Discussion of “A Loan-level Analysis of the Determinants of Credit Growth and the Bank Lending Channel in Peru”
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by
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*These slides and associated remarks represent only my current opinions, not those of the Board of Governors or the Federal Reserve System.
Summary of the paper

- The paper analyzes the effect of monetary policy and global factors on the supply of credit in Peru.
- The authors use the Peruvian credit registry managed by the Superintendency of Banking, Insurance, and Private Pension Funds (SBS).
  - The data sample contains information on commercial loans between June 2003 and December 2015.
- All the elements of a great paper:
  - “Macro” prudential tightening to de-dollarize the financial system (reserve requirements).
  - Monetary policy loosening (Repo facilities).
Main findings

• **Monetary policy:**
  - Transmission weaker for larger banks and less diversified banks including those less reliant on fees and commissions (?)

• **Global factors:**
  - Heterogeneous effects of global factors on bank lending conditional on back characteristics
  - Well capitalized banks with low asset quality problems less sensitive to external shocks
  - But there are some counterintuitive results
General comments: Form

• I have comments of two types: on the form and on the substance.

• Provide a better “sales pitch” for the paper, starting with the intro
  • Outline the question you want to answer
  • Describe why it is interesting
  • Note the paper’s contribution to the literature
  • List your results

• Follow this same approach throughout the paper
  • Focus on the points that are relevant for the specific question you want to answer
General comments: Substance

• **Goal of the exercise:** Identify changes in the supply of credit as a result of changes in the monetary policy stance or of changes in global factors.

• Focus on the issues that make the Peruvian case interesting:
  • Dollarized financial sector (although less so now)
  • Attempts by central bank to mitigate the impact of de-dollarization on the real economy (Castillo and Humala, 2017)
Comments: the dollar and bank lending

• For most of the sample period, the share of dollar-denominated lending is high
Bank credit dollarization and the broad dollar
Comments: the dollar and bank lending

• For most of the sample period, the share of dollar-denominated lending is high

• Credit flows may depend more on the dollar and U.S. monetary policy
  • Develop the link between global factors (broad dollar), bank funding, and bank credit in Peru (and the share of local currency vs. dollar lending)
Comments: Monetary policy and de-dollarization (1)

• Active use of “prudential” instruments such as differentiated reserve requirements to de-dollarize the financial system

• To avoid a credit contractions, use of monetary policy instruments to incentivize lending in local currency
Monetary instruments in a dollarized financial system

Note: From Castillo and Humala (2017). In millions of soles.
Comments: Monetary policy and de-dollarization (2)

• How does the use of these instruments affect lending in local currency and dollars?

• Are some banks more sensitive to these instruments? Foreign funded, larger, well capitalized?

• Perhaps use monetary policy proxies different from the reference rate
Minor comments

• Interesting but long description of the business model of Peruvian banks
  • Focus on those issues that are relevant for testing your hypotheses

• How are standard errors clustered (bank and firm)?

• Add notes to the tables describing the main variables, sample period, and how standard errors are treated

• Show the sum of coefficients (plus significance level) of the interaction between monetary policy (and lags) and bank characteristics
Final thoughts

• A very interesting paper.

• It documents valuable insights about the conduct of monetary policy in a quasi-dollarized financial sector

• It also describes how external shocks may impact bank lending in a “small open economy”