

Bank Characteristics, Effects of Monetary Policy on the Credit Market: Evidence from the Russian Banking Industry

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Summary: Banks are of major importance for the financing of firms, which implies that the way they adjust lending in response to monetary policy actions can potentially constitute an important channel through which monetary policy works. In this study, we try to evaluate the role of banks (i.e. bank loans) in monetary transmission in the Russian Federation. Moreover, we investigate whether there are certain types of banks whose lending is more responsive to monetary policy impulses. This would be the case if a monetary policy induced decrease in deposits (or increase in the cost of funding) was differentially hard for banks to neutralize. If the banks face different funding costs, monetary policy impulse would lead to different reductions in lending across banks.

More so relevant for the recently announced policy of providing liquidity to the banking system through large state-owned banks. The financial characteristics of the banks and the response to monetary policy changes of the banks would determine the success of the any assistance plan by the Bank of Russia.

The prior literature has proceeded by positing several differences that could shape loan supply sensitivity to monetary policy. One strand of this literature checks whether poorly capitalized banks have a more limited access to non-deposit financing and as such should be forced to reduce their loan supply by more than well capitalized banks do (e.g., Peek and Rosengren,

1995). The role of size has been emphasized, for example, in Kashyap and Stein (1995): small banks are assumed to suffer from informational asymmetry problems more than large banks do, and find it therefore more difficult to raise uninsured funds in times of monetary tightening. Again, this should force them to reduce their bank lending relatively more when compared to large banks. Another distinction is often drawn between more and less liquid banks (e.g., Kashyap and Stein, 2000). Whereas relatively liquid banks can draw down their liquid assets to shield their loan portfolio, this is not feasible for less liquid banks (see Stein, 1998; Ashcraft, 2001; Kishan and Opiela, 2000) and Van den Heuvel, 2001).

We study the following model to assess the relationship between bank characteristics, monetary policy and credit market in the Russian Federation over the period 2002-2005:

$$\Delta L_{i,t} = \alpha_i + \sum_{j=1}^4 \alpha_j \Delta L_{i,t-j} + \sum_{j=1}^4 \beta_j MP_{t-j} + \sum_{j=1}^4 \gamma_j X_{it-j} MP_{t-j} + \epsilon_{i,t}$$

where $L_{i,t}$ is loan of bank i in quarter t , MP is monetary policy indicator and X_i is vector of bank characteristics.

Russian banking industry consists of large state-owned banks, diversified banks owned by industry groups, independent Moscow-based banking groups and regional banks according to Bank of Russia. The model estimates the reaction of each type of bank according to its balancesheet characteristics. Identifying difference in responses to monetary policy would be a useful way in the design of any bail out plan.

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