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The Cyclical Behavior of Bank Capital Buffers in an Emerging Economy: Size Does Matter

The Cyclical Behavior of Bank Capital Buffers in an Emerging Economy: Size Does Matter*

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Abstract Using a panel of Colombian banks and quarterly data between 1996:1 and 2010:3, we study the relationship between short-run adjustments in bank capital buffers and the business cycle. We follow a partial adjustment framework and control for several variables that have been identified as important determinants of bank capital buffers in previous studies, and find that bank capital buffers vary over the business cycle. We are able to identify a negative co-movement of capital buffers and the business cycle. However, we also find that capital buffers of small and large banks behave asymmetrically during the business cycle. While the former appear to be constant over time, once the appropriate set of control variables is used, the latter present a countercyclical behavior. Our results suggest the possible need of the implementation of regulatory policy measures in developing countries.

Keywords: Bank capital buffers,Credit risk, Regulation, Colombia, JEL Classification: C26, G21,G28.

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