

Forward Looking Loan Provisions: Credit Supply and Risk-Taking

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 Bernardo Morais Gaizka Ormazabal José-Luis Peydró Mónica Roa Miguel Sarmiento
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: Wednesday, 5 of May 2021

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 propose a simple theoretical and empirical approach to differentiate between common and idiosyncratic exchange rate movements in 5 Latin-American economies: Brazil, Chile, Colombia, Mexico, and Peru. Our approach allows us to distinguish the effects on exchange rates of a regional exchange rate common factor and macroeconomic fundamentals differentials. The methodology and estimation strategy are suitable for both low and high frequency settings. We provide evidence that the regional common factor has a significant effect on the dynamics of the Latin-American exchange rates. In our estimations the relation between exchange rates and the common factor is contemporaneous and stable during the studied period.