

Keep in mind

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Macroprudential tools have been used around the world as a mechanism to control potential risks and imbalances in the financial sector. Colombia is a good example of a country that has employed different

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regulatory measures to manage systemic risks in the economy. The purpose of this paper is to evaluate the effectiveness of two policies employed in said country to increase the resilience of the system and to moderate exuberance in credit supply. The first measure, the countercyclical reserve requirement, was implemented in 2007 to control excessive credit growth. The second tool corresponds to the dynamic provisioning scheme for commercial loans, whose objective was to consolidate a countercyclical buffer through loan loss provision requirements. To perform this analysis a rich data set based on loan-by-loan information for Colombian banks during the period between 2006 and 2009 is used. A fixed effects panel model is estimated using debtors', banks' and macroeconomic characteristics as control variables. In addition, a difference in differences estimation is performed to evaluate the impact of the aforementioned policies. Findings suggest that dynamic provisions and the countercyclical reserve requirement had a negative effect on credit growth, and that said effect differs conditioned on bank-specific characteristics. Results also suggest that the aggregate macroprudential policy stance in Colombia has worked as an effective stabilizer of credit cycles, with some preliminary evidence also pointing towards significant effects in reducing bank risk-taking. Moreover, evidence is found that macroprudential policies have worked as a complement of monetary policy, accompanying the stabilizing effects of changes in interest rates on credit growth.

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