The effect of conflict on lending
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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

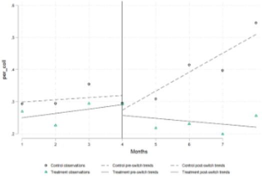
- Suppose we think it is:
  - One time conflict
  - Causes mostly physical damage
- Why do we expect an impact on the credit market?
  - More households are taking a loan to fix their capital stock
  - Interest rate rises for the market to clear
- Puzzled by the rise in unsecured lending (especially 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 => more unsecured credit => higher interest rates.

Institutional details

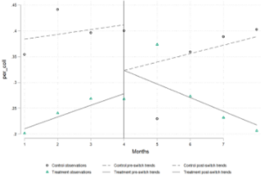
- More details on the banking sector
- For example:
  - Priority sector lending requirements
  - Forbearance
  - Incentives of loan officers
- Data on aggregate lending in the region
- Data on lending to different sectors in the region
- Data on migration - was it permanent?

Parallel trends #1

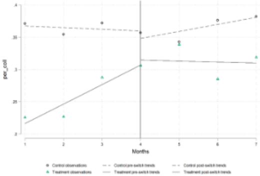
(g) Collateral, Event 1



(h) Collateral, Event 2

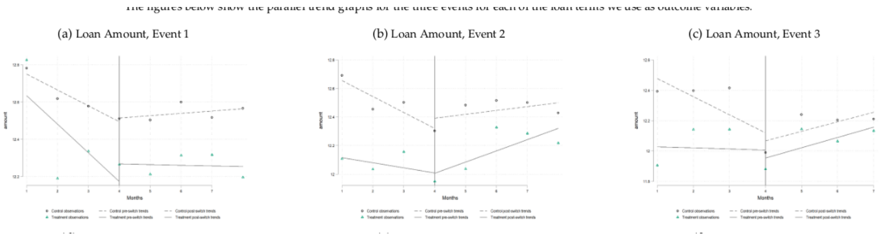


(i) Collateral, Event 3



- There are effects on both the treatment and control group.

Parallel trends #2



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

Thank you