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The relationship between capital ows and domestic credit emerges from dierent channels which are usually not directly identied. In this paper, a principal-agent approach is proposed in order to disentangle the channels through which shocks on capital debt ows can aect credit-related variables. The model predicts that a foreign credit crunch will aect aggregate credit and will reduce the proportion of rms with access to intermediated funds. A VEC model is estimated to empirically validate the predictions from the theoretical framework. In the short-run, a negative shock to foreign funds eectively reduces the proportion of rms with access to intermediated nance, whilst at the same time induces a substitution of funding by rms from foreign to local sources, thus eectively having a positive eect on domestic credit growth. Nonetheless, the estimated long-run relationship indicates that capital ows and credit are positively related. These results have important policy implications, related with the potential impact on credit (and access) generated by the use of certain macroprudential measures.