Are low interest rates firing back? Interest rate risk in the banking book and bank lending in a rising interest rate

CHAMP Inaugural Conference, 25-26 April 2024

Introduction

- → **Yes.**
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- → **Lending of banks with higher duration tightens more**
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My personal view

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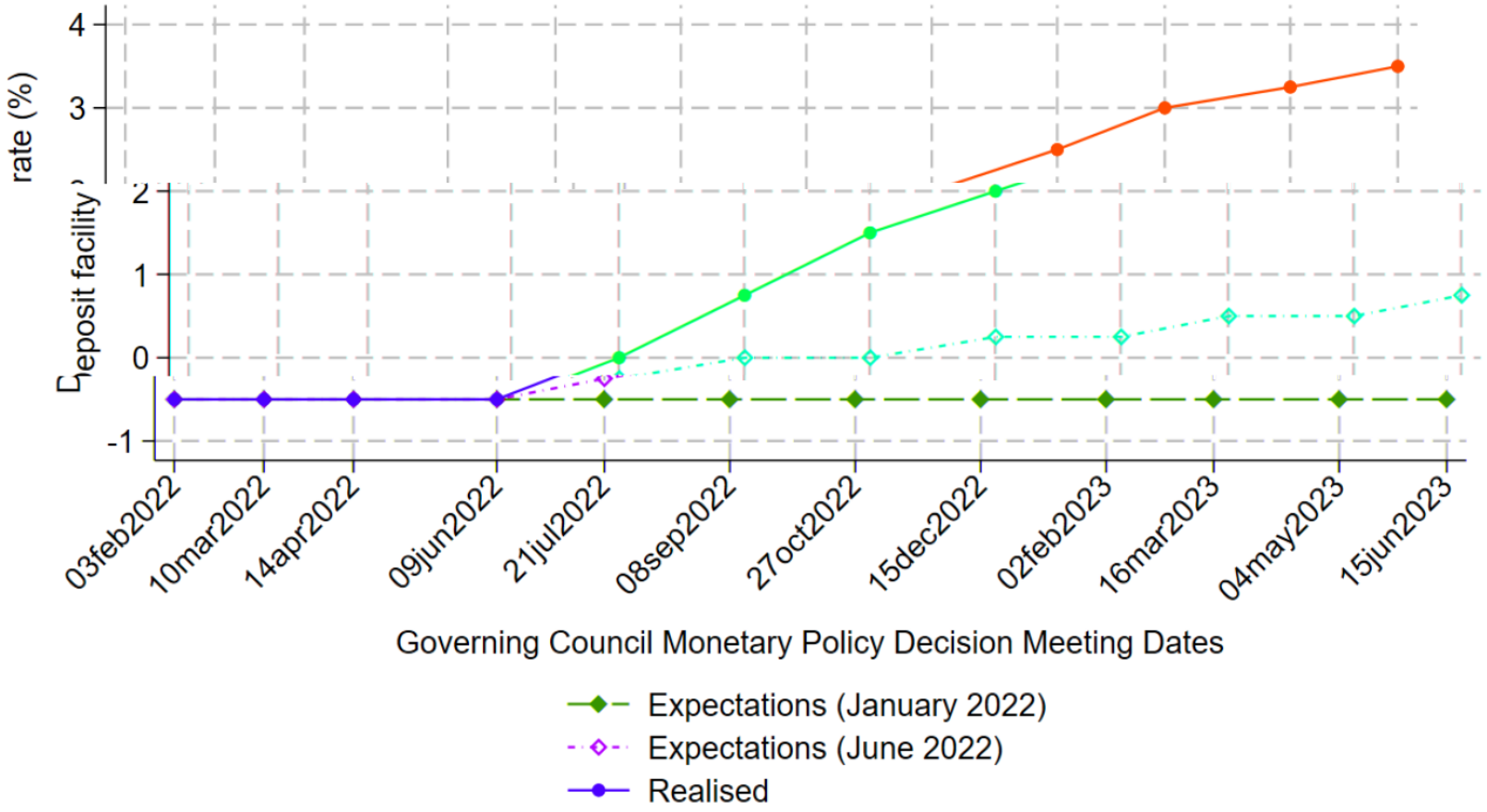
Just in case you had better things to do

- 

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A brief reminder of duration

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$$DurationGap = \sum_{j=1}^{14} \frac{DUR_j}{1+i} \left(\frac{A^j - L^j}{Z} \right)$$

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A brief visual on duration

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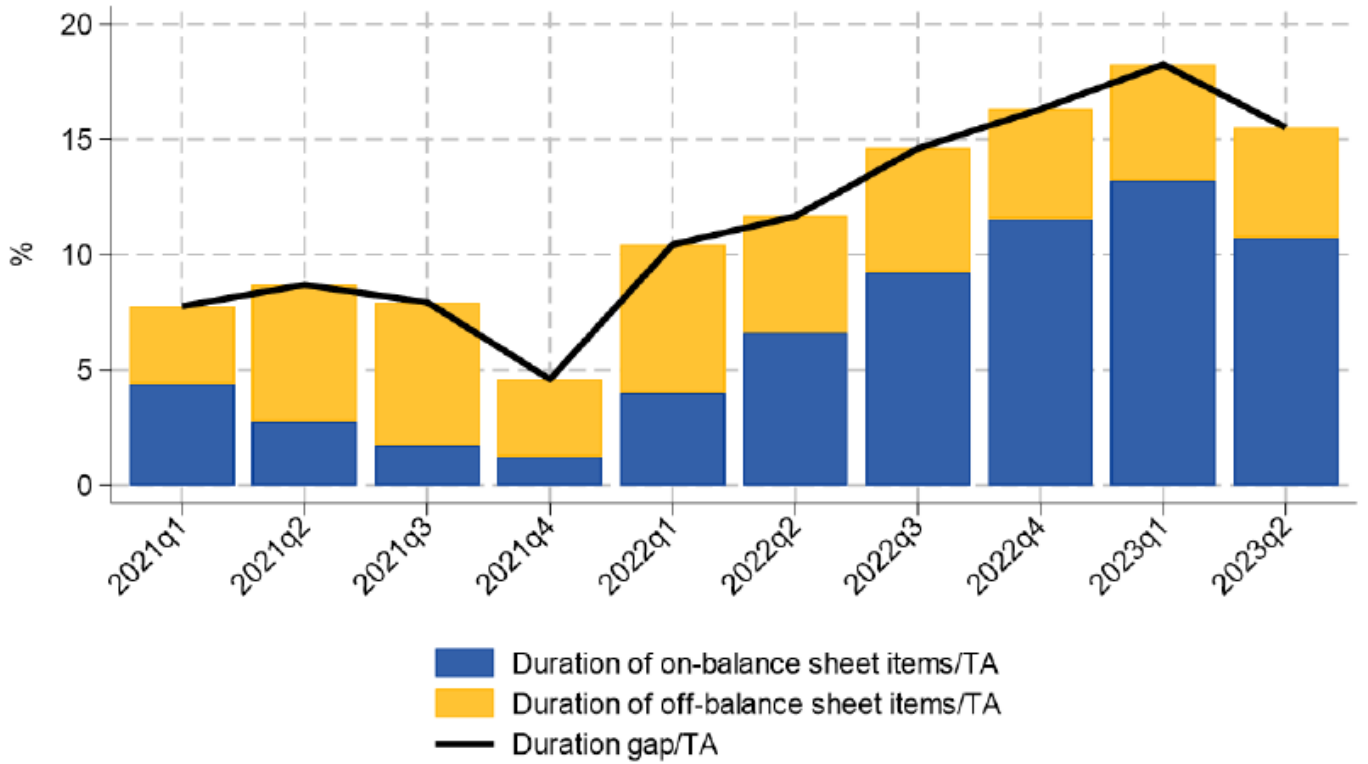

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R1 Duration affects lending responses to MP

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Table 3: Effects on the intensive margin

	Dependent variable: Δ Log (loans)			
	(1)	(2)	(3)	(4)
Duration gap/TA (lag)	0.000144	0.000193*	0.000144	0.000194*
	(1.34)	(1.75)	(1.33)	(1.72)
Duration gap/TA (lag) × Δpolicy rate	-0.0292**	-0.0300***	-0.0294**	-0.0302***
	(-2.26)	(-3.04)	(-2.25)	(-3.00)
Income gap/TA (lag)		-0.000460		-0.000467
		(-1.61)		(-1.60)
Income gap/TA (lag) × Δpolicy rate		0.0390*		0.0395*
		(1.75)		(1.73)
0.00307**	Log TA (lag)			0.00303**
(2.08)				(2.11)
-0.413**	Log TA (lag) × Δpolicy rate			-0.422**
(-2.07)				(-2.16)
0.00151***	Cash/TA (lag)			0.00150***
(3.22)				(3.19)

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Comment 1 – What is driving the results?

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Comment 1.1 – Positive and negative gap

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Comment 2 – Overnight deposit duration

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Comment 3 – Overnight deposit duration

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Conclusion

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