The Risk-Taking Channel in Colombia Revisited

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Levels of interest rates below historical norms may have enhanced financial instability in developed and developing economies during the 2000's. The risk taking channel of monetary policy transmission is a recent theory that explains the interaction between risk perceptions of the financial system and monetary policy. This paper presents empirical evidence of the risk taking channel of monetary policy using detailed information on consumer and commercial loans from the Colombian banking system. Using probit and duration models we find that the banking system takes on more risk when the level of interest rates are too low. We also find that the response to interest rates is higher in the case of commercial loans.

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