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Does monetary policy affect the net interest margin of credit institutions? Evidence from Colombia

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Publication Date: Thursday, 21 of April 2022 Abstract
This paper analyzes empirically the relationship between monetary policy interventions and the net interest margin of Colombian credit institutions for the 2003 - 2019 period. Considering the endogeneity problem that arises when analysing this relationship, we calculate a series of monetary policy shocks as the residuals of regressing the monetary policy rate on a set of quantifiable variables that the Central Bank of Colombia's Board of Directors had at each of its monetary policy meetings. Thereafter, we conduct a panel regression analysis in which we relate these shocks, and a set of macroeconomic and bank-specific variables to the net interest margin. Through a non-linear approach, we find a significant quadratic relationship, which reflects that once the endogeneity problem is overcome, the net interest margin increases to policy shocks. The net interest margin increases to
positive policy shocks due to the different dynamics of deposits and loans, and increases to negative policy shocks given the higher sensitivity of banks' funding costs compared to the one of interest income.