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

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Abstract

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Acknowledgements

The author is grateful to Mark P. Taylor for his advice and encouraging suggestions to this draft. I also benefited from comments from research staff at the University of Warwick attending my PhD upgrade presentation, especially Martin Ellison. Finally, I would like to thank participants at the 1st Oxmetrics User Conference 2003 for their helpful suggestions. All remaining errors are mine.

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 and Sterken (2002) for an analysis on small banks on the euro zone.

Haan (2001) finds for The Netherlands a more active lending channel of monetary transmission for firms than for households. Kakes and Sturm (2002) find for Germany that big banks are able to shield their loans portfolio against monetary contractions. These studies focus on the effects of monetary shocks in loan supply rather than in loan interest rates. For interest rates, Heffernan (2002) shows that financial institutions exhibit indeed different pricing behaviour depending on the bank product.

A seminal empirical research on the relationship between bank pricing and market concentr … ution from Heffern … ne presence of perfec …

See, for … r a revision of this e … k (1996) for Mala … on evidence about … 95).

The con … interest rate and … oes not need to be the …

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.

For Japan, Girardin and Horsewood (2001) use a MS-VAR with three regimes to analyse the monetary transmission mechanism and the pass-through from money market rates to bank loan rates.

The evolution of regimes could be inferred from the data.

If the probabilities were independent of the previous occurring regime, then the model would be a simple (not Markov) switching model. There would not be persistence in the states. See Hansen (1992).

Erlandsson (2002) include also some conditional heteroscedasticity for each regime (GARCH- ... lation in the standard ...

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Although ... he currency board ha ... 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 correlation parameters, but relies on the unit root null hypothesis, see Vogelsang (1999).

Nelson et al. (2001) show that not only the ADF test but also those tests designed to be robust to a single structural break in trend growth under the alternative lack power to distinguish an I(0) process with Markov-switching breaks in trend growth from an I(1) process. For an interesting discussion of unit root test using economic theory, rather than just statistics, see Chumacero (2001).

Standard information criteria (Schwarz and Hannan-Quinn) suggest one as the number of lags. Lütkepohl (1991) argues that, if the correct VAR order is a priority, it is reliable to choos

If anothe parameter.

Criteria f g serially correlate buted (Patt

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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.