BIS CCA-001-2011
May 2011

Discussant comments on
The risk-taking channel and monetary transmission mechanism in Colombia

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Prepared for the 2nd BIS CCA Conference on

"Monetary policy, financial stability and the business cycle"

Ottawa, 12–13 May 2011

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* These comments reflect the views of the author and not necessarily those of the BIS or of central banks participating in the meeting.

The Risk-Taking Channel and Monetary Transmission Mechanism in Colombia

Martha López, Fernando Tenjo, Héctor Zárate

Discussion by Tobias Adrian

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Second BIS CCA Conference, 2011

Overview

- What the paper is doing:
  - Estimate probability of default for bank loans
  - Lower rates are associated with more risky loan issuance
  - …and lower default rates of existing loans
  - Important topic and great data but preliminary results

- What I will discuss
  1. Questions about Regression Outputs
  2. Identification
  3. Exploiting the Cross-Section
  4. Theories of Monetary Policy Transmission

Questions about Regressions

- Why is lagged GDP growth associated with higher hazard?
- And future GDP growth associated with lower hazard?
- Opposite result of interest rate --- are these correlations capturing the same?
- Level of the interest rate --- you want to use changes
- Significance of time trend worrisome .. . there should be time dummies
  (How does the time trend interact with hazard rate?)

Identification

- Holy grail of monetary transmission literature: separate out demand and supply of credit
  - Credit registry data allow to do so in principle

- The paper estimates how realized credit losses depend on past characteristics of banks, borrowers, and macroeconomy
  - How does monetary policy affect realized future losses?
  - Does not separate demand and supply effect

- Less default of existing loans following lower rates might be due to the improving economic, not due to risk taking of firms (note that signs of GDP are the same)

- Today's rate changes change expectations about tomorrow's rates: control for term structure

Exploiting the Cross Section

- Key identification of Jimenez, Ongena, Peydro, Saurina:
  - Triple interaction: do banks that are more afflicted by agency issues (lower capital ratio) lend more to risky firms when short-term rates decline?

- This interaction is exploiting cross sectional variation across firms (capital ratio) and within firms (more or less risky borrowers) and relies only on contemporaneous data

- In contrast, the paper by López, Tenjo, and Zárate really only considers time series variation, not exploiting the richness of the cross sectional data
  - Firm and borrower characteristics are only used as controls, not interactions…does not separate demand & supply

- Suggestion: Follow Jimenez, Ongena, Peydro, Saurina's methodology more closely (SSRN working paper 1018960)

Theories of the Risk Taking Channel

The dataset provides an opportunity to discriminate among various monetary transmission theories:

- Adrian and Shin (2010): tightness of VaR constraint depends on interest rate
- Dell'Ariccia, Laeven, Marquez (2010): tradeoff between monitoring, risk shifting, and leverage
- Stein (1998): tighter policy shifts adverse selection
- Bernanke Blinder (1988, 1992): credit channel
- Bernanke Gertler (1988): balance sheet channel

Conclusion

- Credit registry is a very rich data source that can be exploited to discriminate among various theories
- I would like to know a whole range of elasticities of supply:
  - Relative to risk, rates, liquidity
  - Those can be used in general equilibrium models…for both monetary policy and financial stability
- The current version of the paper does not identify these elasticities
  - More refined identification is necessary
  - Potential for substantive contribution