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# Stubborn Bankers



By Antonio Fatas , INSEAD Professor of Economics

## **The response of German bank CEOs to the possibility of negative interest rates in the Eurozone to spur lending is wrong.**

In his last press conference Mario Draghi said that the ECB was ready for negative deposit rates if necessary. His comments led to several European bankers rejecting this as a possibility ([here](#) and [here](#)). The comments of the Deutsche Bank and Commerzbank CEOs reflect either their ignorance of how monetary policy works or their fighting against an ECB action that could make their lives harder (and their profits lower).

Martin Blessing from Commerzbank argues that "too much cheap credit could lead to future crises" and he concludes that he does not know "how too much cheap liquidity can solve a problem that was created by too much cheap liquidity." This argument has now been wrongly used for 5 years, I thought that by now we would have learned that this is the wrong analogy.

Fischen from Deutsche Bank complains that setting negative interest rates on deposits at the ECB would be like "penalising banks". And this "will later be felt in a painful manner so that's what I've been warning about" (a threat?). This is the usual argument that banks are so important that you cannot do anything to annoy them.

But what if negative interest rates are the right equilibrium value? In what way are we penalising banks? Banks can go and invest their funds somewhere else if they find that this is not a competitive rate. In addition, it is not uncommon to have these CEOs arguing that what the Euro zone needs (in particular countries in the periphery) is a large reduction in wages. I guess this is acceptable. "Penalising" workers is ok because they do not pose any systemic risk to the economy as a whole.

#### **Find article at**

<https://knowledge.insead.edu/economics-finance/stubborn-bankers>

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