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Interest rate pass-through and financial crises: do switching regimes matter? the case of Argentina

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Abstra

The ... ferent short-
term ... veen these
rates in ... delling nor
linear m ... ence of
several ... to shocks
in the in ... r normal
financial ... ith higher
credit ris ... e pass-

through increases considerably for all interest rates. The MSIAH(2)-VAR(1) identifies correctly periods of financial distress (in which regime switch occurs).

Acknowledgements

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Notes

For an application of these models to the euro area see Corvoisier and Gropp (2001).

For the euro area, Ehrmann et al. (2001) find that credit market features (in particular, bank liquidity) explain the response of bank loan supply to monetary policy shocks. See Lensink ... .

Haan (2(... netary transmis ... Germany that big ... ractions. These st ... than in loan interest ... tutions exhibit i

A se ... market concentr ... ution from Hefferna ... he presence of perfe

See, for ... r a revision of this e ... (1996) for

Malaysia and Singapore; and Alfaro et al. (2002) for Chile. For a discussion on evidence about the absence of a credit channel for the USA see Morris and Sellon (1995).

The concept has been generally applied to a very short-term money market interest rate and rates for government-issued securities (such as bonds). But this does not need to be the only case.

Alternatively, the segmented market hypothesis considers them highly imperfect substitutes and so interest rates spreads are determined by demand and supply in each end of the term structure.

A stationary term premium under the expectations hypothesis is usually associated to the degree of efficiency of the relevant financial market.

See Freixas and Rochet (1997), Chapter 3, for a description of such a model. A basic oligopolistic model of the banking industry will exclude initially any mention of risk, so that no term or risk premium is considered. Here it is also excluded the extreme cases of perfect competition and monopoly.

Bondt (2002), using a similar ECM, allows the cointegrating vector to be generally determined as (1, β), being β the final or long-term pass-through.

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The evol

If the pr … the model would be … tence in the states

Erland … regime (GARCH- … ation in the standard

Kamin a … ws between Argentin … t dollar currency … all peso money together.

Catao based his results on estimating a partial equilibrium model of the banking system in a dual currency economy with imperfect competition in the credit markets.

Although data on these rates after that period is available, the collapse of the currency board has made information on credits granted to the non-financial private sector by Argentinian banks not reliable.

Data for previous years is unavailable, in particular, from the hyperinflation period.

Results from real interest rates analysis are qualitatively similar to results from nominal rates. They are not reported here, but are available from the author on request.

A study from the Banco Central of Argentina (1998) find that non-stationarity could not be rejected by Dickey–Fuller tests for similar interest rates than in this paper. However, the study could not conclude that interest rates contain a unit root, since it seemed that DF test were not distinguishing between the presence of a unit root and long persistence in interest rates.

Following Maddala and In-Moo (1998).

For a discussion of a simple procedure for detecting additive outliers that does not require full specification of the dynamic model and that does not require estimates of serial co ... e Vogelsang (1999).

Nelson e ... signed to be robust to ... k power to distingui ... m an I(1) process. ... y, rather than just

Stan ... the number of lags. ... t is reliable to choos

If anothe ... parameter.

Criteria ... g serially correlate ... buted (Patterson, 2000).

Different dates for including one single dummy were tried, from December 1994 up to May 1995. However, the largest change (but for the personal rate) corresponds to March 1995. The alternative of only using a dummy variable for this date against using several for all the possible months was preferred, since the latter option does not improve upon the results, neither quantitatively nor qualitatively.

Notice that a MS-VAR could be seen as a generalization of a VAR model. Thus, the linear VAR could be treated as the restricted model.

For an introduction to Ox see Doornik and Ooms (2001). For a review of Markov switching VAR using MSVAR for Ox see Krolzig (1997).

Models with shifts in the intercept are consistent with a smooth adjustment of the time series after the change in regime (as it might be the case for interest rates), while that models with shifts in the mean are more consistent with an once-and-for-all jump in the time series (Krolzig, 1997).

Espinosa-Vega and Rebucci (2002) find evidence for Chile, that neither changes in monetary policy targeting nor in exchange rate regime affects significantly the pass-through, but that there is indeed some evidence that the South East Asian financial crisis affected the interest rate pass-through in Chile.