Regulation of credit and maximum rates: an analysis of their effects on financial intermediation entities

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Abstract

Since the promulgation of Financial System Law No. 393, the social function was introduced into the activity of Bolivian financial intermediation. In this direction, the regulation established maximum limits for the active interest rates and minimum levels of portfolio destined to sectors considered to be priority by the orientation of the economic and social policies of the State. These regulatory changes with restrictions and explicit limits require a modification of the composition of the portfolio of financial institutions, a process that could affect the efficiency of their investments.

In this sense, the objective of the present work is to know the structure of the efficient portfolio without and with regulatory restrictions in order to identify if the new optimal combinations of assets will allow maintaining similar levels of efficiency.

Most of the research evaluating the efficiency of a portfolio applies the modern theory of portfolio management, which takes into account the concept of risk-weighted return. For the Bolivian case, the optimal portfolio structure is estimated with the application of this methodology and a Monte Carlo simulation model.

The results suggest that the current regulatory framework will promote the deepening of loans to the productive sector and mortgage loans of social interest, which would not mean an increase in risks or significant losses of efficiency.

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