

# 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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“Changes in banks’ business models and their impact on bank lending: an empirical analysis using credit registry data”

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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 bank 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

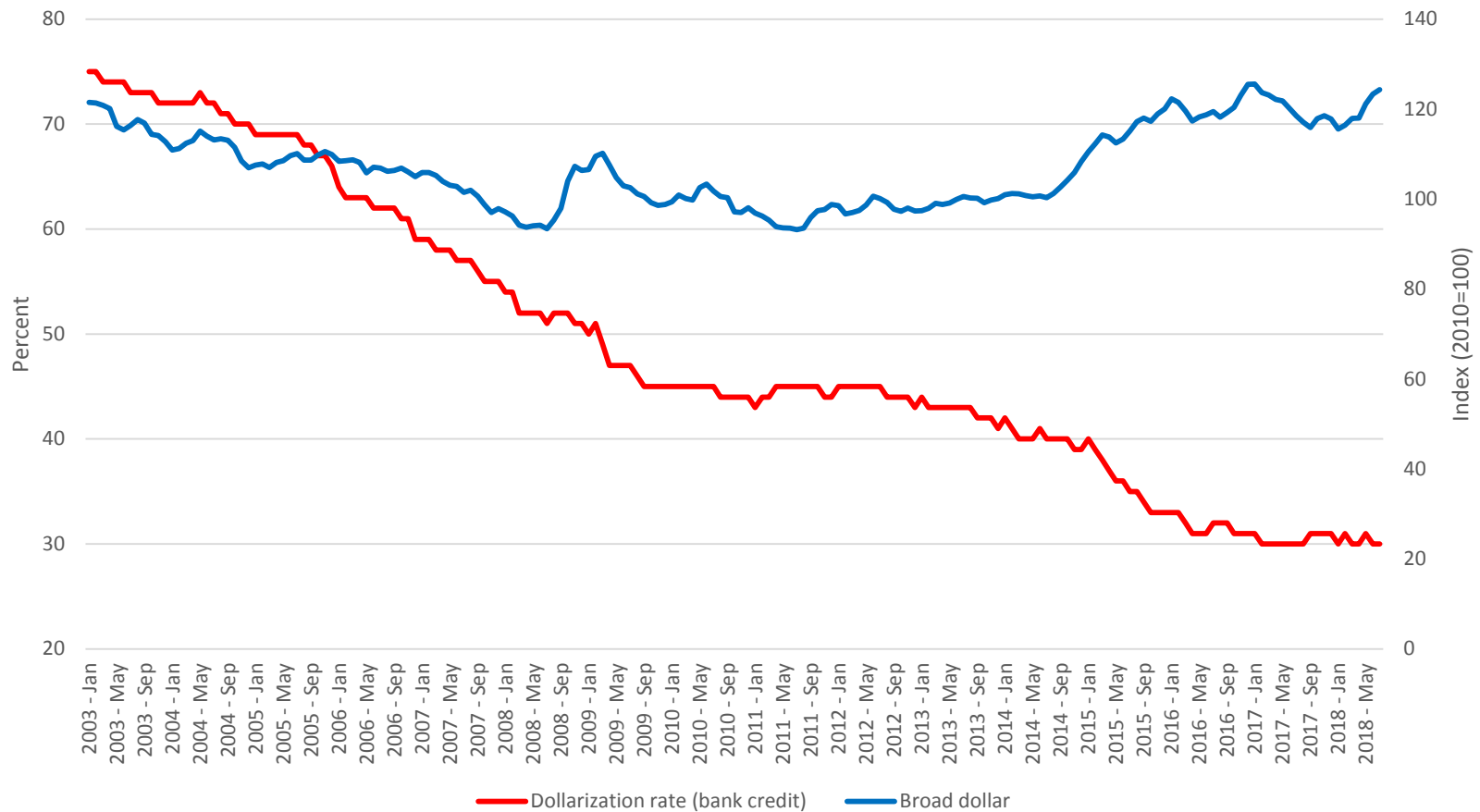
# General comments: Substance

- 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

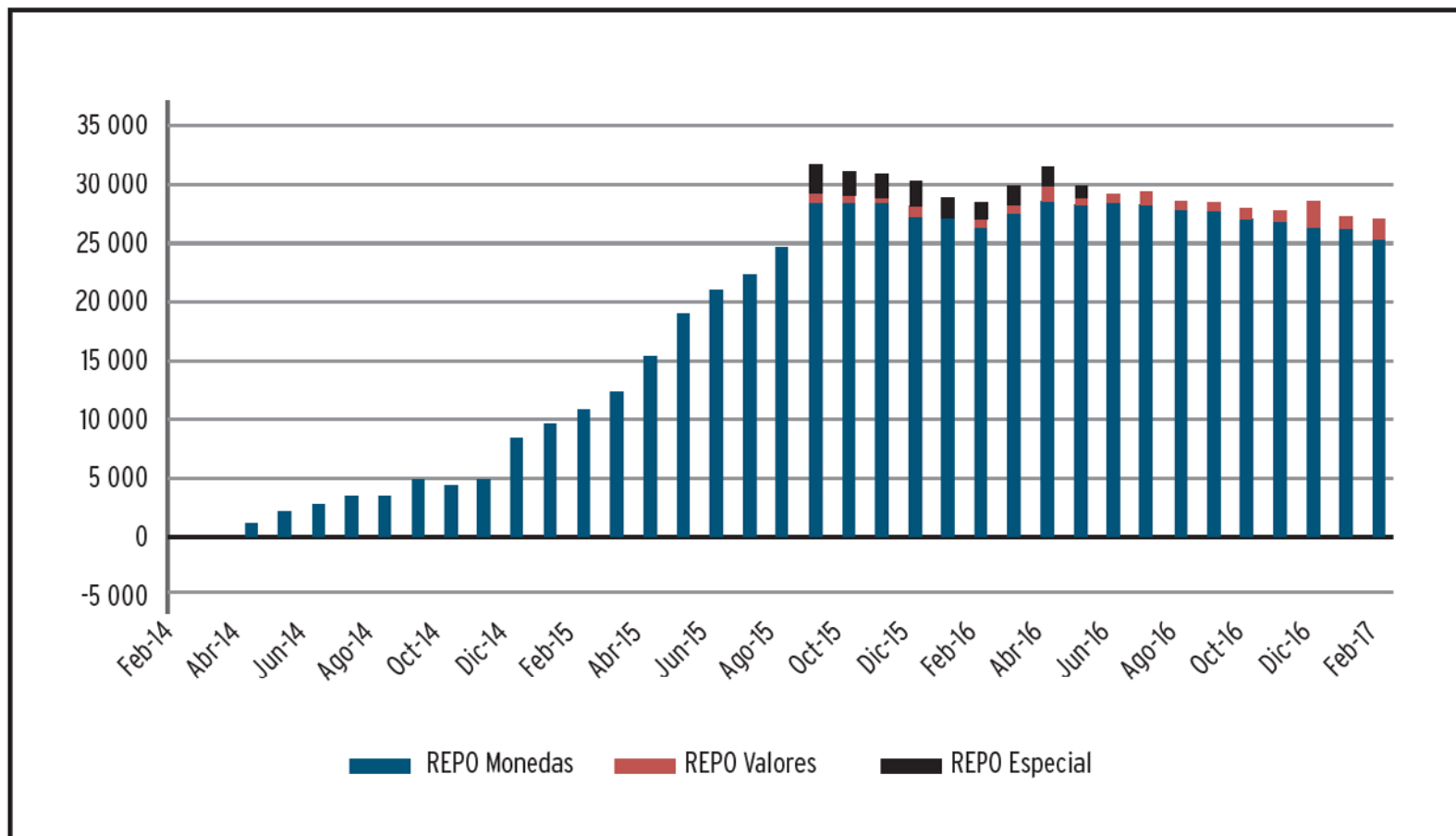
- For most of the sample period, the share of dollar-denominated lending is high
- Credit flows may depend more on the dollar and U.S. monetary policy
  - Develop the link between global factors (broad dollar), bank funding, and bank credit in Peru (and the share of local currency vs. dollar lending)



# 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”