Did the BOJ's Negative Interest Rate Policy Increase Bank Lending? Evidence From A Regression Discontinuity Design

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Abstract

We investigate the effect of negative interest rate policy (NIRP) on bank lending in Japan by using a regression discontinuity design (RDD). On January 29, 2016, the Bank of Japan declared the beginning of the NIRP from February. It was not anticipated in the financial market so that we utilize this event as a natural experiment. For a couple of month from February 2016, the negative interest rate had been levied on banks which reserves had exceeded the average of monthly reserves on 2015. This allows us to employ RDD. The results suggest that an average treatment effect of banks levied a negative interest approximates -1.5% to -3.5%. In other words, the NIRP in Japan *decreased* bank lending.

Keyword: negative interest rate policy, regression discontinuity design, bank of Japan, bank lending.
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