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The relationship between capital ows and domestic credit emerges from di erent channels which are usually not directly identi ed. In this paper, a principal-agent approach is proposed in order to disentangle the channels through which shocks on capital debt ows can a ect credit-related variables. The model predicts that a foreign credit crunch will a ect aggregate credit and will reduce the proportion of rms with access to intermediated funds. A VEC model is estimated to empirically validate the predictions from the theoretical framework. In the short-run, a negative shock to foreign funds e ectively reduces the proportion of rms with access to intermediated nance, whilst at the same time induces a substitution of funding by rms from foreign to local sources, thus e ectively having a positive e ect on domestic credit growth. Nonetheless, the estimated long-run relationship indicates that capital ows and credit are positively related. These results have important policy implications, related with the potential impact on credit (and access) generated by the use of certain macroprudential measures.