
[Descargar](#)

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

[Fabiani, Andrea Soto, Paul E Peydró, José-Luis López-Piñeros, Martha Rosalba](#)

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). 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.

Publication Date:
Tuesday, 8 of June 2021

Abstract

We study how capital controls and domestic macroprudential policy tame credit supply booms, respectively targeting foreign and domestic bank debt. For identification, we exploit the simultaneous introduction of capital controls on foreign exchange (FX) debt inflows and an increase of reserve requirements on domestic bank deposits in Colombia during a strong credit boom, as well as credit registry and bank balance sheet data. Our results suggest that first, an increase in the local monetary policy rate, raising the interest rate spread with the United States, allows more FX-indebted banks to carry trade cheap FX funds with more expensive peso lending, especially toward riskier, opaque firms. Capital controls tax FX debt and break the carry trade. Second, the increase in reserve requirements on domestic deposits directly reduces credit supply, and more so for riskier, opaque firms, rather than enhances the transmission of monetary rates on credit supply. Importantly, different banks finance credit in the boom with either domestic or foreign (FX) financing. Hence, capital controls and domestic macroprudential policy complementarily mitigate the boom and the associated risk-taking through two distinct channels.