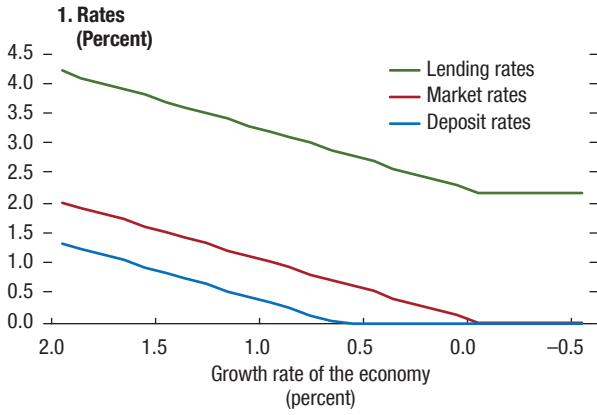
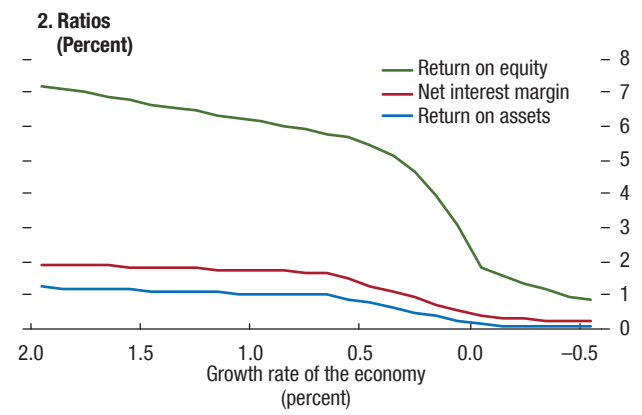


Figure 2.3. Banking under Low Natural Rates: Theoretical Predictions

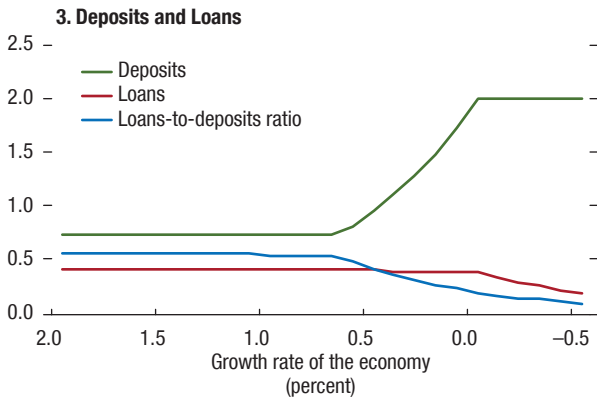
Deposit spreads are squeezed at low rates ...



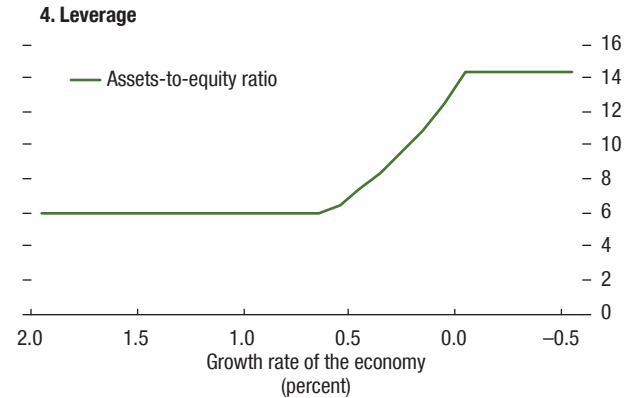
... compressing margins and profits.



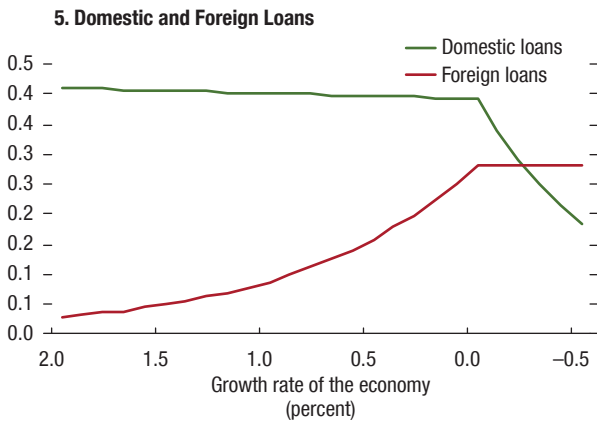
Deposit inflows invested in bonds ...



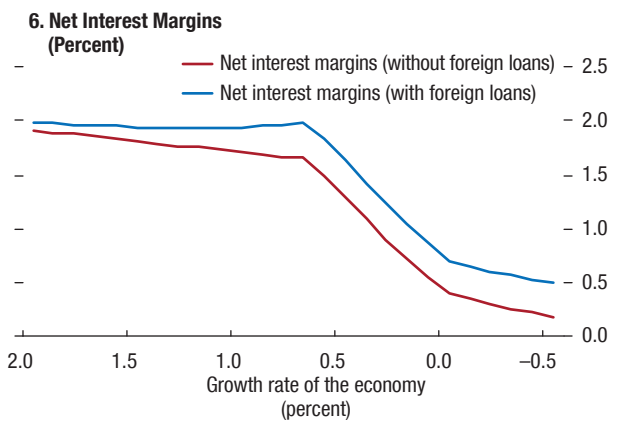
... raise bank leverage.



Banks respond by expanding lending abroad ...



... to maintain margins and profits.



Source: IMF staff calculations (see Box 2.1).