

Brief Remarks on the Financial System

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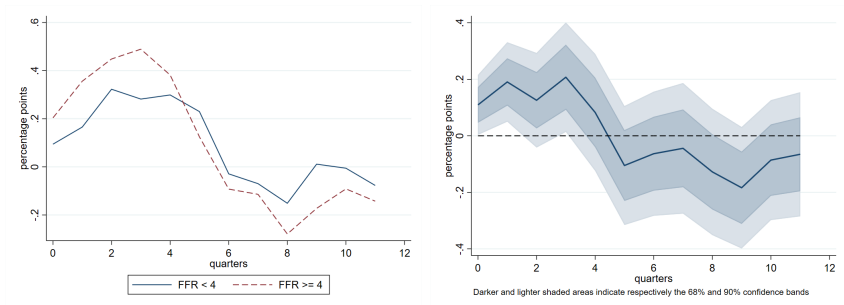
May 31 2024

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Local Projections: IV with controls and State-dependence

$$\Delta Rate_{t+h} = \alpha_h + \beta_{1,\tau}^h \Delta \hat{FFR}_t + \beta_{2,\tau}^h \Delta \hat{FFR}_t \times I_{HighRate} \\ + A(L)_{t=0}^4(GDP, Prices, C, EBP, YC_{slope}) + B(L)_{t=1}^4 FFR_t + \varepsilon_{t+h}$$

Figure: Response of Deposit Expense Rate to Federal Funds Rate Change



(a) Response with high and low rates

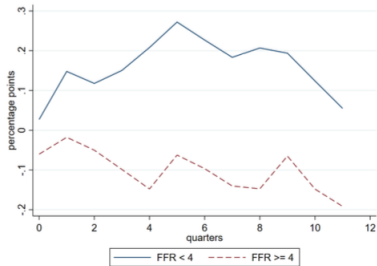
(b) Difference Between high and low rates

- $I=1$ if average value of FF in the last 6 quarters was 4% or higher.

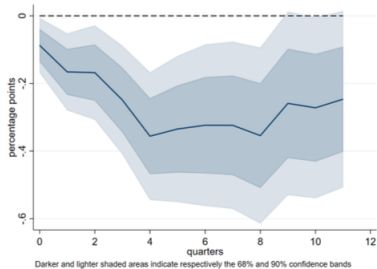
	$\Delta \text{Deposit Rate}_{t+h}$		$\Delta \text{Interest Expense Rate}_{t+h}$	
	$\Delta \text{Low Rate}$	$\Delta \text{High Rate}$	$\Delta \text{Low Rate}$	$\Delta \text{High Rate}$
h=0	0.14***	0.20***	0.14***	0.21***
h=1	0.30***	0.42***	0.26***	0.36***
h=2	0.30***	0.32***	0.21***	0.26**
h=3	0.21**	0.21**	0.21*	0.21**

- There's **strong state dependence** in β 's.
- When rates have been low for an extended period, β is small.
- When rates have been high for an extended period, β is larger.
- What about Net Interest Margin

Local Projections, NIM, IV, state dependence



(a) Response with high and low rates



(b) Difference Between high and low rates

	<i>NIM</i>	
	$\Delta Low Rate$	$\Delta High Rate$
$t+0$	0.03	-0.05
$t+1$	0.15**	-0.02
$t+2$	0.12*	0.04
$t+3$	0.15*	-0.10

- We see **strong state-dependence** in response of NIM to a change in FF.
- When rates have been low for an extended period, NIM **rises** by a lot.
- When rates have been high for an extended period, NIM **declines** moderately.

Previous results consistent with Dreschler et. al.

Panel A: All banks

Deposit Franchise Value	All banks		
	Dec 2021	Feb 2023	Feb 2024
	(1)	(2)	(3)
DF_I (Insured)	-1.06 (2.37)	7.95 (3.33)	5.44 (2.99)
DF_U (Uninsured)	0.80 (1.64)	3.94 (2.35)	2.19 (1.73)
$DF_I + DF_U$	-0.26 (3.77)	11.89 (3.99)	7.64 (4.08)
Obs.	717	715	690

FF, 10 year yield

Dec 2021: 0.08%, 1.52%.

Feb 2023: 4.58%, 3.92%,

Feb 2024, 5.33%, 4.25%

- How much of decline in value of deposit franchise between second, third period was due to rise in FF as opposed to SVB run?

A puzzle and a danger

Global Private Debt Assets Under Management

Billions of Dollars

■ US ■ Non-US

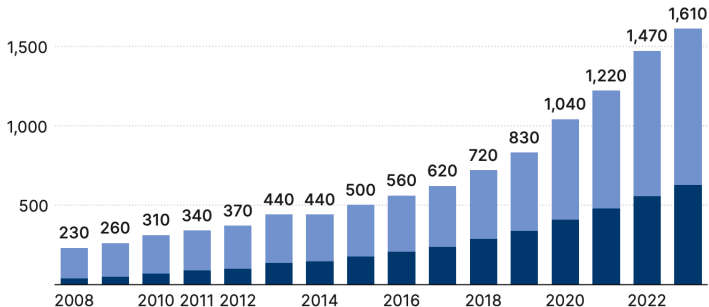


Chart: Bloomberg News and Preqin

Note: 2023 data is until March 2023. The geographic region designations refer to the primary geographic focus of the fund: where the fund is looking to invest its capital.

 Hutchins Center
on Fiscal & Monetary Policy
at BROOKINGS

- 1 Rise in corporate leverage and default
- 2 Dry Powder and deterioration in credit quality
- 3 Potential spillover to other nonbank institutions
- 4 there's a lack of transparency