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# Monetary Policy, Risk-Taking, and Pricing: Evidence from a Quasi-Natural Experiment

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## Comments

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# Monetary policy and banks' risk-taking

- 1 This paper examines the relationship between the risk-taking behavior of banks and monetary policy.
- 2 It concludes that banks' risk-taking increases during periods of monetary expansion, but fail to adjust loan terms to fully account for the additional risk.
- 3 But risk-taking is an important component in economic activity and a natural outcome of declining interest rates.
- 4 Risk-taking becomes a major policy concern when it is excessive because macroeconomic stability is at stake.

# Ex-ante vs. Ex-post

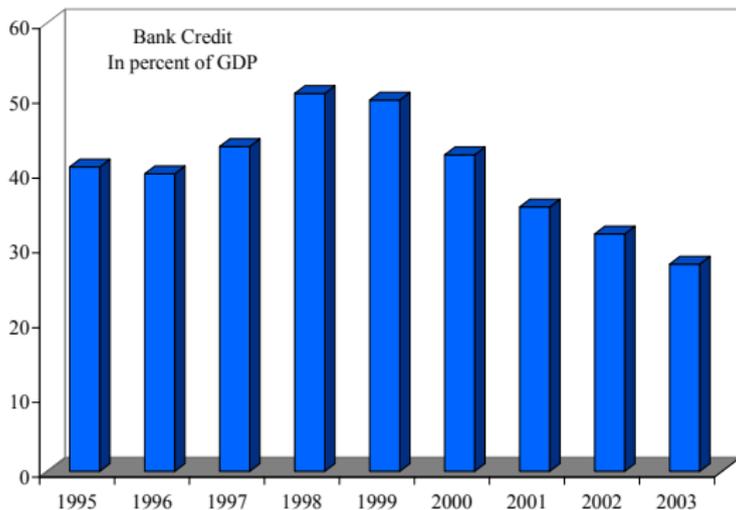
- 1 The real challenge lies then in identifying excessive ex-ante risk-taking and defining an adequate policy response to deal with it.
- 2 But risk is fully appreciated only in hindsight, and there is always a risk of interpreting ex-post outcomes as known ex-ante information.
- 3 The paper assesses ex-ante banks' risk attitude from examining ex-post loan performance.
- 4 Ex-post performance may be severely affected by simultaneity problems, even after controlling for borrowers' past performance at origination.

# Debtor relief programs and regulatory forbearance

- 1 In 2000 and 2001 the Bolivian government introduced two programs: ("Programa de Reactivacion Economica" and "Fondo Especial de Reactivacion Economica").
- 2 Both programs provided financing to banks that restructured their loans to troubled debtors.
- 3 The restructuring would entail lengthening maturity, reducing the interest rate, and introducing grace periods for capital repayments.
- 4 By early 2003, 36 percent of total banks' credit portfolio had been restructured, and 20 percent of the restructured amount was already non-performing.

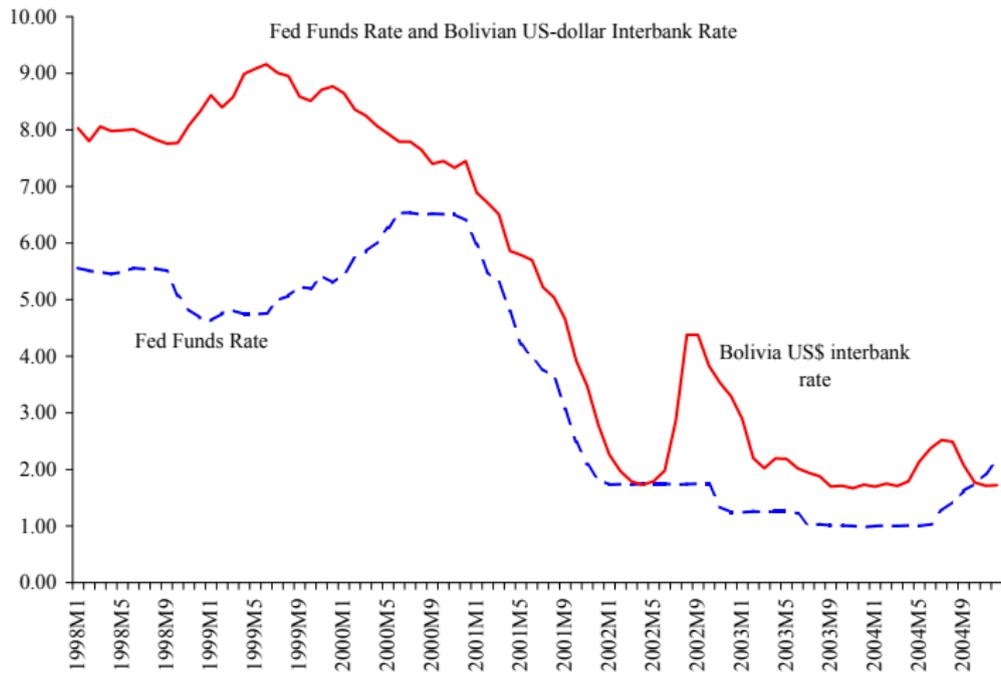
# Bank Credit in Bolivia

- 1 Excessive risk-taking may manifests itself through asset price bubbles and lending booms.
- 2 But between 1999 and 2003 bank credit was shrinking in Bolivia.



- 1 Conclusion regarding risk-pricing may be affected because of loan restructuring programs.
- 2 Other variables (most notably collateral) that can be adjusted to mitigate risk do not play a role in the authors' analysis of risk-pricing.

# Interest rates



# Concluding remarks

- 1 The paper has found a link between monetary policy and banks' risk-taking attitude.
- 2 This link seems to be in line with intuition and not necessarily harmful from a macroeconomic stability point of view.
- 3 From a policy perspective, more research is needed to know when this becomes a problem, and how we should react to it.