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Keep in mind

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The recent financial crisis has brought to the forefront the need of a better understanding of the transmission mechanisms of monetary policy. The main step forward in this direction has drawn on work aimed at stressing the role of the financial sector in this transmission. Particular emphasis has been place on how policy actions impact risk perceptions and attitudes of banks and other financial institutions, leading to shifts in the supply of credit. Along these lines, and based on evidence from Colombia, the present paper finds a significant link between low interest rates and banks' risk taking based on evidence from Colombia. Lower interest rates raise the probability of default on new loans but reduce that on outstanding loans. Furthermore, this channel of policy transmission depends on some bank, loan and borrower characteristics, as well on macroeconomic conditions such as the rate of growth of the economy.