Monetary policy transmission in the Tunisian banking sector

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10th Annual NBP - SNB Joint Seminar

Zurich, 3-4 June 2013

I enjoyed reading the paper ...


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Webcam-Map Tunis, T...
Sheraton Tunis Hotel - ...
Live Webcam Tunis, Tu...
weather forecast zu...
About 1,320,000 results (0.21 seconds)
Zurich
Fri
Rain
12 °C | °F
Precipitation: 90%
Humidity: 85%
Wind: 16 km/h
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18:00 21:00 00:00 03:00 06:00 09:00 12:00 15:00
Fri 12° 8°
Sat 14° 10°
Sun 15° 9°
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Thu 22° 9°
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Contribution of the paper

- Overview of the Tunisian banking sector and the Tunisian financial system
- Three kinds of analyzes:
  - transmission over the yield curve
  - loan demand and supply estimation
  - policy transmission (impulse responses from VAR systems)
- Policy conclusions

Comments: Financial sector and monetary policy regime

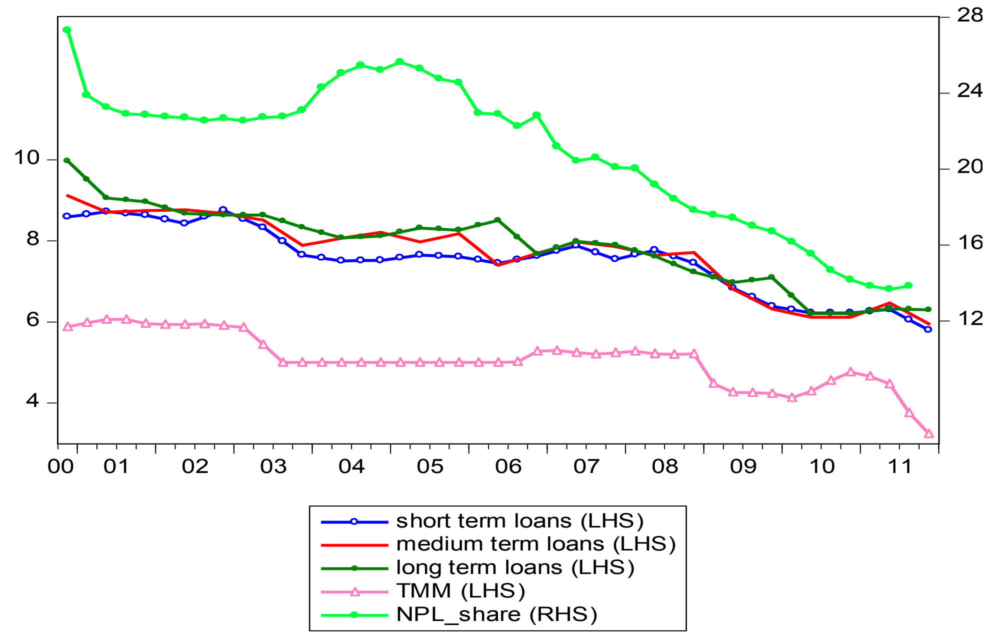
- Monetary policy regime in place should be described more precisely right away from the start
  - pegging the exchange rate usually renders interest rates endogenous
    $\rightarrow$ it is only on p. 18 that the reader gets to know that asymmetric capital controls are in place
- Describe the principles (if there are any) which justify the choice of policy instruments and the use of them in achieving specific goals
  - is there another central bank using interest rates or the required reserve ratio to achieve financial stability?
  - full liquidity sterilization in the required reserve ratio renders policy action at best ineffective

- Features of the banking sector have implications for the shape of loan demand and supply curves and therefore for the effectiveness of monetary policy
  - high dependency of firms on loans (low stock market capitalization of non-financial institutions) renders loan demand inelastic to lending rate
  - few alternatives for banks to lending to firms (bonds are mainly issued by banks) renders loan supply inelastic to lending rate

Analyses: Transmission over the yield curve

- Given that the required reserve ratio has been an important instrument, why not include it in the pass-through estimations? May be interacted with TMM changes?
- You might calculate a correlation coefficient between the output gap and non-performing loans' share

- Include a trend in the cointegration vector to account for decreasing spread over time. Implicitly, a coefficient larger (lower) than 1 on TMM implies an increasing (a decreasing) spread over time



- Always include the *share* of non-performing loans (non-performing loans proxy also loan growth)

- The timing of variables in the ARDL equations (instantaneous reaction of lending rate to TMM rate, but only lagged reaction to non-performing loans or output gap) implies a structural form where the lending rate is ranked before the TMM and where the output gap and non-performing loans are ordered last.

Analyses: Estimation of loan demand and loan supply

- Your exclusion restrictions determine the instruments for the interest rate spread.

$$l_t^d = 0.5_{(6.7)} y_t - 0.5_{(12.7)} (i_t^{LS} - i_t^{MM})$$

$$l_t^s = 0.7_{(7.4)} (i_t^{LS} - i_t^{MM}) - 0.07_{(21.6)} npl_t + 0.03_{12.8} trend$$

- The first equation implies a unit elasticity of the spread to GDP

Analyses: VAR transmission estimation

- Removing autocorrelation in residuals is important to obtain unbiased estimates
- An increase in prices after a shock in the required reserve ratio might also be due to cost channel effects (although they might be small as a shock in TMM leads to a decrease in prices)

Policy conclusions

- No full sterilization of increase in reserve ratio if credit markets are to be impacted. An increase in the required reserve ratio:
  - decreases the multiplier
  - needs a larger amount of reserves to sterilize the liquidity needs of the banks
  - leads to an increase in loan supply and decreases the loan rate
- Take into account risk-taking channel literature:
  - measuring risk by the share of non-performing loans is backward-looking, banks adjust lending rates too late
  - risky portfolio accumulates during good times
- To achieve financial stability, use other instruments (like regulation) than those used to achieve price stability