



**University of
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The Risk-Taking Channel of the Monetary Policy: Evidence from
the Euro Area

MASTER THESIS
Banking & Finance

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ABSTRACT

This thesis examines the nexus between monetary policy and risk-taking in the European banking sector. More specifically, we focus on the impact of low policy rates on banks' soundness. To this end, we use quarterly balance-sheet and income statement data for 60 banks operating in EU members countries for the period Q2 2005 to Q1 2018.

The first part of this thesis describes the risk-taking channel and the related empirical literature. In the second part of this study, we empirically test the impact of the monetary policy stance on banks' risk. Our findings indicate the presence of a risk-taking channel in Europe over the whole period analyzed. Furthermore, we investigate the impact of the unconventional monetary policy conducted by the European Central Bank (ECB) since 2014. Again, both negative interest rates and quantitative easing are found to affect financial stability of European banks. Therefore, our results suggest that financial stability considerations should play a more important role in future monetary policy decisions.