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Abstract

In this paper, we examine the financial and real effects of macroprudential policies with a new identifying strategy that exploits borrower-specific provisioning levels for each bank. Locally, we compare similar firms just below and above regulatory thresholds established in Colombia during 2008–2018 for the corporate credit portfolio. Our results indicate that the scheme induces banks to increase the provisioning cost of downgraded loans. This implies that, for loans with similar risk but with a discontinuously lower rating, banks offer a lower amount of credit, demand higher quality guarantees, and impose a higher level of provision coverage through the loan-loss given default. To illustrate, a 1 percentage point (pp) increase in the provision-to-credit ratio leads to a reduction in credit growth of up to 15pp and lowers the probability of receiving new credit by up to 11pp. When mapping our results to the real sector, we find that downgraded firms are constrained in their investment decisions and experience a contraction in liabilities, equity, and total assets.