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The Interdependence between Credit and Real Business Cycles in Latin American Economies

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AUTHORS AND/OR EDITORS Gómez-González, José Eduardo Ojeda-Joya, Jair Tenjo-Galarza, Fernando Zárate-Solano, Héctor M. Publication Date: Tuesday, 4 of June 2013
In this document we estimate credit and GDP cycles for three Latin-American economies and study their relation in the time and frequency domains. Cycles are estimated in order to analyze their medium and short-term frequencies. We find that short-term cycles are usually more volatile than medium-term cycles for credit and GDP in Chile, Colombia and Peru. We also find that credit-cycle peaks in the middle 1990s and middle 2000s precede notable GDP recessions 2 or 3 years later in these countries. Additionally, credit cycles in Latin-American economies tend to cause later movements in economic activity. This effect can be decomposed into two components: first, a negative effect in the case of business-cycle frequencies, and a positive effect in the case of medium-term GDP fluctuations.

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