Keep in mind

The series Working Papers on Economics is published by the Office for Economic Studies at the *Banco de la República* (Central Bank of *Colombia*). It contributes to the dissemination and promotion of the work by researchers from the institution. This series is indexed at Research Papers in Economics (RePEc).

On multiple occasions, these works have been the result of collaborative work with individuals from other national or international institutions. The works published are provisional, and their authors are fully responsible for the opinions expressed in them, as well as for possible mistakes. The opinions expressed herein are those of the authors and do not necessarily reflect the views of Banco de la República or its Board of Directors.

AUTHOR OR EDITOR

Pirateque-Niño, Javier Eliecer

Rodríguez-Novoa, Daniela

Piñeros-Gordo, José Hernán

Publication Date:

Thursday, 21 April 2022

Abstract

This paper analyzes empirically the relationship between monetary policy interventions and the net interest margin of Colombian credit institutions for the 2003 - 2019 period. Considering the endogeneity problem that arises when analysing this relationship, we calculate a series of monetary policy shocks as the residuals of regressing the monetary policy rate on a set of quantifiable variables that the Central Bank of Colombia's Board of Directors had at each of its monetary policy meetings. Thereafter, we conduct a panel regression analysis in which we relate these shocks, and a set of macroeconomic and bank-specific variables to the net interest margin. Through a non-linear approach, we find a significant quadratic relationship, which reflects that once the endogeneity problem is overcome, the net interest margin increases to policy shocks. The net interest margin increases to
positive policy shocks due to the different dynamics of deposits and loans, and increases to
negative policy shocks given the higher sensitivity of banks' funding costs compared to the one of interest income.