Bank Lending Channel of Transmission of Monetary Policy: Does the Financial Structure of Banks Matter?

Working Paper No. 953 Keep in mind
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This paper tests the importance of the financial structure of banks in the bank lending channel of monetary policy transmission in Colombia, using an unbalanced panel of 51 banks for the period of 1996:4-2014:8. We find that an increase in the interbank rate (proxy of the intervention rate) has a response of a drop in the growth of the total loan portfolio of banks. When we breakdown by type of policy, the bank lending channel works better in times of monetary contraction, exhibiting significant reactions from banks with low levels of solvency rather than those with high solvency. In contrast, when the policy is expansionary, the high solvency banks are the only segment exhibiting the presence of the bank lending channel. We discuss the policy implications of findings.

Update 06/09/2016, 06:08 p.m.

Fuente: https://www.banrep.gov.co/en/borrador-953