Discussion of "Bank Deposit Pricing in the Euro Area" by Ugo Albertazzi, Finn Faber, Oana-Maria Georgescu and Ernest Lecomte

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Motivation

Important and timely topic. However, doubts on interpretation?

"Possible explanations for the sluggish sight deposits pass-through could be structural factors such as market concentration, the negative rates environment or bank characteristics interacting with monetary policy."

Main findings (based on banks' market power):
1) Sight deposits display a weaker pass-through of policy rates.
2) Pass-through of policy rates to deposits is asymmetric: higher in periods of declining rates.
3) Banks that passed on negative rates to their depositors increased their deposit rates more when policy rates increased.
4) Banks with larger unrealized losses on their bond portfolios offered lower deposit rates.

Is there a finding 5 missing?

5) Banks' market power in overnight deposits increased, thereby accounting for the sluggish increase in overnight deposit rates in 2022.

Why did market power increase?

Failure of some banks after the 2008-2009 Global Financial Crisis and the 2010-2013 European Sovereign Debt Crisis?

Composition effect of customers? Price sensitive customers moved to FinTechs or non-bank financial services?

Moment in which policy rates change matters

Maybe results differ when change in policy rates is driven by supply versus demand shocks (Smets and Wouters 2007, Madeira et al. 2023).

Supply shocks represent an increase in policy rates and a decline in bank profits (due to declining economic activity).

Demand shocks increase both policy rates and bank profits.

Duration and persistence of shocks

Authors could exploit the expected persistence of the change in policy rates by looking at long term yield changes.

"The duration of deposits is expected to decrease following an increase in interest rates. Recent data on the rate of sight-deposit pass-through for euro-area banks since the tightening cycle started does not support this theoretical prediction, unlike other tightening periods."

If policy rate changes are expected to be transitory, then irrational inattention of consumers (Reis 2006) increases market power. Macaulay 2025 with UK data shows that savers show more attention to higher interest rate products during contractions.