

The effect of a bank liquidity shock on the performance of firms

Download Other Working Papers Keep in mind

The series Working Papers on Economics is published by the Office for Economic Studies at the *Banco de la República* (Central Bank of *Colombia*). It contributes to the dissemination and promotion of the work by researchers from the institution. This series is indexed at Research Papers in Economics (RePEc).

On multiple occasions, these works have been the result of collaborative work with individuals from other national or international institutions. The works published are provisional, and their authors are fully responsible for the opinions expressed in them, as well as for possible mistakes. The opinions expressed herein are those of the authors and do not necessarily reflect the views of Banco de la República or its Board of Directors.

AUTHOR OR EDITOR Juan Esteban Carranza Stefany Moreno-Burbano

The series Borradores de Economía (Working Papers on Economics) contributes to the dissemination and promotion of the work by researchers from the institution. On multiple occasions, these works have been the result of collaborative work with individuals from other national or international institutions. This series is indexed at Research Papers in Economics (RePEc)

Publication Date: Thursday, 17 of September 2020

The opinions contained in this document are the sole responsibility of the author and do not commit Banco de la República or its Board of Directors.

Abstract

We study the effect of a credit supply shock on the performance of Colombian firms, induced by an unexpected increase in the liquidity of banks. The increased liquidity was the result of sudden sell-off of Colombian government bonds by banks in response to an unexpected increase in their demand. The shift in demand for these government bonds followed the unexpected increase of its share in the composition of a prominent JP Morgan index. We exploit the variation in liquidity across banks and their preexisting relationships with firms at the time of the shock to extract from the data the variation in loans that was driven by the exogenous shock. We then connect this variation in loans to the performance of firms. We find that the positive credit shock led to increased sales by firms, based mainly on increases of capital investment.