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The Dominant Currency Financing Channel of External Adjustment

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Abstract

We provide evidence on a new transmission channel of exchange rate movements to net exports. Using a novel identification strategy by exploiting firms' foreign currency debt and debt maturity structure in Colombia, we analyze the trade response of firms that are financially more exposed to a depreciation through a debt revaluation channel. We show that while exports are unaffected by the debt revaluation, imports contract more sharply for firms with larger financial exposure to the depreciation. However, the import response is exclusively driven by firms that import but do not export. The results can be rationalized by amodel where exporters are shielded from debt revaluation as they have revenues in foreign currency. We conclude that dominant currency financing strengthens the expansionary impact of a depreciation on the trade balance.

Fuente: https://www.banrep.gov.co/en/dominant-currency-financing-channel-external-adjustment