

The internationalization of domestic banks and the credit channel of monetary policy

Download 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 Morales, Paola Osorio-Rodríguez, Daniel Lemus-Esquivel, Juan S. Sarmiento, Miguel
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, 23 of November 2021 **Abstract** How does the expansion of domestic banks in international markets affect the bank lending channel of monetary policy? Using bank-firm loan-level data, we find that loan growth and loan rates from international banks respond less to monetary policy changes than domestic banks and that internationalization partially mitigates the risk-taking channel of monetary policy. Banks with a large international presence tend to tolerate more their credit risk exposition relative to domestic banks. Moreover, international banks tend to rely more on foreign funding when policy rates change, allowing them to insulate better the monetary policy changes from their credit supply than domestic banks. This result is consistent with the predictions of the internal capital markets hypothesis. We also show that macroprudential FX regulation reduces banks with high FX exposition access to foreign funding, ultimately contributing to monetary policy transmission. Overall, our results suggest that the internationalization of banks lowers the potency of the bank lending channel. Furthermore, it diminishes the risk-taking channel of monetary policy within the limit established by macroprudential FX regulations.