The effect of conflict on lending
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10th Emerging Markets Finance Conference, Mumbai

13 December 2019
The paper

- Estimate the impact of conflict on loan outcomes
- Conflict is proxied by shelling in the districts bordering the Radcliffe Line (de-jure border between India and Pakistan)
- Findings:
  - Loan terms worsen - higher interest rates
  - Collateral requirements are lower
  - Loan amounts go down
- Mechanisms:
  - Increased risk aversion on the part of loan officers
  - Rational expectations of loan defaults
Unpacking conflict

How should we think about conflict:
- How long does it last?
- What damage does it do?
- Who the actors are?

All of these will shape behaviour

Type of conflict and actors:
- One time: economy may recover quickly and converge to its steady state.
- Persistent conflict: economies may get stuck in a bad equilibrium

Damage the conflict does:
- Physical capital
- Human capital

Would help to articulate how shelling across the border fits a “conflict” framework.
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Conflict to interest rates

- Suppose we think it is:
  - One time conflict
  - Causes mostly physical damage

- Why do we expect an impact on the credit market?
  - More households are taking a loan to fix their capital stock
  - Interest rate rises for the market to clear

- Puzzled by the rise in unsecured lending (especially credit card debt?) – doesn’t fit the supply side story? (Table 11)
  - Maybe the higher interest rate reflects that more unsecured loans are given?
  - There is less collateral owing to damage $\Rightarrow$ more unsecured credit $\Rightarrow$ higher interest rates.
Institutional details

- More details on the banking sector
- For example:
  - Priority sector lending requirements
  - Forbearance
  - Incentives of loan officers
- Data on aggregate lending in the region
- Data on lending to different sectors in the region
- Data on migration - was it permanent?
There are effects on both the treatment and control group.
Parallel trends #2

The figures below show the parallel trends graphs for each of the four events we use as outcome variables.

(a) Loan Amount, Event 1  
(b) Loan Amount, Event 2  
(c) Loan Amount, Event 3

- Not really parallel - maybe do more formal tests?
- Why not consider a RDD? - also solves for the arbitrary 10km threshold.
Thank you