Title
Effect of Coronavirus on Bank Loans and Credit Rationing in an Emerging Market Economy

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Abstract
Amid the outbreak of COVID-19, there have been a number of initiatives to keep businesses afloat. In this study, we aim to explore how the supply side, particularly the banking sector, responded to this shock by using highly granular Colombian loan-level data, by municipality. For identification, we: (i) trace banking recipients of liquidity measures by the central bank and the government and, (ii) compare the lending behavior of banks that barely met and missed the criteria of being a primary dealer (market maker) through a Regression Discontinuity Design. Regarding the latter, we argue that the lending strategy of banks within the vicinity of the cutoff point is very similar ex-ante and can reveal the lending behavior of those required to absorb government debt. Finally, we exploit sector and municipality variation in quarantine measures to identify demand-driven factors. Our findings will shed light on costs of the outbreak on the real sector through this financing channel.

Keywords: bank lending channel, regression discontinuity design, supply shock; CoViD-19

JEL Codes: E44; I1; C21

Data Description:
1) Colombian loan-level data which can be aggregated at municipality level,
2) banking recipients of liquidity measures by the central bank and the government, and
3) daily COVID-19 infection, death, recovery numbers at municipality level for Colombia.