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Abstract

We show that capital controls (CC), by slowing-down firm debt-growth in the boom, improve firm performance during crises. Exploiting a tax on foreign-currency (FX) debt inflows in Colombia before the Global Financial Crisis (GFC) and multiple firm-level and loan-level administrative datasets, we find that CC reduce FX-debt inflows. Firms with weaker local banking relation nships cannot fully substitute FX-debt with domestic-debt, thereby reducing firm-level total debt and imports during the boom. However, by preemptively reducing firm-level debt, CC boost exports and employment during the subsequent GFC, especially for financially-constrained firms. Moreover, CC do not significantly alter credit allocation between productive and unproductive firms.