Figure 2.3. Banking under Low Natural Rates: Theoretical Predictions

Deposit spreads are squeezed at low rates ...

1. Rates (Percent)

- Lending rates
- Market rates
- Deposit rates

... compressing margins and profits.

2. Ratios (Percent)

- Return on equity
- Net interest margin
- Return on assets

Deposit inflows invested in bonds ...

3. Deposits and Loans

- Deposits
- Loans
- Loans-to-deposits ratio

... raise bank leverage.

4. Leverage

- Assets-to-equity ratio

Banks respond by expanding lending abroad ...

5. Domestic and Foreign Loans

- Domestic loans
- Foreign loans

... to maintain margins and profits.

6. Net Interest Margins (Percent)

- Net interest margins (without foreign loans)
- Net interest margins (with foreign loans)

Source: IMF staff calculations (see Box 2.1).