative rates: an asymmetric dilemma, Oesterreichische Nationalbank, Financial Stability Report, Vol. 32, pp. 120–137.

Danke für Ihre Aufmerksamkeit

Thank you for your attention

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-0.048 (Table 4, Z_Score, QE3, main results)

0.038 (Table 5, NII, QE3, main results)

-0.125 (Table 5, systemic risk, QE3, main results)

Compared to Table 7:

	Z-Score (1)	**NII** (2)	**SES** (3)
$QE1_t \times Treat_i^Q$	-0.044	0.084	-0.324
	(0.122)	(0.067)	(0.616)
$QE2_t \times Treat_i^Q$	0.003	0.069	-0.056
	(0.198)	(0.109)	(0.051)
$QE3_t \times Treat_i^Q$	-0.529***	0.159**	-1.56**
	(0.140)	(0.077)	(0.706)