Does monetary policy affect bank credit?: evidence from Bolivia

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Abstract

The paper explores the existence of bank lending channel for Bolivia for the period 2005-2013. The data used included quarterly reporting of banks and macroeconomic variables. The panel data methodology proposed by Arellano and Bond was used but fixed effects were also estimated to check the robustness of the results. The results show that changes in monetary policy have direct effects on the supply of bank loans. Moreover, interactions between size and capital of financial institutions with the variable of monetary policy reflect the existence of different reactions of banks. The evidence found suggests that smaller banks with lower levels of capital would reduce their loans at higher rates to a contractionary monetary stance.

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