Phatra

PIER Research Workshop 2561

Discussion on "Bank Profitability and Risk-Taking in a Low Interest Rate Environment: The Case of Thailand"

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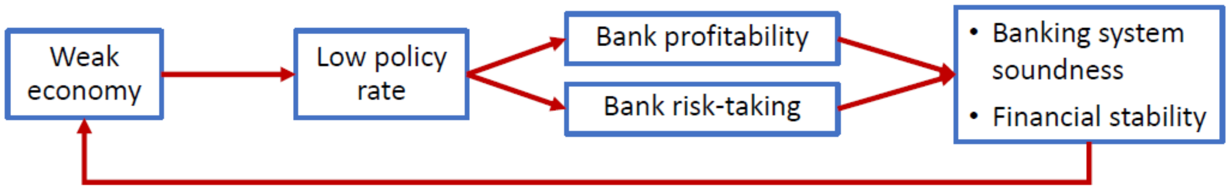
Overview

- **General comment:** Very nice and interesting paper

- **Objective:** Examine the impact of low policy interest rate on bank profitability and risk-taking in Thailand



- **Results:**
  - Low interest rate reduces bank profitability, especially for small banks
  - Low interest rate has limited impact on overall bank risk-taking
  - Low interest rate sometimes leads bank to take on more low quality loans, especially for medium and small banks
  - Smaller, younger, and less profitable firms are more affected by bank risk-taking behavior

- **Contribution:** Provide evidence for a new country using both bank- and loan-level data. Neat empirical contribution to the understanding of Thai monetary policy transmission.

Discussion I: Bank Profitability

- Do we really have to be concerned about bank profitability? If so, what is the appropriate level of profitability?
- Doesn't it seem normal for banks to have low profitability during abundant liquidity and low perceived risk?
- Going forward, with the more adoption of technology and increases in competition (both from existing players and new comers), bank profitability maybe lower.

Discussion II: Bank Risk-Taking

- Isn't the outcome that banks take on lower quality loans expected from easing policy?
- The paper finds that low policy rate leads banks to take more low quality loans but has limited impact on the bank overall risk-taking. Can we interpret this as evidence for loan diversification?
- How should we define "lower" quality loans?
  - For example, a project that was deemed infeasible in one period could be feasible in another period when environment changes (e.g., interest rates, regulations)
- Shouldn't the capital reserve requirement take into account the risk-taking behavior?
- It may be interesting to study how banks priced loans. This can shed light on whether or not the risk-taking behavior is appropriately compensated.

Discussion III: Minor Points

- **Data LAR:** Loan outstanding for each contract > 20 million per bank (?)
  - Some characteristics stats are lower than 20 million (?)
  - Most credit card loans are from corporate (surprising)
- **Bank size:** How do you group bank? Does each group have the same number of banks?
  - It would be interesting to drill down into the medium group as ROA is volatile and may drive the result that ROA is less responsive to policy rate.
- **Control for major events:** The data only contain one long low interest rate environment which makes it hard to distinguish between the impact of low interest rate from other factors
  - Are there any important event/regime during that period (e.g., changes in bank regulations, macro prudential policy, etc.)?
- **Control for term of lending rate:** It may be good to control for fixed and float rate loans.
- **Pitching point for publication:** It may worth thinking about the uniqueness of the Thai sample in contributing to the literature (e.g., structure, regulation, etc.).