Working papers economics - Cross-Border Effects of Fed Capital Requirements on Emerging Market Banks' Funding: The Colombian Case

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.

AUTHORS AND/OR EDITORS Gómez-Molina, Andrés Camilo Escobar-Villarraga, Mariana Melo-Becerra, Ligia Alba Zárate-Solano, Héctor M.
The Federal Reserve's capital requirements in 2022 led to a significant contraction in short-term credit for Colombian banks, reflecting the impact of regulations in advanced economies on liquidity in emerging markets.

Publication Date: Wednesday, 9 of July 2025 **Abstract**
This paper examines the impact of the Federal Reserve's 2022 capital requirements on Colombian banks' access to foreign credit lines. These measures, more stringent than in previous years, introduced a stronger stress capital buffer in response to global recession risks and inflationary pressures. A key contribution of the study is its distinction between the announcement, publication, and implementation phases of these regulations, highlighting how expectations, information flows, and uncertainty shape banks' financial strategies. Using a Synthetic Difference-in-Differences (SDID) approach, the findings reveal that credit from affected U.S. banks declined significantly following the announcement, with further reductions observed as the enforcement date approached. Substitution effects partially mitigate this decline, offering insight into the global interconnectedness of financial systems and the broader implications of regulatory changes. The study contributes to a deeper understanding of how capital regulations influence cross-border liquidity, capital allocation, and risk exposure, particularly in periods of heightened global uncertainty.

Fuente: https://www.banrep.gov.co/en/publications-research/working-papers-economics/cross-border-effects-fed-capital