
Corporate riskiness

Bank balance sheet health

Sovereign risk

Policy rate

Credit margin

Cost of equity ($E \times r_e$)

Bank funding cost ($D \times r_d$)

Interest rate on corporate bank loan

Source: IMF staff.

Note: $E =$ proportion of equity backing the loan; $r_e =$ required rate of return on equity; $D =$ proportion of wholesale funding and deposits backing the loan; $r_d =$ marginal bank funding cost. This simplified loan pricing equation abstracts from tax rates and other expenses or benefits related to the loan.