

Search for Yield under Prolonged Monetary Easing and Aging

Yoshiaki Ogura
Waseda University

We find several facts supportive of the search for yield, i.e., the phenomenon that a low loan spread encourages banks to extend less monitored and more risky loans, in Japanese regional loan market, where banks experience the prolonged monetary easing and the rapid population aging. We estimate the demand elasticity and the conjectural variation in local loan markets simultaneously with a structural model. The estimates show that the competition gets more intensified in the markets where the loan demand is less elastic against lowering interest rates due to the rapidly aging population. The banks in such competitive markets are driven to extend riskier loans.