

Negative interest rates on deposit facility in the Eurozone: a failed attempt to revive the unsecured interbank market

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Abstract

The paper reviews the negative deposit facility introduction in the Eurozone and tries to explain the rationale behind that decision. The usual explanation that the negative rate on deposit facility improves the transmission mechanism of monetary policy and contributes to the economic recovery of the area is rejected. In turn the rationale for such a policy is found in the interbank market. The malfunctioning of the interbank market among European banks dates back to the inception of the global financial crisis in 2007. The negative deposit facility rate is inserted in the frame of the monetary policy conducted by the ECB since then. Rather than being a conventional policy as some scholars have argued that policy is considered in this paper deeply unconventional because it does not target any more the overnight interest rate as the interbank market has practically lost in importance and size. The negative policy rate thus appears as an extreme attempt at reviving the unsecured interbank market, which, however, has failed.

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