

Deposit market concentration and monetary transmission: Evidence from the euro area

by Stephen Kho

Discussion of the paper
by Kornelia Fabisik

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1 **Brief summary**

2 **Comments**


The paper studies the **transmission of monetary policy** to deposit rates in the **euro area**.

Research question

The paper studies the **transmission of monetary policy** to deposit rates in the **euro area**.

Economic channel: banking sector **concentration**

Main finding

Saving / investing	Currency	Interest rate and interest payment limit
<u>UBS Savings Account extra</u> 	CHF ³⁾⁸⁾	1.50% ⁷⁾ up to CHF 250 000 0.30% above CHF 250 000
<u>Savings account</u> ⁵⁾	CHF ¹⁾	0.75% up to CHF 50 000 0.30% above CHF 50 000
<u>Savings account</u> ³⁾	EUR ²⁾	0.75% up to EUR 50 000 0.15% above EUR 50 000

More concentrated banking sectors do pass on unexpected monetary **tightening** (easing) more **slowly** (quickly) than less concentrated banking sectors.

<https://www.ubs.com/ch/en/private/interest-rates.html>

Key facts:

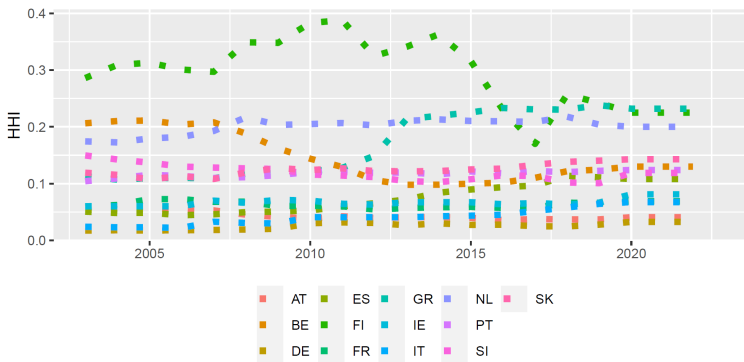
- **13 countries** = Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, the Netherlands, Portugal, Spain, Slovenia and Slovakia
- **Measure of concentration** = Herfindahl-Hirschman Index
- **2003-2022** = Time period

1 **Brief summary**

2 **Comments**

Comment #1: Concentration measure used in your paper

- **Herfindahl-Hirschman Index (HHI)** is obtained by summing the squares of each bank's market share
- Scale: from 0 (little concentration - perfect competition) to 1 (high concentration - monopoly)



Measures of Competition and Concentration in the Banking Industry: a Review of the Literature

Jacob A. Bikker and Katharina Haaf
Central Bank of the Netherlands

https://www.dnb.nl/media/o2vdj421/measures_of_competition_and_concentration_in_the_banking_industry.pdf

Comment #1: Other concentration measures

“This section considers **ten concentration ratios** – the k bank Concentration Ratio (kCR); the Herfindahl-Hirschman Index (HHI); the Hall-Tideman Index (HTI); the Rosenbluth Index (RI); the Comprehensive Industrial Concentration Index (CCI); the Hannah and Kay Index (HKI); the U Index (U); the multiplicative Hause Index (Hm); the additive Hause Index (Ha); and the Entropy measure (E) – and discusses the weighting scheme and structure of each.”

https://www.dnb.nl/media/o2vdj421/measures_of_competition_and_concentration_in_the_banking_industry.pdf

Comment #2

Comment #2: Concentration measure, market power and collusion level

Bank	Total assets	Share
Slovenská sporiteľňa, a.s. (SLSP)	15 567 681 €	23,32%
Všeobecná úverová banka, a.s. (VUB)	14 235 367 €	21,33%
Tatra banka, a.s. (TB)	11 545 709 €	17,30%
Československá obchodná banka, a.s. (CSOB)	7 807 401 €	11,70%

https://www.researchgate.net/figure/Total-assets-of-biggest-Slovak-banks.tbl1_338514118

Top 4 banks have 73%+ of the market, but they are linked to: Intesa Sanpaolo, Raiffeisen, Erste, or KBC Group.

Comment #2: Market power and collusion level



Suggestion: Include an indicator of powerful EU-wide market players?

Comment #3

Trade Republic offers 4% rate for cash savings

Written by Delano.lu

Published on 18.09.2023 • Edited on 18.09.2023 at 10:56

Share



“Existing and new customers alike can benefit from the deal, on balances up to €50,000.”

Comment #3: What about trading apps?

“With an effective interest rate of 4% per annum, we are passing on the benefits of the new interest rate environment directly to our customers,” says Matthias Baccino, market lead. He is referring to the ECB’s interest rate increases, which once again make interest-based savings appealing.

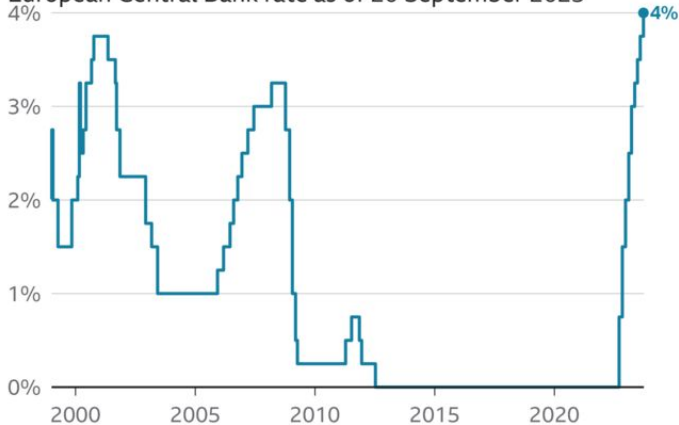
“With over 1m customers, Trade Republic is the largest savings platform in Europe, operating in 17 European countries.”

Comment #4

Comment #4: Time period 2003-2022

ECB rates at record high

European Central Bank rate as of 20 September 2023



Source: European Central Bank



<https://www.bbc.co.uk/news/business-66805855>

Comment #5

On the strengthening the channel:

Sleeping Beauty starts to stir

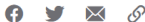
That's based on historical trends. But this time things are likely to get a lot more interesting. The sudden sharp rise in the inflation rate, the first of its kind in almost half a century, has shocked many consumers out of their lethargy. **For a long time these customers—known in the industry as Sleeping Beauties— couldn't be bothered to chase higher rates for their savings. Now they're strapped for cash and the effort yields some kind of a return.** What's more, the advent of comparison sites like Bankrate.com and MaxMyInterest.com makes finding the highest interest rate as easy as falling out of bed.

<https://bankingblog.accenture.com/how-banks-can-thrive-in-the-face-of-rising-interest-rates>

UPDATE

April 17, 2023

Apple Card's new high-yield Savings account is now available, offering a 4.15 percent APY



Comment #5: Other disruptors

Add the discussion on the future of the **banks under status-quo inaction**. In the US, how did the banking market share of **Apple** evolve?

- Look at countries with disruptors. How quickly do incumbents respond?

Add the discussion on the **switching costs**.

- Probability to switch as a function of maximum deposit rate: predictably higher for EUR 100,000 than for EUR 10,000.
- Normalized by some measure of welfare of the country

Thank you for your attention!