

Sudden Yield Reversals and Financial Intermediation in Emerging Markets

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 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: Wednesday, 12 of October 2022 Abstract

Banks in emerging market economies rely on cross-border interbank lending to financing firms in the real sector. By matching cross-border bank-to-bank loan level data with domestic bank-to-firm loan level data, and firm-level data, this paper shows that sudden yield reversal observed during the 2013 Fed taper tantrum resulted in a substantial contraction of cross-border interbank lending in emerging markets that significantly reduced the supply of domestic corporate credit and increased the corporate loan rates. Results show that firms with an ex-ante high concentration of credit granted by exposed banks in the cross-border interbank market exhibited low bank credit and substantial real effects, including a decline in imports and exports. The results further indicate that cross-border intra-group lending and domestic unsecured interbank funding contribute to smoothing the effects of sudden yield reversals on the financial intermediation. Overall, the results are consistent with the notion that banks' exposition in international credit markets contributes to global financial conditions' transmission to the economy.