

BANKS' RESPONSE TO NEGATIVE INTEREST RATES: EVIDENCE FROM THE SWISS EXEMPTION THRESHOLD^{*}

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Abstract. We study banks' response to the introduction of negative deposit facility rates. Using detailed monthly supervisory information on the balance sheets and income statements of all retail banks in Switzerland, we document the transmission of negative interest rates to the interbank market and heterogeneity in the reorganisation of banks' balance sheets. More specifically, we exploit an exemption threshold, peculiar to the implementation of negative rates in Switzerland, for identification. We find that exposure to negative central bank rates induces a significant decline in net interest income, an offsetting increase in fee income, an expansion of mortgage margins, and increased investment in ex-ante riskier assets.