How Do Retail Investors Respond to the Zero Lower Bound?

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THE PAPER IN A NUTSHELL

- Set-up:
  - Assesses impact of rate cut in March 2016 on retail investors.
  - Uses security trading records of an online bank in Germany.
  - Exploits reinvestment of dividends and intensity/tone of news for identification.
- Results:
  - Investors hoard cash at the zero lower bound.
  - Most surprisingly: no ‘reach for yield’.
  - Exposure to news and their tone matter.
  - Individual characteristics do not matter.

THREE COMMENTS

1. Mechanism: Information, persuasion, or confirmation bias?
2. What was surprising of the March 2016 event?
3. Lessons for nowadays.

MECHANISM

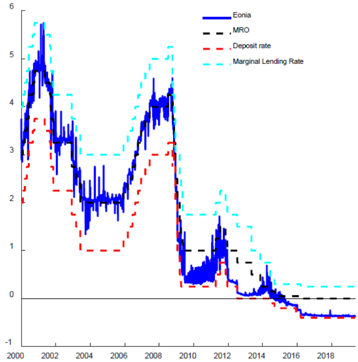
Not clear the mechanism that leads investors to react by holding more cash/not reaching for yield.

1. Information about the policy?
   - should be connected to sophistication (we saw it's not).
2. Information about actual state of the economy?
   - comparison with other rate cuts.
3. Investors getting convinced by the news?
   - ex-post assessment might shed light.
4. Information outlets speaking to target audience?
   - might explain why coverage and sentiment alone are not enough to produce a response.

WHAT WAS SURPRISING OF THE MARCH 2016 EVENT? (1/2)

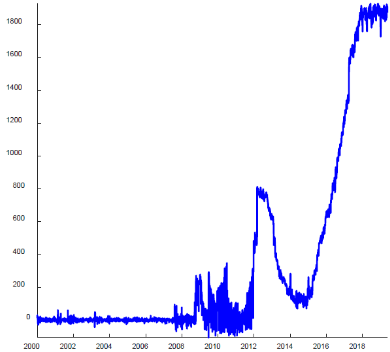
- The 10 March 2016 Decision was a package:
  - MRO cut, DFR cut, APP expansion, CSPP, TLTRO II, FG.

Interest rate corridor



Excess Liquidity

(Current Account + Deposit Facilities - Reserve requirements)

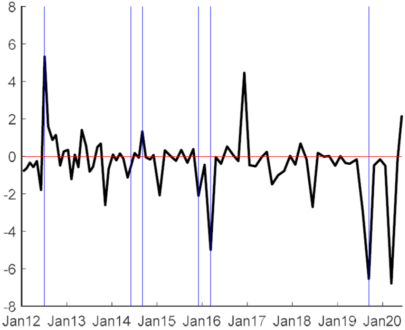


WHAT WAS SURPRISING OF THE MARCH 2016 EVENT? (2/2)

- It was also about duration of stimulus.
- Looking at actual surprises at high frequency:

Figure A.1: Impact of monetary policy surprises on the slope of the yield curve

This figure shows the changes in the slope of the yield curve caused by the monetary policy shocks. The solid line reports the difference, in basis points per annum, in the median quotes of overnight index swap (OIS) rates with maturities of 10 years vis-à-vis the average of maturities up to three years (1 week, 3 month, 6 months, 1 year, 2 years and 3 years) from the window 13:25-13:35 before the press release to the window 14:00-14:10 after the press release during the days of ECB Governing Council meetings on monetary policy decisions (Altavilla, Brugnolini, Gürkaynak, Motto, and Ragusa, 2019). Vertical lines indicate the ECB Governing meetings that featured a cut in the DFR.

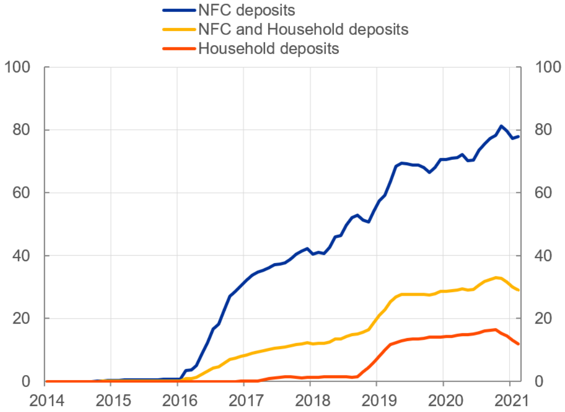


(from Altavilla, Burlon, Giannetti, Holton, 2021)

LESSONS FOR TODAY: COST OF CASH MATTERS?

- Reaction to cash-flows depends on cost of cash.
- Back in early 2016, cost of cash (relative to other liquid forms of investment) was low.

Figure: Percentage of deposits with negative rates in Germany



CONCLUSION

- Clean, straight-forward exercises with unique data...
- ...with an unconventional finding...
- ...and an appreciable pinch of 'fanciness'.
- Very topical for the current policy debate:
  - distortions in individual behaviour due to the ZLB,
  - effectiveness of UMPs in its aftermath (NIRP, APP, TLTROs),
  - side effects of monetary policy for financial stability.

Thank you.